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

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2018

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 No. 000-55553

Central Federal Bancshares, Inc.

(Exact name of registrant as specified in its charter)

Missouri

(State or other jurisdiction of
in Company or organization)

47-4884908

(I.R.S. Employer
Identification Number)

210 West 10th Street, Rolla, Missouri

(Address of Principal Executive Offices)

65401

Zip Code

(573) 364-1024

(Registrant's telephone number)

N/A

(Former name or former address, 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 requirements for the past 90 days.

YES 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

Large accelerated filer

Non-accelerated filer

(Do not check if smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13) (a) of the Exchange Act.

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

YES NO

As of May 10, 2018, there were 1,660,220 shares of common stock outstanding.

Central Federal Bancshares, Inc.
Form 10-Q

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Part I. – Financial Information

Item 1. Financial Statements

**CENTRAL FEDERAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(ROUNDED TO THOUSANDS, EXCEPT NUMBER OF SHARES)**

	<u>March 31, 2018</u> (Unaudited)	<u>December 31, 2017</u>
ASSETS		
Cash and Due from Financial Institutions	\$ 3,257,000	\$ 2,049,000
Federal Funds Sold	1,137,000	876,000
Cash and Cash Equivalents	4,394,000	2,925,000
Certificates of Deposit in Other Financial Institutions	3,963,000	5,699,000
Securities Available-for-Sale at Fair Value	5,841,000	6,220,000
Federal Home Loan Bank (FHLB) Stock, at Cost	82,000	89,000
Loans, Net of Allowance for Loan Losses of \$258,000 and \$273,000 at March 31, 2018 and December 31, 2017	52,249,000	51,937,000
Foreclosed Assets	71,000	-
Premises and Equipment, Net	696,000	710,000
Accrued Interest Receivable	155,000	163,000
Other Assets	444,000	346,000
Total Assets	<u>\$ 67,895,000</u>	<u>\$ 68,089,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-Bearing	\$ 3,146,000	\$ 3,181,000
Interest-Bearing	38,432,000	38,455,000
Total Deposits	41,578,000	41,636,000
Other Liabilities	202,000	135,000
Total Liabilities	41,780,000	41,771,000
Redeemable Common Stock Held By Employee Stock Ownership Plan ("ESOP")	179,000	179,000
STOCKHOLDERS' EQUITY		
Preferred Stock, \$0.01 par value; 1,000,000 shares authorized; none issued and outstanding	-	-
Common Stock, \$0.01 par value; 10,000,000 shares authorized; 1,788,020 shares issued; 1,670,220 and 1,675,920 shares outstanding at March 31, 2018 and December 31, 2017, respectively	18,000	18,000
Retained Earnings - Substantially Restricted	12,726,000	12,758,000
Additional Paid-In Capital	16,469,000	16,464,000
Treasury Stock, at cost; 117,800 and 112,100 shares at March 31, 2018 and December 31, 2017, respectively	(1,604,000)	(1,523,000)
Common Stock Acquired by Employee Stock Ownership Plan ("ESOP")	(1,302,000)	(1,316,000)
Accumulated Other Comprehensive Income (Loss)	(192,000)	(83,000)
Total Stockholders' Equity	26,115,000	26,318,000
Less Maximum cash obligation related to ESOP shares	179,000	179,000
Total Stockholders' Equity Less Maximum Cash Obligations Related to ESOP shares	25,936,000	26,139,000
Total Liabilities and Stockholders' Equity	<u>\$ 67,895,000</u>	<u>\$ 68,089,000</u>

See Accompanying Notes to Consolidated Financial Statements.

CENTRAL FEDERAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(ROUNDED TO THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended	
	March 31,	
	2018	2017
	(Unaudited)	
INTEREST INCOME		
Loans, Including Fees	\$ 562,000	\$ 538,000
Securities and Other	65,000	71,000
Total Interest Income	627,000	609,000
INTEREST EXPENSE		
Deposits	65,000	81,000
Total Interest Expense	65,000	81,000
NET INTEREST INCOME	562,000	528,000
PROVISION FOR LOAN LOSSES	-	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	562,000	528,000
NONINTEREST INCOME		
Customer Service Fees	21,000	18,000
Unrealized Loss on Equity Securities	(18,000)	-
Other Income	1,000	8,000
Total Noninterest Income	4,000	26,000
NONINTEREST EXPENSE		
Compensation and Employee Benefits	321,000	314,000
Data Processing and Other Outside Services	88,000	79,000
FDIC Insurance and Regulatory Assessment	14,000	14,000
Occupancy and Equipment	51,000	44,000
Legal and Professional Services	95,000	107,000
Supplies, Telephone, and Postage	10,000	10,000
Expense (Income) from Foreclosed Assets, net	9,000	(9,000)
Other	27,000	27,000
Total Noninterest Expense	615,000	586,000
INCOME (LOSS) BEFORE INCOME TAXES	(49,000)	(32,000)
INCOME TAX EXPENSE (BENEFIT)	1,000	(16,000)
NET INCOME (LOSS)	\$ (50,000)	\$ (16,000)
Common share data		
Basic and diluted Income (Loss) per share	\$ (0.03)	\$ (0.01)

See Accompanying Notes to Consolidated Financial Statements.

CENTRAL FEDERAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(ROUNDED TO THOUSANDS)

	Three Months Ended	
	March 31,	
	2018	2017
	(Unaudited)	
NET LOSS	\$ (50,000)	\$ (16,000)
Other Comprehensive Income (Loss):		
Unrealized Losses on Debt Securities Available-for-Sale	(122,000)	(8,000)
Income Tax Benefit	(31,000)	-
Total Other Comprehensive Loss, net of tax	(91,000)	(8,000)
TOTAL COMPREHENSIVE LOSS	\$ (141,000)	\$ (24,000)

See Accompanying Notes to Consolidated Financial Statements

CENTRAL FEDERAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(ROUNDED TO THOUSANDS)

	Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (50,000)	\$ (16,000)
Items not requiring (providing) cash:		
Net Amortization of Securities	10,000	14,000
Provision for Loan Losses	-	-
Depreciation	18,000	14,000
Gain on Sale of Foreclosed Assets	-	(11,000)
ESOP Expense	19,000	18,000
Loss on Equity Securities	18,000	-
Net Changes in:		
Accrued Interest Receivable	8,000	(1,000)
Other Assets	(67,000)	46,000
Other Liabilities	67,000	80,000
Net Cash Provided by Operating Activities	<u>23,000</u>	<u>144,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Certificates of Deposit in Other Financial Institutions	-	(1,984,000)
Proceeds from Maturities of Certificates of Deposit in Other Financial Institutions	1,736,000	-
Net Change in FHLB Stock	7,000	8,000
Purchase of Securities Available-for-Sale	-	(777,000)
Proceeds from Maturities, Calls and Paydowns of Securities Available-for-Sale	229,000	302,000
Net Increase in Loans	(383,000)	(943,000)
Purchases of Premises and Equipment	(4,000)	(51,000)
Proceeds from Sale of Foreclosed Assets	-	37,000
Net Cash Provided by (Used In) Investing Activities	<u>1,585,000</u>	<u>(3,408,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Decrease in Deposits	(58,000)	(1,067,000)
Purchase of Treasury Stock	(81,000)	-
Net Cash Used in Financing Activities	<u>(139,000)</u>	<u>(1,067,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>1,469,000</u>	<u>(4,331,000)</u>
Cash and Cash Equivalents at Beginning of Period	2,925,000	12,199,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 4,394,000</u>	<u>\$ 7,868,000</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest Paid on Deposits	\$ 65,000	\$ 76,000
Income Taxes Paid, Net of Refunds Received	\$ -	\$ (57,000)
Noncash Investing Activities:		
Transfer of Loans to Foreclosed Assets	\$ 71,000	\$ 82,000

See Accompanying Notes to Consolidated Financial Statements.

