QUAINT OAK BANCORP INC
Form 10-K
March 29, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)
Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended: December 31, 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	(I.R.S. Employer

Incorporation or Organization)	Identification Number)
501 Knowles Avenue, Southampton, Pennsylvania	18966
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (215) 364-4059

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, $.01 par value per share
Title of Class

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if a smaller reporting company)	Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

The aggregate market value of the Common Stock held by non-affiliates of the Registrant based on a closing price of $13.18 on June 30, 2017, the last day of the Registrant's second quarter was $17,356,992 (1,940,290 shares outstanding less 623,371 shares held by affiliates at $13.18 per share). Shares of Common Stock held by each executive officer and director and certain employee stock ownership plans have been excluded from the calculation since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares of Common Stock outstanding as of March 20, 2018: 1,958,049
DOCUMENTS INCORPORATED BY REFERENCE

Set forth below are the documents incorporated by reference and the part of the Form 10-K into which the document is incorporated:

(1) Portions of the Annual Report to Shareholders for the year ended December 31, 2017 are incorporated by reference into Part II, Items 6-8 and Part IV, Item 15 of this Form 10-K.
(2) Portions of the definitive Proxy Statement for the 2018 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

QUAINT OAK BANCORP, INC.
2017 ANNUAL REPORT ON FORM 10-K

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Forward-Looking Statements

This Annual Report on Form 10-K contains certain forward-looking statements (as defined in the Securities Exchange Act of 1934 and the regulations thereunder). Forward-looking statements are not historical facts but instead represent only the beliefs, expectations or opinions of Quaint Oak Bancorp and its management regarding future events, many of which, by their nature, are inherently uncertain. Forward-looking statements may be identified by the use of such words as: "believe", "expect", "anticipate", "intend", "plan", "estimate", or words of similar meaning, or future or conditional terms such as "will", "would", "should", "could", "may", "likely", "probably", or "possibly." Forward-looking statements include, but are not limited to, financial projections and estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to future operations, products and services; and statements regarding future performance. Such statements are subject to certain risks, uncertainties and assumptions, many of which are difficult to predict and generally are beyond the control of Quaint Oak Bancorp and its management, that could cause actual results to differ materially from those expressed in, or implied or projected by, forward-looking statements. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements: (1) economic and competitive conditions which could affect the volume of loan originations, deposit flows and real estate values; (2) the levels of non-interest income and expense and the amount of loan losses; (3) competitive pressure among depository institutions increasing significantly; (4) changes in the interest rate environment causing reduced interest margins; (5) general economic conditions, either nationally or in the markets in which Quaint Oak Bancorp is or will be doing business, being less favorable than expected;(6) political and social unrest, including acts of war or terrorism; or (7) legislation or changes in regulatory requirements adversely affecting the business in which Quaint Oak Bancorp is or will be engaged. Quaint Oak Bancorp undertakes no obligation to update these forward looking statements to reflect events or circumstances that occur after the date on which such statements were made.

As used in this report the terms "we," "us," and "our" refer to Quaint Oak Bancorp, a Pennsylvania corporation, or Quaint Oak Bank, a Pennsylvania chartered savings bank and wholly owned subsidiary of Quaint Oak Bancorp, as the context requires. In addition, unless the context otherwise requires, references to the operations of Quaint Oak Bancorp include the operations of Quaint Oak Bank and its subsidiary companies.

PART I

Item 1. Business.

General

Quaint Oak Bancorp, Inc., a Pennsylvania corporation headquartered in Southampton, Pennsylvania, is the holding company for Quaint Oak Bank. Quaint Oak Bank, originally incorporated in 1926, converted from a Pennsylvania chartered building and loan association to a Pennsylvania chartered mutual savings bank named Quaint Oak Savings Bank in January 2000 and converted to a stock savings bank in July 2007. Quaint Oak Bank operates from its main office located in Bucks County, Pennsylvania and Allentown regional office located in the Lehigh Valley area of Pennsylvania and through an insurance agency subsidiary at a Chalfont, Pennsylvania location. Quaint Oak Bank through its subsidiary companies conducts mortgage banking, real estate sales, title abstract and insurance businesses.

As of December 31, 2017, Quaint Oak Bank's primary market area includes Bucks and Montgomery Counties, Pennsylvania, northeast Philadelphia and the surrounding area and the Lehigh Valley area of Pennsylvania. As of December 31, 2017, Quaint Oak Bancorp had $239.6 million of total assets, $186.2 million of deposits and $22.2 million of stockholders' equity. Quaint Oak Bancorp's stockholders' equity constituted 9.3% of total assets as of December 31, 2017.

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Quaint Oak Bank's primary business consists of attracting deposits from the general public through a variety of deposit programs and investing such deposits principally in commercial real estate, residential, construction, multi-family, and home equity loans secured by property in our market area. To a lesser extent, the Bank also invests in commercial business loans and other consumer loans. In addition, Quaint Oak Bank offers mortgage banking, real estate sales, title abstract and insurance services through its subsidiary companies. Quaint Oak Bank serves its customers through its offices as well as through correspondence, telephone and on-line banking.

