QUAINT OAK BANCORP INC
Form 10-Q
November 13, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 000-52694

QUAINT OAK BANCORP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	35-2293957
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

501 Knowles Avenue, Southampton, Pennsylvania 18966
(Address of Principal Executive Offices)

(215) 364-4059
(Registrant's Telephone Number, Including Area Code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [ ] No

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

[X] Yes [ ] No

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	(Do not check if a smaller reporting company)	
Smaller reporting company	[X]	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 [X] No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November 8, 2017, 1,917,223 shares of the Registrant's common stock were issued and outstanding.

INDEX

ITEM 1. FINANCIAL STATEMENTS

Quaint Oak Bancorp, Inc.
Consolidated Balance Sheets (Unaudited)

	At September 30, 2017	At December 31, 2016
	(In thousands, except share data)	
Assets		
Due from banks, non-interest-bearing	$ 547	$ 399
Due from banks, interest-bearing	7,682	8,901
Cash and cash equivalents	8,229	9,300
Investment in interest-earning time deposits	4,879	6,098
Investment securities available for sale	8,434	9,555
Loans held for sale	6,473	4,712
Loans receivable, net of allowance for loan losses (2017 $1,735;	193,771	176,807

2016 $1,605)		
Accrued interest receivable	925	862
Investment in Federal Home Loan Bank stock, at cost	1,134	713
Bank-owned life insurance	3,793	3,728
Premises and equipment, net	1,973	1,730
Goodwill	515	515
Other intangible, net of accumulated amortization	428	465
Other real estate owned, net	185	435
Prepaid expenses and other assets	1,467	1,243
Total Assets	$ 232,206	$ 216,163
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 7,713	$ 5,852
Interest-bearing	174,685	171,155
Total deposits	182,398	177,007
	11,500	7,000

Federal Home Loan Bank short-term borrowings		
Federal Home Loan Bank long-term borrowings	14,000	8,500
Accrued interest payable	147	142
Advances from borrowers for taxes and insurance	1,781	2,210
Accrued expenses and other liabilities	362	514
Total Liabilities	210,188	195,373
Stockholders' Equity		
Preferred stock – $0.01 par value, 1,000,000 shares authorized; none issued or outstanding		-
Common stock – $0.01 par value; 9,000,000 shares authorized; 2,777,250 issued; 1,914,486 and	28	28

1,891,150 outstanding at September 30, 2017 and December 31, 2016, respectively		
Additional paid-in capital	14,415	14,240
Treasury stock, at cost: 2017 862,764 shares; 2016 886,100 shares	(4,689)	(4,611)
Unallocated common stock held by:		
Employee Stock Ownership Plan (ESOP)	(270)	(320)
Recognition & Retention Plan Trust (RRP)	(24)	(47)
Accumulated other comprehensive loss	(1)	(38)
Retained earnings	12,559	11,538
Total Stockholders' Equity	22,018	20,790

Total Liabilities and Stockholders' Equity	$ 232,206	$ 216,163

See accompanying notes to the unaudited consolidated financial statements.

ITEM 1. FINANCIAL STATEMENTS

Quaint Oak Bancorp, Inc.
Consolidated Statements of Income (Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands, except for share data)			
Interest Income				
Interest on loans	$2,577	$2,213	$7,530	$6,497
Interest and dividends on short-term investments and investment securities	96	96	262	244
Total Interest Income	2,673	2,309	7,792	6,741
Interest Expense				
Interest on deposits	685	638	1,987	1,774
Interest on Federal Home Loan Bank borrowings	100	34	207	100
Total Interest Expense	785	672	2,194	1,874
Net Interest Income	1,888	1,637	5,598	4,867
Provision for Loan Losses	83	61	189	172
Net Interest Income after Provision for Loan Losses	1,805	1,576	5,409	4,695
Non-Interest Income				
Mortgage banking and title abstract fees	229	129	487	409
Other fees and services charges	5	(20)	49	32
Insurance commissions	90	60	256	60
Income from bank-owned life insurance	21	23	65	67
Net gain on the sale of residential mortgage loans	687	531	1,511	1,289
Gain on sale of SBA loans	32	51	48	108
Loss on sales and write-downs on other real estate owned	-	(54)	(63)	(126)
Other	32	13	61	36
Total Non-Interest Income	1,096	733	2,414	1,875
Non-Interest Expense				
Salaries and employee benefits	1,324	1,132	3,994	3,321
Directors' fees and expenses	52	48	154	155
Occupancy and equipment	137	143	427	413
Data processing	86	52	219	137
Professional fees	105	94	289	291
FDIC deposit insurance assessment	44	35	131	103
Other real estate owned expense	4	13	12	32
Advertising	39	23	117	84
Amortization of other intangible	13	8	37	8
Other	144	109	447	333

Total Non-Interest Expense	1,948	1,657	5,827	4,877
Income before Income Taxes	953	652	1,996	1,693
Income Taxes	358	250	706	650
Net Income	$595	$402	$1,290	$1,043
Earnings per share - basic	$0.32	$0.22	$0.69	$0.59
Average shares outstanding - basic	1,868,969	1,792,673	1,857,682	1,774,343
Earnings per share - diluted	$0.30	$0.21	$0.65	$0.54
Average shares outstanding - diluted	2,007,819	1,950,413	1,998,138	1,935,757

See accompanying notes to the unaudited consolidated financial statements.

2

ITEM 1. FINANCIAL STATEMENTS

Quaint Oak Bancorp, Inc.
Consolidated Statements of Comprehensive Income (Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
Net Income	$595	$402	$1,290	$1,043
Other Comprehensive Income (Loss):				
Unrealized gains (losses) on investment securities available-for-sale	11	(5)	56	15
Income tax effect	(4)	2	(19)	(5)
Other comprehensive income (loss)	7	(3)	37	10
Total Comprehensive Income	$602	$399	$1,327	$1,053

See accompanying notes to the unaudited consolidated financial statements.

ITEM 1. FINANCIAL STATEMENTS

Quaint Oak Bancorp, Inc.
Consolidated Statements of Stockholders' Equity (Unaudited)

For the Nine Months Ended September 30, 2017

	Common Stock				Unallocated Common Stock Held by Benefit Plans	Accumulated Other Comprehensive Income (Loss)		
	Number of Shares Outstanding	Amount	Additional Paid-in Capital	Treasury Stock			Retained Earnings	Total Stockholders' Equity
	(In thousands, except share data)							
BALANCE –DECEMBER 31, 2016	1,891,150	$ 28	$ 14,240	$ (4,611)	$ (367)	$ (38)	$ 11,538	$ 20,790
Common stock allocated by ESOP			87		51			138
Treasury stock purchase	(27,363)			(341)				(341)
Reissuance of treasury stock under 401(k) Plan	6,502		49	34				83
Reissuance of treasury stock under stock incentive plan	5,397		(28)	28				-
Reissuance of treasury stock for exercised stock options	38,800		(8)	201				193
Stock based compensation expense			97					97
Release of 4,864 vested RRP shares			(22)		22			-
Cash dividends declared ($0.14 per share)							(269)	(269)
Net income							1,290	1,290
Other comprehensive income, net						37		37
BALANCE – SEPTEMBER 30, 2017	1,914,486	$ 28	$ 14,415	$ (4,689)	$ (294)	$ (1)	$ 12,559	$ 22,018

See accompanying notes to the unaudited consolidated financial statements.

ITEM 1. FINANCIAL STATEMENTS

Quaint Oak Bancorp, Inc.
Consolidated Statements of Cash Flows (Unaudited)

	For the Nine Months Ended September 30,	
	2017	2016
	(In thousands)	
Cash Flows from Operating Activities		
Net income	$1,290	$1,043
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	189	172
Depreciation expense	121	140
Amortization of intangibles	37	8
Net amortization of securities premiums	15	14
Accretion of deferred loan fees and costs, net	(253)	(227)
Stock-based compensation expense	235	225
Net gain on the sale of loans	(1,511)	(1,289)
Gain on the sale of SBA loans	(48)	(108)
Net loss on sale and write-downs of other real estate owned	63	126
Increase in the cash surrender value of bank-owned life insurance	(65)	(67)
Changes in assets and liabilities which provided (used) cash:		
Loans held for sale-originations	(62,106)	(47,942)
Loans held for sale-proceeds	61,856	50,048
Accrued interest receivable	(63)	51
Prepaid expenses and other assets	(243)	(166)
Accrued interest payable	5	13
Accrued expenses and other liabilities	(152)	45
Net Cash Provided by (Used in) Operating Activities	(630)	2,086
Cash Flows from Investing Activities		
Net decrease in investment in interest-earning time deposits	1,219	73
Purchase of investment securities available for sale	-	(7,833)
Principal repayments of investment securities available for sale	1,162	784
Net increase in loans receivable	(16,852)	(18,159)
Net increase (decrease) in investment in Federal Home Loan Bank stock	(421)	25
Proceeds from the sale of other real estate owned	210	844
Capitalized expenditures on other real estate owned	(23)	(280)
Purchase of premises and equipment	(364)	(50)
Purchase of insurance agency	-	(1,000)
Net Cash Used in Investing Activities	(15,069)	(25,596)
Cash Flows from Financing Activities		
Net increase in demand deposits and savings accounts	43	3,273
Net increase in certificate accounts	5,348	22,149
Net proceeds from Federal Home Loan Bank short-term borrowings	4,500	-
Proceeds from Federal Home Loan Bank long-term borrowings	8,000	-
Repayment of Federal Home Loan Bank long-term borrowings	(2,500)	(1,000)
Dividends paid	(269)	(218)

Purchase of treasury stock	(341)	(13)
Proceeds from the reissuance of treasury stock	83	82
Proceeds from the exercise of stock options	193	133
Decrease in advances from borrowers for taxes and insurance	(429)	(422)
Net Cash Provided by Financing Activities	14,628	23,984
Net Increase (Decrease) in Cash and Cash Equivalents	(1,071)	474
Cash and Cash Equivalents – Beginning of Period	9,300	17,206
Cash and Cash Equivalents – End of Period	$8,229	$17,680
Cash payments for interest	$2,189	$1,861
Cash payments for income taxes	$789	$560

See accompanying notes to the unaudited consolidated financial statements.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 1 – Financial Statement Presentation and Significant Accounting Policies

Basis of Financial Presentation. The consolidated financial statements include the accounts of Quaint Oak Bancorp, Inc., a Pennsylvania chartered corporation (the "Company" or "Quaint Oak Bancorp") and its wholly owned subsidiary, Quaint Oak Bank, a Pennsylvania chartered stock savings bank ("Bank"), along with its wholly owned subsidiaries. At September 30, 2017, the Bank has five wholly-owned subsidiaries, Quaint Oak Mortgage, LLC, Quaint Oak Real Estate, LLC, Quaint Oak Abstract, LLC, QOB Properties, LLC, and Quaint Oak Insurance Agency, LLC, each a Pennsylvania limited liability company. The mortgage, real estate and abstract companies offer mortgage banking, real estate sales and title abstract services, respectively, in the Lehigh Valley region of Pennsylvania, and began operation in July 2009. QOB Properties, LLC began operations in July 2012 and holds Bank properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. On August 1, 2016, Quaint Oak Insurance Agency, LLC began operations by acquiring the renewal rights to the book of business produced and serviced by Signature Insurance Services, LLC, an independent insurance agency located in New Britain, Pennsylvania, that provides a broad range of personal and commercial insurance coverage solutions. All significant intercompany balances and transactions have been eliminated.