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Central Federal Bancshares, Inc. (“Central Federal Bancshares” or the “Company”) is a holding company that owns 100% of Central Federal Savings and Loan Association of Rolla (“Central Federal”). Central Federal is a community-oriented financial institution, dedicated to serving the financial service needs of customers within its market area, which generally consists of Phelps County, Missouri, although it also services customers in the contiguous Missouri counties of Dent, Texas, Crawford, Pulaski and Maries. Central Federal offers a variety of loan and deposit products to meet the borrowing needs of its customers. Central Federal operates out of its office in Rolla, Missouri. Central Federal is subject to regulation, examination, and supervision by the Office of the Comptroller of the Currency, or OCC, its primary federal regulator, and the Federal Deposit Insurance Corporation, or FDIC, its deposit insurer.

Stock Conversion

On August 4, 2015, the Board of Directors of Central Federal adopted a Plan of Conversion, as subsequently amended, providing for Central Federal to convert from a federally chartered mutual savings association into a federally chartered stock savings association and operate as a wholly-owned subsidiary of a newly chartered savings and loan holding company. On January 12, 2016, Central Federal completed the conversion and now operates as a wholly-owned subsidiary of the Company. In connection with the conversion, the Company sold 1,719,250 shares of common stock in a subscription offering at \$10.00 per share, including the sale of 143,042 shares to the Central Federal Savings and Loan Association Employee Stock Ownership Plan (the “ESOP”) which was established by Central Federal in connection with the conversion. In addition, the Company contributed an additional 68,770 shares of common stock, and \$100,000 in cash, to the Central Federal Community Foundation, a charitable organization created by the Company and Central Federal in connection with the conversion and the related stock offering. The costs of the conversion and issuance of common stock was deferred and deducted from the proceeds of the offering. Central Federal incurred conversion costs of \$1,425,000.

In accordance with applicable federal conversion regulations, at the time of the completion of the conversion, Central Federal established a liquidation account in an amount equal to Central Federal’s total retained earnings as of the latest balance sheet date in the final prospectus used in the conversion (which was June 30, 2015). Each eligible account holder or supplemental account holder is entitled to a proportionate share of this liquidation account in the event of a complete liquidation of Central Federal, and only in such event. This share will be reduced if the eligible account holder’s or supplemental account holder’s deposit balance falls below the amounts on the date of record as of any December 31 and will cease to exist if the account is closed. The liquidation account will never be increased despite any increase after conversion in the related deposit balance. Central Federal may not pay dividends if those dividends would reduce equity capital below the required liquidation account amount.

Principles of Consolidation

On January 12, 2016, Central Federal completed its conversion from the mutual to stock form of ownership and now operates as a wholly-owned subsidiary of the Company. The conversion was accounted for as a change in corporate form with the historic base of Central Federal’s assets, liabilities and equity unchanged as a result. The unaudited consolidated financial statements as of March 31, 2018 and for the three months ended March 31, 2018 and 2017 are for the Company and Central Federal. Intercompany transactions and balances have been eliminated in the consolidation.

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unaudited Interim Consolidated Financial Statements

The interim consolidated financial statements prepared by management as of March 31, 2018 and for the three months ended March 31, 2018 and 2017 contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position at March 31, 2018, and the results of operations and cash flows for the periods ended March 31, 2018 and 2017 and are not necessarily indicative of the results to be expected for the full year. These consolidated financial statements should be read in conjunction with the consolidated financial statements of Central Federal Bancshares, Inc. for the year ended December 31, 2017, contained in the 2017 Annual Report on Form 10-K filed with the SEC on March 28, 2018.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, valuation of foreclosed assets, valuation of deferred tax assets, and fair values of financial instruments.

New Accounting Standards

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities," an amendment to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This amendment supersedes the guidance to classify equity securities with readily determinable fair values into different categories, requires equity securities to be measured at fair value with changes in the fair value recognized through net income, and simplifies the impairment assessment of equity investments without readily determinable fair values. The amendment requires public business entities that are required to disclose the fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price notion. The amendment requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. The amendment requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. The amendment reduces diversity in current practice by clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity's other deferred tax assets. The Company adopted the accounting standard during the first quarter of 2018, as required. The adoption of the standard resulted in a cumulative – effect adjustment that increased retained earnings by \$18,000 with offsetting adjustment to AOCI.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For the Company, this update will be effective for interim and annual periods beginning after December 15, 2019. The Company has not yet determined the impact the adoption of ASU 2016-13 will have on the consolidated financial statements.

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition Accounting Changes

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), an amendment that clarifies the principles for recognizing revenue and establishes principles for reporting information about the nature, amount, timing, and uncertainty of revenue and cashflows arising from the entity's contracts to provide goods or services to customers. Most of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans, investments and letters of credit. Service charges on deposit accounts, representing general services fees for monthly account maintenance, and transaction-based fee revenue is recognized when our performance is completed which is generally monthly.

ASU 2014-09 became effective for us on January 1, 2018 and had no material effect on how we recognize revenue or to our consolidated financial statements and disclosures.

Treasury Stock

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first in, first out method.

Reclassification

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation. These reclassifications had no effect on net loss.

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the consolidated financial statements were available to be issued.

NOTE 2 INCOME (LOSS) PER SHARE

Income (loss) per share is based upon the weighted-average shares outstanding. Any shares in the ESOP, that have been committed-to-be-released, are considered outstanding.

	Three Months Ended	
	March 31,	
	2018	2017
Basic and Diluted Income (Loss) per Share:		
Net Loss	\$ (50,000)	\$ (16,000)
Weighted-Average Basic and Diluted Shares Outstanding	1,543,084	1,652,915
Net Loss per Share, Basic and Diluted	\$ (0.03)	\$ (0.01)

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 CERTIFICATES OF DEPOSIT IN OTHER FINANCIAL INSTITUTIONS

Certificates of deposit in other financial institutions are as follows:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
	<u>(Unaudited)</u>	
Certificates of Deposit at Cost Maturing In:		
Less than One Year	\$ 497,000	\$ 2,481,000
One Year to Five Years	3,466,000	3,218,000
	<u>\$ 3,963,000</u>	<u>\$ 5,699,000</u>

NOTE 4 SECURITIES

The carrying amount and estimated fair value of available-for-sale debt securities are summarized as follows:

	<u>March 31, 2018 (Unaudited)</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Mortgage Backed Securities	\$ 4,791,000	\$ -	\$ (209,000)	\$ 4,582,000
Small Business Administration ("SBA") Pools	881,000	-	(41,000)	840,000
Municipal Obligation	405,000	-	(8,000)	397,000
Total	<u>\$ 6,077,000</u>	<u>\$ -</u>	<u>\$ (258,000)</u>	<u>\$ 5,819,000</u>

	<u>December 31, 2017</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Mortgage Backed Securities	\$ 4,994,000	\$ -	\$ (111,000)	\$ 4,883,000
Small Business Administration ("SBA") Pools	916,000	-	(31,000)	885,000
Municipal Obligation	406,000	6,000	-	412,000
Total	<u>\$ 6,316,000</u>	<u>\$ 6,000</u>	<u>\$ (142,000)</u>	<u>\$ 6,180,000</u>

The following table indicates amortized cost and the estimated fair value of available-for-sale debt securities as of March 31, 2018 based upon contractual maturity.

	<u>Amortized Cost</u>	<u>Fair Value</u>
	<u>(Unaudited)</u>	
Over Ten Years	\$ 405,000	\$ 397,000
Mortgage Backed Securities and SBA Pools with no stated maturity date	5,672,000	5,422,000
Total	<u>\$ 6,077,000</u>	<u>\$ 5,819,000</u>

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 SECURITIES (CONTINUED)

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at March 31, 2018 and December 31, 2017 was \$5,819,000 and \$5,768,000, which is approximately 100% and 93%, respectively, of the Company's available for-sale debt securities portfolio. These declines primarily resulted from changes in market interest rates.

The following tables show securities with gross unrealized losses at March 31, 2018 and December 31, 2017 aggregated by investment category and length of time that individual securities have been in a continuous loss position.

