Section 1: 10-Q (10-Q)

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 June 30, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period

Commission File No. 001-38074

Community First Bancshares, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Federal	**82-1147778**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
3175 Highway 278 Covington, Georgia	**30014**
(Address of Principal Executive Offices)	**(Zip Code)**

(770) 786-7088
(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	CFBI	The NASDAQ Stock Market LLC

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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.

Large accelerated filer	☐	Accelerated filer	☐
Non-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 August 8, 2019, 7,557,848 shares of the Registrant’s common stock, par value $0.01 per share, were outstanding.

Community First Bancshares, Inc.
Form 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

COMMUNITY FIRST BANCSHARES, INC.

Consolidated Balance Sheets

	June 30, 2019 (unaudited)	December 31, 2018
	(In thousands)	
Assets		
Cash and due from banks, including reserve requirement of $2,040 and $1,834 at June 30, 2019 and December 31, 2018, respectively	$ 4,642	3,817
Interest-earning deposits in other depository institutions	15,075	33,212
Cash and cash equivalents	19,717	37,029
Investment securities held-to-maturity (estimated fair values of $999 and $993)	1,000	1,000
Investment securities available-for-sale	20,813	21,145
Federal Home Loan Bank stock	278	580
Loans, net	243,632	227,424
Other real estate owned	-	508
Premises and equipment, net	8,778	8,896
Bank owned life insurance	7,356	7,251
Accrued interest receivable and other assets	3,514	3,862
Total assets	$ 305,088	307,695
Liabilities and Stockholders' Equity		
Liabilities:		
Savings accounts	$ 24,496	24,511
Interest-bearing checking	50,161	53,752
Market rate checking	26,738	24,936
Non-interest bearing checking	28,668	28,472
Certificate of deposits	93,020	87,510
Total deposits	223,083	219,181
Federal Home Loan Bank advances	—	7,570
Accrued interest payable and other liabilities	5,250	4,546
Total liabilities	228,333	231,297
Stockholders' equity:		
Common stock (par value $0.01 per share, 19,000,000 shares authorized, 7,671,224 issued and 7,557,848 outstanding at June 30, 2019 and 7,538,250 issued and 7,478,992 outstanding at December 31, 2018)	77	75
Preferred stock (1,000,000 shares authorized, no shares outstanding)	—	—
Additional paid in capital	33,148	33,078
Treasury stock, 113,376 shares at June 30, 2019, and 59,258 shares at December 31, 2018, at cost	(1,268)	(668)
Unearned ESOP shares	(2,630)	(2,689)
Retained earnings	47,278	47,043
Accumulated other comprehensive income (loss)	150	(441)
Total stockholders' equity	76,755	76,398
Total liabilities and stockholders' equity	$ 305,088	307,695

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCSHARES, INC.

Consolidated Statements of Income

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(In thousands)			
Interest income:				
Loans, including fees	$ 3,549	3,330	$ 6,793	6,467
Investment securities, including dividends	128	150	270	304
Interest-earning deposits	123	90	300	166
Total interest income	3,800	3,570	7,363	6,937
Interest expense:				
Deposits	546	365	1,057	681
Borrowings	—	37	24	74
Total interest expense	546	402	1,081	755
Net interest income before provision for loan losses	3,254	3,168	6,282	6,182
Provision for loan losses	—	300	—	300
Net interest income after provision for loan losses	3,254	2,868	6,282	5,882
Non-interest income:				
Service charges on deposit accounts	187	175	360	342
Small Business Administration (SBA) loan fees	2	485	7	654
Other	150	134	328	254
Total non-interest income	339	794	695	1,250
Non-interest expenses:				
Salaries and employee benefits	1,861	1,647	3,659	3,382
Deferred compensation	51	51	103	103
Occupancy	477	428	956	841
Advertising	35	55	67	82
Data processing	350	216	612	450
Other real estate owned	15	53	17	61
Net gain on sale of other real estate owned	(62)	(4)	(96)	(24)
Legal and accounting	259	223	533	487
Organizational dues and subscriptions	73	82	153	155
Director compensation	50	53	96	108
Federal deposit insurance premiums	16	16	32	32
Other	337	256	616	481
Total non-interest expenses	3,462	3,076	6,748	6,158
Income before income taxes	131	586	229	974
Income tax expense (benefit)	13	(32)	(6)	23
Net income	$ 118	618	$ 235	951
Basic and diluted earnings per share	$ 0.02	$ 0.08	$ 0.03	$ 0.13

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCSHARES, INC.

Consolidated Statements of Comprehensive Income

(unaudited)

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
	(In thousands)			
Net income	$ 118	$ 618	$ 235	$ 951
Other comprehensive income (loss):				
Net unrealized gain (loss) on available for sale securities, net of taxes of $77, $(1), $208 and $(135)	218	(2)	591	(383)
Total other comprehensive income (loss)	218	(2)	591	(383)
Total comprehensive income	$ 336	$ 616	$ 826	$ 568

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCSHARES, INC.

Consolidated Statements of Changes in Stockholders' Equity

(unaudited)

	Three and Six Months Ended June 30, 2018 and June 30, 2019						
	Common Stock	Additional Paid In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	(In thousands)						
Beginning balance December 31, 2017	$ 75	$ 33,063	$ —	$ (2,807)	$ 45,485	$ (152)	$ 75,664
ESOP loan payment and release of ESOP shares	—	4	—	29	—	—	33
Change in unrealized loss on investment securities available-for-sale	—	—	—	—	—	(381)	(381)
Net income	—	—	—	—	333	—	333
Ending balance March 31, 2018	$ 75	$ 33,067	$ —	$ (2,778)	$ 45,818	$ (533)	$ 75,649
ESOP loan payment and release of ESOP shares	—	3	—	30	—	—	33
Change in unrealized loss on investment securities available-for-sale	—	—	—	—	—	(2)	(2)
Net income	—	—	—	—	618	—	618
Ending balance June 30, 2018	$ 75	$ 33,070	$ —	$ (2,748)	$ 46,436	$ (535)	$ 76,298
Beginning balance December 31, 2018	$ 75	$ 33,078	$ (668)	$ (2,689)	$ 47,043	$ (441)	$ 76,398
ESOP loan payment and release of ESOP shares	—	1	—	30	—	—	31
Issuance of restricted stock awards	—	—	—	—	—	—	—
Stock based compensation expense	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	(600)	—	—	—	(600)
Change in unrealized gain on investment securities available-for-sale	—	—	—	—	—	373	373
Net income	—	—	—	—	117	—	117
Ending balance March 31, 2019	$ 75	$ 33,079	$ (1,268)	$ (2,659)	$ 47,160	$ (68)	$ 76,319
ESOP loan payment and release of ESOP shares	—	2	—	29	—	—	31
Issuance of restricted stock awards	2	43	—	—	—	—	45
Stock based compensation expense	—	24	—	—	—	—	24
Purchase of treasury stock	—	—	—	—	—	—	—
Change in unrealized gain on investment securities available-for-sale	—	—	—	—	—	218	218
Net income	—	—	—	—	118	—	118
Ending balance June 30, 2019	$ 77	$ 33,148	$ (1,268)	$ (2,630)	$ 47,278	$ 150	$ 76,755

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCSHARES, INC.

Consolidated Statements of Cash Flows

(unaudited)

	Six Months Ended June 30,	
	2019	2018
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 235	951
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	—	300
Depreciation and amortization	435	457
Stock-based compensation expense	70	—
Deferred income tax	(17)	181
ESOP expense	61	66
Net gain on sale of other real estate owned	(96)	(24)
Increase in cash surrender value of life insurance	(105)	(117)
Change in:		
Accrued interest receivable and other assets	157	543
Accrued interest payable and other liabilities	704	64
Net cash provided by operating activities	1,444	2,421
Cash flows from investing activities:		
Purchases of premises and equipment	(220)	(744)
Proceeds from paydowns of investment securities available-for-sale	1,034	1,039
Purchases of other investments	—	(43)
Proceeds from sales of other investments	302	—
Net change in loans	(16,208)	(7,901)
Proceeds from sales of other real estate owned	604	137
Net cash used in investing activities	(14,488)	(7,512)
Cash flows from financing activities:		
Net change in demand and savings deposits	3,902	6,316
Purchase of treasury stock	(600)	—
Repayment of FHLB advances	(7,570)	—
Net cash (used in) provided by financing activities	(4,268)	6,316
Net change in cash and cash equivalents	(17,312)	1,225
Cash and cash equivalents at beginning of period	37,029	25,098
Cash and cash equivalents at end of period	$ 19,717	26,323
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 1,101	779

See accompanying notes to unaudited consolidated financial statements.

(1) Basis of Presentation

Community First Bancshares, Inc. (the "Company") is a savings and loan holding company headquartered in Covington, Georgia. The Company has one operating subsidiary, Newton Federal Bank (the "Bank"), conducting banking activities primarily in Newton County, Georgia and surrounding counties. The main emphasis of the Bank is providing mortgage loans in its primary lending area. It offers such customary banking services as consumer and commercial checking accounts, savings accounts, certificates of deposit, mortgage, commercial and consumer loans, money transfers and a variety of other banking services. In October 2018, we opened an indirect automobile loan division, Community First Auto.