Deposits with Quaint Oak Bank are insured to the maximum extent provided by law through the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation ("FDIC"). Quaint Oak Bank is subject to examination and comprehensive regulation by the FDIC and the Pennsylvania Department of Banking. Quaint Oak Bancorp, which elected to be treated as a savings and loan holding company, is subject to examination and regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). Quaint Oak Bank is also a member of the Federal Home Loan Bank of Pittsburgh ("FHLB of Pittsburgh" or "FHLB"), which is one of the 12 regional banks comprising the Federal Home Loan Bank System ("FHLB System"). Quaint Oak Bank is also subject to regulations of the Federal Reserve Board governing reserves required to be maintained against deposits and certain other matters.

Quaint Oak Bancorp's principal executive offices are located at 501 Knowles Avenue, Southampton, Pennsylvania 18966 and its telephone number is (215) 364-4059.

Quaint Oak Bank's Lending Activities

General. At December 31, 2017, the net loan portfolio of Quaint Oak Bank amounted to $201.7 million, representing approximately 84.2% of its total assets at that date. The principal lending activity of Quaint Oak Bank is the origination of commercial real estate loans and one-to-four family residential loans, and to a lesser extent, multi-family residential loans, construction loans, commercial business loans, and home equity loans. At December 31, 2017, commercial real estate loans amounted to $92.2 million, or 45.1% of its total loan portfolio. At December 31, 2017, one-to-four family residential loans amounted to $57.5 million or 28.2% of its total loan portfolio of which $51.8 million, or 25.4%, of the total loan portfolio consisted of non-owner occupied properties and $5.7 million or 2.8%, of the total loan portfolio consisted of owner occupied properties. Multi-family residential loans totaled $21.7 million, or 10.6%, of the total loan portfolio at December 31, 2017. Construction loans totaled $15.6 million, or 7.6%, of the total loan portfolio at December 31, 2017. Commercial business loans totaled $12.0 million, or 5.9%, of the total loan portfolio at December 31, 2017. Home equity loans totaled $5.1 million, or 2.5%, of the total loan portfolio at December 31, 2017. Other consumer loans totaled $138,000, or 0.1%, of the total loan portfolio at December 31, 2017.

The types of loans that Quaint Oak Bank may originate are subject to federal and state laws and regulations. Interest rates charged on loans are affected principally by the demand for such loans, the supply of money available for lending purposes and the rates offered by our competitors. These factors are, in turn, affected by general and economic conditions, the monetary policy of the federal government, including the Federal Reserve Board, legislative and tax policies, and governmental budgetary matters.

Quaint Oak Bank is subject to a regulatory loans to one borrower limit of 15% of the Bank's capital which amounts to $3.1 million at December 31, 2017. At December 31, 2017, Quaint Oak Bank's five largest loans or groups of loans-to-one borrower, including related entities, were $2.9 million, $2.7 million, $2.1 million, $2.1 million, and $2.0 million. The loans primarily consisted of four commercial real estate loans and a multi-family residential loan. Each of Quaint Oak Bank's five largest loans or groups of loans was performing in accordance with its terms at December 31, 2017.

Loan Portfolio Composition. The following table shows the composition of our loan portfolio by type of loan at the dates indicated.

	December 31,									
	2017		2016		2015		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)									
Real estate loans:										
One-to-four family residential (1):										
Owner occupied	$5,681	2.8 %	$5,389	3.0 %	$5,777	4.0 %	$7,085	5.7 %	$8,900	8.3 %
Non-owner occupied	51,833	25.4	51,893	29.0	51,036	35.1	48,554	38.8	43,489	40.2
Total one-to-four family residential loans	57,514	28.2	57,282	32.0	56,813	39.1	55,639	44.5	52,389	48.5
Multi-family (five or more) residential	21,715	10.6	14,641	8.2	12,402	8.5	10,132	8.1	6,023	5.6
Commercial real estate	92,234	45.1	77,730	43.4	49,765	34.3	37,146	29.7	27,743	25.6
Construction	15,632	7.6	15,355	8.6	16,100	11.1	14,303	11.5	16,038	14.8
Home equity loans	5,129	2.5	4,775	2.6	7,409	5.1	6,961	5.6	5,682	5.3
Total real estate loans	192,224	94.0	169,783	94.8	142,489	98.1	124,181	99.4	107,875	99.8
Commercial business	11,954	5.9	9,295	5.2	2,576	1.8	749	0.6	186	0.2
Other consumer	138	0.1	26	--	71	0.1	41	--	47	--
Total loans	204,316	100.0%	179,104	100.0%	145,136	100.0%	124,971	100.0%	108,108	100.0%
Less:										
Deferred loan fees and costs	(837)		(692)		(518)		(492)		(280)	
Allowance for loan losses	(1,812)		(1,605)		(1,313)		(1,148)		(941)	
Net loans	$201,667		$176,807		$143,305		$123,331		$106,887	

(1) Does not include loans held for sale of $7.0 million, $4.7 million, $5.1 million, $2.6 million and $1.1 million at December 31, 2017, 2016, 2015, 2014 and 2013, respectively.

Origination of Loans. The lending activities of Quaint Oak Bank are subject to the written underwriting standards and loan origination procedures established by the board of directors and management. New loans are generated primarily through the efforts of Quaint Oak Bank's loan officers, referrals from brokers and existing customers. Loan applications are underwritten and processed by Quaint Oak Bank's credit administration department.

All loans are presented to the loan committee for review. Quaint Oak Bank's loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan and the value of the collateral that will secure the loan. Individual loan requests over $1.5 million, or loan requests that would increase the relationship over $1.5 million, must be approved by our President and Chief Executive Officer, Senior Vice President Business Development, and one outside loan committee member.