	March 31, 2018 (Unaudited)					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage Backed Securities	\$ -	\$ -	\$ 4,582,000	\$ (209,000)	\$ 4,582,000	\$ (209,000)
Small Business Administration Pools	-	-	840,000	(41,000)	840,000	(41,000)
Municipal Obligation	-	-	397,000	(8,000)	397,000	(8,000)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,819,000</u>	<u>\$ (258,000)</u>	<u>\$ 5,819,000</u>	<u>\$ (258,000)</u>

	December 31, 2017					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage Backed Securities	\$ 665,000	\$ (8,000)	\$ 4,218,000	\$ (103,000)	\$ 4,883,000	\$ (111,000)
Small Business Administration Pools	-	-	885,000	(31,000)	885,000	(31,000)
Municipal Obligation	-	-	-	-	-	-
Total	<u>\$ 665,000</u>	<u>\$ (8,000)</u>	<u>\$ 5,103,000</u>	<u>\$ (134,000)</u>	<u>\$ 5,768,000</u>	<u>\$ (142,000)</u>

There were no debt securities with unrealized losses which management believes were other-than-temporarily impaired at March 31, 2018 and December 31, 2017.

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 SECURITIES (CONTINUED)

The carrying amount and estimated fair value of equity securities are shown below:

	March 31, 2018 (Unaudited)			Fair Value
	Amortized Cost	Gross Recognized Gains	Gross Recognized Losses	
Federal Home Loan Mortgage Corp. Stock	\$ 15,000	\$ 7,000	-	\$ 22,000
Total	\$ 15,000	\$ 7,000	\$ -	\$ 22,000

	December 31, 2017			Fair Value
	Amortized Cost	Gross Recognized Gains	Gross Recognized Losses	
Federal Home Loan Mortgage Corp. Stock	\$ 15,000	\$ 25,000	-	\$ 40,000
Total	\$ 15,000	\$ 25,000	\$ -	\$ 40,000

Prior to January 1, 2018, equity securities were stated at fair value with unrealized gains and losses reported in AOCI, net of tax. On January 1, 2018, the unrealized gain was reclassified out of AOCI and into retained earnings with subsequent changes in fair value being recognized in net income. Net losses recognized during the three months ended March 31, 2018 amounted to \$18,000, all of which was unrealized as securities were still held at March 31, 2018.

There were no securities pledged as collateral at March 31, 2018 and December 31, 2017.

During the three-month period ended March 31, 2018 and 2017, the Company did not sell any securities.

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are summarized as follows:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
	<u>(Unaudited)</u>	
Commercial Business	\$ 1,336,000	\$ 1,285,000
Commercial and Multi-Family Real Estate	16,898,000	16,503,000
Residential Real Estate	33,528,000	33,753,000
Consumer and Other	758,000	683,000
	<u>52,520,000</u>	<u>52,224,000</u>
Allowance for Loan Losses	(258,000)	(273,000)
Net Deferred Loan Fees	(13,000)	(14,000)
Loans, Net	<u>\$ 52,249,000</u>	<u>\$ 51,937,000</u>

Residential real estate loans at March 31, 2018 and December 31, 2017 include loans secured by one- to four-family, non-owner-occupied properties of \$8,437,000 and \$9,190,000, respectively.

At March 31, 2018 and December 31, 2017, construction loan commitments were \$2,080,000 and \$2,076,000, respectively. Undisbursed loans in process at March 31, 2018 and December 31, 2017 were \$883,000 and \$1,330,000, respectively.

The Company maintains a separate general allowance for each portfolio segment. These portfolio segments include commercial business, commercial and multi-family real estate, residential real estate, and consumer and other with risk characteristics described as follows:

Commercial Business : Commercial business loans generally possess a lower inherent risk of loss than other real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Commercial and Multi-Family Real Estate : Commercial and multi-family real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuilt market can impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Residential Real Estate : The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of probable loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Consumer and Other : The consumer and other loan portfolio segment is usually comprised of many small loans scheduled to be amortized over a specific period. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Although management believes the allowance for loan losses to be adequate, ultimate losses may vary from management's estimates. At least quarterly, the board of directors reviews the adequacy of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions, and other factors. If the board of directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. Central Federal is subject to periodic examination by its primary regulator, which may require additions to the allowance based on judgments regarding loan portfolio information available at the time of its examinations.

The following table presents, by portfolio segment, the activity in the allowance for loan losses for the three months ended March 31, 2018. Also presented is the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of March 31, 2018.

MARCH 31, 2018 (Unaudited)	Commercial Business	Commercial and Multi- Family Real Estate	Residential Real Estate	Consumer and Other	Unallocated	Total
Allowance for Loan Losses:						
Balance January 1, 2018	\$ 3,000	\$ 38,000	\$ 220,000	\$ 3,000	\$ 9,000	\$ 273,000
Provision for Loan Losses	-	2,000	(5,000)	1,000	2,000	-
Loans Charged-Off	-	-	(16,000)	-	-	(16,000)
Recoveries of Loans						
Previously Charged-Off	-	-	1,000	-	-	1,000
Balance March 31, 2018	<u>\$ 3,000</u>	<u>\$ 40,000</u>	<u>\$ 200,000</u>	<u>\$ 4,000</u>	<u>\$ 11,000</u>	<u>\$ 258,000</u>
Ending Balance: Individually Evaluated for Impairment						
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending Balance: Collectively Evaluated for Impairment						
	<u>\$ 3,000</u>	<u>\$ 40,000</u>	<u>\$ 200,000</u>	<u>\$ 4,000</u>	<u>\$ 11,000</u>	<u>\$ 258,000</u>
Loans:						
Ending Balance: Individually Evaluated for Impairment						
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,000</u>	<u>\$ -</u>		<u>\$ 29,000</u>
Ending Balance: Collectively Evaluated for Impairment						
	<u>\$ 1,336,000</u>	<u>\$ 16,898,000</u>	<u>\$ 33,499,000</u>	<u>\$ 758,000</u>		<u>\$ 52,491,000</u>

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table presents, by portfolio segment, the activity in the allowance for loan losses for the three months ended March 31, 2017:

March 31, 2017 (Unaudited)	Commercial Business	Commercial and Multi- Family Real Estate	Residential Real Estate	Consumer and Other	Unallocated	Total
Allowance for Loan Losses:						
Balance January 1, 2017	\$ 3,000	\$ 37,000	\$ 181,000	\$ 3,000	\$ 39,000	\$ 263,000
Provision for Loan Losses	(1,000)	2,000	8,000	1,000	(10,000)	-
Loans Charged-Off	-	-	-	(1,000)	-	(1,000)
Recoveries of Loans						
Previously Charged-Off	-	-	1,000	-	-	1,000
Balance March 31, 2017	\$ 2,000	\$ 39,000	\$ 190,000	\$ 3,000	\$ 29,000	\$ 263,000
Ending Balance: Individually Evaluated for Impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Balance: Collectively Evaluated for Impairment	\$ 2,000	\$ 39,000	\$ 190,000	\$ 3,000	\$ 29,000	\$ 263,000

The following table presents the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method at December 31, 2017.

December 31, 2017	Commercial Business	Commercial and Multi- Family Real Estate	Residential Real Estate	Consumer and Other	Unallocated	Total
Allowance for Loan Losses:						
Ending Balance: Individually Evaluated for Impairment	\$ -	\$ -	\$ 19,000	\$ -	\$ -	\$ 19,000
Ending Balance: Collectively Evaluated for Impairment	\$ 3,000	\$ 38,000	\$ 201,000	\$ 3,000	\$ 9,000	\$ 254,000
Loans:						
Ending Balance: Individually Evaluated for Impairment	\$ -	\$ -	\$ 101,000	\$ -	-	\$ 101,000
Ending Balance: Collectively Evaluated for Impairment	\$ 1,285,000	\$ 16,503,000	\$ 33,652,000	\$ 683,000	-	\$ 52,123,000

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables show the loans allocated by management's internal risk ratings:

	Risk Profile by Risk Rating				
	Commercial Business	Commercial and Multi- Family Real Estate	Residential Real Estate	Consumer and Other	Total
March 31, 2018 (Unaudited)					
Risk Rating:					
Unclassified	\$ 1,336,000	\$ 16,626,000	\$ 32,660,000	\$ 758,000	\$ 51,380,000
Special Mention	-	272,000	566,000	-	838,000
Substandard	-	-	302,000	-	302,000
Total	\$ 1,336,000	\$ 16,898,000	\$ 33,528,000	\$ 758,000	\$ 52,520,000