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America ("GAAP"), the financial position of the Company as of June 30, 2019 and the results of its operations and its cash flows for the periods presented. The interim consolidated financial information should be read in conjunction with the annual financial statements and the notes thereto included in the Company's September 30, 2018 Form 10-K. The results of operations for the quarter ended June 30, 2019, are not necessarily indicative of the results to be expected for a full year or for any other period.

On October 25, 2018, both the Company and the Bank changed their fiscal year end from September 30 to December 31. This change will bring the Company and the Bank in line with industry standards and will improve accounting and reporting efficiencies by making the fiscal year-end and the calendar year-end the same. As a result of the change in fiscal year, the Company filed a Transition Report on Form 10-Q covering the transition period from October 1, 2018 to December 31, 2018.

Use of Estimates – The preparation of financial statements in conformity with 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 revenues and expenses during the reported period. Actual results could differ from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of other real estate acquired in connection with foreclosure or in satisfaction of loans and valuation allowances associated with the realization of deferred tax assets, which are based on future taxable income.

Summary of Significant Accounting Policies – The accounting and reporting policies of the Company conform to GAAP and general practices within the banking industry. There have been no material changes or developments in the application of principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies as disclosed in the Company's financial statements for the year ended September 30, 2018 included in the Company's Form 10-K.

Net income per share is calculated for the period that the Company's shares of common stock were outstanding which includes the current quarter and the same quarter in the previous year. The net income for the current period was $118,000 and the weighted average common shares outstanding were 7,525,700. The net income for the current year to date period was $235,000 and the weighted average common shares outstanding were 7,489,020.

Recent Accounting Pronouncements

There have been no pronouncements issued during the quarter that would have a material impact on the Company's financial statements.

(2) Investment Securities

Investment Securities Held-to-Maturity

Investment securities held-to-maturity at June 30, 2019 and December 31, 2018 are as follows: (in thousands)

March 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government sponsored enterprises	$ 1,000	—	(1)	999
December 31, 2018				
U.S. Government sponsored enterprises	$ 1,000	—	(7)	993

The U.S. government sponsored enterprise security as of June 30, 2019 is comprised of one debt financing security issued by a government agency that matures within one year.

There were no sales of securities held-to-maturity during the three and six months ended June 30, 2019 or 2018.

The one held-to-maturity security was pledged to secure public deposits at both June 30, 2019 and December 31, 2018.

Investment Securities Available-for-Sale

Investment securities available-for-sale at June 30, 2019 and December 31, 2018 are as follows: (in thousands)

June 30, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal securities - tax exempt	$ 5,635	161	—	5,796
Municipal securities - taxable	3,113	87	—	3,200
Government agency securities	501	—	(2)	499
Government agency mortgage-backed securities	11,361	13	(56)	11,318
Total	$ 20,610	261	(58)	20,813
December 31, 2018				
Municipal securities - tax exempt	$ 5,670	12	(73)	5,609
Municipal securities - taxable	3,119	—	(132)	2,987
Government agency securities	501	—	(10)	491
Government agency mortgage-backed securities	12,451	—	(393)	12,058
Total	$ 21,741	12	(608)	21,145

There were no securities in an unrealized loss position less than 12 months and 14 securities were in an unrealized loss position 12 months or greater as of June 30, 2019. The unrealized losses on the debt securities arose due to changing interest rates and market conditions and are considered temporary because of acceptable investment grades where the repayment sources of principal and interest are largely backed by U.S. Government sponsored agencies or financially stable municipalities. The Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost basis which may be at maturity.

The amortized cost and estimated fair value of investment securities available-for-sale at June 30, 2019, by contractual maturity, are shown below. Maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties. Therefore, these securities are not included in the maturity categories. (in thousands)

	Amortized Cost	Estimated Fair Value
Municipal securities - tax exempt		
Within 1 year	$ —	—
Greater than 1 to 5 years	1,577	1,616
Greater than 5 to 10 years	4,058	4,180
Greater than 10 years	—	—
	5,635	5,796
Municipal securities - taxable		
Within 1 year	—	—
Greater than 1 to 5 years	—	—
Greater than 5 to 10 years	3,113	3,200
Greater than 10 years	—	—
	3,113	3,200
Government agency securities		
Within 1 year	—	—
Greater than 1 to 5 years	501	499
Greater than 5 to 10 years	—	—
Greater than 10 years	—	—
	501	499
Government agency mortgage-backed securities	11,361	11,318
Total	$ 20,610	20,813

There were no sales of securities available-for-sale during the three and six months ended June 30, 2019 or 2018.

Securities with a carrying value of approximately $1.8 million were pledged to secure public deposits at June 30, 2019 and December 31, 2018.

(3) Loans and Allowance for Loan Losses

Major classifications of loans, by collateral code, at June 30, 2019 and December 31, 2018 are summarized as follows: (in thousands)

	June 30, 2019	December 31, 2018
Commercial (secured by real estate)	$ 54,805	50,716
Commercial and industrial	25,286	25,612
Construction, land and acquisition & development	19,452	12,367
Residential mortgage 1-4 family	128,807	138,156
Consumer installment	19,462	4,595
Total	247,812	231,446
Less allowance for loan losses	(4,180)	(4,022)
Total loans, net	$ 243,632	227,424

The Bank grants loans and extensions of credit to individuals and a variety of firms and corporations located primarily in Newton County and other surrounding Georgia counties. A substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

Qualifying loans in the amount of approximately $117.5 million and $125.0 million were pledged to secure the line of credit from Federal Home Loan Bank (the “FHLB”) at June 30, 2019 and December 31, 2018, respectively.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of and for the six months ended June 30, 2019 and 2018: (in thousands)

June 30, 2019	Commercial (Secured by Real Estate)	Commercial and Industrial	Construction, Land and Acquisition & Development	Residential Mortgage	Consumer Installment	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 1,619	1,520	108	641	127	7	4,022
Provision	36	(113)	37	(342)	386	(4)	—
Charge-offs	—	(26)	—	(125)	(5)	—	(156)
Recoveries	50	27	—	236	1	—	314
Ending balance	$ 1,705	1,408	145	410	509	3	4,180
Ending allowance attributable to loans:							
Individually evaluated for impairment	$ 2	—	—	1	—	—	3
Collectively evaluated for impairment	1,703	1,408	145	409	509	3	4,177
Total ending allowance	$ 1,705	1,408	145	410	509	3	4,180
Loans:							
Individually evaluated for impairment	$ 1,899	—	—	2,840	1	—	4,740
Collectively evaluated for impairment	52,906	25,286	19,452	125,967	19,461	—	243,072
Total loans	$ 54,805	25,286	19,452	128,807	19,462	—	247,812
June 30, 2018							
Allowance for loan losses:							
Beginning balance	$ 1,747	803	329	1,648	74	9	4,610
Provision	(560)	1,867	(114)	(905)	19	(7)	300
Charge-offs	—	(1,100)	—	(44)	(27)	—	(1,171)
Recoveries	51	22	—	196	1	—	270
Ending balance	$ 1,238	1,592	215	895	67	2	4,009
Ending allowance attributable to loans:							
Individually evaluated for impairment	$ 3	—	—	8	—	—	11
Collectively evaluated for impairment	1,235	1,592	215	887	67	2	3,998
Total ending allowance	$ 1,238	1,592	215	895	67	2	4,009
Loans:							
Individually evaluated for impairment	$ 1,994	277	—	5,835	2	—	8,108
Collectively evaluated for impairment	35,497	27,336	21,475	132,151	2,728	—	219,187
Total loans	$ 37,491	27,613	21,475	137,986	2,730	—	227,295

The Bank individually evaluates all loans for impairment that are on nonaccrual status or are rated substandard (as described below). Additionally, all troubled debt restructurings are evaluated for impairment. A loan is considered impaired when, based on current events and circumstances, it is probable that all amounts due according to the contractual terms of the loan will not be collected. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan’s effective interest rate, at the loan’s observable market price, or the fair value of the collateral if the loan is collateral dependent. Interest payments received on impaired loans are applied as a reduction of the outstanding principal balance.