The following table shows our total loans originated and repaid during the periods indicated. We did not purchase any loans in 2017 or 2016. We sold $85.7 million of loans in 2017 and $64.6 million of loans in 2016.

	Year Ended December 31, 2017	2016	2015
	(In Thousands)		
Loan originations:			
One-to-four family residential owner occupied (1)	$82,889	$61,194	$51,399
One-to-four family residential non-owner occupied (2)	11,911	9,998	12,050
Multi-family residential	6,614	3,441	2,367
Commercial real estate	20,980	38,095	17,956
Construction	10,240	12,358	11,584
Home equity	1,479	573	2,581
Commercial business (3)	6,857	6,823	2,274
Other consumer	129	5	75
Total loan originations	141,099	132,487	100,286
Loans sold	(85,669)	(64,614)	(50,221)
Loan principal repayments	(27,924)	(34,257)	(26,094)
Total loans sold and principal repayments	(113,593)	(98,871)	(76,315)
Decreases due to other items, net (4)	(352)	(466)	(1,489)
Net increase in loan portfolio	$27,154	$33,150	$22,482

(1) Includes $81.4 million, $60.4 million and $50.4 million of loans originated for sale in 2017, 2016 and 2015, respectively.
(2) Includes $5.6 million, $3.9 million and $2.3 million of loans originated for sale in 2017, 2016 and 2015, respectively.
(3) Includes $963,000 of loans originated for sale in 2017.
(4) Other items consist of loans transferred to other real estate owned, deferred fees and the allowance for loan losses.

Although Pennsylvania laws and regulations permit savings banks to originate loans secured by real estate located throughout the United States, Quaint Oak Bank concentrates its lending activity in its primary market area in Bucks and Montgomery Counties, Pennsylvania, northeast Philadelphia and the surrounding area and the Lehigh Valley area of Pennsylvania.

Contractual Terms to Final Maturities. The following table shows the scheduled contractual maturities of our loans as of December 31, 2017, before giving effect to net items, and excluding loans held for sale. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. The amounts shown below do not take into account loan prepayments.

	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	Total
	(In Thousands)							
Amounts due in:								
One year or less	$10	$ 2,797	$ 77	$ 3,211	$ 10,975	$20	$ 2,010	$19,100
After one year through three years	300	3,882	1,306	9,652	701	51	2,241	18,133
After three years through five years	9	8,884	4,395	17,170	907	170	5,438	36,973
	280	7,606	5,115	29,302	1,533	1,036	1,695	46,567

After five years through ten years								
After ten years through 15 years	861	5,266	2,110	5,322	--	3,786	406	17,751
After 15 years	4,221	23,398	8,712	27,577	1,516	66	302	65,792
Total	$5,681	$ 51,833	$ 21,715	$ 92,234	$ 15,632	$5,129	$ 12,092	$204,316

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The following table shows the dollar amount of our loans at December 31, 2017 due after December 31, 2018 as shown in the preceding table, which have fixed interest rates or which have floating or adjustable interest rates.

	Fixed-Rate	Floating or Adjustable-Rate	Total
	(In Thousands)		
One-to-four family residential owner occupied	$2,269	$ 3,402	$5,671
One-to-four family residential non-owner occupied	16,308	32,728	49,036
Multi-family residential	8,782	12,856	21,638
Commercial real estate	42,129	46,894	89,023
Construction	1,083	3,574	4,657
Home equity	1,331	3,778	5,109
Commercial business	8,567	1,489	10,056
Other consumer	26	--	26
Total	$80,495	$ 104,721	$185,216

Scheduled contractual maturities of loans do not necessarily reflect the actual expected term of the loan portfolio. The average life of mortgage loans is substantially less than their average contractual terms because of prepayments. The average life of mortgage loans tends to increase when current mortgage loan rates are higher than rates on existing mortgage loans and, conversely, decrease when rates on current mortgage loans are lower than existing mortgage loan rates (due to refinancing of adjustable-rate and fixed-rate loans at lower rates). Under the latter circumstance, the weighted average yield on loans decreases as higher yielding loans are repaid or refinanced at lower rates.

One-to-Four Family Residential Owner Occupied Real Estate Loans. As part of our strategy of diversifying our loan portfolio with higher yielding and shorter-term loan products, Quaint Oak Bank does not actively market the origination of one-to-four family owner occupied residential loans to be held in our loan portfolio. At December 31, 2017, $5.7 million, or 2.8%, of our total loan portfolio, before net items, consisted of one-to-four family owner occupied residential loans.

One-to-Four Family Residential Non-Owner Occupied Real Estate Loans. A significant part of Quaint Oak Bank's lending activity is the origination of loans secured by single-family residences for non-owner occupied properties. As part of our strategy of diversifying our loan portfolio with higher yielding and shorter-term loan products, Quaint Oak Bank does not actively market the origination of one-to-four family residential non-owner occupied real estate loans. At December 31, 2017, $51.8 million, or 25.4%, of our total loan portfolio, before net items, consisted of one-to-four family residential non-owner occupied loans.

It is our policy to lend in a first lien position on non-owner occupied residential property with fixed and variable rates and terms generally up to 15 years or longer amortizations. Generally, such loans are originated with a three or five year maturity. Such loans are generally limited to 75%, or less, of the appraised value, or sales price plus improvement costs of the secured real estate property.