The Bank is subject to regulation by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation. Pursuant to the Bank's election under Section 10(l) of the Home Owners' Loan Act, the Company is a savings and loan holding company regulated by the Board of Governors of the Federal Reserve System. The market area served by the Bank is principally Bucks County, Pennsylvania and to a lesser extent, Montgomery and Philadelphia Counties in Pennsylvania. The Bank has two locations: the main office location in Southampton, Pennsylvania and a regional banking office in the Lehigh Valley area of Pennsylvania. The principal deposit products offered by the Bank are certificates of deposit, money market accounts, savings accounts and, beginning in December 2014, non-interest bearing checking accounts for businesses and consumers. The principal loan products offered by the Bank are fixed and adjustable rate residential and commercial mortgages, construction loans, home equity loans, lines of credit, and commercial business loans.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) for interim information and with the instructions to Form 10-Q, as applicable to a smaller reporting company. Accordingly, they do not include all the information and footnotes required by US GAAP for complete financial statements.

The foregoing consolidated financial statements are unaudited; but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation thereof. The balances as of December 31, 2016 have been derived from the audited financial statements. These financial statements should be read in conjunction with the financial statements and notes thereto included in Quaint Oak Bancorp's 2016 Annual Report on Form 10-K. The results of operations for the three or nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

Use of Estimates in the Preparation of Financial Statements. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The Company's most significant estimates are the determination of the allowance for loan losses and the valuation of deferred tax assets.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 1 – Financial Statement Presentation and Significant Accounting Policies (Continued)

Loans Receivable. Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees and costs are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan.

The loans receivable portfolio is segmented into residential loans, commercial real estate loans, construction loans and consumer loans. The residential loan segment has two classes: one-to-four family residential owner occupied loans and one-to-four residential family non-owner occupied loans. The commercial real estate loan segment consists of the following classes: multi-family (five or more) residential, commercial real estate and commercial lines of credit. Construction loans are generally granted for the purpose of building a single residential home. Commercial business loans are loans to businesses for working capital, purchase of a business, tenant improvements, receivables, purchase of inventory, and for the purchase of business essential equipment. Business essential equipment is equipment necessary for a business to support or assist with the day-to-day operation or profitability of the business.   The consumer loan segment consists of the following classes: home equity loans and other consumer loans. Included in the home equity class are home equity loans and home equity lines of credit. Included in the other consumer are loans secured by saving accounts.

The accrual of interest is generally discontinued when principal or interest has become 90 days past due unless the loan is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, a loan is restored to accrual status when the obligation is brought current, it has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Allowance for Loan Losses. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans receivable. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 1 – Financial Statement Presentation and Significant Accounting Policies (Continued)
The allowance consists of specific, general and unallocated components. The specific component relates to loans that are designated as impaired. For loans that are designated as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting our primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, recent loss experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results. The applied loss factors are reevaluated quarterly to ensure their relevance in the current economic environment. Residential owner occupied mortgage lending generally entails a lower risk of default than other types of lending. Consumer loans and commercial real estate loans generally involve more risk of collectability because of the type and nature of the collateral and, in certain cases, the absence of collateral. It is the Company's policy to establish a specific reserve for loss on any delinquent loan when it determines that a loss is probable. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.
A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not considered impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

A loan is identified as a troubled debt restructuring ("TDR") if the Company, for economic or legal reasons related to a debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Concessions granted under a TDR typically involve a temporary or permanent reduction in payments or interest rate or an extension of a loan's stated maturity date at less than a current market rate of interest. Loans identified as TDRs are designated as impaired.

For loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 1 – Financial Statement Presentation and Significant Accounting Policies (Continued)
The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for all loans (except one-to-four family residential owner-occupied loans) where the total amount outstanding to any borrower or group of borrowers exceeds $500,000, or when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass. In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Loans Held for Sale. Loans originated by the Bank's mortgage banking subsidiary, Quaint Oak Mortgage, LLC, are intended for sale in the secondary market and are carried at the lower of cost or fair value (LOCOM). Gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs, commissions and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Federal Home Loan Bank Stock. Federal law requires a member institution of the Federal Home Loan Bank (FHLB) system to hold restricted stock of its district Federal Home Loan Bank according to a predetermined formula. FHLB stock is carried at cost and evaluated for impairment. When evaluating FHLB stock for impairment, its value is determined based on the ultimate recoverability of the par value of the stock. We evaluate our holdings of FHLB stock for impairment each reporting period. No impairment charges were recognized on FHLB stock during the three or nine months ended September 30, 2017 and 2016.

Bank Owned Life Insurance (BOLl). The Company purchases bank owned life insurance as a mechanism for funding various employee benefit costs. The Company is the beneficiary of these policies that insure the lives of certain officers of its subsidiaries. The Company has recognized the cash surrender value under the insurance policies as an asset in the consolidated balance sheets. Changes in the cash surrender value are recorded in non-interest income in the consolidated statements of income.

Intangible Assets. Intangible assets on the consolidated balance sheets represent the acquisition by Quaint Oak Insurance Agency of the renewal rights to the book of business produced and serviced by Signature Insurance Services, LLC on August 1, 2016 at a total cost of $1.0 million. Based on a valuation, $515,000 of the purchase price was determined to be goodwill and $485,000 was determined to be related to the renewal rights to the book of business and deemed an other intangible asset. The renewal rights are being amortized over a ten year period based upon the annual retention rate of the book of business.

9

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 1 – Financial Statement Presentation and Significant Accounting Policies (Continued)

The Company will complete a goodwill and other intangible asset analysis at least on an annual basis or more often if events and circumstances indicate that there may be impairment.

Other Real Estate Owned, Net. Other real estate owned or foreclosed assets are comprised of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure and loans classified as in-substance foreclosures. A loan is classified as in-substance foreclosure when the Bank has taken possession of the collateral regardless of whether formal foreclosure proceedings take place. Other real estate properties are initially recorded at fair value, net of estimated selling costs at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of cost or fair value less estimated costs to sell. Net revenue and expenses from operations and additions to the valuation allowance are included in other expenses. The Company had no one-to-four family residential properties for which foreclosure proceedings are in process at September 30, 2017.

Share-Based Compensation. Compensation expense for share-based compensation awards is based on the grant date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award.

At September 30, 2017, the Company has three share-based plans: the 2008 Recognition and Retention Plan ("RRP"), the 2008 Stock Option Plan, and the 2013 Stock Incentive Plan. Awards under these plans were made in May 2008 and 2013. These plans are more fully described in Note 10.

The Company also has an employee stock ownership plan ("ESOP"). This plan is more fully described in Note 10. As ESOP shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the average market price of the shares over the period earned.

Comprehensive Income (Loss). Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated balance sheet and along with net income, are components of comprehensive income.

Earnings per Share. Amounts reported in earnings per share reflect earnings available to common stockholders' for the period divided by the weighted average number of shares of common stock outstanding during the period, exclusive of undeserved ESOP shares, unvested restricted stock (RRP) shares and treasury shares. Stock options and unvested restricted stock are regarded as potential common stock and are considered in the diluted earnings per share calculations to the extent they would have a dilutive effect if converted to common stock, computed using the "treasury stock" method.

Recent Accounting Pronouncements. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (a new revenue recognition standard). The Update's core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this Update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This Update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Because the guidance does not apply to revenue associated with financial instruments, including loans and securities, we do not expect the new standard, or any of the amendments, to result in a material change from our current accounting for revenue because the majority of the Company's financial instruments are not within the scope of Topic 606. However, we do expect that the standard will result in new disclosure requirements, which are currently being evaluated.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 1 – Financial Statement Presentation and Significant Accounting Policies (Continued)

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently assessing the practical expedients it may elect at adoption, but does not anticipate the amendments will have a significant impact to the financial statements. Based on the Company's preliminary analysis of its current portfolio, the impact to the Company's balance sheet is estimated to result in less than a 1% increase in assets and liabilities. The Company also anticipates additional disclosures to be provided at adoption.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments, which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted.. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 1 – Financial Statement Presentation and Significant Accounting Policies (Continued)
In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses eight specific cash flow issues with the objective of reducing diversity in practice. Among these include recognizing cash payments for debt prepayment or debt extinguishment as cash outflows for financing activities; cash proceeds received from the settlement of insurance claims should be classified on the basis of the related insurance coverage; and cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash inflows from investing activities while the cash payments for premiums on bank-owned policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact the adoption of the standard will have on the Company's statement of cash flows.

In December 2016, the FASB issued ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customer. This Update, among others things, clarifies that guarantee fees within the scope of Topic 460, Guarantees, (other than product or service warranties) are not within the scope of Topic 606. The effective date and transition requirements for ASU 2016-20 are the same as the effective date and transition requirements for the new revenue recognition guidance. For public entities with a calendar year-end, the new guidance is effective in the quarter and year beginning January 1, 2018. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the FASB eliminated Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting units fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. A public business entity that is a U.S. Securities and Exchange Commission ("SEC") filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. This Update is not expected to have a significant impact on the Company's financial statements.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 1 – Financial Statement Presentation and Significant Accounting Policies (Continued)

In March 2017, the FASB issued ASU 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20). The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. This Update is not expected to have a significant impact on the Company's financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718), which affects any entity that changes the terms or conditions of a share-based payment award. This Update amends the definition of modification by qualifying that modification accounting does not apply to changes to outstanding share-based payment awards that do not affect the total fair value, vesting requirements, or equity/liability classification of the awards. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date. This Update is not expected to have a significant impact on the Company's financial statements.

Reclassifications. Certain items in the 2016 consolidated financial statements have been reclassified to conform to the presentation in the 2017 consolidated financial statements. Such reclassifications did not have a material impact on the presentation of the overall financial statements. The reclassifications had no effect on net income or stockholders' equity.

Note 2 – Earnings Per Share

Earnings per share ("EPS") consists of two separate components, basic EPS and diluted EPS. Basic EPS is computed based on the weighted average number of shares of common stock outstanding for each period presented. Diluted EPS is calculated based on the weighted average number of shares of common stock outstanding plus dilutive common stock equivalents ("CSEs"). CSEs consist of shares that are assumed to have been purchased with the proceeds from the exercise of stock options, as well as unvested restricted stock (RRP) shares. Common stock equivalents which are considered antidilutive are not included for the purposes of this calculation. For the three and nine months ended September 30, 2017 and 2016, all unvested restricted stock program awards and outstanding stock options representing shares were dilutive.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

The following table sets forth the composition of the weighted average shares (denominator) used in the basic and dilutive earnings per share computations.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Net Income	$595,000	$402,000	$1,290,000	$1,043,000
Weighted average shares outstanding – basic	1,868,969	1,792,673	1,857,682	1,774,343
Effect of dilutive common stock equivalents	138,850	157,740	140,456	161,414
Adjusted weighted average shares outstanding – diluted	2,007,819	1,950,413	1,998,138	1,935,757
Basic earnings per share	$0.32	$0.22	$0.69	$0.59
Diluted earnings per share	$0.30	$0.21	$0.65	$0.54

Note 3 – Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (loss) by component, net of tax, for the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Unrealized Gains (Losses) on Investment Securities Available for Sale (1)			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Balance at the beginning of the period	$(8)	$ 1	$(38)	$(12)
Other comprehensive income (loss) before classifications	7	(3)	37	10
Amount reclassified from accumulated other comprehensive income (loss)	-	-	-	-
Total other comprehensive income (loss)	7	(3)	37	10
Balance at the end of the period	$(1)	$ (2)	$(1)	$(2)

(1) All amounts are net of tax. Amounts in parentheses indicate debits.