Impaired loans at June 30, 2019 and December 31, 2018 were as follows: (in thousands)

June 30, 2019	Recorded Investment	Unpaid Principal Balance	Allocated Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial (secured by real estate)	$ 294	1,320	—	317	1
Commercial and industrial	—	—	—	—	—
Construction, land and acquisition & development	—	—	—	—	—
Residential mortgage	2,702	3,339	—	2,777	36
Consumer installment	1	1	—	1	6
	2,997	4,660	—	3,095	43
With an allowance recorded:					
Commercial (secured by real estate)	1,605	1,605	2	1,628	26
Commercial and industrial	—	—	—	—	—
Construction, land and acquisition & development	—	—	—	—	—
Residential mortgage	138	138	1	139	2
Consumer installment	—	—	—	—	—
	1,743	1,743	3	1,767	28
Total impaired loans	$ 4,740	6,402	3	4,862	71
December 31, 2018					
With no related allowance recorded:					
Commercial (secured by real estate)	$ 167	1,023	—	185	6
Commercial and industrial	—	—	—	—	—
Construction, land and acquisition & development	—	—	—	—	—
Residential mortgage	3,458	4,265	—	3,287	37
Consumer installment	1	1	—	6	—
	3,626	5,289	—	3,478	43
With an allowance recorded:					
Commercial (secured by real estate)	1,759	1,759	3	1,777	27
Commercial and industrial	27	27	—	14	—
Construction, land and acquisition & development	—	—	—	—	—
Residential mortgage	140	139	2	141	2
Consumer installment	—	—	—	—	—
	1,926	1,925	5	1,932	29
Total impaired loans	$ 5,552	7,214	5	5,410	72

The following table presents the aging of the recorded investment in past due loans, as well as the recorded investment in nonaccrual loans, as of June 30, 2019 and December 31, 2018 by class of loans: (in thousands)

June 30, 2019	30 -59 Days Past Due	60- 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total	Nonaccrual
Commercial (secured by real estate)	$ 15	27	—	42	54,763	54,805	174
Commercial and industrial	22	—	—	22	25,264	25,286	—
Construction, land and acquisition & development	—	—	—	—	19,452	19,452	—
Residential mortgage	312	1,080	197	1,589	127,218	128,807	1,134
Consumer installment	17	22	16	55	19,407	19,462	16
Total	$ 366	1,129	213	1,708	246,104	247,812	1,324
December 31, 2018							
Commercial (secured by real estate)	$ —	—	—	—	50,716	50,716	56
Commercial and industrial	—	—	—	—	25,612	25,612	27
Construction, land and acquisition & development	—	—	—	—	12,367	12,367	—
Residential mortgage	196	1,039	228	1,463	136,693	138,156	1,744
Consumer installment	9	1	1	11	4,584	4,595	1
Total	$ 205	1,040	229	1,474	229,972	231,446	1,828

There were no loans past due 90 days or greater and still accruing interest as of June 30, 2019 and December 31, 2018.

There were no new troubled debt restructurings during the six months ended June 30, 2019 or 2018. One troubled debt restructuring subsequently defaulted during the six months ended June 30, 2019. No troubled debt restructurings subsequently defaulted during the six months ended June 30, 2018.

The Bank has allocated an allowance for loan losses of approximately $3,000 and $5,000 to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2019 and December 31, 2018, respectively.

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. The Bank uses the following definitions for its risk ratings:

Special Mention. Loans have potential weaknesses that may, if not corrected, weaken or inadequately protect the Bank's credit position at some future date. Weaknesses are generally the result of deviation from prudent lending practices, such as over advances on collateral. Credits in this category should, within a 12-month period, move to Pass if improved or drop to Substandard if poor trends continue.

Substandard. Inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Loans have a well-defined weakness or weaknesses such as primary source of repayment is gone or severely impaired or cash flow is insufficient to reduce debt. There is a distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans have weaknesses of those classified Substandard, with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable. The likelihood of a loss on an asset or portion of an asset classified Doubtful is high.

Loss. Loans considered uncollectible and of such little value that the continuance as a Bank asset is not warranted. This does not mean that the loan has no recovery or salvage value, but rather the asset should be charged off even though partial recovery may be possible in the future.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be Pass rated loans. As of June 30, 2019, and December 31, 2018, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows: (in thousands)

June 30, 2019	Pass	Special Mention	Substandard	Doubtful/ Loss	Total
Commercial (secured by real estate)	$ 54,607	—	198	—	54,805
Commercial and industrial	25,286	—	—	—	25,286
Construction, land and acquisition & development	19,452	—	—	—	19,452
Residential mortgage	123,886	316	4,605	—	128,807
Consumer installment	19,407	—	55	—	19,462
Total	$ 242,638	316	4,858	—	247,812

December 31, 2018	Pass	Special Mention	Substandard	Doubtful/ Loss	Total
Commercial (secured by real estate)	$ 50,395	—	321	—	50,716
Commercial and industrial	25,585	—	27	—	25,612
Construction, land and acquisition & development	12,367	—	—	—	12,367
Residential mortgage	132,167	65	5,924	—	138,156
Consumer installment	4,553	—	42	—	4,595
Total	$ 225,067	65	6,314	—	231,446

(4) Deposits

The aggregate amounts of certificates of deposit of $250,000 or more, the standard FDIC deposit insurance coverage limit per depositor, were approximately $16.0 million at June 30, 2019 and $14.2 million at December 31, 2018. The aggregate amounts of certificates of deposit of $100,000 or more were approximately $48.7 million at June 30, 2019 and $42.4 million at December 31, 2018.

(5) Borrowings

The following Federal Home Loan Bank of Atlanta ("FHLB") advances, which required monthly or quarterly interest payments, were outstanding at December 31, 2018:

Advance Date	Advance	Interest Rate	Maturity	Rate	Call Feature
10/25/2017	$ 2,710,000	1.98%	10/26/2020	Fixed	None
10/25/2017	1,250,000	1.81%	10/25/2019	Fixed	None
11/13/2017	1,190,000	1.87%	11/13/2019	Fixed	None
11/13/2017	2,420,000	2.02%	11/13/2020	Fixed	None
	$ 7,570,000				

All of these advances were repaid during the quarter ended March 31, 2019. The FHLB advances were collateralized by certain loans which totaled approximately $125.0 million at December 31, 2018, and by the Company's investment in FHLB stock which totaled approximately $580,000 at December 31, 2018.

The Company had one FHLB letter of credit of $4.5 million and $5.0 million, used to collateralize public deposits, outstanding at June 30, 2019 and December 31, 2018, respectively.

(6) Employee Stock Ownership Plan

The Company sponsors an employee stock ownership plan ("ESOP") that covers all employees who meet certain service requirements. The Company makes annual contributions to the ESOP in amounts as defined by the plan document. These contributions are used to pay debt service and purchase additional shares. Certain ESOP shares are pledged as collateral for debt. As the debt is repaid, shares are released from collateral and allocated to active employees, based on the proportion of debt service paid in the year.

In April 2017, the ESOP borrowed $2,954,990 payable to the Company for the purpose of purchasing shares of the Company's common stock. A total of 295,499 shares were purchased with the loan proceeds as part of the Company's initial stock offering. Total ESOP expense for the three and six months ended June 30, 2019 and 2018 was approximately $30,000 and $33,000 and $61,000 and $66,000, respectively. The balance of the note payable of the ESOP was $2,750,592 at June 30, 2019 and December 31, 2018. Because the source of the loan payments are contributions received by the ESOP from the Company, the related note receivable is shown as a reduction of stockholders' equity. As of June 30, 2019, 23,600 shares had been released.

(7) Stock-Based Compensation

The Company may grant stock options and restricted stock under its stock-based compensation plans to certain officers, employees and directors. These plans are administered by a committee of the Board of Directors. In August 2018, with subsequent shareholder approval, the 2018 Equity Incentive Plan was approved up to 517,123 share of common stock and up to 369,374 stock options.

A Black-Scholes model is utilized to estimate the fair value of stock option grants, while the market price of the Company's stock at the date of grant is used to estimate the fair value of restricted stock awards. The weighted average assumptions used in the Black-Scholes model for valuing stock option grants were as follows. Dividend yield is 0%, expected volatility is 20.35%, the risk-free interest rate is 2.41%, expected average life is 7.5 years and the weighted average per share fair value of options is $2.97.

Stock options of 247,479 with a weighted average exercise price of $10.10 were granted during the three months ended June 30, 2019. No options were exercised or forfeited during the three months ended June 30, 2019. The weighted average remaining life of outstanding stock options at June 30, 2019, is 4.8 years and they have an aggregate intrinsic value of $0. The weighted average remaining life of exercisable stock options at June 30, 2019, is 4.8 years and they have an aggregate intrinsic value of $0.

Restricted stock of 132,974 shares with a weighted average grant date fair value of $10.10 were granted during the three months ended June 30, 2019. No stock has yet vested and none has been forfeited. There are 132,974 restricted shares outstanding with a weighted average grant date fair value of $10.10 at June 30, 2019.

The Company recognized approximately $70,000 of stock-based compensation expense (included in salary and employee benefits on the consolidated statements of income) during the three months ended June 30, 2019, associated with its common stock awards granted to directors and officers. As of June 30, 2019, there was approximately $2.0 million of unrecognized compensation cost related to equity award grants. The cost is expected to be recognized over the remaining vesting period of approximately 4.8 years.

(8) Fair Value Measurements and Disclosures

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. From time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans and other real estate owned. These nonrecurring fair value adjustments typically involve application of the lower of cost or market accounting or write-downs of individual assets. Additionally, the Company is required to disclose, but not record, the fair value of other financial instruments.