One-to-Four Family Residential Loans Originated for Sale. Quaint Oak Bank through its subsidiary, Quaint Oak Mortgage LLC, originates one-to-four family residential fixed and variable rate first mortgages with amortizing terms less than or equal to 30 years in accordance with secondary market standards. Loans originated by Quaint Oak Mortgage LLC are sold into the secondary market along with the loans' servicing rights. For the year ended December 31, 2017, Quaint Oak Mortgage LLC originated $87.0 million of owner and non-owner occupied loans for sale and sold $85.7 million of loans in the secondary market. For the year ended December 31, 2016, loans originated for sale through Quaint Oak Mortgage LLC totaled $64.3 million and $64.6 million of these loans were sold in the secondary market.

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Multi-Family Residential Loans. Quaint Oak Bank originates loans for multi-unit (five or more) residential properties. These loans are offered with fixed and adjustable interest rates and amortizations not to exceed 25 years. Generally, the loan-to-value ratio does not exceed 75%. These loans are underwritten with the same criteria and procedures as commercial real estate loans. At December 31, 2017, $21.7 million, or 10.6%, of our total loan portfolio, before net items, consisted of multi-family residential loans.

Commercial Real Estate Loans. Quaint Oak Bank also originates loans secured by commercial real estate. At December 31, 2017, $92.2 million, or 45.1% of our total loan portfolio, before net items, consisted of commercial real estate loans. Although commercial real estate loans are generally considered to have greater credit risk than other certain types of loans, we intend to continue to originate such loans in our market area. At December 31, 2017, approximately 64% of total commercial real estate loans were owner occupied.

It is generally our policy to lend in a first lien position on real property occupied as a commercial business property or mixed use properties. However, in rare instances, we may take a second lien position if approved by the loan committee. Quaint Oak Bank offers fixed and variable rate mortgage loans with amortization not to exceed 25 years. Commercial real estate loans are limited to 70%, or less, of the appraised value, or sales price plus improvement costs of the secured real estate property. Commercial real estate loans are presented to the loan committee for review and approval, including analysis of the creditworthiness of the borrower. The loan committee reviews the cash flows from the property to determine if the proceeds will adequately cover debt service. Quaint Oak Bank uses a Debt Service Coverage Ratio (DSCR) of 1.20. We require the collection of various documents to verify income, including personal tax returns, business tax returns, and copies of current leases. Assignments of rents and leases as well as the requirement to provide annual updates of financial information and rent rolls are included in the loan documentation.

Construction Loans. Our construction loans are generally originated for the purpose of building or renovating a single family residential home. Generally, we do not make construction loans for speculative development. Funds are advanced incrementally as work is completed. The borrower is required to make monthly interest payments. When the construction is finished, the amount of the outstanding loan is generally less than 70% of the completed value of the property. Quaint Oak Bank is paid in full when the borrower seeks permanent financing or the property is sold. At December 31, 2017, $15.6 million, or 7.6% of Quaint Oak Bank's total loan portfolio, before net items, consisted of construction loans.

Home Equity Loans. Quaint Oak Bank is authorized to make loans for a wide variety of personal or consumer purposes. Quaint Oak Bank originates home equity lines of credit in order to accommodate its customers and because such loans generally have shorter terms than residential mortgage loans. At December 31, 2017, $5.1 million, or 2.5% of Quaint Oak Bank's total loan portfolio, before net items, consisted of home equity loans.

Commercial Business Loans. Quaint Oak Bank originates 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. At December 31, 2017, $12.0 million, or 5.9% of Quaint Oak Bank's total loan portfolio, before net items, consisted of commercial business loans.

Other Consumer Loans. Quaint Oak Bank originates loans secured by savings accounts in order to accommodate its existing customers. At December 31, 2017, $138,000, or 0.1% of Quaint Oak Bank's total loan portfolio, before net items, consisted of other consumer loans.

Loan Origination and Other Fees. In addition to interest earned on loans, Quaint Oak Bank generally receives loan origination fees or "points" for originating loans. Loan points are a percentage of the principal amount of the mortgage loan and are charged to the borrower in connection with the origination of the loan. Such origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment to the yield (interest income) of the related loans over the contractual life of the loans.

Asset Quality

General. Quaint Oak Bank's collection procedures provide that when a loan is 17 days past due, a telephone call is made to the borrower by our collections specialist to determine the reason for the delinquency and to work out a possible solution. Late charges will be assessed based on the number of days specified in the note beyond the due date. The Board of Directors is notified of all delinquencies thirty days past due. In most cases, deficiencies are cured promptly. While we generally prefer to work with borrowers to resolve such problems, we will institute foreclosure or other collection proceedings when necessary to minimize any potential loss.

Loans are placed on non-accrual status when management believes the probability of collection of interest is doubtful. When a loan is placed on non-accrual status, previously accrued but unpaid interest is deducted from interest income. Quaint Oak Bank generally discontinues the accrual of interest income when the loan becomes 90 days past due as to principal or interest unless the credit is well secured and we believe we will fully collect. There were $2.2 million and $1.2 million of non-accrual loans at December 31, 2017 and 2016, respectively.

Real estate and other assets acquired by Quaint Oak Bank as a result of foreclosure or by deed-in-lieu of foreclosure are classified as real estate owned until sold. There was no other real estate owned at December 31, 2017 and $435,000 at December 31, 2016.