Note 4 – Investment in Interest-Earning Time Deposits
The investment in interest-earning time deposits as of September 30, 2017 and December 31, 2016, by contractual maturity, are shown below (in thousands):

	September 30, 2017	December 31, 2016
Investment in interest-earning time deposits		

Due in one year or less	$761	$ 2,849
Due after one year through five years	4,118	3,249
Total	$4,879	$ 6,098

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 5 – Investment Securities Available for Sale

The amortized cost, gross unrealized gains and losses, and fair value of investment securities available for sale at September 30, 2017 and December 31, 2016 are summarized below (in thousands):

	September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available for Sale:				
Mortgage-backed securities:				
Governmental National Mortgage Association securities	$5,884	$ 20	$ -	$5,904
Federal Home Loan Mortgage Corporation securities	1,605	-	(15)	1,590
Federal National Mortgage Association securities	586	-	(3)	583
Total mortgage-backed securities	8,075	20	(18)	8,077
Debt securities:				
U.S. government agency	360	-	(3)	357
Total available-for-sale securities	$8,435	$ 20	$ (21)	$8,434

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available for Sale:				
Mortgage-backed securities:				
Governmental National Mortgage Association securities	$6,608	$ 1	$ (19)	$6,590
Federal Home Loan Mortgage Corporation securities	1,892	-	(21)	1,871
Federal National Mortgage Association securities	752	-	(12)	740
Total mortgage-backed securities	9,252	1	(52)	9,201
Debt securities:				
U.S. government agency	360	-	(6)	354
Total available-for-sale securities	$9,612	$ 1	$ (58)	$9,555

The amortized cost and fair value of debt securities at September 30, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Available for Sale	
	Amortized Cost	Fair Value
Debt securities		
Due after one year through five years	$360	$357
Due after ten years	8,075	8,077
Total	$8,435	$8,434

15

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 5 – Investment Securities Available for Sale (Continued)
The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017						
		Less than Twelve Months		Twelve Months or Greater		Total	
	Number of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Federal Home Loan Mortgage Corporation mortgage-backed securities	2	$768	$ (8)	$822	$ (7)	$1,590	$ (15)
Federal National Mortgage Association mortgage-backed securities	1	-	-	583	(3)	583	(3)
Debt securities, U.S. government agency	1	-	-	357	(3)	357	(3)
Total	4	$768	$ (8)	$1,762	$ (13)	$2,530	$ (21)

	December 31, 2016						
		Less than Twelve Months		Twelve Months or Greater		Total	
	Number of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Governmental National Mortgage Association mortgage-backed securities	8	$5,874	$ (19)	$ -	$ -	$5,874	$ (19)
Federal Home Loan Mortgage Corporation mortgage-backed securities	2	1,871	(21)	-	-	1,871	(21)
Federal National Mortgage Association mortgage-backed securities	1	740	(12)	-	-	740	(12)
Debt securities, U.S. government agency	1	354	(6)	-	-	354	(6)
Total	12	$8,839	$ (58)	$ -	$ -	$8,839	$ (58)

At September 30, 2017, there were four securities in an unrealized loss position that at such date had an aggregate depreciation of 0.80% from the Company's amortized cost basis. Management believes that the estimated fair value of the securities disclosed above is primarily dependent on the movement of market interest rates. Management evaluated the length of time and the extent to which the fair value has been less than cost and the financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer. The Company has the ability and intent to hold the securities until the anticipated recovery of fair value occurs. Management does not believe any individual unrealized loss as of September 30, 2017 represents an other-than-temporary impairment. There were no impairment charges recognized during the three and nine months ended September 30, 2017 or 2016.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 6 - Loans Receivable, Net and Allowance for Loan Losses

The composition of net loans receivable is as follows (in thousands):

	September 30, 2017	December 31, 2016
Real estate loans:		
One-to-four family residential:		
Owner occupied	$ 5,434	$ 5,389
Non-owner occupied	52,501	51,893
Total one-to-four family residential	57,935	57,282
Multi-family (five or more) residential	20,326	14,641
Commercial real estate	86,800	77,730
Construction	15,387	15,355
Home equity	4,201	4,775
Total real estate loans	184,649	169,783
Commercial business	11,571	9,295
Other consumer	43	26
Total Loans	196,263	179,104
Deferred loan fees and costs	(757)	(692)
Allowance for loan losses	(1,735)	(1,605)
Net Loans	$ 193,771	$ 176,807

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
One-to-four family residential owner occupied	$ 5,434	$ -	$ -	$ -	$ 5,434
One-to-four family residential non-owner occupied	51,963	-	538	-	52,501
Multi-family residential	20,326	-	-	-	20,326
Commercial real estate	85,716	117	967	-	86,800
Construction	13,318	-	2,069	-	15,387
Home equity	4,201	-	-	-	4,201
Commercial business	11,535	36	-	-	11,571
Other consumer	43	-	-	-	43
Total	$ 192,536	$ 153	$ 3,574	$ -	$ 196,263

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 6 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

	December 31, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
One-to-four family residential owner occupied	$5,389	$ -	$ -	$ -	$5,389
One-to-four family residential non-owner occupied	50,864	122	907	-	51,893
Multi-family residential	14,641	-	-	-	14,641
Commercial real estate	76,281	117	1,332	-	77,730
Construction	13,355	-	2,000	-	15,355
Home equity	4,775	-	-	-	4,775
Commercial business	9,295	-	-	-	9,295
Other consumer	26	-	-	-	26
Total	$174,626	$ 239	$ 4,239	$ -	$179,104

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of September 30, 2017 as well as the average recorded investment and related interest income for the period then ended (in thousands):

	September 30, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
One-to-four family residential owner occupied	$-	$ -	$ -	$ -	$ -
One-to-four family residential non-owner occupied	565	565	-	1,058	18
Multi-family residential	-	-	-	-	-
Commercial real estate	398	398	-	398	-
Construction	2,069	2,069	-	2,061	58
Home equity	46	46	-	48	4
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
With an allowance recorded:					
One-to-four family residential owner occupied	$-	$ -	$ -	$ -	$ -
One-to-four family residential non-owner occupied	170	170	38	95	4
Multi-family residential	-	-	-	-	-
Commercial real estate	133	133	1	395	7
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total:					
One-to-four family residential owner occupied	$-	$ -	$ -	$ -	$ -
One-to-four family residential non-owner occupied	735	735	38	1,153	22
Multi-family residential	-	-	-	-	-

Commercial real estate	531	531	1	793	7
Construction	2,069	2,069	-	2,061	58
Home equity	46	46	-	48	4
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	$ 3,381	$ 3,381	$ 39	$ 4,055	$ 91

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 6 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2016 as well as the average recorded investment and related interest income for the year then ended (in thousands):

	December 31, 2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
One-to-four family residential owner occupied	$ -	$ -	$ -	$ -	$ -
One-to-four family residential non-owner occupied	925	925	-	1,208	56
Multi-family residential	-	-	-	-	-
Commercial real estate	660	660	-	660	7
Construction	-	-	-	-	-
Home equity	49	49	-	82	6
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
With an allowance recorded:					
One-to-four family residential owner occupied	$ -	$ -	$ -	$ -	$ -
One-to-four family residential non-owner occupied	167	167	28	169	8
Multi-family residential	-	-	-	-	-
Commercial real estate	133	133	11	133	9
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total:					
One-to-four family residential owner occupied	$ -	$ -	$ -	$ -	$ -
One-to-four family residential non-owner occupied	1,092	1,092	28	1,377	64
Multi-family residential	-	-	-	-	-
Commercial real estate	793	793	11	793	16
Construction	-	-	-	-	-
Home equity	49	49	-	82	6
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	$ 1,934	$ 1,934	$ 39	$ 2,252	$ 86

The loan portfolio also includes certain loans that have been modified in a troubled debt restructuring, where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from loss mitigation activities and could include reductions in the interest rate, payment extensions, forbearance, or other actions. At September 30, 2017, the Company had eight loans totaling $719,000 that were identified as troubled debt restructurings. All eight of these loans were performing in accordance with their modified terms. At December 31, 2016, the Company had eight loans totaling $733,000 that were identified as troubled debt restructurings ("TDR"). If a TDR is placed on non-accrual it is not reverted back to accruing status until the borrower makes timely payments as contracted for at least nine months and future collection under the revised terms is probable. During the nine months ended September 30, 2017, no new loans were identified as TDRs.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 6 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

The following tables present the Company's TDR loans as of September 30, 2017 and December 31, 2016 (dollar amounts in thousands):

	September 30, 2017				
	Number of Contracts	Recorded Investment	Non-Accrual	Accruing	Related Allowance
One-to-four family residential owner occupied	-	$ -	$ -	$ -	$ -
One-to-four family residential non-owner occupied	5	540	-	540	21
Multi-family residential	-	-	-	-	-
Commercial real estate	1	133	-	133	1
Construction	-	-	-	-	-
Home equity	2	46	-	46	-
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	8	$ 719	$ -	$ 719	$ 22

	December 31, 2016				
	Number of Contracts	Recorded Investment	Non-Accrual	Accruing	Related Allowance
One-to-four family residential owner occupied	-	$ -	$ -	$ -	$ -
One-to-four family residential non-owner occupied	5	551	-	551	28
Multi-family residential	-	-	-	-	-
Commercial real estate	1	133	-	133	11
Construction	-	-	-	-	-
Home equity	2	49	-	49	-
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	8	$ 733	$ -	$ 733	$ 39

The contractual aging of the TDRs in the table above as of September 30, 2017 and December 31, 2016 is as follows (in thousands):

	September 30, 2017				
	Accruing Past Due Less than 30 Days	Past Due 30-89 Days	90 Days or More Past Due	Non-Accrual	Total
One-to-four family residential owner occupied	$-	$ -	$ -	$ -	$-
One-to-four family residential non-owner occupied	540	-	-	-	540
Multi-family residential	-	-	-	-	-
Commercial real estate	133	-	-	-	133

Construction	-	-	-	-	-
Home equity	46	-	-	-	46
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	$719	$ -	$ -	$ -	$719

20

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 6 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

	December 31, 2016				
	Accruing Past Due Less than 30 Days	Past Due 30-89 Days	90 Days or More Past Due	Non-Accrual	Total
One-to-four family residential owner occupied	$-	$ -	$ -	$ -	$-
One-to-four family residential non-owner occupied	551	-	-	-	551
Multi-family residential	-	-	-	-	-
Commercial real estate	133	-	-	-	133
Construction	-	-	-	-	-
Home equity	49	-	-	-	49
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	$733	$ -	$ -	$ -	$733

Any reserve for an impaired TDR loan is based upon the present value of the future expected cash flows discounted at the loan's original effective rate or upon the fair value of the collateral less costs to sell, if the loan is deemed collateral dependent. At September 30, 2017 there were no commitments to lend additional funds to debtors whose loan terms have been modified as TDRs.