Fair Value Hierarchy

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Cash and Cash Equivalents

The carrying value of cash and cash equivalents is a reasonable estimate of fair value.

Investment Securities Available-for-Sale

Available-for-sale securities are recorded at market value. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and state, county and municipal bonds. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Investment Securities Held-to-Maturity

Held-to-maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums and discounts. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and state, county and municipal bonds. Securities classified as Level 3 include asset-backed securities in less liquid markets.

FHLB Stock

The carrying value of FHLB stock approximates fair value.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific reserve is established within the allowance for loan losses. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with GAAP. The fair value of impaired loans is estimated using one of three methods, including collateral value, market value of similar debt, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with GAAP, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is used or an appraisal is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3. For disclosure purposes, the fair value of fixed rate loans which are not considered impaired is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For unimpaired variable rate loans, the carrying amount is a reasonable estimate of fair value for disclosure purposes.

Other Real Estate Owned

Other real estate properties are adjusted to fair value upon transfer of the loans to other real estate. Subsequently, other real estate assets are carried at fair value less estimated selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price, the Bank records the other real estate as nonrecurring Level 2. When an appraised value is used or an appraisal is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the other real estate asset as nonrecurring Level 3.

Bank Owned Life Insurance

The carrying value of the cash surrender value of life insurance reasonably approximates fair value.

Deposits

The fair value of savings accounts, interest bearing checking accounts, non-interest bearing checking accounts and market rate checking accounts is the amount payable on demand at the reporting date, while the fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using current rates at which comparable certificates would be issued.

Federal Home Loan Bank Advances

The fair value of Federal Home Loan Bank fixed rate borrowings are estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of borrowing arrangements.

Commitments to Extend Credit

Commitments to extend credit are short-term and, therefore, the carrying value and the fair value are considered immaterial for disclosure.

Assets Recorded at Fair Value on a Recurring Basis

The Company's only assets recorded at fair value on a recurring basis are available-for-sale securities that had fair values of approximately $20.8 million and $21.1 million at June 30, 2019 and December 31, 2018. They are classified as Level 2.

Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of June 30, 2019 and December 31, 2018 (in thousands).

June 30, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Other real estate owned	$ —	—	—	—
Impaired loans	—	—	4,737	4,737
Total assets at fair value	$ —	—	4,737	4,737

December 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Other real estate owned	$ —	—	508	508
Impaired loans	—	—	5,547	5,547
Total assets at fair value	$ —	—	6,055	6,055

The carrying amounts and estimated fair values (in thousands) of the Company’s financial instruments at June 30, 2019 and December 31, 2018 are as follows:

		June 30, 2019		December 31, 2018	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	$	19,717	19,717	37,029	37,029
Investment securities					
available-for-sale	$	20,813	20,813	21,145	21,145
held-to-maturity	$	1,000	999	1,000	993
FHLB Stock	$	278	278	580	580
Loans, net	$	243,632	215,831	227,424	198,403
Cash surrender value of life insurance	$	7,356	7,356	7,251	7,251
Financial liabilities:					
Deposits	$	223,083	223,746	219,181	219,319
FHLB advances	$	—	—	7,570	7,656

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company’s entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

General

Management’s discussion and analysis of financial condition and results of operations at June 30, 2019 and December 31, 2018 and for the three months and six months ended June 30, 2019 and 2018 is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited consolidated financial statements and the notes thereto appearing in Part I, Item 1, of this report on Form 10-Q.

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “assume,” “plan,” “seek,” “expect,” “will,” “may,” “should,” “indicate,” “would,” “contemplate,” “continue,” “target” and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, 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.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Accordingly, you should not place undue reliance on such statements. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this report.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to implement and change our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, our mortgage banking revenues, the fair value of financial instruments or our level of loan originations, or increase the level of defaults, losses and prepayments on loans we have made and make;
- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- changes in tax laws;
- the effects of any Federal government shutdown;
- changes in the quality or composition of our loan or investment portfolios;
- technological changes that may be more difficult or expensive than expected;
- failure or breaches of IT security systems;
- the inability of third-party providers to perform as expected;
- our ability to manage market risk, credit risk and operational risk in the current economic environment;

- our ability to introduce new products and services, enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate into our operations any assets, liabilities, customers, systems and management personnel we may acquire and our ability to realize related revenue synergies and cost savings within expected time frames, and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to retain key employees;
- our compensation expense associated with equity allocated or awarded to our employees; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Summary of Significant Accounting Policies

A summary of our accounting policies is described in Note 1 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2018. The discussion and analysis of the financial condition and results of operations are based on our financial statements, which are prepared in conformity with GAAP. The preparation of these financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. We consider the accounting policies discussed below to be significant accounting policies. The estimates and assumptions that we use are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

The Jumpstart Our Business Startups Act of 2012 (the "JOBS Act") contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards.

The following represent our significant accounting policies:

Allowance for Loan Losses. The allowance for loan losses is a reserve for estimated credit losses on individually evaluated loans determined to be impaired as well as estimated credit losses inherent in the loan portfolio. Actual credit losses, net of recoveries, are deducted from the allowance for loan losses. Loans are charged off when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance for loan losses. A provision for loan losses, which is a charge against earnings, is recorded to bring the allowance for loan losses to a level that, in management's judgment, is adequate to absorb probable losses in the loan portfolio. Management's evaluation process used to determine the appropriateness of the allowance for loan losses is subject to the use of estimates, assumptions, and judgment. The evaluation process involves gathering and interpreting many qualitative and quantitative factors which could affect probable credit losses. Because interpretation and analysis involves judgment, current economic or business conditions can change, and future events are inherently difficult to predict, the anticipated amount of estimated loan losses and therefore the appropriateness of the allowance for loan losses could change significantly.

The allocation methodology applied by the Bank is designed to assess the appropriateness of the allowance for loan losses and includes allocations for specifically identified impaired loans and loss factor allocations for all remaining loans, with a component primarily based on historical loss rates and a component primarily based on other qualitative factors. The methodology includes evaluation and consideration of several factors, such as, but not limited to, management's ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions or circumstances underlying the collectability of loans. Because each of the criteria used is subject to change, the allocation of the allowance for loan losses is made for analytical purposes and is not necessarily indicative of the trend of future loan losses in any particular loan category. The total allowance is available to absorb losses from any segment of the loan portfolio. Management believes the allowance for loan losses was appropriate at June 30, 2019. The allowance analysis is reviewed by the board of directors on a quarterly basis in compliance with regulatory requirements. In addition, various regulatory agencies periodically review the allowance for loan losses. As a result of such reviews, we may have to adjust our allowance for loan losses. However, regulatory agencies are not directly involved in the process of establishing the allowance for loan losses as the process is the responsibility of the Bank and any increase or decrease in the allowance is the responsibility of management.

Income Taxes. The assessment of income tax assets and liabilities involves the use of estimates, assumptions, interpretation, and judgment concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be significant to the results of operations and reported earnings.

The Company and the Bank file a federal and a state income tax return. Amounts provided for income tax expense are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax law rates applicable to the periods in which the differences are expected to affect taxable income. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income tax expense. Valuation allowances are established when it is more likely than not that a portion of the full amount of the deferred tax asset will not be realized. In assessing the ability to realize deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. The Company may also recognize a liability for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the financial statements. Penalties related to unrecognized tax benefits are classified as income tax expense.

Comparison of Financial Condition at June 30, 2019 and December 31, 2018

Total assets decreased $2.6 million, or 0.8%, to $305.1 million at June 30, 2019 from $307.7 million at December 31, 2018. The decrease was due primarily to a decrease in cash and cash equivalents, partially offset by an increase in loans.

Cash and cash equivalents decreased $17.3 million, or 46.8%, to $19.7 million at June 30, 2019 from $37.0 million at December 31, 2018. The decrease resulted as we deployed excess cash to fund loan growth and repay borrowings, partially offset by increased deposits.

Loans increased $16.2 million, or 7.1%, to $243.6 million at June 30, 2019 from $227.4 million at December 31, 2018. Construction loans increased $7.1 million, or 57.3%, to $19.5 million at June 30, 2019 from $12.4 million at December 31, 2018 as draws on previously closed construction loans were disbursed and as new construction loans were made, including a $1.3 million Small Business Administration construction loan. Commercial real estate loans increased $4.1 million, or 8.1% to $54.8 million at June 30, 2019 from $50.7 million at December 31, 2018. Consumer loans increased $14.9 million or 323.5% to $19.5 million at June 30, 2019 from $4.6 million at December 31, 2018, as we opened our indirect automobile lending division, Community First Auto, in a former branch office location in October 2018 and have seen loan volume increase significantly as more automobile dealership relationships were established. These increases were partially offset by a decrease in one-to-four family residential real estate loans of $9.3 million, or 6.8%, to $128.8 million at June 30, 2019 from $138.2 million at December 31, 2018 as mortgage loans continue to be refinanced at lower rates than we offer. Commercial loans also decreased $326,000, or 1.3% to $25.3 million at June 30, 2019 from $25.6 million at December 31, 2018.