	Risk Profile by Risk Rating				
	Commercial Business	Commercial and Multi- Family Real Estate	Residential Real Estate	Consumer and Other	Total
December 31, 2017					
Risk Rating:					
Unclassified	\$ 1,285,000	\$ 16,349,000	\$ 32,849,000	\$ 683,000	\$ 51,166,000
Special Mention	-	154,000	620,000	-	774,000
Substandard	-	-	284,000	-	284,000
Total	\$ 1,285,000	\$ 16,503,000	\$ 33,753,000	\$ 683,000	\$ 52,224,000

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables show the aging analysis of the loan portfolio by time past due:

<u>March 31, 2018 (Unaudited)</u>	<u>Accruing Interest</u>			<u>Total Nonaccrual</u>	<u>Toal Loans</u>
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>		
Commercial Business	\$ 1,336,000	\$ -	\$ -	\$ -	\$ 1,336,000
Commercial and Multi-Family Real Estate	16,898,000	-	-	-	16,898,000
Residential Real Estate	32,831,000	579,000	89,000	29,000	33,528,000
Consumer and Other	758,000	-	-	-	758,000
	<u>\$ 51,823,000</u>	<u>\$ 579,000</u>	<u>\$ 89,000</u>	<u>\$ 29,000</u>	<u>\$ 52,520,000</u>
 <u>December 31, 2017</u>					
Commercial Business	\$ 1,285,000	\$ -	\$ -	\$ -	\$ 1,285,000
Commercial and Multi-Family Real Estate	16,503,000	-	-	-	16,503,000
Residential Real Estate	33,346,000	306,000	71,000	30,000	33,753,000
Consumer and Other	683,000	-	-	-	683,000
	<u>\$ 51,817,000</u>	<u>\$ 306,000</u>	<u>\$ 71,000</u>	<u>\$ 30,000</u>	<u>\$ 52,224,000</u>

Interest income that would have been recorded for the three months ended March 31, 2018 and 2017 had nonaccrual loans been current according to their original terms amounted to \$0 and \$1,000, respectively. There was no interest income recognized on nonaccrual loans during the three months ended March 31, 2018. Interest income recognized for the three months ended March 31, 2017 was \$1,000.

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables present information related to impaired loans:

<u>March 31, 2018 (Unaudited)</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>
Loans With No Related Allowance Recorded:			
Residential Real Estate	29,000	31,000	-
Total Loans With No Related Allowance Recorded	<u>\$ 29,000</u>	<u>\$ 31,000</u>	<u>\$ -</u>
Loans With an Allowance Recorded:			
Residential Real Estate	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Impaired Loans:			
Residential Real Estate	29,000	31,000	-
Total	<u>\$ 29,000</u>	<u>\$ 31,000</u>	<u>\$ -</u>
<u>December 31, 2017</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>
Loans With No Related Allowance Recorded:			
Residential Real Estate	<u>\$ 30,000</u>	<u>\$ 32,000</u>	<u>\$ -</u>
Total Loans With No Related Allowance Recorded	<u>\$ 30,000</u>	<u>\$ 32,000</u>	<u>\$ -</u>
Loans With an Allowance Recorded:			
Residential Real Estate	<u>\$ 71,000</u>	<u>\$ 71,000</u>	<u>\$ 19,000</u>
Total Impaired Loans:			
Residential Real Estate	<u>\$ 101,000</u>	<u>\$ 103,000</u>	<u>\$ 19,000</u>
Total	<u>\$ 101,000</u>	<u>\$ 103,000</u>	<u>\$ 19,000</u>

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

	Three Months Ended	
	Average Recorded Investment	Interest Income Recognized
March 31, 2018 (Unaudited)		
Loans With No Related Allowance Recorded:		
Residential Real Estate	\$ 30,000	-
Total Loans With No Related Allowance Recorded	<u>\$ 30,000</u>	<u>\$ -</u>
Loans With an Allowance Recorded:		
Residential Real Estate	\$ 18,000	-
Total Impaired Loans:		
Residential Real Estate	\$ 48,000	-
Total	<u>\$ 48,000</u>	<u>\$ -</u>
March 31, 2017 (Unaudited)		
Loans With No Related Allowance Recorded:		
Residential Real Estate	\$ 158,000	\$ 1,000
Total Loans With No Related Allowance Recorded	<u>\$ 158,000</u>	<u>\$ 1,000</u>
Loans With an Allowance Recorded:		
Residential Real Estate	\$ -	-
Total Impaired Loans:		
Residential Real Estate	\$ 158,000	\$ 1,000
Total	<u>\$ 158,000</u>	<u>\$ 1,000</u>

The Company does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings (TDRs) or whose loans are on nonaccrual.

There were no loans modified in TDRs for the three months ended March 31, 2018 and 2017.

NOTE 6 FORECLOSED ASSETS

Activity in foreclosed assets is as follows:

	Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
Balance Beginning of Period	\$ -	\$ 26,000
Additions	71,000	82,000
Proceeds from Sale, Net	-	(37,000)
Gain (Loss) on Sale	-	11,000
Balance at End of Period	<u>\$ 71,000</u>	<u>\$ 82,000</u>

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Company has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. Central Federal's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated statements of financial condition.

The following financial instruments whose contract amount represents credit risk were approximately as follows:

	<u>March 31, 2018</u> <u>(Unaudited)</u>	<u>December 31, 2017</u>
Commitments to Extend Credit	\$ 3,664,000	\$ 3,759,000
Standby Letters of Credit	-	-
Total	<u>\$ 3,664,000</u>	<u>\$ 3,759,000</u>
Range of Rates on Fixed Rate Commitments	<u>2.00-6.00%</u>	<u>2.00-6.00%</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

Central Federal was not required to perform on any financial guarantees and did not incur any losses on its commitments for the three months ended March 31, 2018.

NOTE 8 INCOME TAXES

At March 31, 2018, the Company had approximately \$300,000 of net operating loss carry forward that will begin to expire in 2036. In connection with the offering of common stock in 2016 the Company contributed to the Central Federal Community Foundation \$100,000 in cash and common stock with a fair value of \$687,700 (68,770 shares at the \$10.00 offering price) for a total contribution of \$787,700. For Federal income tax purposes, the deduction for charitable contributions is subject to certain annual limitations with unused contributions carried forward five years subject to the same annual limitations.

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 INCOME TAXES (CONTINUED)

At March 31, 2018 and December 31, 2017, the Company had recorded a valuation allowance against the entire deferred tax asset related to this contribution carryforward. The Company has determined it is more likely than not that this deferred tax asset will not be realized.

NOTE 9 STOCKHOLDERS' EQUITY AND REGULATORY MATTERS

Central Federal is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Central Federal must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not generally applicable to savings and loan holding companies.

As of March 31, 2018, the most recent notification from the banking regulators categorized Central Federal as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, Central Federal must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed Central Federal's category.

Quantitative measures established by regulation to ensure capital adequacy require Central Federal to maintain the minimum amounts and ratios set forth in the following table. Management believes, as of March 31, 2018 and December 31, 2017, that Central Federal met all its capital adequacy requirements.

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 STOCK HOLDERS' EQUITY AND REGULATORY MATTERS (CONTINUED)

Applicable capital adequacy requirements and Central Federal's capital amounts and ratios are presented in the following table.