Delinquent Loans. The following table shows the delinquencies in our loan portfolio as of December 31, 2017.

	December 31, 2017			
	30-89 Days Overdue		90 or More Days Overdue	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance
	(Dollars in Thousands)			
One-to-four family residential-owner occupied	4	$ 670	3	$ 423
One-to-four family residential-non-owner occupied	9	969	4	337
Multi-family residential	2	313	--	--
Commercial real estate	5	505	2	241
Construction	2	407	2	2,069
Home equity	2	51	--	--
Commercial business and other consumer	--	--	--	--
Total delinquent loans	24	$ 2,915	11	$ 3,070
Delinquent loans to total net loans		1.45 %		1.52 %
Delinquent loans to total loans		1.43 %		1.50 %

Non-Performing Assets. The following table shows the amounts of our non-performing assets (defined as non-accruing loans, accruing loans 90 days or more past due and other real estate owned) and troubled debt restructurings at the dates indicated.

	December 31,				
	2017	2016	2015	2014	2013
	(Dollars in Thousands)				
Non-accruing loans:					
One-to-four family residential-owner occupied	$--	$--	$--	$588	$303
One-to-four family residential-non-owner occupied	120	541	186	836	378
Multi-family residential	--	--	--	67	--
Commercial real estate	--	660	--	489	474
Construction	2,069	--	--	--	--
Home equity	--	--	--	45	30
Commercial business loans and other consumer	--	--	--	--	--
Total non-accruing loans	2,189	1,201	186	2,025	1,185
Accruing loans 90 days or more past due:					
One-to-four family residential-owner occupied	423	9	--	249	256
One-to-four family residential-non-owner occupied	217	237	404	136	197
Multi-family residential	--	--	--	--	75
Commercial real estate	241	117	262	421	200
Construction	--	308	--	--	--
Home equity	--	--	--	--	--
Commercial business loans and other consumer	--	--	--	--	--
Total accruing loans 90 days or more past due	881	671	666	806	728
Total non-performing loans (1)	3,070	1,872	852	2,831	1,913
Other real estate owned, net	--	435	1,410	111	574
Total non-performing assets	3,070	2,307	2,262	2,942	2,487
Troubled debt restructurings (2)	714	733	781	796	830
Total non-performing assets and troubled debt restructurings	$3,784	$3,040	$3,043	$3,738	$3,317
Total non-performing loans as a percentage of loans, net	1.52 %	1.06 %	0.59 %	2.30 %	1.79 %
Total non-performing loans as a percentage of total assets	1.28 %	0.87 %	0.46 %	1.82 %	1.50 %
Total non-performing assets as a percentage of total assets	1.28 %	1.07 %	1.23 %	1.89 %	1.95 %
Total non-performing assets and troubled debt restructurings as a percentage of total assets	1.58 %	1.41 %	1.65 %	2.40 %	2.60 %

(1) Non-performing loans consist of non-accruing loans plus accruing loans 90 days or more past due.
(2) Troubled debt restructurings not included in non-accruing loans and accruing loans 90 days or more past due.

At December 31, 2017, we had eight loans totaling $714,000 that were identified as troubled debt restructurings ("TDR") and were performing in accordance with their modified terms. There was a $26,000 allowance for loan losses allocated to these loans at December 31, 2017. 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 six months and future collection under the revised terms is probable.

Classified Assets. Federal regulations require that each insured savings institution classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, federal examiners have authority to identify problem assets and, if appropriate, classify them. There are three classifications for problem assets: "substandard," "doubtful" and "loss." Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a higher possibility of loss. An asset classified loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. Another category designated "special mention" also must be established and maintained for assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification as substandard, doubtful or loss. Assets classified as substandard or doubtful require the institution to establish general allowances for loan losses. If an asset or portion thereof is classified as loss, the insured institution must either establish specific allowances for loan losses in the amount of 100% of the portion of the asset classified loss, or charge-off such amount. General loss allowances established to cover possible losses related to assets classified substandard or doubtful may be included in determining an institution's regulatory capital, while specific valuation allowances for loan losses do not qualify as regulatory capital. Federal examiners may disagree with an insured institution's classifications and amounts reserved.

Allowance for Loan Losses. At December 31, 2017, Quaint Oak Bank's allowance for loan losses amounted to $1.8 million. 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 our 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.

While management believes that it determines the amount of the allowance based on the best information available at the time, the allowance will need to be adjusted as circumstances change and assumptions are updated. Future adjustments to the allowance could significantly affect net income.

The following table shows changes in our allowance for loan losses during the periods presented.

	December 31,				
	2017	2016	2015	2014	2013
	(Dollars in Thousands)				
Total loans outstanding at end of period, net	$201,667	$176,807	$143,305	$123,331	$106,887
Average loans outstanding (1)	$187,728	$155,649	$138,328	$116,249	$93,766
Allowance for loan losses, beginning of period	$1,605	$1,313	$1,148	$941	$860
Provision for loan losses	284	292	320	394	240
Charge-offs:					
One-to-four family residential owner occupied	--	--	--	(57)	(15)
One-to-four family residential non-owner occupied	(56)	--	(110)	--	(75)
Commercial real estate	(24)	--	(21)	(133)	--
Home Equity	--	--	(45)	--	(69)
Total charge-offs	(80)	--	(176)	(190)	(159)
Recoveries on loans previously charged-off:					
Commercial real estate	3	--	21	3	--
Total recoveries	3	--	21	3	--
Allowance for loan losses, end of period	$1,812	$1,605	$1,313	$1,148	$941
Allowance for loan losses as a percent of non-performing loans	59.02 %	85.74 %	154.11 %	40.55 %	49.19 %
Ratio of net charge-offs during the period to average loans outstanding during the period	0.04 %	-- %	0.11 %	0.16 %	0.13 %

(1) Excludes loans held for sale.