Securities available-for-sale remained decreased $332,000 to $20.8 million at June 30, 2019 from $21.1 million at December 31, 2018, due to paydowns on mortgage-backed securities, partially offset by market value increases in the portfolio.

Total deposits increased $3.9 million, or 1.8%, to $223.1 million at June 30, 2019 from $219.2 million at December 31, 2018. The increase was caused by increases of $5.5 million, or 6.3% in certificates of deposit, $1.8 million, or 7.2%, in market rate checking accounts, and $196,000, or 0.7%, in non-interest-bearing checking accounts, partially offset by decreases of $3.6 million, or 6.7%, in interest-bearing checking accounts and $15,000 in savings accounts.

We had no outstanding borrowings at June 30, 2019, compared to $7.6 million of Federal Home Loan Bank advances at December 31, 2018, as we have funded our operations with excess cash provided by an increase in deposits.

Stockholders' equity was $76.8 million at June 30, 2019, compared to $76.4 million at December 31, 2018. Net income of $235,000 for the six months ended June 30, 2019 and an increase in accumulated other comprehensive income from increases in the fair value of our securities during the period.

Average Balance Sheets

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments have been made, as the effects would be immaterial. All average balances are monthly average balances. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or interest expense.

	For the Three Months Ended June 30,					
	2019			2018		
	Average Outstanding Balance	Interest	Average Yield/Rate	Average Outstanding Balance	Interest	Average Yield/Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$ 238,851	$ 3,549	5.94%	$ 224,948	$ 3,330	5.92%
Securities	21,969	124	2.27%	23,537	141	2.39%
Interest-earning deposits	14,890	123	3.29%	19,151	90	1.89%
Federal Home Loan Bank of Atlanta stock	290	4	5.99%	580	9	6.16%
Total interest-earning assets	276,000	3,800	5.51%	268,216	3,570	5.32%
Non-interest-earning assets	28,716			23,777		
Total assets	$ 304,716			$ 291,993		
Interest-bearing liabilities:						
Savings accounts	$ 25,054	$ 8	0.12%	$ 24,169	$ 5	0.08%
Interest-bearing checking	52,667	92	0.70%	42,812	67	0.62%
Market rate checking accounts	25,476	56	0.88%	23,034	33	0.56%
Certificates of deposits	91,794	390	1.70%	85,798	260	1.22%
Total interest-bearing deposits	194,991	546	1.12%	175,813	365	0.83%
Borrowings	—	—	—	7,570	37	1.97%
Total interest-bearing liabilities	194,991	546	1.12%	183,383	402	0.88%
Non-interest-bearing liabilities	33,096			32,567		
Total liabilities	228,087			215,950		
Total stockholders' equity	76,629			76,043		
Total liabilities and stockholders' equity	$ 304,716			$ 291,993		
Net interest income		$ 3,255			$ 3,168	
Net interest rate spread (1)			4.39%			4.44%
Net interest-earning assets (2)	$ 81,009			$ 84,833		
Net interest margin (3)			4.72%			4.72%
Average interest-earning assets to interest-bearing liabilities	141.54%			146.26%		

(1) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate of interest-bearing liabilities.
(2) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(3) Net interest margin represents net interest income divided by average total interest-earning assets.

	For the Six Months Ended June 30,					
	2019			2018		
	Average Outstanding Balance	Interest	Average Yield/Rate	Average Outstanding Balance	Interest	Average Yield/Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$ 235,368	$ 6,793	5.77%	$ 221,856	$ 6,467	5.83%
Securities	22,107	257	2.33%	23,949	287	2.39%
Interest-earning deposits	18,258	300	3.28%	19,116	166	1.74%
Federal Home Loan Bank of Atlanta stock	380	13	6.62%	560	17	6.16%
Total interest-earning assets	276,113	7,363	5.33%	265,481	6,937	5.23%
Non-interest-earning assets	29,873			23,796		
Total assets	$ 305,986			$ 289,277		
Interest-bearing liabilities:						
Passbook savings accounts	$ 25,215	$ 14	0.11%	$ 24,272	$ 7	0.06%
Interest bearing checking	53,640	191	0.71%	42,813	126	0.59%
Market Rate checking accounts	25,269	107	0.85%	23,035	48	0.42%
Certificates of Deposits	90,081	745	1.65%	85,163	500	1.17%
Total interest-bearing deposits	194,205	1,057	1.09%	175,283	681	0.78%
Borrowings	2,575	24	1.96%	7,570	74	1.96%
Total interest-bearing liabilities	196,780	1,081	1.10%	182,853	755	0.83%
Non-interest-bearing liabilities	32,808			30,547		
Total liabilities	229,588			213,400		
Total stockholders' equity	76,398			75,876		
Total liabilities and stockholders' equity	$ 305,986			$ 289,276		
Net interest income		$ 6,282			$ 6,182	
Net interest rate spread (1)			4.23%			4.40%
Net interest-earning assets (2)	$ 79,333			$ 82,628		
Net interest margin (3)			4.55%			4.66%
Average interest-earning assets to interest-bearing liabilities	140.32%			145.19%		

(1) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate of interest-bearing liabilities.
(2) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(3) Net interest margin represents net interest income divided by average total interest-earning assets.

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume.

	Three Months Ended June 30, 2019 vs. 2018			Six Months Ended June 30, 2019 vs. 2018		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
	(In thousands)					
Interest-earning assets:						
Loans	$ 206	$ 13	$ 219	$ 500	$ (174)	$ 326
Securities	(10)	(7)	(17)	(23)	(7)	(30)
Interest-earning deposits and federal funds	(116)	149	33	(22)	156	134
Federal Home Loan Bank of Atlanta stock	(5)	—	(5)	(7)	3	(4)
Total interest-earning assets	75	155	230	448	(22)	426
Interest-bearing liabilities:						
Savings accounts	—	3	3	—	7	7
Interest-bearing checking	16	9	25	36	29	65
Market rate checking	4	19	23	5	54	59
Certificates of deposits	20	110	130	31	214	245
Total deposits	40	141	181	72	304	376
Borrowings	(17)	(20)	(37)	(50)	—	(50)
Total interest-bearing liabilities	23	121	144	22	304	326
Change in net interest income	$ 52	$ 34	$ 86	$ 426	$ (326)	$ 100

Comparison of Operating Results for the Three Months Ended June 30, 2019 and 2018

General. Net income decreased $500,000 to $118,000 for the three months ended June 30, 2019, compared to $618,000 for the three months ended June 30, 2018. The decrease was due primarily to a decrease in non-interest income of $455,000 related to lower SBA fee income and an increase in non-interest expenses of $386,000 related to annual salary increases, rising benefits expense, stock-based compensation related to equity grants and core conversion expenses.

Interest Income. Interest income increased $230,000, or 6.4%, to $3.8 million for the three months ended June 30, 2019 from $3.6 million for the three months ended June 30, 2018. The increase was due to increases in interest income on loans and interest-earning deposits, partially offset by a decrease in interest income on investment securities.

Interest income on loans increased $219,000, or 6.6%, to $3.5 million for the three months ended June 30, 2019 from $3.3 million for the three months ended June 30, 2018. Our average balance of loans increased $13.9 million, or 6.2%, to $238.9 million for the three months ended June 30, 2019 from $224.9 million for the three months ended June 30, 2018. The increase in the average balance of loans resulted primarily from the opening of our indirect automobile lending division, Community First Auto, in a former branch office location in October 2018. Our average yield on loans increased two basis points to 5.94% for the three months ended June 30, 2019 from 5.92% for the three months ended June 30, 2018.

Interest income on interest-earning deposits increased $33,000 or 36.7%, to $123,000 for the three months ended June 30, 2019 from $90,000 for the three months ended June 30, 2018. The increase in interest income on interest-earning deposits was due to a 140 basis point increase in yield, reflecting increases in market interest rates. Our average balance of interest-earning deposits decreased $4.3 million, or 22.2%, to $14.9 million for the three months ended June 30, 2019 from $19.2 million for the three months ended June 30, 2018, as we used excess cash to fund loan growth.

Interest income on securities (excluding Federal Home Loan Bank stock) decreased $17,000 to $124,000 for the three months ended June 30, 2019 from $141,000 for the three months ended June 30, 2018. The average balance of securities decreased $1.6 million, or 6.7%, to $22.0 million for the three months ended June 30, 2019 from $23.5 million for the three months ended June 30, 2018. The average yield on securities decreased 12 basis points, to 2.27% from 2.39%.

Interest Expense. Interest expense increased $144,000, or 35.8%, to $546,000 for the three months ended June 30, 2019, compared to $402,000 for the three months ended June 30, 2018, due to an increase in interest expense on deposits, partially offset by a decrease in interest expense on borrowings.