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2018 (Unaudited)						
Total Capital to Risk Weighted Assets	\$ 20,892,000	51.3%	\$ 3,258,000	8.0%	\$ 4,072,000	10.0%
Tier 1 Capital to Risk Weighted Assets	20,634,000	50.7%	2,443,000	6.0%	3,258,000	8.0%
Common Equity Tier 1 Capital to Risk Weighted Assets	20,634,000	50.7%	1,832,000	4.5%	2,647,000	6.5%
Tier 1 Capital to Average Assets	20,634,000	30.2%	2,737,000	4.0%	3,421,000	5.0%
December 31, 2017						
Total Capital to Risk Weighted Assets	\$ 20,759,000	51.5%	\$ 3,226,000	8.0%	\$ 4,033,000	10.0%
Tier 1 Capital to Risk Weighted Assets	20,597,000	51.1%	2,420,000	6.0%	3,226,000	8.0%
Common Equity Tier 1 Capital to Risk Weighted Assets	20,597,000	51.1%	1,815,000	4.5%	2,621,000	6.5%
Tier 1 Capital to Average Assets	20,597,000	30.2%	2,731,000	4.0%	3,414,000	5.0%

The Basel III Capital Rules establish a "capital conservation buffer" of 2.5% above the risk-based capital ratios, shown in the table above, which is being phased in at 0.625% of risk-weighted assets each year beginning in January 2016.

On April 5, 2017, the Company announced that its Board of Directors adopted a stock repurchase program, under which the Company is authorized to repurchase of up to 178,802 shares of its common stock, or approximately 10% of the current outstanding shares. As of March 31, 2018, the Company had repurchased 117,800 shares.

NOTE 10 EMPLOYEE STOCK OWNERSHIP PLAN ("ESOP")

On January 12, 2016, the Company announced Central Federal's establishment of the ESOP, a non-contributory pension benefit plan for its employees. All employees of Central Federal meeting certain tenure requirements are entitled to participate in the ESOP.

The ESOP was originally established and funded with Central Federal's purchase of 143,042 shares of common stock, which was purchased using a loan from the Company consisting of proceeds from the offering completed on January 12, 2016. Central Federal is making quarterly payments to the Company of principal and interest over a term of 100 quarters, and the unpaid principal has an annual interest rate of 3.50%. Dividends paid on unallocated stock will also be applied as a payment. The trustee of the ESOP holds unallocated shares purchased by the ESOP in a loan suspense account and will release the shares of common stock on a pro rata basis each quarter as payments are made. Released shares will be allocated among active participants on the basis of each active participant's proportional share of compensation. Compensation expense related to the ESOP was \$19,000 and \$18,000 for the three months ended March 31, 2018 and 2017, respectively.

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 EMPLOYEE STOCK OWNERSHIP PLAN (“ESOP”) (CONTINUED)

A summary of the shares held by the ESOP is as follows at March 31, 2018:

	Three Months Ended March 31, 2018 (Unaudited)
Allocated Shares	11,440
Shares released for Allocation	1,430
Unallocated Shares	130,172
Total ESOP Shares	<u>143,042</u>
Fair value of unallocated shares	<u>\$ 1,809,391</u>

At March 31, 2018, the fair value of the 12,870 shares allocated, or released for allocation, held by the ESOP was \$179,000 and is reported on the balance sheet as mezzanine capital. The fair value of all shares subject to the repurchase obligation is \$1,988,000.

NOTE 11 FAIR VALUE MEASUREMENTS

The Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Company may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Company adopted the policy to value certain financial instruments at fair value.

Recurring Basis

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The following tables present the balances of assets and liabilities measured at fair value on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
March 31, 2018 (Unaudited)				
<u>Securities Available-for-Sale</u>				
Mortgage Backed Securities	\$ -	\$ 4,582,000	\$ -	\$ 4,582,000
Small Business Administration Pools	-	840,000	-	840,000
Municipal Obligation	-	397,000	-	397,000
Federal Home Loan Mortgage Corp. Stock	22,000	-	-	22,000
	<u>\$ 22,000</u>	<u>\$ 5,819,000</u>	<u>\$ -</u>	<u>\$ 5,841,000</u>
December 31, 2017				
<u>Securities Available-for-Sale</u>				
Mortgage Backed Securities	\$ -	\$ 4,883,000	\$ -	\$ 4,883,000
Small Business Administration Pools	-	885,000	-	885,000
Municipal Obligation	-	412,000	-	412,000
Federal Home Loan Mortgage Corp. Stock	40,000	-	-	40,000
	<u>\$ 40,000</u>	<u>\$ 6,180,000</u>	<u>\$ -</u>	<u>\$ 6,220,000</u>

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Securities

When available, the Company uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Company's securities for which quoted prices are not available for identical securities in an active market, the Company determines fair value utilizing vendors who apply matrix pricing for similar bonds for which no price is observable or may compile prices from various sources. Level 2 inputs consider observable data that may include dealer quotes, market spread, cash flows, treasury yield curve, trading levels, credit information and terms, amount other factors.

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment or a change in the amount of previously recognized impairment.

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)

Net impairment losses, including charge-offs or allocated losses related to nonrecurring fair value measurements of certain assets, for the periods ended March 31, 2018 and December 31, 2017 consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>March 31, 2018 (Unaudited)</u>			
Impaired Loans	\$ -	\$ -	\$ -
<u>December 31, 2017</u>			
Impaired Loans	\$ -	\$ -	\$ 71,000

The impaired loan above that required Level 3 adjustments during 2017 consisted of a specific valuation allowance of \$19,000.

Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment was measured for loans with respect to which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investments in such loans. Impaired loans for which an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

Impairment amounts on impaired loans represent specific valuation allowances and write-downs during the periods presented above on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

CENTRAL FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 FAIR VALUE OF FINANCIAL INSTRUMENTS

A new requirement regarding the disclosure of fair value of financial instruments carried at amortized cost under Accounting Standards Codification (ASC) Topic 825, to address certain aspects of recognition, measurement, presentation and disclosure of financial instruments “Financial Instruments,” requires a change in how the fair value is determined. Instead of permitting the use of entrance pricing, exit pricing must be used to determine fair value.

The estimated fair values, and related carrying or notional amounts, of the Company’s financial instruments are as follows:

	March 31, 2018		December 31, 2017		Input Level
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
Financial Assets:					
Cash and Cash Equivalents	\$ 4,394,000	\$ 4,394,000	\$ 2,925,000	\$ 2,925,000	1
Certificates of Deposit in Other					
Financial Institutions	3,963,000	3,963,000	5,699,000	5,699,000	2
FHLB Stock	82,000	82,000	89,000	89,000	2
Loans, net	52,249,000	51,596,000	51,937,000	51,788,000	3
Accrued Interest Receivable	155,000	155,000	163,000	163,000	2
Financial Liabilities:					
Deposits	41,578,000	41,273,000	41,636,000	41,430,000	3
Accrued Interest Payable	6,000	6,000	-	-	2

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

Forward-Looking Statements

Statements included in this report and in our future filings with the Securities and Exchange Commission, in our press releases, and in oral statements made with the approval of an authorized executive officer, which are not historical or current facts, are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. These forward-looking statements are sometimes identified by the use of terms and phrases such as "believe," "should," "expect," "project," "estimate," "anticipate," "aim," "intend," "plan," "will," "can," "may," or similar expressions elsewhere in this report. Forward-looking statements include:

- statements of our goals, intentions and expectations;
- statements regarding our business plan, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

Such statements are based on management's current views and assumptions and involve risks and uncertainties that could affect expected results. Those risks and uncertainties include but are not limited to the following:

- general economic conditions, either nationally or in our primary market area, that are worse than expected;
- changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial investments;
- credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and in our allowance for loan losses and provision for loan losses;
- our ability to implement our strategic plans;
- changes in our organization, compensation and benefit plans, and our ability to attract and retain key members of our senior management team and to address staffing needs in response to product demand or to implement our strategic plans;
- the use of estimates in determining fair value of certain of our assets, which may prove to be incorrect and result in significant declines in valuations;
- fluctuations in the demand for loans, which may be affected by the number of unsold homes, land and other properties in our market areas and by any declines in the value of real estate in our market area;
- our ability to attract and maintain deposits and our success in introducing new financial products
- significant increases in our loan losses, including as a result of our inability to resolve classified and non-performing assets or reduce risks associated with our loans, and management's assumptions in determining the adequacy of the allowance for loan losses;
- declines in the yield on our assets resulting from the current low interest rate environment;
- risks related to a high concentration of loans secured by real estate located in our market area;
- the results of examinations by our regulators, including the possibility that our regulators may, among other things, require us to increase our allowance for loan losses, write down assets, change our regulatory capital position, limit our ability to borrow funds or maintain or increase deposits, or prohibit us from paying dividends, which could adversely affect our dividends and earnings;
- our ability to have sufficient taxable income to be able to fully deduct the contribution to our charitable foundation;
- the recovery of the valuation allowance on deferred tax assets;
- changes in the level of government support of housing finance;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- changes in our compensation and benefit plans;
- loan delinquencies and changes in the underlying cash flows of our borrowers;