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The following table shows how our allowance for loan losses is allocated by loan class at each of the dates indicated.

	December 31, 2017		2016		2015		2014		2013	
	Amount of Allowance	Loan Category as a % of Total Loans	Amount of Allowance	Loan Category as a % of Total Loans	Amount of Allowance	Loan Category as a % of Total Loans	Amount of Allowance	Loan Category as a % of Total Loans	Amount of Allowance	Loan Category as a % of Total Loans
	(Dollars in Thousands)									
One-to-four family residential owner occupied	$48	2.8 %	$41	3.0 %	$55	4.0 %	$75	5.7 %	$59	8.3 %
One-to-four family residential non-owner occupied	540	25.4	503	29.0	486	35.1	418	38.9	424	40.2
Multi-family residential	152	10.6	103	8.2	81	8.5	60	8.1	36	5.6
Commercial real estate	687	45.1	616	43.4	389	34.3	324	29.7	199	25.6
Construction	136	7.6	138	8.6	153	11.1	122	11.4	96	14.8
Home equity	27	2.5	37	2.6	50	5.1	46	5.6	50	5.3
Commercial business and other consumer	140	5.9	87	5.2	18	1.8	7	0.6	2	0.2
Unallocated	82	0.1	80	--	81	0.1	96	--	75	--
Total	$1,812	100.0 %	$1,605	100.0 %	$1,313	100.0 %	$1,148	100.0 %	$941	100.0 %

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified 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 loss 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 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 our policy to establish a specific reserve for loss on any delinquent loan when we determine that a loss is probable. An unallocated component is maintained to cover uncertainties that could affect our 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.

Investment Activities

General. We invest in securities pursuant to our investment policy, which has been approved by our Board of Directors. Our investment policy is reviewed annually by our Asset-Liability Committee (ALCO). All policy changes recommended by ALCO must be approved by the Board of Directors. ALCO is authorized by the Board to make investments consistent with the investment policy. While general investment strategies are developed and authorized by ALCO, the execution of specific actions rests with the Chief Financial Officer and the President and Chief Executive Officer.

Our investment policy is designed primarily to manage the interest rate sensitivity of our assets and liabilities, to generate a favorable return without incurring undue interest rate and credit risk, to complement our lending activities and to provide and maintain liquidity.

Our securities are classified as available for sale, held to maturity, or trading, at the time of acquisition. Securities classified as held to maturity must be purchased with the intent and ability to hold that security until its final maturity and can be sold prior to maturity only under rare circumstances. Held to maturity securities are accounted for based upon the amortized cost of the security. Available for sale securities can be sold at any time based upon our needs or market conditions. Available for sale securities are accounted for at fair value, with unrealized gains and losses on these securities, net of income tax provisions, reflected in stockholders' equity as accumulated other comprehensive income. At December 31, 2017, we had $7.9 million of securities classified as available for sale and no securities classified as held to maturity or trading.

Federal Home Loan Bank (FHLB) stock is a restricted investment security, carried at cost. The purchase of FHLB stock provides banks with the right to be a member of the FHLB and to receive the products and services that the FHLB provides to member banking institutions. Unlike other types of stock, FHLB stock is acquired primarily for the right to receive advances from the FHLB, rather than for the purpose of maximizing dividends or stock growth. FHLB stock is an activity-based stock that is directly proportional to the volume of advances taken by a member institution. The FHLB will repurchase capital stock at $1.00 per share from Quaint Oak Bank. The FHLB has paid dividends on the capital stock in each quarter of 2016 and 2017.

The following table sets forth our investment portfolio at carrying value as of the dates indicated.

	December 31,		
	2017	2016	2015
	(In Thousands)		
Interest-earning time deposits with other financial institutions	$4,879	$6,098	$6,136
Governmental National Mortgage Association mortgage-backed securities	5,643	6,590	1,990
Federal Home Loan Mortgage Corporation mortgage-backed securities	1,342	1,871	1,015
Federal National Mortgage Association securities mortgage-backed	570	740	--
Debt securities, U.S. government agency	357	354	--
FHLB of Pittsburgh stock	1,234	713	618
Total	$14,025	$16,366	$9,759

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The following table sets forth the amount of investment securities which mature during each of the periods indicated and the weighted average yields for each range of maturities at December 31, 2017.