The general practice of the Bank is to work with borrowers so that they are able to pay back their loan in full. If a borrower continues to be delinquent or cannot meet the terms of a TDR modification and the loan is determined to be uncollectible, the loan will be charged off.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 6 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

Following is a summary, by loan portfolio class, of changes in the allowance for loan losses for the three and nine months ended September 30, 2017 and recorded investment in loans receivable as of September 30, 2017 (in thousands):

	September 30, 2017								
	1-4 Family Residential Owner Occupied	1-4 Family Residential Non-Owner Occupied	Multi-Family Residential	Commercial Real Estate	Construction	Home Equity	Commercial Business and Other Consumer	Unallocated	Total
For the Three Months Ended September 30, 2017									
Allowance for loan losses:									
Beginning balance	$45	$ 465	$ 156	$ 645	$ 137	$41	$ 111	$ 90	$1,690
Charge-offs	-	(38)	-	-	-	-	-	-	(38)
Recoveries	-	-	-	-	-	-	-	-	-
Provision	(2)	93	(14)	10	(4)	(18)	18	-	83
Ending balance	$43	$ 520	$ 142	$ 655	$ 133	$23	$ 129	$ 90	$1,735
For the Nine Months Ended September 30, 2017									
Allowance for loan losses:									
Beginning balance	$41	$ 503	$ 103	$ 616	$ 138	$37	$ 87	$ 80	$1,605
Charge-offs	-	(38)	-	(24)	-	-	-	-	(62)
Recoveries	-	-	-	3	-	-	-	-	3
Provision	2	55	39	60	(5)	(14)	42	10	189
Ending balance	$43	$ 520	$ 142	$ 655	$ 133	$23	$ 129	$ 90	$1,735
Ending balance evaluated for impairment:									
Individually	$-	$ 38	$ -	$ 1	$ -	$-	$ -	$ -	$39
Collectively	$43	$ 482	$ 142	$ 654	$ 133	$23	$ 129	$ 90	$1,696
Loans receivable:									
Ending balance:	$5,434	$ 52,501	$ 20,326	$ 86,800	$ 15,387	$4,201	$ 11,614	$ -	$196,263
Ending balance evaluated for impairment:									
Individually	$-	$ 735	$ -	$ 531	$ 2,069	$46	$ -	$ -	$3,381
Collectively	$5,434	$ 51,766	$ 20,326	$ 86,269	$ 13,318	$4,155	$ 11,614	$ -	$192,882

The Bank allocated increased allowance for loan loss provisions to the 1-4 family residential non-owner occupied portfolio class for the three and nine months ended September 30, 2017, due primarily to charge-offs in this portfolio class. The Bank allocated increased allowance for loan loss provisions to the commercial real estate portfolio class for the three and nine months ended September 30, 2017, due primarily to increased balances and delinquencies in this portfolio class. The Bank allocated increased allowance for loan loss provisions to the commercial business portfolio class for the three and nine months ended September 30, 2017, due primarily to increased balances and changes to qualitative factors in this portfolio class. The Bank allocated increased allowance for loan loss provisions to the multi-family residential portfolio class for the nine months ended September 30, 2017, due primarily to increased balances in this portfolio class. The Bank allocated decreased allowance for loan loss provisions to the home equity portfolio class for the three and nine months ended September 30, 2017, due primarily to decreased balances and delinquencies in this portfolio class.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 6 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

Following is a summary, by loan portfolio class, of changes in the allowance for loan losses for the three and nine months ended September 30, 2016 (in thousands):

September 30, 2016	1-4 Family Residential Owner Occupied	1-4 Family Residential Non-Owner Occupied	Multi-Family Residential	Commercial Real Estate	Construction	Home Equity	Commercial Business and Other Consumer	Unallocated	Total
For the Three Months Ended September 30, 2016									
Allowance for loan losses:									
Beginning balance	$46	$ 525	$ 66	$ 484	$ 115	$ 51	$ 37	$ 100	$1,424
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-
Provision	(9)	25	(11)	63	28	(19)	14	(30)	61
Ending balance	$37	$ 550	$ 55	$ 547	$ 143	$ 32	$ 51	$ 70	$1,485
For the Nine Months Ended September 30, 2016									
Allowance for loan losses:									
Beginning balance	$55	$ 486	$ 81	$ 389	$ 153	$ 50	$ 18	$ 81	$1,313
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-
Provision	(18)	64	(26)	158	(10)	(18)	33	(11)	172
Ending balance	$37	$ 550	$ 55	$ 547	$ 143	$ 32	$ 51	$ 70	$1,485
Ending balance evaluated for impairment:									
Individually	$-	$ 30	$ -	$ 11	$ -	$ -	$ -	$ -	$41
Collectively	$37	$ 520	$ 55	$ 536	$ 143	$ 32	$ 51	$ 70	$1,444

The Bank allocated increased allowance for loan loss provisions to the commercial real estate and lines of credit, the 1-4 family residential non-owner occupied, and the commercial business loans portfolio classes for the three and nine months ended September 30, 2016, due primarily to increased balances in these portfolio classes. The Bank allocated increased allowance for loan loss provisions to the construction loan portfolio class for the three months ended September 30, 2016, due primarily to an increase in delinquencies in this portfolio class.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 6 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

Following is a summary, by loan portfolio class, of changes in the allowance for loan losses for the year ended December 31, 2016 and recorded investment in loans receivable based on impairment evaluation as of December 31, 2016 (in thousands):

	December 31, 2016								
	1-4 Family Residential Owner Occupied	1-4 Family Residential Non-Owner Occupied	Multi-Family Residential	Commercial Real Estate	Construction	Home Equity	Commercial Business and Other Consumer	Unallocated	Total
Allowance for loan losses:									
Beginning balance	$55	$486	$ 81	$ 389	$ 153	$50	$ 18	$ 81	$1,313
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-
Provision	(14)	17	22	227	(15)	(13)	69	(1)	292
Ending balance	$41	$503	$ 103	$ 616	$ 138	$37	$ 87	$ 80	$1,605
Ending balance evaluated for impairment:									
Individually	$-	$28	$ -	$ 11	$ -	$-	$ -	$ -	$39
Collectively	$41	$475	$ 103	$ 605	$ 138	$37	$ 87	$ 80	$1,566
Loans receivable:									
Ending balance	$5,389	$51,893	$ 14,641	$ 77,730	$ 15,355	$4,775	$ 9,321	$ -	$179,104
Ending balance evaluated for impairment:									
Individually	$-	$1,092	$ -	$ 793	$ -	$49	$ -	$ -	$1,934
Collectively	$5,389	$50,801	$ 14,641	$ 76,937	$ 15,355	$4,726	$ 9,321	$ -	$177,170

The Bank allocated increased allowance for loan loss provisions to the commercial real estate, commercial business, and multi-family portfolio classes for the year ended December 31, 2016, due primarily to increased balances in these portfolio classes. The Bank allocated increased allowance for loan loss provisions to the one-to-four family residential non-owner occupied portfolio class for the year ended December 31, 2016, due primarily to increased specific reserves in this portfolio class. The Bank allocated decreased allowance for loan loss provisions to the construction, home equity, and one-to-four family owner occupied classes for the year ended December 31, 2016 due decreased balances or changes to qualitative factors in these portfolio classes.

24

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 6 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

The following table presents nonaccrual loans by classes of the loan portfolio as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017	December 31, 2016
One-to-four family residential owner occupied	$ -	$ -
One-to-four family residential non-owner occupied	195	541
Multi-family residential	-	--
Commercial real estate	398	660
Construction	2,069	-
Home equity	-	-
Commercial business	-	-
Other consumer	-	-
Total	$ 2,662	$ 1,201

Non-performing loans, which consist of non-accruing loans plus accruing loans 90 days or more past due, amounted to $3.5 million and $1.9 million at September 30, 2017 and December 31, 2016, respectively. For the delinquent loans in our portfolio, we have considered our ability to collect the past due interest, as well as the principal balance of the loan, in order to determine whether specific loans should be placed on non-accrual status. In cases where our evaluations have determined that the principal and interest balances are collectible, we have continued to accrue interest.

For the three and nine months ended September 30, 2017 and 2016 there was no interest income recognized on non-accrual loans on a cash basis. Interest income foregone on non-accrual loans was approximately $63,000 and $103,000 for the three and nine months ended September 30, 2017, respectively. Interest income foregone on non-accrual loans was approximately $26,000 and $82,000 for the three and nine months ended September 30, 2016, respectively.

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017					
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Loans Receivable 90 Days or More Past Due and Accruing
One-to-four family residential owner occupied	$468	$417	$885	$4,549	$ 5,434	$ 417
One-to-four family residential non-owner occupied	611	439	1,050	51,451	52,501	244
Multi-family residential	81	-	81	20,245	20,326	-
Commercial real estate	2,603	617	3,220	83,580	86,800	219
Construction	509	2,069	2,578	12,809	15,387	-

Home equity	34	-	34	4,167	4,201	-
Commercial business	-	-	-	11,571	11,571	-
Other consumer	-	-	-	43	43	-
Total	$4,306	$3,542	$7,848	$188,415	$ 196,263	$ 880

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 6 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

	December 31, 2016					
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Loans Receivable 90 Days or More Past Due and Accruing
One-to-four family residential owner occupied	$310	$9	$319	$5,070	$5,389	$ 9
One-to-four family residential non-owner occupied	271	778	1,049	50,844	51,893	237
Multi-family residential	-	-	-	14,641	14,641	-
Commercial real estate	385	777	1,162	76,568	77,730	117
Construction	596	308	904	14,451	15,355	308
Home equity	115	-	115	4,660	4,775	-
Commercial business	43	-	43	9,252	9,295	-
Other consumer	-	-	-	26	26	-
Total	$1,720	$1,872	$3,592	$175,512	$179,104	$ 671

Note 7 – Goodwill and Other Intangible, Net

On August 1, 2016, Quaint Oak Insurance Agency, LLC began operations by acquiring the renewal rights to the book of business produced and serviced by Signature Insurance Services, LLC, an independent insurance agency located in New Britain, Pennsylvania, that provides a broad range of personal and commercial insurance coverage solutions. The Company paid $1.0 million for these rights. Based on a valuation, $515,000 of the purchase price was determined to be goodwill and $485,000 was determined to be related to the renewal rights to the book of business and deemed to be an other intangible asset. This other intangible asset is being amortized over a ten year period based upon the annual retention rate of the book of business. The balance of other intangible assets at September 30, 2017 was $428,000 net of accumulated amortization of $57,000. Amortization expense for the three and nine months ended September 30, 2017 amounted to $13,000 and $37,000, respectively.

Note 8 – Deposits

Deposits consist of the following classifications (in thousands):

	September 30, 2017	December 31, 2016
Non-interest bearing checking accounts	$7,713	$5,852
Passbook accounts	534	1,189
Savings accounts	1,584	1,784
Money market accounts	30,151	31,114
Certificates of deposit	142,416	137,068
Total deposits	$182,398	$177,007

26

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 9 – Borrowings

Federal Home Loan Bank advances consist of the following at September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017			December 31, 2016		
	Amount	Weighted Interest Rate		Amount	Weighted Interest Rate	
Short-term borrowings	$11,500	1.27	%	$7,000	0.54	%
Fixed rate borrowings maturing:						
2017	$-	-	%	$2,500	1.15	%
2018	3,000	1.46		3,000	1.46	
2019	3,000	1.86		2,000	1.95	
2020	2,000	2.00		1,000	2.15	
2021	2,000	1.96		-	-	
2022	2,000	2.12		-	-	
2023	2,000	2.28		-	-	
Total FHLB long-term debt	$14,000	1.90	%	$8,500	1.56	%

Note 10 – Stock Compensation Plans

Employee Stock Ownership Plan

The Company maintains an Employee Stock Ownership Plan (ESOP) for the benefit of employees who meet the eligibility requirements of the plan. Using proceeds from a loan from the Company, the ESOP purchased 8%, or 222,180 shares of the Company's then outstanding common stock in the open market during 2007. The Bank makes cash contributions to the ESOP on a quarterly basis sufficient to enable the ESOP to make the required loan payments to the Company. The loan bears an interest rate of 7.75% per annum, with principal and interest to be paid quarterly in equal installments over 15 years. The loan is secured by the unallocated shares of common stock held by the ESOP.