- our ability to control costs and expenses, particularly those associated with operating as a publicly traded company and the failure or security breaches of computer systems on which we depend;
- the ability of key third-party service providers to perform their obligations to us;
- changes in the financial condition or future prospects of issuers of securities that we own;
- increased competitive pressures among financial services companies;
- changes in consumer spending, borrowing and savings habits;
- adverse changes in the financial industry, securities, credit and national and local real estate markets (including real estate values);
- changes in laws or government regulations or policies affecting financial institutions, including the Dodd-Frank Act, which could result in, among other things, increased deposit insurance premiums and assessments, capital requirements (particularly the new capital regulations), regulatory fees and compliance costs and the resources we have available to address such changes;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the SEC, the Financial Accounting Standards Board or the Public Company Accounting Oversight Board; and
- other economic, competitive, governmental, regulatory and operational factors affecting our operations, pricing, products and services described elsewhere in this report.

Our results of operations and financial condition may differ materially from those in the forward-looking statements. Any of the forward-looking statements that we make in this report and in other public statements we make may later prove incorrect because of inaccurate assumptions, the factors illustrated above or other factors that we cannot foresee. Consequently, no forward-looking statement can be guaranteed.

You should not rely upon forward-looking statements that we make in this report and in other public statements we make as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report to conform these statements to actual results or to changes in our expectations.

Overview

The Company is a holding company that owns 100% of Central Federal. Central Federal is a community-oriented financial institution founded in 1952, dedicated to serving the financial service needs of customers within its market area, which generally consists of Phelps County, Missouri, although it also services customers in the contiguous Missouri countries of Dent, Texas, Crawford, Pulaski and Maries. We currently operate out of our office in Rolla, Missouri.

We offer a variety of loan and deposit products to meet the borrowing needs of our customers. Our real estate loans consist primarily of residential loans, including owner-occupied and non-owner occupied one-to four-family residential loans. We also offer commercial and multi-family real estate loans, commercial business loans and consumer loans, including automobile and recreational vehicle loans. We are subject to extensive regulation, examination and supervision by the Office of the Comptroller of the Currency, our primary federal regulator, and the Federal Deposit Insurance Corporation, our deposit insurer.

We continue to explore ways to service our customers and their needs in order to be a full-service banking institution. The results of our operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on interest-earning assets, primarily loans, and interest we pay on interest-bearing liabilities, consisting of deposits. The interest income we generate is based on the origination of commercial, mortgage and consumer loans. Our primary source of funding is deposits. The largest expenses we incur are associated with salaries and related employee benefits. It is critical for Central Federal to maintain appropriate regulatory leverage and risk-based capital ratios.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, valuation of foreclosed assets, and valuation of deferred tax assets.

Allowance for Loan Losses. The allowance for loan losses is an estimate made by management as necessary to cover probable losses inherent in the loan portfolio at the balance sheet date. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after loan losses and loan growth. Loan losses are charged-off against the allowance when Central Federal determines the loan balance to be uncollectible. Cash received on previously charged-off amounts is recorded as a recovery to the allowance. Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the board of directors reviews the adequacy of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions, and other factors. If the board of directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, Central Federal's primary regulator may require additions to the allowance based on their judgment about information available at the time of their examinations. The regulatory agency is not, however, directly involved in the determination of the allowance for loan losses, and any decisions to increase or decrease the allowance for loan losses are the responsibility of Central Federal's management.

Foreclosed Assets. Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets held for sale are carried at the lower of the new cost basis or fair value less cost to sell. This evaluation is inherently subjective and requires estimates that are susceptible to significant revisions as more information becomes available. Due to potential changes in conditions, it is at least reasonably possible that changes in fair values will occur in the near term and that such changes could materially affect the amounts reported in our financial statements.

Deferred Tax Assets. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. These calculations are based on many complex factors including estimates of the timing of reversals of temporary differences, the interpretation of federal and state income tax laws, and a determination of the differences between the tax and the financial reporting basis of assets and liabilities. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income tax liabilities.

The Company maintains significant net deferred tax assets for deductible temporary differences, the largest of which relates to the Company's contribution to establish the Central Federal Community Foundation. Under generally accepted accounting principles, a valuation allowance is required to be recognized if it is "more likely than not" that the deferred tax assets will not be realized. The determination of the realizability of the deferred tax assets is highly subjective and dependent upon management's judgment and evaluation of both positive and negative evidence, including the forecasts of future income, tax planning strategies and assessments of the current and future economic and business conditions. The Company considers both positive and negative evidence regarding the ultimate realizability of the deferred tax assets. Positive evidence includes the ability to implement tax planning strategies to accelerate taxable income recognition and the probability that taxable income will be generated in future periods. Negative evidence includes the continued expenses related to operating as a publicly traded company, current financial performance, and the general business and economic trends.

In connection with the offering of common stock, the Company contributed to the Central Federal Community Foundation \$100,000 in cash and common stock with a fair value of approximately \$688,000 (68,770 shares at the \$10.00 offering price) for a total contribution of approximately \$788,000. For Federal income tax purposes, the deduction for charitable contributions is limited to a maximum of 10% of taxable income before charitable contributions, net operating losses and dividends received deductions. We are permitted, under the Internal Revenue Code, to carry the excess contribution over the five-year period following the contribution to the charitable foundation, subject to the 10% annual limitation.

We did not have sufficient taxable income to be able to fully deduct the contribution in the year in which it is made and may not have sufficient taxable income to fully deduct the contribution during the five-year carryover period permitted under the Internal Revenue Code. We estimated that we will not be able to fully utilize the carryover, and in the second quarter of 2016, we established a valuation allowance related to the entire deferred tax asset related to the contribution as it is not deemed to be realizable. This determination was based primarily upon the effect of anticipated costs related to operation as a publicly traded company and their effect on future taxable income. The creation of the valuation allowance does not have an effect on the Company's cash flows and may be recoverable in subsequent periods if the Company were to realize certain sustainable future taxable income. It is possible that future conditions may differ substantially from those anticipated in determining the need for a valuation allowance on deferred tax assets and adjustments may be required in the future.

Determining the ultimate settlement of any tax position requires significant estimates and judgements in arriving at the amount of tax benefits to be recognized in the financial statements. It is possible that the tax benefits realized upon the ultimate resolution of a tax position may result in tax benefits that are significantly different from those estimated.

Results of Operations for the Three Months Ended March 31, 2018 and 2017

Overview. We had a net loss of \$50,000 for the three months ended March 31, 2018 as compared to a net loss of \$16,000 for the three months ended March 31, 2017. The \$34,000, or 212.5%, increase in net loss between the periods was primarily a result of recognizing the change in fair value of the equity security from January 1, 2018 and March 31, 2018, and in addition, expenses from foreclosed assets were \$9,000 for the three months ended March 31, 2018 as compared to income of \$9,000 for the three months ended March 31, 2017.

Net Interest Income. Net interest income increased by \$34,000, or 6.4%, to \$562,000 for the three months ended March 31, 2018 from \$528,000 for the three months ended March 31, 2017. Interest income on loans increased by \$24,000 from the three months ended March 31, 2017 to the three months ended March 31, 2018, and interest expense on deposits decreased by \$16,000 during that same period. In addition, securities and other interest income decreased by \$6,000 due to decreased investment in available-for-sale securities and certificates of deposits in other financial institutions. Securities and other interest income consists primarily of interest on bank accounts, securities available-for-sale, certificates of deposits and federal funds sold and, to a lesser extent, Federal Home Loan Mortgage Corporation stock and Federal Home Loan Bank stock.