	Amounts at December 31, 2017 Which Mature In							
	One Year or Less	Weighted Average Yield	Over One Year Through Five Years	Weighted Average Yield	Over Five Years Through Ten Years	Weighted Average Yield	Over Ten Years	Weighted Average Yield
	(Dollars in Thousands)							
Interest-earning time deposits with other financial institutions	$761	1.46 %	$4,118	1.81 %	$ --	-- %	$--	-- %
Governmental National Mortgage Association mortgage-backed securities	--	--	--	--	--	--	5,624	1.84
Federal Home Loan Mortgage Corporation mortgage-backed securities	--	--	--	--	--	--	1,377	2.23
Federal National Mortgage Association mortgage-backed securities	--	--	--	--	--	--	570	2.25
Debt securities, U.S. government agency	--	--	360	0.88	--	--	--	--
	$761	1.46 %	$4,478	1.74 %	$ --	-- %	$7,571	1.94 %

Sources of Funds

General. Deposits are the primary source of Quaint Oak Bank's funds for lending and other investment purposes. In addition to deposits, principal and interest payments on loans are a source of funds. Loan payments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may also be used on a short-term basis to compensate for reductions in the availability of funds from other sources and on a longer-term basis for general business purposes.

Deposits. Deposits are attracted by Quaint Oak Bank principally from southwestern Bucks and southeastern Montgomery Counties, northeast Philadelphia and Lehigh Valley areas of Pennsylvania, although we also attract deposits from outside our market area and the Commonwealth of Pennsylvania. Deposit account terms vary, with the principal differences being the minimum balance required, the time periods the funds must remain on deposit, and the interest rate. Quaint Oak Bank offers a variety of deposit accounts with a range of rates and terms. Our deposit accounts consist of certificates of deposit and various savings products, including non-interest bearing business and consumer checking accounts.

Quaint Oak Bank generally does not solicited deposits from outside Pennsylvania or pay fees to brokers to solicit funds for deposit. At December 31, 2017, approximately 10% of Quaint Oak Bank's total deposits were held by customers outside the Commonwealth of Pennsylvania.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Management determines the rates and terms based on rates paid by competitors, the need for funds or liquidity, growth goals and federal regulations. Management attempts to control the flow of deposits by pricing the accounts to remain generally competitive with other financial institutions in our market area.

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The following table shows the distribution of, and certain other information relating to, our deposits by type of deposit, as of the dates indicated.

	December 31,					
	2017		2016		2015	
	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)					
Certificate accounts:						
0.00% - 0.99%	$5,121	2.8 %	$12,218	6.9 %	$10,875	7.3 %
1.00% - 1.99%	86,685	46.5	77,005	43.5	70,476	47.2
2.00% - 2.99%	53,232	28.6	47,845	27.0	34,440	23.1
Total certificate accounts	145,038	77.9	137,068	77.4	115,791	77.6
Transaction accounts:						
Non-interest bearing checking accounts	7,956	4.3	5,852	3.3	2,407	1.6
Passbook accounts	463	0.2	1,189	0.7	1,185	0.8
Savings accounts	2,353	1.3	1,784	1.0	3,275	2.2
Money market accounts	30,411	16.3	31,114	17.6	26,571	17.8
Total transaction accounts	41,183	22.1	39,939	22.6	33,438	22.4
Total deposits	$186,221	100.0%	$177,007	100.0%	$149,229	100.0%

The following table shows the average balance of each type of deposit and the average rate paid on each type of deposit for the periods indicated.

	Year Ended December 31,								
	2017			2016			2015		
	Average Balance	Interest Expense	Average Rate Paid	Average Balance	Interest Expense	Average Rate Paid	Average Balance	Interest Expense	Average Rate Paid
	(Dollars in Thousands)								
Passbook accounts	$694	$1	0.14 %	$1,241	$1	0.08 %	$1,582	$2	0.13 %
Savings accounts	1,584	3	0.19	2,368	5	0.21	3,709	10	0.27
Money market accounts	32,255	258	0.80	28,669	230	0.80	23,071	178	0.77
Certificates of deposit	139,126	2,419	1.74	128,626	2,196	1.71	105,503	1,797	1.70
Total interest-bearing deposits	$173,659	$2,681	1.54 %	$160,904	$2,432	1.51 %	$133,865	$1,987	1.48 %
Non-interest bearing	$6,907	$--	-- %	$3,142	$--	-- %	$1,038	$--	-- %

deposits											
Total deposits	$180,566	$2,681	1.48	%	$164,046	$2,432	1.48	%	$134,903	$1,987	1.47	%

The following table sets forth the net deposit flows of the Company during the periods indicated.

	Year Ended December 31,		
	2017	2016	2015
	(In Thousands)		
Increase before interest credited	$6,533	$25,346	$22,849
Interest credited	2,681	2,432	1,975
Total increase in deposits	$9,214	$27,778	$24,824

The following table presents, by various interest rate categories and maturities, the amount of certificates of deposit at December 31, 2017.

	Balance at December 31, 2017 Maturing in the Twelve Months Ending December 31,				
Certificates of Deposit	2018	2019	2020	Thereafter	Total
	(In Thousands)				
0.00% - 0.99%	$5,121	$--	$--	$ --	$5,121
1.00% - 1.99%	37,774	25,673	16,233	7,005	86,685
2.00% - 2.99%	--	190	23,608	29,434	53,232
Total certificate accounts	$42,895	$25,863	$39,841	$ 36,439	$145,038

The following table shows the maturities of our certificates of deposit of $100,000 or more at December 31, 2017 by time remaining to maturity.