We experienced an increase in interest expense for all deposit categories. Interest expense on certificates of deposit increased $130,000 to $390,000 for the three months ended June 30, 2019 from $260,000 for the three months ended June 30, 2018. The average rate we paid on certificates of deposit increased 48 basis points to 1.70% for the three months ended June 30, 2019 from 1.22% for the three months ended June 30, 2018, reflecting our increasing interest rates in response to changes in market interest rates. The average balance of certificates of deposit increased to $91.8 million for the three months ended June 30, 2019 compared to $85.8 million for the three months ended June 30, 2018. Interest expense on interest-bearing checking accounts increased $25,000 to $92,000 for the three months ended June 30, 2019 compared to $67,000 for the three months ended June 30, 2018. The average balance of and rate paid on interest-bearing checking accounts increased to $52.7 million and 0.70%, respectively, for the three months ended June 30, 2019, from $42.8 million and 0.62%, respectively, for the three months ended June 30, 2018, as we continue to see an increase in the number of Kasasa reward based checking accounts opened.

Interest expense on borrowings decreased to $0 for the three months ended June 30, 2019 compared to $37,000 for the three months ended June 30, 2018, as we repaid our FHLB advances during the first quarter of 2019 and have funded our operations with excess cash provided by an increase in deposits.

Net Interest Income. Net interest income increased $386,000, or 13.5%, and was $3.3 million for the three months ended June 30, 2019 compared to $2.9 million for the three months ended June 30, 2018. Our average net interest-earning assets decreased by $3.8 million, or 4.5%, to $81.8 million for the three months ended June 30, 2019 from $84.8 million for the three months ended June 30, 2018, and our net interest rate spread decreased by five basis points to 4.39% for the three months ended June 30, 2019 from 4.44% for the three months ended June 30, 2018, reflecting increases in the average balance of interest-bearing liabilities and the rate paid on interest-bearing liabilities. Our net interest margin was 4.72% for the three months ended June 30, 2019 and for the three months ended June 30, 2018.

Provision for Loan Losses. Provisions for loan losses are charged to operations to establish an allowance for loan losses at a level necessary to absorb known and inherent losses in our loan portfolio that are both probable and reasonably estimable at the date of the consolidated financial statements. In evaluating the level of the allowance for loan losses, management analyzes several qualitative loan portfolio risk factors including, but not limited to, management's ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses. See "—Summary of Significant Accounting Policies" for additional information.

After an evaluation of these factors, we recorded no provision for loan losses for the three months ended June 30, 2019 and a provision of $300,000 for the three months ended June 30, 2018. Our allowance for loan losses was $4.2 million at June 30, 2019 compared to $4.0 million at December 31, 2018 and June 30, 2018. The allowance for loan losses to total loans was 1.69% at June 30, 2019 compared to 1.74% at December 31, 2018 and 1.76% at June 30, 2018. The allowance for loan losses to non-performing loans was 315.7% at June 30, 2019 compared to 220.0% at December 31, 2018 and 105.92% at June 30, 2018. We had net recoveries of $119,000 during the three months ended June 30, 2019.

To the best of our knowledge, we have recorded all loan losses that are both probable and reasonable to estimate at June 30, 2019. However, future changes in the factors described above, including, but not limited to, actual loss experience with respect to our loan portfolio, could result in material increases in our provision for loan losses. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, will periodically review our allowance for loan losses, and as a result of such reviews, we may have to adjust our allowance for loan losses. However, regulatory agencies are not directly involved in the process of establishing the allowance for loan losses as the process is our responsibility and any increase or decrease in the allowance is the responsibility of management.

Non-interest Income. Non-interest income decreased $455,000, or 57.4%, to $339,000 for the three months ended June 30, 2019 from $794,000 for the three months ended June 30, 2018. The decrease resulted primarily from a decrease in Small Business Administration loan fees of $484,000, due to fewer Small Business Administration loans being closed during the quarter, partially offset by increases in service charges on deposit accounts and other non-interest income of $12,000 and $16,000, respectively, during the three months ended June 30, 2019.

Non-interest Expenses. Non-interest expenses information is as follows.

	Three Months Ended June 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Salaries and employee benefits	$ 1,861	$ 1,647	$ 214	13.0%
Deferred compensation	51	51	—	—
Occupancy	477	428	49	11.4%
Advertising	35	55	(20)	(36.4)%
Data processing	350	216	134	62.0%
Other real estate owned	15	53	(38)	(71.2)%
Net gain on sale of other real estate owned	(62)	(4)	(58)	(1450.0)%
Legal and accounting	259	223	36	16.1%
Organizational dues and subscriptions	73	82	(9)	(11.0)%
Director compensation	50	53	(3)	(5.7)%
Federal deposit insurance premiums	16	16	—	—
Other	337	256	81	31.7%
Total non-interest expenses	$ 3,462	$ 3,076	$ 386	12.6%

Salaries and employee benefits expense increased due to annual salary increases and rising benefits expense as well as stock-based compensation related to equity grants. Data processing expense increased due to core conversion related expenses.

Income Tax Expense. We incurred income tax expense of $13,000 for the three months ended June 30, 2019 compared to an income tax benefit of $32,000 for the three months ended June 30, 2018 due to generation of additional tax credits in prior year.

Comparison of Operating Results for the Six Months Ended June 30, 2019 and 2018

General. Net income decreased $716,000 to $235,000 for the six months ended June 30, 2019, compared to $951,000 for the six months ended June 30, 2018. The decrease was due primarily to a decrease in non-interest income of $555,000 related to lower SBA fee income and an increase in non-interest expenses of $590,000 related to annual salary increases, rising benefits expense, stock-based compensation related to equity grants and core conversion expenses.

Interest Income. Interest income increased $426,000, or 6.1%, to $7.4 million for the six months ended June 30, 2019 from $7.0 million for the six months ended June 30, 2018. The increase was due to increases in interest income on loans and interest-earning deposits, partially offset by a decrease in interest income on investment securities.

Interest income on loans increased $326,000, or 5.0%, to $6.8 million for the six months ended June 30, 2019 from $6.5 million for the six months ended June 30, 2018. Our average balance of loans increased $13.5 million, or 6.1%, to $235.4 million for the six months ended June 30, 2019 from $221.9 million for the six months ended June 30, 2018. The increase in the average balance of loans resulted primarily from the opening of our indirect automobile lending division, Community First Auto, in a former branch office location in October 2018. Our average yield on loans decreased six basis points to 5.77% for the six months ended June 30, 2019 from 5.83% for the six months ended June 30, 2018, due primarily to changes in our loan portfolio composition and competitive pressure on rates.

Interest income on interest-earning deposits increased $134,000 or 8.1%, to $300,000 for the six months ended June 30, 2019 from $166,000 for the six months ended June 30, 2018. The increase in interest income on interest-earning deposits was due primarily to a 154 basis point increase in yield, reflecting increases in market interest rates. Our average balance of interest-earning deposits decreased $858,000, or 4.5%, to $18.3 million for the six months ended June 30, 2019 from $19.1 million for the six months ended June 30, 2018.

Interest income on securities (excluding Federal Home Loan Bank stock) decreased $30,000 to $257,000 for the six months ended June 30, 2019 from $287,000 for the six months ended June 30, 2018. The average balance of securities decreased $1.8 million, or 7.7%, to $22.1 million for the six months ended June 30, 2019 from $23.9 million for the six months ended June 30, 2018. The average yield on securities decreased six basis points, to 2.33% from 2.39%.

Interest Expense. Interest expense increased $326,000, or 43.2%, to $1.1 million for the six months ended June 30, 2019, compared to $755,000 for the six months ended June 30, 2018, due to an increase in interest expense on deposits, partially offset by a decrease in interest expense on borrowings.

We experienced an increase in interest expense for all deposit categories. Interest expense on certificates of deposit increased $245,000 to $745,000 for the six months ended June 30, 2019 from $500,000 for the six months ended June 30, 2018. The average rate we paid on certificates of deposit increased 48 basis points to 1.65% for the six months ended June 30, 2019 from 1.17% for the six months ended June 30, 2018, reflecting our increasing interest rates in response to changes in market interest rates. The average balance of certificates of deposit increased to $90.1 million for the six months ended June 30, 2019 compared to $85.2 million for the six months ended June 30, 2018. Interest expense on interest-bearing checking accounts increased $65,000 to $191,000 for the six months ended June 30, 2019 compared to $126,000 for the six months ended June 30, 2018. The average balance of and rate paid on interest-bearing checking accounts increased to $53.6 million and 0.71%, respectively, for the six months ended June 30, 2019, from $42.8 million and 0.59%, respectively, for the six months ended June 30, 2018, as we continue to see an increase in the number of Kasasa reward based checking accounts opened.

Interest expense on borrowings decreased to $24,000 for the six months ended June 30, 2019 compared to $74,000 for the six months ended June 30, 2018, as the average balance of borrowings decreased to $2.6 million from $7.6 million, as we repaid our FHLB advances during the first quarter and have funded our operations with excess cash provided by an increase in deposits.