The \$24,000, or 4.5%, increase in interest income on loans, is primarily the result of the loan volume increase of \$2.1 million, or 4.2%, from \$50.0 million for the three months ended March 31, 2017 to \$52.1 million for the three months ended March 31, 2018.

The \$16,000, or 19.8%, decrease in interest expense on deposits was due to a decrease in the average rate on deposits of 9 basis points and a \$3.9 million, or 9.2%, decrease in the average balance of interest-bearing deposits from \$42.2 million for the three months ended March 31, 2017 to \$38.3 million for the three months ended March 31, 2018.

Average Balances and Yields. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Average balances have been calculated using daily balances, and non-accrual loans are included in average balances only. Loan fees are included in interest income on loans and are insignificant. Any adjustments necessary to present yields on a tax-equivalent basis are insignificant.

	Three Months Ended March 31,					
	2018			2017		
	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost
(Dollars in thousands)						
Interest-earning assets:						
Loans receivable (including fees)	\$ 52,131	\$ 562	4.31%	\$ 50,020	\$ 538	4.30%
Securities and other interest bearing assets (1)	13,636	65	1.91%	21,133	71	1.34%
Total interest-earning assets	65,767	627	3.81%	71,153	609	3.42%
Non-interest-earning assets	2,179			2,288		
Allowance for loan losses	(261)			(263)		
Total assets	\$ 67,685			\$ 73,178		
Interest-bearing liabilities:						
Certificates of deposit	\$ 14,347	35	0.98%	\$ 18,580	53	1.14%
Savings	3,700	3	0.32%	3,688	3	0.33%
Money Market	9,967	13	0.52%	8,964	12	0.54%
Interest-bearing DDA	10,280	14	0.54%	10,949	13	0.47%
Total interest-bearing deposits	38,294	65	0.68%	42,181	81	0.77%
Non-interest-bearing deposits	2,738			3,189		
Other non-interest-bearing liabilities	269			58		
Total liabilities	41,301			45,428		
Total stockholders' equity	26,384			27,750		
Total liabilities and stockholders' equity	\$ 67,685			\$ 73,178		
Net interest income		\$ 562			\$ 528	
Net interest rate spread (2)			3.13%			2.65%
Net interest-earning assets (3)	\$ 27,473			\$ 28,972		
Net interest margin (4)		3.42%			2.97%	
Ratio of average interest-earning assets to average interest-bearing liabilities	171.7%			168.7%		

(1) Includes municipal obligations with an average balance and interest income of \$412,000 and \$3,000, respectively.

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

(3) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by total interest-earning assets.

Provision for Loan Losses. We maintain an allowance for loan losses at a level necessary to absorb management's best estimate of probable loan losses in the portfolio. Management reviews the level of the allowance for loan losses on a quarterly basis based on a variety of factors. Management considers, among other factors, historical loss experience, type and amount of loans, borrower concentrations and current conditions of the economy. In addition, the allowance considers the level of loans which management monitors as a result of inconsistent repayment patterns. Such loans carry a higher degree of credit risk than our historical single-family lending.

Management also reviews individual loans for which full collectability may not be reasonably assured and considers, among other matters, the estimated fair value of the underlying collateral. This evaluation is ongoing and results in variations in our provision for loan losses.

We had no provision for loan losses for the three months ended March 31, 2018 and 2017.

Although management utilizes its best judgment in providing for losses, there can be no assurance that they will not have to change its allowance for loan losses in subsequent periods. The allowance for loan losses reflects the estimate we believe to be appropriate to cover incurred probable losses in the loan portfolio at March 31, 2018. While we believe the estimates and assumptions used in our determination of the adequacy of the allowance are reasonable, such estimates and assumptions could be proven incorrect in the future, and the actual amount of future provisions may exceed the amount of past provisions, and the increase in future provisions that may be required may adversely impact our financial condition and results of operations. In addition, our primary regulator may comment during an examination on the provision for loan losses or the recognition of further loan charge-offs. The regulatory agency is not, however, directly involved in the determination of the allowance for loan losses, and any decisions to increase or decrease the allowance for loan losses are the responsibility of Central Federal's management. Management will continue to monitor the allowance for loan losses and make additional provisions to the allowance as appropriate.

Noninterest Income. Customer service fees and other income remained virtually unchanged for the three months ended March 31, 2018, compared to the three months ended March 31, 2017. The decrease in noninterest income is primarily due to recognizing the change in fair value of the equity security from January 1, 2018 to March 31, 2018, because of the implementation of FASB ASU 2016-01. The fair value of the equity security remains \$7,000 above the book value as March 31, 2018.

Noninterest Expense. Total noninterest expense increased by \$29,000, or 4.9%, for the three months ended March 31, 2018, compared to the three months ended March 31, 2017. The increase is primarily attributable to the foreclosed property expense of \$9,000 as compared to the income from foreclosed property of \$9,000 in the same period for the prior year.

Legal and professional services decreased by \$12,000, or 11.2%, for the three months ended March 31, 2018, compared to the three months ended March 31, 2017, as more items are managed internally.

FDIC insurance premiums and OCC regulatory assessments remained unchanged for the three months ended March 31, 2018, compared to the three months ended March 31, 2017.

Income Tax Expense (Benefit). We had an income tax expense of \$1,000 for the three months ended March 31, 2018, compared to an income tax benefit of \$16,000 for the three months ended March 31, 2017.

Delinquent and Non-Accrual Loans and Troubled Debt Restructuring (“TDR”). As of March 31, 2018, there were seven loans delinquent over 30 days which totaled \$668,000. As of December 31, 2017, there were ten loans delinquent over 30 days which totaled \$377,000.

Loans are generally placed on non-accrual status when the collectability is considered to be uncertain or payments have become more than 90 days or more delinquent, unless the credit is well-secured and in process of collection. In some cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Consumer and other personal loans are typically charged-off no later than 180 days past due. As of March 31, 2018, we had one loan on non-accrual status totaling \$29,000, compared to December 31, 2017, at which point there was one loan on non-accrual status amounting to \$30,000. The decrease in loans on non-accrual status is due to one foreclosure that occurred in January of 2017.

Under certain circumstances, Central Federal will provide borrowers relief through loan restructuring. A restructuring of debt constitutes a troubled debt restructuring (“TDR”) if Central Federal, for economic or legal reasons related to the borrower’s financial situation, grants a concession to the borrower that it would not otherwise have considered. Loans that are reported as TDRs are considered impaired and measured for impairment. Depending on the individual facts and circumstances of the borrower, restructuring loans can involve loans remaining in full nonaccrual, moving to nonaccrual or continuing on accrual status.

There were no loan relationships considered a TDR as of March 31, 2018 and December 31, 2017.

There was one foreclosed asset as of March 31, 2018. The foreclosed property totals \$71,000 and is currently listed for sale. There was no foreclosed property at December 31, 2017. The foreclosed property added for the three months ended March 31, 2017, totaling \$82,000, was sold during the second quarter of 2017, resulting in a gain of \$11,000.

Investment Portfolio. We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various government-sponsored agencies and of state and municipal governments, mortgage-backed securities and certificates of deposit of federally insured institutions. Within certain regulatory limits, we also may invest a portion of our assets in other permissible securities. As a member of the Federal Home Loan Bank of Des Moines, we also are required to maintain an investment in the stock of that institution.

We held \$4.0 million and \$5.7 million of certificates of deposit as investment in financial institutions at March 31, 2018 and December 31, 2017, respectively. During the three months ended March 31, 2018, \$1.7 million in certificates of deposit matured and utilized to fund loan growth.

At March 31, 2018, our securities available-for-sale consisted of seven mortgage-backed securities and a fully guaranteed Small Business Administration investment, with fair values of \$4,582,000 and \$840,000, respectively. Our securities available-for-sale also included, one municipal bond backed by a local school district with a fair value of \$397,000, and Federal Home Loan Mortgage Corporation common stock with a fair value of \$22,000 for a total portfolio at March 31, 2018 of \$5.8 million, as compared to the December 31, 2017 available-for-sale security portfolio with a fair value of \$6.2 million.