Shares of the Company's common stock purchased by the ESOP are held in a suspense account and reported as unallocated common stock held by the ESOP in stockholders' equity until released for allocation to participants. As the debt is repaid, shares are released from collateral and are allocated to each eligible participant based on the ratio of each such participant's base compensation to the total base compensation of eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the average market value of the shares, and the shares become outstanding for earnings per share computations. During the three and nine months ended September 30, 2017, the Company recognized $46,000 and $138,000 of ESOP expense, respectively. During the three and nine months ended September 30, 2016, the Company recognized $43,000 and $129,000 of ESOP expense, respectively.

Recognition & Retention and Stock Incentive Plans

In May 2008, the shareholders of Quaint Oak Bancorp approved the adoption of the 2008 Recognition and Retention Plan (the "RRP") and Trust Agreement. In order to fund the RRP, the 2008 Recognition and Retention Plan Trust acquired 111,090 shares of the Company's stock in the open market at an average price of $4.68 totaling $520,000. In

May 2013, the shareholders of Quaint Oak Bancorp approved the adoption of the 2013 Stock Incentive Plan (the "Stock Incentive Plan"). The Stock Incentive Plan provides that no more than 48,750, or 25%, of the shares may be granted as restricted stock awards.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

As of September 30, 2017, a total of 10,261 share awards were unvested under the RRP and Stock Incentive Plan and up to 21,968 share awards were available for future grant under the Stock Incentive Plan and none under the RRP. The RRP and Stock Incentive Plan share awards have vesting periods of five years.

A summary of the status of the share awards under the RRP and Stock Incentive Plan as of September 30, 2017 and 2016 and changes during the nine months ended September 30, 2017 and 2016 is as follows:

	September 30, 2017		September 30, 2016	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at the beginning of the period	20,524	$ 8.10	30,784	$ 8.10
Granted	-	-	-	-
Vested	(10,263)	8.10	(10,260)	8.10
Forfeited	-	-	-	-
Unvested at the end of the period	10,261	$ 8.10	20,524	$ 8.10

Compensation expense on the restricted stock awards is recognized ratably over the five year vesting period in an amount which is equal to the fair value of the common stock at the date of grant. During the three and nine months ended September 30, 2017and 2016, approximately $21,000 and $63,000 in compensation expense was recognized, respectively. A tax benefit of approximately $7,000 and $21,000, respectively, was recognized during each of these periods. As of September 30, 2017, approximately $52,000 in additional compensation expense will be recognized over the remaining service period of approximately 0.6 years.

Stock Option and Stock Incentive Plans

In May 2008, the shareholders of Quaint Oak Bancorp approved the adoption of the 2008 Stock Option Plan (the "Option Plan"). The Option Plan authorizes the grant of stock options to officers, employees and directors of the Company to acquire 277,726 shares of common stock with an exercise price no less than the fair market value on the date of the grant. The Stock Incentive Plan approved by shareholders in May 2013 covered a total of 195,000 shares, of which 48,750 may be restricted stock awards, for a balance of 146,250 stock options assuming all the restricted shares are awarded.

For grants in May 2008, the Compensation Committee of the Board of Directors determined to grant the stock options at an exercise price equal to $5.00 per share (split-adjusted) which is higher than the fair market value of the common stock on the grant date. All incentive stock options issued under the Option Plan and the Stock Incentive Plan are intended to comply with the requirements of Section 422 of the Internal Revenue Code.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 10 – Stock Compensation Plans (Continued)

Stock Option and Stock Incentive Plans (Continued)

As of September 30, 2017, a total of 277,548 grants of stock options were outstanding under the Option Plan and Stock Incentive Plan and 56,276 stock options were available for future grant under the Stock Incentive Plan and none under the Option Plan. Options will become vested and exercisable over a five year period and are generally exercisable for a period of ten years after the grant date.

A summary of option activity under the Company's Option Plan and Stock Incentive Plan of September 30, 2017 and 2016 and changes during the nine months ended September 30, 2017 and 2016 is as follows:

	2017			2016		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
Outstanding at the beginning of the year	316,348	$ 6.49	3.8	354,266	$ 6.33	4.7
Granted	-	-	-	-	-	-
Exercised	(38,800)	5.00	-	(26,518)	5.00	-
Forfeited	-	-	-	-	-	-
Outstanding at end of period	277,548	$ 6.70	3.4	327,748	$ 6.44	4.0
Exercisable at end of period	247,228	$ 6.53	3.1	266,148	$ 6.06	1.6

During the three and nine months ended September 30, 2017 and 2016, approximately $12,000 and $34,000 in compensation expense was recognized, respectively. A tax benefit of approximately $1,000 and $3,000, respectively, was recognized during each of these periods. As of September 30, 2017, approximately $28,000 in additional compensation expense will be recognized over the remaining service period of approximately 0.6 years.

Note 11 – Fair Value Measurements and Fair Values of Financial Instruments
Fair value estimates are based on quoted market prices, if available, quoted market prices of similar assets or liabilities, or the present value of expected future cash flows and other valuation techniques. These valuations are significantly affected by discount rates, cash flow assumptions, and risk assumptions used. Therefore, fair value estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realizable in an immediate settlement of the instruments.
Fair value is determined at one point in time and is not representative of future value. These amounts do not reflect the total value of a going concern organization. Management does not have the intention to dispose of a significant portion of its assets and liabilities and therefore, the unrealized gains or losses should not be interpreted as a forecast of future earnings and cash flows.
The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing are as follows:

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 11 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)
Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.
Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.
Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.
This hierarchy requires the use of observable market data when available.
The following is a discussion of assets and liabilities measured at fair value on a recurring basis and valuation techniques applied:
Investment Securities Available-For-Sale: The fair value of securities available for sale are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

We may be required from time to time to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets.
Impaired Loans: Impaired loans are carried at the lower of cost or the fair value of the collateral for collateral-dependent loans less estimated costs to sell. Collateral is primarily in the form of real estate. The use of independent appraisals, discounted cash flow models and management's best judgment are significant inputs in arriving at the fair value measure of the underlying collateral and impaired loans are therefore classified within level 3 of the fair value hierarchy.

Other Real Estate Owned: Other real estate owned is carried at the lower of the investment in the real estate or the fair value of the real estate less estimated selling costs. The use of independent appraisals and management's best judgment are significant inputs in arriving at the fair value measure of the underlying collateral and therefore other real estate owned is classified within level 3 of the fair value hierarchy.

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 11 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)
The table below sets forth the financial assets and liabilities that were accounted for on a recurring and nonrecurring basis by level within the fair value hierarchy as of September 30, 2017 (in thousands):

	September 30, 2017 Fair Value Measurements Using:			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Recurring fair value measurements				
Investment securities available for sale				
Governmental National Mortgage Association mortgage-backed securities	$5,904	$ -	$ 5,904	$ -
Federal Home Loan Mortgage Corporation mortgage-backed securities	1,590	-	1,590	-
Federal National Mortgage Association mortgage-backed securities	583	-	583	-
Debt securities, U.S. government agency	357	-	357	-
Total investment securities available for sale	$8,434	$ -	$ 8,434	$ -
Nonrecurring fair value measurements				
Impaired loans	$3,342	$ -	$ -	$ 3,342
Other real estate owned	185	-	-	185

The table below sets forth the financial assets and liabilities that were accounted for on a recurring and nonrecurring basis by level within the fair value hierarchy as of December 31, 2016 (in thousands):

	December 31, 2016 Fair Value Measurements Using:			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Recurring fair value measurements				
Investment securities available for sale				
Governmental National Mortgage Association mortgage-backed securities	$6,590	$ -	$ 6,590	$ -
Federal Home Loan Mortgage Corporation mortgage-backed securities	1,871	-	1,871	-

Federal National Mortgage Association mortgage-backed securities	740	-	740	-
Debt securities, U.S. government agency	354	-	354	-
Total investment securities available for sale	$9,555	$ -	$ 9,555	$ -
Nonrecurring fair value measurements				
Impaired loans	$1,895	$ -	$ -	$ 1,895
Other real estate owned	435	-	-	435

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 11 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)
The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has used Level 3 inputs to determine fair value as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017 Quantitative Information About Level 3 Fair Value Measurements			
	Total Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$3,342	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-23% (1 %)
Other real estate owned	$185	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-10% (10 %)

	December 31, 2016 Quantitative Information About Level 3 Fair Value Measurements			
	Total Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$1,895	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-22% (2 %)
Other real estate owned	$435	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-29% (12 %)

---

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percentage of the appraisal.

The estimated fair values of the Company's financial instruments were as follows at September 30, 2017 and December 31, 2016 (in thousands):

			Fair Value Measurements at September 30, 2017		
	Carrying Amount	Fair Value Estimate	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Financial Assets					

Cash and cash equivalents	$8,229	$8,229	$8,229	$ -	$ -
Investment in interest-earning time deposits	4,879	4,935	-	-	4,935
Investment securities available for sale	8,434	8,434	-	8,434	-
Loans held for sale	6,473	6,741	-	6,741	-
Loans receivable, net	193,771	194,955	-	-	194,955
Accrued interest receivable	925	925	925	-	-
Investment in FHLB stock	1,134	1,134	1,134	-	-
Bank-owned life insurance	3,793	3,793	3,793	-	-
Financial Liabilities					
Deposits	182,398	183,882	39,982	-	143,900
FHLB short-term borrowings	11,500	11,500	11,500	-	-
FHLB long-term borrowings	14,000	13,997	-	-	13,997
Accrued interest payable	147	147	147	-	-

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 11 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)

			Fair Value Measurements at December 31, 2016		
	Carrying Amount	Fair Value Estimate	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Financial Assets					
Cash and cash equivalents	$9,300	$9,300	$9,300	$ -	$ -
Investment in interest-earning time deposits	6,098	6,163	-	-	6,163
Investment securities available for sale	9,555	9,555	-	9,555	-
Loans held for sale	4,712	4,879	-	4,879	-
Loans receivable, net	176,807	177,870	-	-	177,870
Accrued interest receivable	862	862	862	-	-
Investment in FHLB stock	713	713	713	-	-
Bank-owned life insurance	3,728	3,728	3,728	-	-
Financial Liabilities					
Deposits	177,007	179,050	39,939	-	139,111
FHLB short-term borrowings	7,000	7,000	7,000	-	-
FHLB long-term borrowings	8,500	8,507	-	-	8,507
Accrued interest payable	142	142	142	-	-

The following methods and assumptions were used to measure the fair value of financial instruments recorded at cost on the Company's consolidated balance sheets:

Cash and Cash Equivalents. The carrying amounts reported in the consolidated balance sheets for cash and short-term instruments approximate those assets' fair values.

Interest-Earning Time Deposits. Fair values for interest-earning time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits. The Company generally purchases amounts below the insured limit, limiting the amount of credit risk on these time deposits.