Net Interest Income. Net interest income increased $400,000, or 6.8%, and was $6.3 million for the six months ended June 30, 2019 compared to $5.9 million for the six months ended June 30, 2018. Our average net interest-earning assets decreased by $3.3 million, or 4.0%, to $79.3 million for the six months ended June 30, 2019 from $82.6 million for the six months ended June 30, 2018, and our net interest rate spread decreased by 17 basis points to 4.23% for the six months ended June 30, 2019 from 4.40% for the six months ended June 30, 2018, reflecting increases in the average balance of interest-bearing liabilities and the rate paid on interest-bearing liabilities. Our net interest margin decreased by 11 basis points to 4.55% for the six months ended June 30, 2019 from 4.66% for the six months ended June 30, 2018.

Provision for Loan Losses. Provisions for loan losses are charged to operations to establish an allowance for loan losses at a level necessary to absorb known and inherent losses in our loan portfolio that are both probable and reasonably estimable at the date of the consolidated financial statements. In evaluating the level of the allowance for loan losses, management analyzes several qualitative loan portfolio risk factors including, but not limited to, management's ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses. See "—Summary of Significant Accounting Policies" for additional information.

After an evaluation of these factors, we recorded no provision for loan losses for the six months ended June 30, 2019 and $300,00 for six months ended June 30, 2018. Our allowance for loan losses was $4.2 million at June 30, 2019 compared to $4.0 million at December 31, 2018 and June 30, 2018. The allowance for loan losses to total loans was 1.69% at June 30, 2019 compared to 1.74% at December 31, 2018 and 1.76% at June 30, 2018. The allowance for loan losses to non-performing loans was 315.7% at June 30, 2019 compared to 220.0% at December 31, 2018 and 105.92% at June 30, 2018. We had net recoveries of $8,000 during the six months ended June 30, 2019.

To the best of our knowledge, we have recorded all loan losses that are both probable and reasonable to estimate at June 30, 2019. However, future changes in the factors described above, including, but not limited to, actual loss experience with respect to our loan portfolio, could result in material increases in our provision for loan losses. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, will periodically review our allowance for loan losses, and as a result of such reviews, we may have to adjust our allowance for loan losses. However, regulatory agencies are not directly involved in the process of establishing the allowance for loan losses as the process is our responsibility and any increase or decrease in the allowance is the responsibility of management.

Non-interest Income. Non-interest income decreased $555,000, or 44.4%, to $695,000 for the six months ended June 30, 2019 from $1.2 million for the six months ended June 30, 2018. The decrease resulted primarily from a decrease in Small Business Administration loan fees of $647,000, due to fewer Small Business Administration loans being closed during the period, partially offset by increases in service charges on deposit accounts and other non-interest income of $18,000 and $74,000, respectively, during the six months ended June 30, 2019.

Non-interest Expenses. Non-interest expenses information is as follows.

	Six Months Ended June 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Salaries and employee benefits	$ 3,659	$ 3,382	$ 277	8.2%
Deferred compensation	103	103	0	0
Occupancy	956	841	115	13.7%
Advertising	67	82	(15)	(18.3)%
Data processing	612	450	162	36.0%
Other real estate owned	17	61	(44)	(72.1)%
Net gain on sale of other real estate owned	(96)	(24)	(72)	300.0%
Legal and accounting	533	487	46	9.4%
Organizational dues and subscriptions	153	155	(2)	(1.3)%
Director compensation	96	108	(12)	(11.1)%
Federal deposit insurance premiums	32	32	—	—
Other	616	481	135	28.1%
Total non-interest expenses	$ 6,747	$ 6,158	$ 591	9.6%

Salaries and employee benefits expense increased due to annual salary increases and rising benefits expense as well as stock-based compensation related to equity grants. Data processing expense increased due to expenses associated with our upcoming core conversion.

Income Tax Expense. We incurred income tax benefit of $6,000 for the six months ended June 30, 2019 compared to income tax expense of $23,000 for the six months ended June 30, 2018 due to less pretax income in the 2019 period and generation of additional tax credits.

Management of Market Risk

General. Our most significant form of market risk is interest rate risk because, as a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of our financial condition and results of operations to changes in market interest rates. Our Asset/Liability Management Committee is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the policy and guidelines approved by our board of directors. We currently utilize a third-party modeling program, prepared on a quarterly basis, to evaluate our sensitivity to changing interest rates, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the board of directors.

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. We have implemented the following strategies to manage our interest rate risk:

- limiting our reliance on non-core/wholesale funding sources;
- growing our volume of transaction deposit accounts;
- increasing our investment securities portfolio, with an average maturity of less than 15 years;
- diversifying our loan portfolio by adding more commercial-related loans and consumer loans, which typically have shorter maturities and/or balloon payments; and
- continuing to price our one- to four-family residential real estate loan products in a way that encourages borrowers to select our balloon loans as opposed to longer-term, fixed-rate loans.

By following these strategies, we believe that we are better positioned to react to increases in market interest rates. In addition, during the year ended September 30, 2018, we introduced adjustable-rate, one- to four-family residential real estate loans in addition to our existing home equity loans and lines of credit, which are originated with adjustable interest rates.

We do not engage in hedging activities, such as engaging in futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligation residual interests, real estate mortgage investment conduit residual interests or stripped mortgage backed securities.

Net Interest Income. We analyze our sensitivity to changes in interest rates through a net interest income model. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings. We estimate what our net interest income would be for a 12-month period. We then calculate what the net interest income would be for the same period under the assumptions that the United States Treasury yield curve increases or decreases instantaneously by 200 and 400 basis point increments, with changes in interest rates representing immediate and permanent, parallel shifts in the yield curve. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the "Change in Interest Rates" column below.

The table below sets forth, as of June 30, 2019, the calculation of the estimated changes in our net interest income that would result from the designated immediate changes in the United States Treasury yield curve.

Change in Interest Rates (basis points) (1)	Net Interest Income Year 1 Forecast	Year 1 Change from Level
	(Dollars in thousands)	
+400	$ 12,365	(1.28)%
+200	12,486	(0.32)%
Level	12,526	—
-200	11,569	(7.64)%
-400	11,099	(11.39)%

(1) Assumes an immediate uniform change in interest rates at all maturities.

The table above indicates that at June 30, 2019, in the event of an instantaneous parallel 200 basis point increase in interest rates, we would have experienced a 0.32% decrease in net interest income, and in the event of an instantaneous 200 basis point decrease in interest rates, we would have experienced a 7.64% decrease in net interest income. At June 30, 2018, in the event of an instantaneous parallel 200 basis point increase in interest rates, we would have experienced a 2.63% increase in net interest income, and in the event of an instantaneous 200 basis point decrease in interest rates, we would have experienced an 8.21% decrease in net interest income.

Net Economic Value. We also compute amounts by which the net present value of our assets and liabilities (net economic value or "NEV") would change in the event of a range of assumed changes in market interest rates. This model uses a discounted cash flow analysis and an option-based pricing approach to measure the interest rate sensitivity of net portfolio value. The model estimates the economic value of each type of asset, liability and off-balance sheet contract under the assumptions that the United States Treasury yield curve increases or decreases instantaneously by 200 and 400 basis point increments, with changes in interest rates representing immediate and permanent, parallel shifts in the yield curve.

The table below sets forth, as of June 30, 2019, the calculation of the estimated changes in our NEV that would result from the designated immediate changes in the United States Treasury yield curve.

Change in Interest Rates (basis points) (1)	Estimated NEV (2)	Estimated Increase (Decrease) in NEV		NEV as a Percentage of Present Value of Assets (3)	
		Amount	Percent	NEV Ratio (4)	Increase (Decrease) (basis points)
		(Dollars in thousands)			
+400	$ 57,401	$ (13,733)	(19.31)%	20.86%	(228)
+200	64,069	(7,065)	(9.93)%	22.07%	(107)
—	71,134	—	—	23.14%	—
-200	70,809	(325)	(0.46)%	22.15%	(99)
-400	69,599	(1,535)	(2.16)%	21.85%	(129)

(1) Assumes an immediate uniform change in interest rates at all maturities.
(2) NEV is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.
(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
(4) NEV Ratio represents NEV divided by the present value of assets.

The table above indicates that at June 30, 2019, in the event of an instantaneous parallel 200 basis point increase in interest rates, we would have experienced a 10.55% decrease in net economic value, and in the event of an instantaneous 200 basis point decrease in interest rates, we would have experienced a 1.10% increase in net economic value. At June 30, 2018, in the event of an instantaneous parallel 200 basis point increase in interest rates, we would have experienced a 12.60% decrease in net economic value, and in the event of an instantaneous 200 basis point decrease in interest rates, we would have experienced a 3.17% increase in net economic value.

GAP Analysis. In addition, we analyze our interest rate sensitivity by monitoring our interest rate sensitivity "gap." Our interest rate sensitivity gap is the difference between the amount of our interest-earning assets maturing or repricing within a specific time period and the amount of our interest-bearing liabilities maturing or repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets maturing or repricing during a period exceeds the amount of interest rate sensitive liabilities maturing or repricing during the same period, and a gap is considered negative when the amount of interest rate sensitive liabilities maturing or repricing during a period exceeds the amount of interest rate sensitive assets maturing or repricing during the same period.