Deposits. Deposits have traditionally been our primary source of funds for use in lending and investment activities. Deposits generally are attracted from within our market area through the offering of a broad selection of deposit instruments, including noninterest-bearing demand deposits (such as checking accounts), interest-bearing demand deposit accounts (such as NOW and money market accounts), statement savings accounts, and certificates of deposit. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit, and the interest rate, among other factors.

Total deposits remained virtually unchanged from \$41.6 million, or 61.2% of total assets, at December 31, 2017 to \$41.6 million, or 61.1% of total assets, at March 31, 2018.

Interest-bearing demand deposits and certificates of deposit make up the majority of the deposit balance. Interest-bearing demand deposits accounted for \$24.2 million, or 58.2%, of total deposits as of March 31, 2018, which is an increase of \$66,000 from \$24.1 million, or 58.0% of total deposits, as of December 31, 2017. Certificates of deposit decreased by \$89,000 from \$14.3 million, or 34.4% of total deposits, as of December 31, 2017 to \$14.2 million, or 34.2% of total deposits, as of March 31, 2018. Savings accounts remained consistent.

Stockholders' Equity. Stockholders' equity decreased by \$203,000, or .8%, to \$26.1 million at March 31, 2018. As described above, the Company had a net loss of \$50,000 for the three months ended March 31, 2018. During the three months ended March 31, 2018, the fair value of available for sale debt securities, net of taxes, recognized in accumulated other comprehensive income decreased by \$109,000. During the three months ended March 31, 2018, the Company repurchased 5,700 shares of stock for \$81,000.

Capital Ratios . The Company was well capitalized according to applicable regulatory standards at March 31, 2018 with a Tier 1 capital to adjusted total assets ratio of 30.2%, a Tier 1 capital to risk-weighted assets ratio of 50.7%, a total capital to risk weighted assets ratio of 51.3%, and a common equity Tier 1 capital to risk-weighted assets ratio of 50.7%. See Note 9 to our Unaudited Consolidated Financial Statements.

Liquidity Management

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds available to meet short-term liquidity needs consist of deposits, funds from scheduled loan payments, loan prepayments, and income on earning assets. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions, and competition.

Our most liquid assets are cash and cash equivalents, interest-bearing deposits, and securities available for sale. At March 31, 2018, cash and cash equivalents totaled \$4.4 million. Certificates of deposit in other financial institutions and securities available-for-sale totaled \$4.0 million and \$5.8 million, respectively, at March 31, 2018.

Our cash flows are composed of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash provided by operating activities was \$23,000 and \$144,000 for the three months ended March 31, 2018 and 2017, respectively. Net cash provided by or used in investing activities, which consists primarily of activity in certificates of deposit in other financial institutions, securities available-for-sale and loans, provided \$1.6 million and used \$3.4 million for the three months ended March 31, 2018 and 2017, respectively. Net cash used in financing activities, consisting of activity in deposit accounts and the purchase of treasury stock was \$139,000 for the three months ended March 31, 2018. Net cash used in financing activities, consisting of activity in deposits, was \$1.1 million for the three months ended March 31, 2017

Certificates of deposit maturing over the next 12 months total \$7.5 million, or 52.8% of certificates of deposit. Although we generally manage the pricing of our deposits to be competitive, management understands that if these maturing deposits are not reinvested or do not stay with Central Federal, we will be required to seek other sources of funding or rely on new certificates of deposit. If these deposits are withdrawn, it is anticipated that they would be funded with available cash or replaced with deposits from other customers. FHLB or Federal Reserve Bank borrowings or proceeds from the sale of securities could also be used to replace unanticipated outflows of deposits.

Capital Management

We are subject to various regulatory capital requirements administered by the OCC, including risk-based capital measures. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At March 31, 2018, Central Federal exceeded all of its regulatory capital requirements and was considered “well capitalized” under regulatory guidelines.

On April 5, 2017, we announced that our board of directors adopted a stock repurchase program, under which we may repurchase up to 178,802 shares of our common stock (approximately 10% of our outstanding shares). As of March 31, 2018, we had repurchased 117,800 shares.

Off-Balance Sheet Arrangements. In the normal course of business, Central Federal has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. Central Federal’s exposure to credit loss in the event of nonperformance by the other party to the financial instruments is represented by the contractual or notional amount of those instruments. Central Federal had \$3.7 million in unfunded commitments under lines of credit and no standby letters of credit at March 31, 2018. The amount of unfunded commitments under lines of credit and standby letters of credit were \$3.8 at December 31, 2017.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Central Federal evaluates each customer’s creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by Central Federal upon extension of credit, is based on management credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income producing commercial property.

Standby letters of credit are conditional commitments issued by Central Federal to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Central Federal’s policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. Central Federal was not required to perform on any financial guarantees and did not incur any losses on its commitments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable, as the Registrant is a smaller reporting company.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out, under the supervision and with the participation of management, including the principal executive officer and principal financial officer, of the effectiveness of the Registrant’s disclosures controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). Based on this evaluation, the principal executive officer and the principal financial officer concluded that the disclosure controls and procedures are effective.

There was no change in the Company’s internal control over financial reporting during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

The Registrant is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. The Registrant's management believes that such routine legal proceedings, in the aggregate, are immaterial to its financial condition and results of operations.

Item 1A. Risk Factors

Not applicable, as the Registrant is a smaller reporting company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- (a) Not applicable.
- (b) Not applicable.
- (c) The following table presents information regarding stock repurchases by the Company during the quarter ended March 31, 2018:

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	MAXIMUM NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAM
January 1, 2018 through January 31, 2018	-	\$ -	-	66,702
February 1, 2018 through February 28, 2018	3,000	14.26	3,000	63,702
March 1, 2018 through March 31, 2018	2,700	14.26	2,700	61,002

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

- 3.1 [Articles of Incorporation of Central Federal Bancshares, Inc.](#) ⁽¹⁾
- 3.2 [Bylaws of Central Federal Bancshares, Inc.](#) ⁽¹⁾
- 10.1 [Employment Agreement, dated January 12, 2016, between Central Federal Bancshares, Inc., Central Federal Savings and Loan Association of Rolla and William A. Stoltz**](#) ⁽²⁾
- 10.2 [Change in Control Agreement, dated January 12, 2016, between Central Federal Savings and Loan Association of Rolla and Barbara Hamilton**](#) ⁽²⁾
- 31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Principal Executive Officer](#)
- 31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Principal Financial Officer](#)
- 32.0 [Section 906 Certification](#)
- 101.0 The following materials from Central Federal Bancshares’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (Loss,) (iv) the Consolidated Statements of Stockholders’ Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Consolidated Notes to the Financial Statements

**Management contract or compensatory agreement or arrangement.

(1) Incorporated by reference to the Company’s Registration Statement on Form S-1 (File No. 333-206874), as amended, initially filed with the Securities and Exchange Commission on September 11, 2015.

(2) Incorporated by reference to the Registrant’s Annual Report on Form 10-K for the Year Ended December 31, 2015 (File No. 000-55553).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Central Federal Bancshares, Inc.

Date: May 14, 2018

By: */s/ William A. Stoltz*

William A. Stoltz
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 14, 2018

By: */s/ Angela E. Medwick*

Angela E. Medwick
Chief Financial Officer
(Principal Financial Officer)

**Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(17 CFR Section 240.13a-14(a))**

I, William A. Stoltz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Central Federal Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 14, 2018

/s/ William A. Stoltz

William A. Stoltz
President and Chief Executive Officer
(Principal Executive Officer)

**Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(17 CFR Section 240.13a-14(a))**

I, Angela E. Medwick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Central Federal Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 14, 2018

/s/ Angela E. Medwick

Angela E. Medwick
Chief Financial Officer
(Principal Financial Officer)

**Certification of Principal Executive Officer and Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)**

William A. Stoltz, President and Chief Executive Officer of Central Federal Bancshares, Inc. (the "Company"), and Angela E. Medwick, Chief Financial Officer of the Company, each certifies in his or her capacity as an officer of the Company that he or she has reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 (the "Report") and that:

1. the Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

Date: May 14, 2018

/s/ William A. Stoltz

William A. Stoltz
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 14, 2018

/s/ Angela E. Medwick

Angela E. Medwick
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.