Loans Held for Sale. Fair values of loans held for sale are based on commitments on hand from investors at prevailing market rates.

Loans Receivable, Net. The fair values of loans are estimated using discounted cash flow methodology. The discount rates take into account interest rates currently being offered to customers for loans with similar terms, the credit risk associated with the loan and market factors, including liquidity. The valuation of the loan portfolio reflects discounts that the Company believes are consistent with transactions occurring in the market place for both performing and distressed loan types. The carrying value that fair value is compared to is net of the allowance for loan losses and other associated premiums and discounts. Due to the significant judgment involved in evaluating credit quality, loans are classified with Level 3 of the fair value hierarchy.

Accrued Interest Receivable. The carrying amount of accrued interest receivable approximates its fair value.

33

Quaint Oak Bancorp, Inc.
Notes to Unaudited Consolidated Financial Statements

Note 11 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Investment in Federal Home Loan Bank Stock. The carrying amount of restricted investment in Federal Home Loan Bank stock approximates fair value, and considers the limited marketability of such securities.

Bank-Owned Life Insurance. The carrying amount of the investment in bank-owned life insurance approximates its cash surrender value under the insurance policies.

Deposits. The carrying amount is considered a reasonable estimate of fair value for demand savings deposit accounts. The fair value of fixed maturity certificates of deposit is estimated by a discounted cash flow method using the rates currently offered for deposits of similar maturities.

Federal Home Loan Bank Borrowings. Fair values of FHLB borrowings are estimated based on rates currently available to the Company for similar terms and remaining maturities.

Accrued Interest Payable. The carrying amount of accrued interest payable approximates its fair value.

Off-Balance Sheet Financial Instruments. Off-balance sheet financial instruments consist of commitments to extend credit. Fair values for commitments to extend credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the present credit standing of the counterparties. The estimated fair value of the commitments to extend credit are insignificant and therefore are not presented in the above table.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements Are Subject to Change

We make certain statements in this document as to what we expect may happen in the future. These statements usually contain the words "believe," "estimate," "project," "expect," "anticipate," "intend" or similar expressions. Because these statements look to the future, they are based on our current expectations and beliefs. Actual results or events may differ materially from those reflected in the forward-looking statements. You should be aware that our current expectations and beliefs as to future events are subject to change at any time, and we can give you no assurances that the future events will actually occur.

General

The Company was formed in connection with the Bank's conversion to a stock savings bank completed on July 3, 2007. The Company's results of operations are dependent primarily on the results of the Bank, which is a wholly owned subsidiary of the Company. The Bank's results of operations depend, to a large extent, on net interest income, which is the difference between the income earned on its loan and investment portfolios and the cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by provisions for loan losses, fee income and other non-interest income and non-interest expense. Non-interest expense principally consists of compensation, directors' fees and expenses, office occupancy and equipment expense, professional fees, FDIC deposit insurance assessment and other expenses. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially impact our financial condition and results of operations.

At September 30, 2017 the Bank had five subsidiaries, Quaint Oak Mortgage, LLC, Quaint Oak Real Estate, LLC, Quaint Oak Abstract, LLC, Quaint Oak Insurance Agency, LLC, and QOB Properties, LLC, each a Pennsylvania limited liability company. The mortgage, real estate and abstract companies offer mortgage banking, real estate sales and title abstract services, respectively, and began operation in July 2009. QOB Properties, LLC began operations in July 2012 and holds Bank properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. On August 1, 2016, Quaint Oak Insurance Agency, LLC began operations by acquiring the renewal rights to the book of business produced and serviced by Signature Insurance Services, LLC, an independent insurance agency located in New Britain, Pennsylvania, that provides a broad range of personal and commercial insurance coverage solutions.

Critical Accounting Policies

The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Accordingly, the consolidated financial statements require certain estimates, judgments, and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the periods presented. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may significantly affect our reported results and financial condition for the period or in future periods.

Allowance for Loan Losses. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans receivable. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are designated as impaired. For loans that are designated as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting our primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, recent loss experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results. The applied loss factors are reevaluated quarterly to ensure their relevance in the current economic environment. Residential owner occupied mortgage lending generally entails a lower risk of default than other types of lending. Consumer loans and commercial real estate loans generally involve more risk of collectability because of the type and nature of the collateral and, in certain cases, the absence of collateral. It is the Company's policy to establish a specific reserve for loss on any delinquent loan when it determines that a loss is probable. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not considered impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

A loan is identified as a troubled debt restructuring ("TDR") if the Company, for economic or legal reasons related to a debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Concessions granted under a TDR typically involve a temporary or permanent reduction in payments or interest rate or an extension of a loan's stated maturity date at less than a current market rate of interest. Loans identified as TDRs are designated as impaired.

For loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for all loans (except one-to-four family residential owner-occupied loans) where the total amount outstanding to any borrower or group of borrowers exceeds $500,000, or when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass. In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Income Taxes. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various assets and liabilities and net operating loss carryforwards and gives current recognition to changes in tax rates and laws. The realization of our deferred tax assets principally depends upon our achieving projected future taxable income. We may change our judgments regarding future profitability due to future market conditions and other factors. We may adjust our deferred tax asset balances if our judgments change.

Comparison of Financial Condition at September 30, 2017 and December 31, 2016

General. The Company's total assets at September 30, 2017 were $232.2 million, an increase of $16.0 million, or 7.4%, from $216.2 million at December 31, 2016. This growth in total assets was primarily due to a $17.0 million, or 9.6%, increase in loans receivable, net, and a $1.8 million, or 37.4%, increase in loans held for sale. These increases were partially offset by a $1.2 million, or 20.0%, decrease in investment in interest-earning time deposits, a $1.1 million, or 11.7%, decrease in investment securities available for sale, and a $1.1 million, or 11.5%, decrease in cash and cash equivalents.

Cash and Cash Equivalents. Cash and cash equivalents decreased $1.1 million, or 11.5%, from $9.3 million at December 31, 2016 to $8.2 million at September 30, 2017 as excess liquidity was primarily used to fund loans.

Investment in Interest-Earning Time Deposits. Investment in interest-earning time deposits decreased $1.2 million, or 20.0%, from $6.1 million at December 31, 2016 to $4.9 million at September 30, 2017 primarily due to the maturity and redemption of time deposits. The proceeds were used primarily to fund loans.

Investment Securities Available for Sale. Investment securities available for sale decreased $1.1 million, or 11.7%, from $9.6 million at December 31, 2016 to $8.4 million at September 30, 2017 due primarily to the principal repayments on these securities during the nine months ended September 30, 2017.

Loans Held for Sale. Loans held for sale increased $1.8 million, or 37.4%, from $4.7 million at December 31, 2016 to $6.5 million at September 30, 2017 as the Bank's mortgage banking subsidiary, Quaint Oak Mortgage, LLC, originated $62.1 million of one-to-four family residential loans during the nine months ended September 30, 2017 and sold $60.3 million of loans in the secondary market during this same period.

Loans Receivable, Net. Loans receivable, net, increased $17.0 million, or 9.6%, to $193.8 million at September 30, 2017 from $176.8 million December 31, 2016. This increase was funded primarily from Federal Home Loan Bank borrowings and deposits. Increases within the portfolio occurred in commercial real estate loans which increased $9.1 million, or 11.7%, multi-family residential loans which increased $5.7 million, or 38.8%, commercial business loans which increased $2.3 million, or 24.5%, one-to-four family residential non-owner occupied loans which increased $608,000, or 1.2%, one-to-four family residential owner occupied loans which increased $45,000, or 0.8%, construction loans which increases $32,000, or 0.2%, and other consumer loans which increased $17,000, or 65.4%. These increases were partially offset by a $574,000, or 12.0%, decrease in home equity loans. The Company continues its strategy of diversifying its loan portfolio with higher yielding and shorter-term loan products and selling substantially all of its newly originated one-to-four family owner-occupied loans into the secondary market.

Other Real Estate Owned, Net. Other real estate owned, net amounted to $185,000 at September 30, 2017, consisting of one property. This compares to three properties totaling $435,000 at December 31, 2016. For the nine months ended September 30, 2017, $23,000 of capital improvements were made to the properties, one of the properties incurred a write-down totaling $48,000, and two properties with a carrying value of $225,000 were sold. Following the end of the quarter, the Company sold the remaining property and a loss of $6,000 was realized on the transaction. Non-performing assets amounted to $3.7 million, or 1.60%, of total assets at September 30, 2017 compared to $2.3 million, or 1.07%, of total assets at December 31, 2016.

Deposits. Total deposits increased $5.4 million, or 3.0%, to $182.4 million at September 30, 2017 from $177.0 million at December 31, 2016. This increase in deposits was primarily attributable to increases of $5.3 million, or 3.9%, in certificates of deposit and $1.9 million, or 31.8%, in non-interest bearing checking accounts, partially offset by a $963,000, or 3.1% decrease in money market accounts, a $655,000, or 55.1%, decrease in passbook accounts, and a $200,000, or 11.2%, decrease in savings accounts.

Federal Home Loan bank Borrowings. Total Federal Home Loan Bank borrowings increased $10.0 million, or 64.5%, from $15.5 million at December 31, 2016 to $25.5 million at September 30, 2017. During the nine months ended September 30, 2017, the Company borrowed $4.5 million of short-term and $8.0 million of long-term fixed rate borrowings primarily to fund loan growth. During the same time period, the Company repaid $2.5 million of long-term fixed rate borrowings.

Stockholders' Equity. Total stockholders' equity increased $1.2 million, or 5.9%, to $22.0 million at September 30, 2017 from $20.8 million at December 31, 2016. Contributing to the increase was net income for the nine months ended September 30, 2017 of $1.3 million, common stock earned by participants in the employee stock ownership plan of $138,000, amortization of stock awards and options under our stock compensation plans of $97,000, the reissuance of treasury stock for exercised stock options of $193,000, the reissuance of treasury stock under the Bank's 401(k) Plan of $83,000, and other comprehensive income of $37,000. These increases were partially offset by the purchase of treasury stock of $341,000 and by dividends paid of $269,000.

Comparison of Operating Results for the Three Months Ended September 30, 2017 and 2016

General. Net income amounted to $595,000 for the three months ended September 30, 2017, an increase of $193,000, or 48.0%, compared to net income of $402,000 for three months ended September 30, 2016. The increase in net income on a comparative quarterly basis was primarily the result of increases in non-interest income of $363,000 and net interest income of $251,000, partially offset by increases in non-interest expense of $291,000, the provision for income taxes of $108,000, and the provision for loan losses of $22,000.

Net Interest Income. Net interest income increased $251,000, or 15.3%, to $1.9 million for the three months ended September 30, 2017 from $1.6 million for the three months ended September 30, 2016. The increase was driven by a $364,000, or 15.8%, increase in interest income, partially offset by a $113,000, or 16.8%, increase in interest expense.

Interest Income. Interest income increased $364,000, or 15.8%, to $2.7 million for the three months ended September 30, 2017 from $2.3 million for the three months ended September 30, 2016. The increase in interest income was primarily due to a $37.0 million increase in average loans receivable, net, including loans held for sale, which increased from an average balance of $161.8 million for the three months ended September 30, 2016 to an average balance of $198.8 million for the three months ended September 30, 2017, and had the effect of increasing interest income $505,000. Partially offsetting this increase was a 28 basis point decline in the average yield on loans receivable, net, including loans held for sale, from 5.47% for the three months ended September 30, 2016 to 5.19% for the three months ended September 30, 2017, which had the effect of decreasing interest income by $142,000.