The following table sets forth our interest-earning assets and our interest-bearing liabilities at June 30, 2019, which are anticipated to reprice or mature in each of the future time periods shown based upon certain assumptions. The amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at June 30, 2019, on the basis of contractual maturities, anticipated prepayments and scheduled rate adjustments. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and as a result of contractual rate adjustments on adjustable-rate loans. Amounts are based on a preliminary balance sheet as of June 30, 2019, and may not equal amounts included in our unaudited consolidated financial statements for the quarter ended June 30, 2019. However, we believe that there would be no material changes in the results of the gap analysis if the unaudited financial results included in Part 1, Item 1 of this quarterly report had been utilized.

	Time to Repricing					
	Zero to 90 Days	Zero to 180 Days	Zero Days to One Year	Zero Days to Two Years	Zero Days to Five Years	Total
	(Dollars in thousands)					
Assets:						
Cash and due from banks	$ 10,185	10,815	10,815	10,815	10,815	$ 19,783
Investments	2,196	2,764	3,815	6,112	10,880	22,441
Net loans	44,403	55,621	75,216	112,653	186,088	245,018
Other assets	—	—	—	—	—	18,121
Total	$ 56,784	69,200	89,846	129,580	207,783	$305,363
Liabilities:						
Non-maturity deposits	$ 58,248	62,109	69,830	85,274	121,582	$141,945
Certificates of deposit	7,108	14,859	31,499	43,750	76,719	93,020
Borrowings	2,751	2,751	2,751	2,751	2,751	2,751
Other liabilities	—	—	—	—	—	5,804
Equity capital	—	—	—	—	—	61,844
Total (1)	$ 68,107	79,719	104,080	131,775	201,052	$305,364
Asset/liability gap	$ (11,323)	(10,519)	(14,234)	(2,195)	6,731	
Gap/assets ratio (2)	(3.71)%	-(3.44)%	(4.66)%	(0.72)%	(2.20)%	

(1) Amounts do not foot due to rounding.
(2) Gap/assets ratio equals the asset/liability gap for the period divided by total assets ($305.1 million).

At June 30, 2019, our asset/liability gap from zero days to one year was negative $14.2 million, resulting in a gap/assets ratio of negative 4.66%. At June 30, 2018, our asset/liability gap from zero days to one year was $6.6 million, resulting in a gap/assets ratio of 2.23%.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net interest income and net economic value tables presented assume that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the net interest income and NEV tables provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on net interest income and NEV and will differ from actual results. Furthermore, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have features that restrict changes in interest rates both on a short-term basis and over the life of the asset. In the event of changes in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the gap table.

Interest rate risk calculations also may not reflect the fair values of financial instruments. For example, decreases in market interest rates can increase the fair values of our loans, deposits and borrowings.

Liquidity and Capital Resources

Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, principal and interest payments on loans and securities, proceeds from the sale of loans, and proceeds from maturities of securities. We also have the ability to borrow from the Federal Home Loan Bank of Atlanta. At June 30, 2019, we had a $77.0 million line of credit with the Federal Home Loan Bank of Atlanta, with a $4.5 letter of credit outstanding, and we had a $5.0 million unsecured federal funds line of credit and a $7.5 million unsecured federal funds line of credit. No amount was outstanding on these lines of credit at June 30, 2019.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and short-term investments including interest-bearing demand deposits. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash provided by operating activities was $1.4 million for the six months ended June 30, 2019, compared to net cash provided by operating activities of $2.4 million for the six months ended June 30, 2018. Net cash used in investing activities, which consist primarily of disbursements for loan originations, was $14.5 million and $7.5 million for the six months ended June 30, 2019 and 2018, respectively. Net cash used in financing activities, which consist primarily of activity in deposit accounts and repayments of FHLB advances, was $4.3 million for the six months ended June 30, 2019, compared to net cash provided by financing activities of $6.3 million for the six months ended June 30, 2018.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Based on our deposit retention experience and current pricing strategy, we anticipate that a significant portion of maturing time deposits will be retained.

At June 30, 2019, we exceeded all of our regulatory capital requirements and ere categorized as "well capitalized." Management is not aware of any conditions or events since the most recent notification that would change our category. The Bank's actual capital amounts and ratios for June 30, 2019 and December 31, 2018 are presented in the table below (in thousands).

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2019:						
Common Equity Tier 1 (to Risk Weighted Assets)	$ 61,416	28%	$ 9,967	4.50%	$ 14,397	6.50%
Total Capital (to Risk Weighted Assets)	$ 64,202	29%	$ 17,719	8%	$ 22,149	10%
Tier I Capital (to Risk Weighted Assets)	$ 61,416	28%	$ 13,289	6%	$ 17,719	8%
Tier I Capital (to Average Assets)	$ 61,416	20%	$ 12,217	4%	$ 15,271	5%
As of December 31, 2018:						
Common Equity Tier 1 (to Risk Weighted Assets)	$ 60,880	29%	$ 9,292	4.50%	$ 13,422	6.50%
Total Capital (to Risk Weighted Assets)	$ 63,479	31%	$ 16,519	8%	$ 20,649	10%
Tier I Capital (to Risk Weighted Assets)	$ 60,880	29%	$ 12,389	6%	$ 16,519	8%
Tier I Capital (to Average Assets)	$ 60,880	20%	$ 12,291	4%	$ 15,363	5%

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies are required to develop a "Community Bank Leverage Ratio" (the ratio of a bank's tangible equity capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies must set the minimum capital for the new Community Bank Leverage Ratio at not less than 8% and not more than 10%, and a financial institution can elect to be subject to this new definition. The agencies have issued a proposed rule that, if finalized, would set the minimum Community Bank Leverage Ratio at 9%.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. At June 30, 2019, we had outstanding commitments to originate loans of $28.3 million. We anticipate that we will have sufficient funds available to meet our current lending commitments. Time deposits that are scheduled to mature in less than one year from June 30, 2019 totaled $31.5 million. Management expects that a substantial portion of the maturing time deposits will be renewed. However, if a substantial portion of these deposits is not retained, we may utilize Federal Home Loan Bank advances or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is included in Part 1, Item 2 of this quarterly report under "Management of Market Risk."

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of June 30, 2019. Based on that evaluation, the Company’s management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company’s disclosure controls and procedures were effective.

During the quarter ended June 30, 2019, there have been no changes in the Company’s internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not involved in any pending legal proceedings as a defendant other than routine legal proceedings occurring in the ordinary course of business. At June 30, 2019, we were not involved in any legal proceedings the outcome of which would be material to our financial condition or results of operations.

Item 1A. Risk Factors

Not applicable.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Charter of Community First Bancshares, Inc. (1)
3.2	Bylaws of Community First Bancshares, Inc. (2)
3.3	Amendment to Bylaws of Community First Bancshares, Inc. (3)
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Written Statement of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.0	The following materials for the quarter ended June 30, 2019, formatted in XBRL (Extensible Business Reporting Language): (i) Balance Sheets, (ii) Statements of Income, (iii) Statements of Comprehensive Income, (iv) Statements of Cash Flows, and (v) Notes to Financial Statements

(1) Incorporated by reference to Exhibit 3.1 to the Company’s Registration Statement on Form S-1, as amended (Commission File No. 333-215041).
(2) Incorporated by reference to Exhibit 3.2 to the Company’s Registration Statement on Form S-1, as amended (Commission File No. 333-215041).
(3) Incorporated by reference to Exhibit 3.2 to the Company’s Current Report on Form 8-K filed on May 31, 2017 (Commission File No. 001-38074).

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.

COMMUNITY FIRST BANCSHARES, INC.

Date: August 12, 2019	/s/ Johnny S. Smith Johnny S. Smith President and Chief Executive Officer
Date: August 12, 2019	/s/ Tessa M. Nolan Tessa M. Nolan Senior Vice President and Chief Financial Officer

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

Certification of Principal Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Johnny S. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Community First 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 subsidiaries, 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 (the registrant’s fourth fiscal quarter in the case of an annual report) 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 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: August 12, 2019	/s/ Johnny S. Smith

Johnny S. Smith
President and Chief Executive Officer

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

Certification of Principal Financial Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Tessa M. Nolan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Community First 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 subsidiaries, 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 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: August 12, 2019

/s/ Tessa M. Nolan
Tessa M. Nolan
Senior Vice President and Chief Financial Officer

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Section 4: EX-32 (EX-32)

Exhibit 32

Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Johnny S. Smith, President and Chief Executive Officer of Community First Bancshares, Inc. (the "Company"), and Tessa M. Nolan, Senior Vice President and Chief Financial Officer of the Company, each certify in his or her capacity as an executive officer of the Company that he or she has reviewed the quarterly report on Form 10-Q for the quarter ended June 30, 2019 (the "Report") and that to the best of his or her knowledge:

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.

Date: August 12, 2019	/s/ Johnny S. Smith Johnny S. Smith President and Chief Executive Officer
Date: August 12, 2019	/s/ Tessa M. Nolan Tessa M. Nolan Senior Vice President and Chief 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.

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