Interest Expense. Interest expense increased $113,000, or 16.8%, to $785,000 for the three months ended September 30, 2017 from $672,000 for the three months ended September 30, 2016. The increase in interest expense was primarily attributable to a $19.3 million increase in average interest-bearing liabilities, which increased from an average balance of $180.4 million for the three months ended September 30, 2016 to an average balance of $199.7 million for the three months ended September 30, 2017, and had the effect of increasing interest expense $61,000. This increase in average interest-bearing liabilities was primarily attributable to a $5.8 million increase in average certificate of deposit accounts which increased from an average balance of $134.1 million for the three months ended September 30, 2016 to an average balance of $139.9 million for the three months ended September 30, 2017, and had the effect of increasing interest expense $25,000, and a $12.2 million increase in average Federal Home Loan Bank borrowings which increased from $13.3 million for the three months ended September 30, 2016 to an average balance of $25.5 million for the three months ended September 30, 2016, and had the effect of increasing interest expense $32,000. Also contributing to this increase was an eight basis point increase in the average rate on interest-bearing liabilities, from 1.49% for the three months ended September 30, 2016 to 1.57% for the three months ended September 30, 2017, which had the effect of increasing interest expense by $52,000. This increase in rate was primarily attributable to a five basis point increase in rate on average certificate of deposit accounts, which increased from 1.72% for the three months ended September 30, 2016 to 1.77% for the three months ended September 30, 2017, and had the effect of increasing interest expense by $18,000, and a 55 basis point increase in rate on average Federal Home Loan Bank borrowings, which increased from 1.02% for the three months ended September 30, 2016 to 1.57% for the three months ended September 30, 2017, which had the effect of increasing interest expense by $33,000.

Average Balances, Net Interest Income, Yields Earned and Rates Paid. The following table shows for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. All average balances are based on daily balances.

	Three Months Ended September 30,							
	2017				2016			
	Average Balance	Interest	Average Yield/ Rate		Average Balance	Interest	Average Yield/ Rate	
Interest-earning assets:	(Dollars in thousands)							
Due from banks, interest-bearing	$8,247	$30	1.46	%	$18,833	$26	0.55	%
Investment in interest-earning time deposits	5,370	21	1.56		6,120	32	2.09	
Investment securities available for sale	8,774	36	1.64		8,547	30	1.40	
Loans receivable, net (1) (2) (3)	198,780	2,577	5.19		161,840	2,214	5.47	
Investment in FHLB stock	1,134	9	3.17		633	7	4.42	
Total interest-earning assets	222,305	2,673	4.81	%	195,973	2,309	4.71	%
Non-interest-earning assets	9,159				9,425			
Total assets	$231,464				$205,398			
Interest-bearing liabilities:								
Passbook accounts	$671	$*	*	%	$1,182	$*	*	%
Savings accounts	1,550	1	0.26		2,173	1	0.18	
Money market accounts	32,070	65	0.81		29,614	60	0.81	
Certificate of deposit accounts	139,918	619	1.77		134,099	577	1.72	
Total deposits	174,209	685	1.57		167,068	638	1.53	
FHLB short-term borrowings	9,875	32	1.30		6,000	8	0.53	
FHLB long-term borrowings	15,625	68	1.74		7,294	26	1.43	
Total interest-bearing liabilities	199,709	785	1.57	%	180,362	672	1.49	%
Non-interest-bearing liabilities	9,787				5,038			
Total liabilities	209,496				185,400			
Stockholders' Equity	21,968				19,998			
Total liabilities and Stockholders' Equity	$231,464				$205,398			
Net interest-earning assets	$22,596				$15,661			
Net interest income; average interest rate spread		$1,888	3.24	%		$1,637	3.22	%
Net interest margin (4)			3.40	%			3.34	%
Average interest-earning assets to average interest-bearing liabilities			111.31	%			108.66	%

* Not meaningful.
(1) Includes loans held for sale.
(2) Includes non-accrual loans during the respective periods. Calculated net of deferred fees and discounts, loans in process and allowance for loan losses.
(3) Includes tax free municipal leases with an aggregate average balance of $64,000 and an average yield of 3.98% for the three months ended September 30, 2017 and an aggregate average balance of $111,000 and an average yield of 4.02% for the three months ended September 30, 2016. The tax-exempt income from such loans has not been calculated on a tax equivalent basis.
(4) Equals net interest income divided by average interest-earning assets.

Provision for Loan Losses. The provision for loan losses increased $22,000, or 36.1%, from $61,000 for the three months ended September 30, 2016 to $83,000 for the three months ended September 30, 2017. The increase was based on an evaluation of the allowance relative to such factors as volume of the loan portfolio, concentrations of credit risk, prevailing economic conditions, prior loan loss experience and amount of non-performing loans at September 30, 2017.

Non-performing loans amounted to $3.5 million, or 1.83%, of net loans receivable at September 30, 2017, consisting of thirteen loans, five of which are on non-accrual status and eight of which are 90 days or more past due and accruing interest. Comparably, non-performing loans amounted to $1.9 million, or 1.06%, of net loans receivable at December 31, 2016, consisting of fourteen loans, seven of which were on non-accrual status and seven of which were 90 days or more past due and accruing interest. The non-performing loans at September 30, 2017 include six one-to-four family non-owner occupied residential loans, three commercial real estate loans, two one-to-four family owner occupied residential loans, and two construction loans, and all are generally well-collateralized or adequately reserved for. During the quarter ended September 30, 2017, one new loan was placed on non-accrual status resulting in the reversal of approximately $48,000 of previously accrued interest income and two loans previously on non-accrual status were paid-off. The allowance for loan losses as a percent of total loans receivable was 0.89% at September 30, 2017, and 0.90% at December 31, 2016.

Other real estate owned, net amounted to $185,000 at September 30, 2017, consisting of one property. This compares to three properties totaling $435,000 at December 31, 2016. Following the end of the quarter, the Company sold the remaining property and a loss of $6,000 was realized on the transaction. Non-performing assets amounted to $3.7 million, or 1.60%, of total assets at September 30, 2017 compared to $2.3 million, or 1.07%, of total assets at December 31, 2016.

Non-Interest Income. Non-interest income increased $363,000, or 49.5%, from $733,000 for the three months ended September 30, 2016 to $1.1 million for the three months ended September 30, 2017 due primarily to a $156,000, or 29.4%, increase in net gain on the sales of residential mortgage loans, a $100,000, or 77.5%, increase in mortgage banking and title abstract fees, a $54,000 decrease in loss on sales and write-downs on other real estate owned, a $30,000, or 50.0%, increase in insurance commissions earned by Quaint Oak Insurance Agency, a wholly owned insurance subsidiary of Quaint Oak Bank which began operations on August 1, 2016, a $25,000, or 125.0%, increase in other fees and services charges, and a $19,000, or 146.2%, increase in other non-interest income, partially offset by a $19,000, or 37.3%, decrease in gain on the sale of SBA loans and a $2,000, or 8.7%, decrease in income from bank-owned life insurance.

Non-Interest Expense. Non-interest expense increased $291,000, or 17.6%, from $1.7 million for the three months ended September 30, 2016 to $1.9 million for the three months ended September 30, 2017. Salaries and employee benefits expense accounted for $192,000 of the change as this expense increased 17.0%, from $1.1 million for the three months ended September 30, 2016 to $1.3 million for the three months ended September 30, 2017 due primarily to increased staff related to the continued expansion of the Company's mortgage banking and lending operations and the launch of Quaint Oak Insurance Agency on August 1, 2016. Also contributing to the increase was a $35,000, or 32.1%, increase in other expense, a $34,000, or 65.4%, increase in data processing expense, a $16,000, or 69.6%, increase in advertising expense, an $11,000, or 11.7%, increase in professional fees, a $9,000, or 25.7%, increase in FDIC insurance assessment, a $4,000, or 8.3%, increase in directors' fees and expenses, and a $5,000, or 62.5%, increase in amortization of other intangible related to the renewal rights of the book of business acquired from Signature Insurance Services, LLC on August 1, 2016. These increases were partially offset by a $9,000, or 69.2%, decease in other real estate owned expense and a $6,000, or 4.2%, decrease in occupancy and equipment expense.

Provision for Income Tax. The provision for income tax increased $108,000, or 43.2%, from $250,000 for the three months ended September 30, 2016 to $358,000 for the three months ended September 30, 2017 due primarily to the increase in pre-tax income. Our effective tax rate decreased from 38.3% for the three months ended September 30, 2016 to 37.6% for the three months ended September 30, 2017.

Comparison of Operating Results for the Nine Months Ended September 30, 2017 and 2016

General. Net income amounted to $1.3 million for the nine months ended September 30, 2017, an increase of $247,000, or 23.7%, compared to net income of $1.0 million for nine months ended September 30, 2016. The increase in net income was primarily the result of increases in net interest income of $731,000 and non-interest income of $539,000, partially offset by increases in non-interest expense of $950,000, the provision for income taxes of $56,000, and the provision for loan losses of $17,000.

Net Interest Income. Net interest income increased $731,000, or 15.0%, to $5.6 million for the nine months ended September 30, 2017 from $4.9 million for the nine months ended September 30, 2016 due primarily to a $1.1 million, or 15.6%, increase in interest income, partially offset by a $320,000, or 17.1%, increase in interest expense.

Interest Income. Interest income increased $1.1 million, or 15.6%, to $7.8 million for the nine months ended September 30, 2017 from $6.7 million for the nine months ended September 30, 2016. The increase in interest income was primarily due to a $34.1 million increase in average loans receivable, net, including loans held for sale, which increased from an average balance of $155.4 million for the nine months ended September 30, 2016 to an average balance of $189.5 million for the nine months ended September 30, 2017, and had the effect of increasing interest income $1.4 million. Partially offsetting this increase was a 27 basis point decline in the average yield on loans receivable, net, including loans held for sale, from 5.57% for the nine months ended September 30, 2016 to 5.30% for the nine months ended September 30, 2017, which had the effect of decreasing interest income by $391,000.

Interest Expense. Interest expense increased $320,000, or 17.1%, to $2.2 million for the nine months ended September 30, 2017 from $1.9 million for the nine months ended September 30, 2016. The increase in interest expense was primarily attributable to a $21.4 million increase in average interest-bearing liabilities, which increased from an average balance of $170.9 million for the nine months ended September 30, 2016 to an average balance of $192.3 million for the nine months ended September 30, 2017, and had the effect of increasing interest expense $228,000. This increase in average interest-bearing liabilities was primarily attributable to a $12.4 million increase in average certificate of deposit accounts which increased from an average balance of $125.6 million for the nine months ended September 30, 2016 to an average balance of $138.0 million for the nine months ended September 30, 2017, and had the effect of increasing interest expense $158,000, and a $5.9 million increase in average Federal Home Loan Bank borrowings which increased from $13.4 million for the nine months ended September 30, 2016 to an average balance of $19.4 million for the nine months ended September 30, 2017, and had the effect of increasing interest expense $44,000. Also contributing to this increase was a six basis point increase in the average rate on interest-bearing liabilities, from 1.46% for the nine months ended September 30, 2016 to 1.52% for the nine months ended September 30, 2017, which had the effect of increasing interest expense by $92,000. This increase in rate was primarily attributable to a three basis point increase in rate on average certificate of deposit accounts, which increased from 1.70% for the nine months ended September 30, 2016 to 1.73% for the nine months ended September 30, 2017, and had the effect of increasing interest expense by $30,000, and a 44 basis point increase in rate on average Federal Home Loan Bank borrowings, which increased from 0.99% for the nine months ended September 30, 2016 to 1.43% for the nine months ended September 30, 2017, which had the effect of increasing interest expense by $62,000.

Average Balances, Net Interest Income, Yields Earned and Rates Paid. The following table shows for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. All average balances are based on daily balances.

	Nine Months Ended September 30,							
	2017				2016			
	Average Balance	Interest	Average Yield/ Rate		Average Balance	Interest	Average Yield/ Rate	
Interest-earning assets:	(Dollars in thousands)							
Due from banks, interest-bearing	$8,428	$70	1.11	%	$17,994	$70	0.52	%
Investment in interest-earning time deposits	5,597	67	1.60		6,135	82	1.78	
Investment securities available for sale	9,092	101	1.48		6,080	70	1.54	
Loans receivable, net (1) (2) (3)	189,527	7,530	5.30		155,459	6,497	5.57	
Investment in FHLB stock	883	24	3.62		631	22	4.65	
Total interest-earning assets	213,527	7,792	4.87	%	186,299	6,741	4.82	%
Non-interest-earning assets	9,143				8,995			
Total assets	$222,670				$195,294			
Interest-bearing liabilities:								
Passbook accounts	$768	$1	0.17	%	$1,268	$1	0.11	%
Savings accounts	1,588	2	0.17		2,527	4	0.21	
Money market accounts	32,687	196	0.80		28,099	169	0.80	
Certificate of deposit accounts	137,957	1,788	1.73		125,589	1,600	1.70	
Total deposits	173,000	1,987	1.53		157,483	1,774	1.50	
FHLB short-term borrowings	8,350	68	1.09		6,000	24	0.53	
FHLB long-term borrowings	10,996	139	1.69		7,434	76	1.36	
Total interest-bearing liabilities	192,346	2,194	1.52	%	170,917	1,874	1.46	%
Non-interest-bearing liabilities	8,820				4,791			
Total liabilities	201,166				175,708			
Stockholders' Equity	21,504				19,586			
Total liabilities and Stockholders' Equity	$222,670				$195,294			
Net interest-earning assets	$21,181				$15,382			
Net interest income; average interest rate spread		$5,598	3.35	%		$4,867	3.36	%
Net interest margin (4)			3.50	%			3.48	%
Average interest-earning assets to average interest-bearing liabilities			111.01	%			109.00	%

(1) Includes loans held for sale.

(2) Includes non-accrual loans during the respective periods. Calculated net of deferred fees and discounts, loans in process and allowance for loan losses.

(3) Includes tax free municipal leases with an aggregate average balance of $74,000 and an average yield of 4.02% for the nine months ended September 30, 2017 and an aggregate average balance of $104,000 and an average yield of 4.02% for the nine months ended September 30, 2016. The tax-exempt income from such loans has not been calculated on a tax equivalent basis.

(4) Equals net interest income divided by average interest-earning assets.

Provision for Loan Losses. The Company increased its provision for loan losses by $17,000, or 9.9%, from $172,000 for the nine months ended September 30, 2016 to $189,000 for the nine months ended September 30, 2017. As was the case for the quarter, the increase was based on an evaluation of the allowance relative to such factors as volume of the loan portfolio, concentrations of credit risk, prevailing economic conditions, prior loan loss experience and amount of non-performing loans. See additional discussion under "Comparison of Operating Results for the Three Months Ended September 30, 2017 and 2016-Provision for Loan Losses."

Non-Interest Income. Non-interest income increased $539,000, or 28.7%, for the nine months ended September 30, 2017 over the comparable period in 2016 primarily due to a $222,000, or 17.2%, increase in net gain on the sales of residential mortgage loans, a $196,000, or 326.7% increase in insurance commissions earned by Quaint Oak Insurance Agency, a wholly owned insurance subsidiary of Quaint Oak Bank which began operations on August 1, 2016, a $78,000, or 19.1%, increase in mortgage banking and title abstract fees, a $63,000, or 50.0%, decrease in loss on sales and write-downs on other real estate owned, a $25,000, or 69.4%, increase in other non-interest income, and a $17,000, or 53.1%, increase in other fees and services charges, partially offset by a $60,000, or 55.6%, decrease in gain on the sale of SBA loans and a $2,000, or 3.0%, decrease in income from bank-owned life insurance.

Non-Interest Expense. Non-interest expense increased $950,000, or 19.5%, from $4.9 million for the nine months ended September 30, 2016 to $5.8 million for the nine months ended September 30, 2017. Salaries and employee benefits expense accounted for $673,000 of the change as this expense increased 20.3%, from $3.3 million for the nine months ended September 30, 2016 to $4.0 million for the nine months ended September 30, 2017 due primarily to increased staff related to the continued expansion of the Company's mortgage banking and lending operations and the launch of Quaint Oak Insurance Agency on August 1, 2016. Also contributing to the increase was a $114,000, or 34.2%, increase in other expense due primarily to a $76,000 increase in recruiting fees, an $82,000, or 59.9%, increase in data processing expense, a $33,000, or 39.3%, increase in advertising expense, a $28,000, or 27.2%, increase in FDIC insurance assessment, a $29,000, or 362.5% increase in amortization of other intangible related to the renewal rights of the book of business acquired from Signature Insurance Services, LLC on August 1, 2016, and a $14,000, or 3.4%, increase in occupancy and equipment expense. These increases were partially offset by a $20,000, or 62.5% decrease in other real estate owned expense, a $2,000, or 0.7%, decrease in professional fees, and a $1,000, or 0.6% decrease in directors' fees and expenses.

Provision for Income Tax. The provision for income tax increased $56,000, or 8.6%, from $650,000 for the nine months ended September 30, 2016 to $706,000 for the nine months ended September 30, 2017 due primarily to the increase in pre-tax income. Our effective tax rate decreased from 38.4% for the nine months ended September 30, 2016 to 35.4% for the nine months ended September 30, 2017 primarily due to a tax deduction taken in the second quarter of 2017 related to the exercise of non-qualified stock options during the nine months ended September 30, 2017.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, amortization and prepayment of loans and to a lesser extent, loan sales and other funds provided from operations. While scheduled principal and interest payments on loans are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company sets the interest rates on its deposits to maintain a desired level of total deposits. In addition, the Company invests excess funds in short-term interest-earning assets that provide additional liquidity. At September 30, 2017, the Company's cash and cash equivalents amounted to $8.2 million. At such date, the Company also had $761,000 invested in interest-earning time deposits maturing in one year or less.

The Company uses its liquidity to fund existing and future loan commitments, to fund deposit outflows, to invest in other interest-earning assets and to meet operating expenses. At September 30, 2017, Quaint Oak Bank had outstanding commitments to originate loans of $9.5 million and commitments under unused lines of credit of $18.8 million.

At September 30, 2017, certificates of deposit scheduled to mature in less than one year totaled $42.1 million. Based on prior experience, management believes that a significant portion of such deposits will remain with us, although there can be no assurance that this will be the case.

In addition to cash flow from loan payments and prepayments and deposits, the Company has significant borrowing capacity available to fund liquidity needs. If the Company requires funds beyond its ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Pittsburgh (FHLB), which provide an additional source of funds. As of September 30, 2017, we had $25.5 million of borrowings from the FHLB and had $114.0 million in borrowing capacity. Under terms of the collateral agreement with the FHLB of Pittsburgh, we pledge residential mortgage loans as well as Quaint Oak Bank's FHLB stock as collateral for such advances. In addition, as of September 30, 2017 Quaint Oak Bank had $539,000 in borrowing capacity with the Federal Reserve Bank of Philadelphia. There were no borrowings under this facility at September 30, 2017.

Our stockholders' equity amounted to $22.0 million at September 30, 2017, an increase of $1.2 million, or 5.9%, from $20.8 million at December 31, 2016. Contributing to the increase was net income for the nine months ended September 30, 2017 of $1.3 million, common stock earned by participants in the employee stock ownership plan of $138,000, amortization of stock awards and options under our stock compensation plans of $97,000, the reissuance of treasury stock for exercised stock options of $193,000, the reissuance of treasury stock under the Bank's 401(k) Plan of $83,000, and other comprehensive income of $37,000. These increases were partially offset by the purchase of treasury stock of $341,000 and by dividends paid of $269,000. For further discussion of the stock compensation plans, see Note 10 in the Notes to Unaudited Consolidated Financial Statements contained elsewhere herein.

Quaint Oak Bank is required to maintain regulatory capital sufficient to meet tier 1 leverage, common equity tier 1 capital, tier 1 risk-based and total risk-based capital ratios of at least 4.00%, 4.50%, 6.00%, and 8.00%, respectively. At September 30, 2017, Quaint Oak Bank exceeded each of its capital requirements with ratios of 8.61%, 11.72%, 11.72% and 12.77%, respectively. As a small savings and loan holding company eligible for exemption, the Company is not currently subject to any regulatory capital requirements.

Off-Balance Sheet Arrangements

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. Our exposure to credit loss from non-performance by the other party to the above-mentioned financial instruments is represented by the contractual amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments. In general, we do not require collateral or other security to support financial instruments with off–balance sheet credit risk.

Commitments. At September 30, 2017, we had unfunded commitments under lines of credit of $18.8 million and $9.5 million of commitments to originate loans. We had no commitments to advance additional amounts pursuant to outstanding lines of credit or undisbursed construction loans.

Impact of Inflation and Changing Prices

The consolidated financial statements and related financial data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America which generally require the measurement of financial position and operating results in terms of historical dollars, without considering changes in relative purchasing power over time due to inflation. Unlike most industrial companies, virtually all of the Company's assets and liabilities are monetary in nature. As a result, interest rates generally have a more significant impact on the Company's performance than does the effect of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services, since such prices are affected by inflation to a larger extent than interest rates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of September 30, 2017. Based on their evaluation of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and regulations are operating in an effective manner.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the third fiscal quarter of fiscal 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business, which involve amounts in the aggregate believed by management to be immaterial to the financial condition and operating results of the Company.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable.

(b) Not applicable.

(c) Purchases of Equity Securities

The Company's repurchases of its common stock made during the quarter ended September 30, 2017 are set forth in the table below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1, 2017 – July 31, 2017	-	$ -	-	38,344
August 1, 2017 – August 31, 2017	4,440	13.00	-	38,344
September 1, 2017 – September 30, 2017	22,538	12.34	15,000	23,344
Total	26,978	$ 12.46	15,000	23,344

Notes to this table:

(1) On February 21, 2014, the Board of Directors of Quaint Oak Bancorp approved its fourth share repurchase program which provides for the repurchase of up to 69,432 shares (adjusted to reflect the two-for-one stock split), or approximately 2.5% of the Company's then issued and outstanding shares of common stock, and announced the fourth repurchase program on Form 8-K filed on February 26, 2014. The repurchase program does not have an expiration date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

No.	Description
31.1	Rule 13a-14(d) and 15d-14(d) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(d) and 15d-14(d) Certification of the Chief Financial Officer.
32.0	Section 1350 Certification.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.

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.

Date: November 13, 2017	By:	/s/Robert T. Strong Robert T. Strong President and Chief Executive Officer
Date: November 13, 2017	By:	/s/John J. Augustine John J. Augustine Executive Vice President and Chief Financial Officer