Quarter Ending:	Amount	Weighted Average Rate
	(Dollars in Thousands)	
March 31, 2018	$4,562	1.59 %
June 30, 2018	5,319	1.24
September 30, 2018	3,332	1.30
December 31, 2018	7,185	1.44
After December 31, 2018	53,999	1.96
Total certificates of deposit with balances of $100,000 or more	$74,397	1.81 %

Borrowings. Quaint Oak Bank may obtain advances from the Federal Home Loan Bank of Pittsburgh upon the security of the common stock it owns in that bank and certain of its residential mortgage loans and mortgage-backed and other investment securities, provided certain standards related to creditworthiness have been met. These advances are made pursuant to several credit programs, each of which has its own interest rate and range of maturities. Federal Home Loan Bank advances are generally available to meet seasonal and other withdrawals of deposit accounts and to permit increased lending.

As of December 31, 2017, Quaint Oak Bank has a maximum borrowing capacity with the Federal Home Loan Bank of approximately $115.6 million. Quaint Oak Bank's Federal Home Loan Bank advances outstanding were $28.0 million and $15.5 million at December 31, 2017 and 2016, respectively. As of December 31, 2017, Quaint Oak Bank has $535,000 in borrowing capacity with the Federal Reserve Bank of Philadelphia. There were no borrowings under this facility at December 31, 2017 and 2016.

The following table shows certain information regarding our borrowings at or for the dates indicated:

	At or For the Year Ended December 31,		
	2017	2016	2015
	(Dollars in Thousands)		
FHLB short-term borrowings:			
Average balance outstanding	$8,654	$5,692	$7,077
Maximum amount outstanding at any month-end during the period	11,500	7,000	8,000
Balance outstanding at end of period	10,000	7,000	6,000
Average interest rate during the period	1.17 %	0.54 %	0.35 %
Weighted average interest rate at end of period	1.54 %	0.74 %	0.45 %

	At or For the Year Ended December 31,		
	2017	2016	2015
	(Dollars in Thousands)		
FHLB long-term borrowings:			
Average balance outstanding	$12,278	$7,540	$5,782
Maximum amount outstanding at any month-end during the period	18,000	8,500	7,500
Balance outstanding at end of period	18,000	8,500	7,500
Average interest rate during the period	1.79 %	1.35 %	1.37 %
Weighted average interest rate at end of period	2.01 %	1.56 %	1.35 %

Total Employees

We had 73 full-time employees and one part-time employee at December 31, 2017. None of these employees are represented by a collective bargaining agreement, and we believe that the Company enjoys good relations with its personnel.

Market Area

As of December 31, 2017, our primary market area for loans and deposits is in Bucks and Montgomery Counties, Pennsylvania, northeast Philadelphia and the surrounding area and the Lehigh Valley area of Pennsylvania, although we also attract deposits from outside our market area and the Commonwealth of Pennsylvania. Our operating strategy is based on strong personal service and operating efficiency.

Quaint Oak Bank is headquartered in Southampton in Bucks County, Pennsylvania and operates one regional office in Allentown, Pennsylvania. Bucks County lies north of Philadelphia, bordering Montgomery County on the west and New Jersey to the east. In recent years, population growth has been above Pennsylvania averages in both Bucks and Montgomery Counties. We expect population growth and new housing growth will likely remain above the state average in the near term. Income and wealth demographics are also above both national and Pennsylvania averages. The Lehigh Valley area is one of the fastest growing regions in Pennsylvania due in part to its reasonable business climate and lower cost of living in comparison to its surrounding areas and states. The Lehigh Valley is particularly noteworthy for its unusually balanced and multi-faceted economy. Far from depending on a single industry, the top four sub-sectors of the regional GDP are all extremely close to one another, which ultimately means a healthier and more vibrant regional economy.

Competition

Quaint Oak Bank faces significant competition both in attracting deposits and in making loans. Its most direct competition for deposits has come historically from commercial banks, credit unions and other savings institutions located in its primary market area, including many large financial institutions which have greater financial and marketing resources available to them. In addition, Quaint Oak Bank faces significant competition for investors' funds from short-term money market securities, mutual funds and other corporate and government securities. Also, given Quaint Oak Bank's operating strategies and reliance on savings accounts and certificates of deposit, Quaint Oak Bank also faces intense competition from money market mutual funds and national savings products. Quaint Oak Bank does not rely upon any individual group or entity for a material portion of its deposits. The ability of Quaint Oak Bank to attract and retain deposits depends on its ability to generally provide a rate of return, liquidity and risk comparable to that offered by competing investment opportunities.

Quaint Oak Bank's competition for real estate loans comes principally from mortgage banking companies, commercial banks, other savings institutions and credit unions. Quaint Oak Bank competes for loan originations primarily through the interest rates and loan fees it charges, and the efficiency and quality of services it provides borrowers. Factors that affect competition include general and local economic conditions, current interest rate levels and volatility in the mortgage markets.

REGULATION

Regulation of Quaint Oak Bancorp

General. Quaint Oak Bancorp is subject to regulation as a savings and loan holding company under the Home Owners' Loan Act, as amended, because we made an election under Section 10(l) of the Home Owners' Loan Act to be treated as a "savings association" for purposes of Section 10 of the Home Owners' Loan Act. As a result, Quaint Oak Bancorp is currently regulated by the Federal Reserve Board and is subject to the regulations, examinations, supervision and reporting requirements relating to savings and loan holding companies. Quaint Oak Bancorp is also required to file certain reports with, and otherwise comply with the rules and regulations of, the Pennsylvania Department of Banking and Securities and the Securities and Exchange Commission. As a subsidiary of a savings and loan holding company, Quaint Oak Bank is subject to certain restrictions in its dealings with Quaint Oak Bancorp and affiliates thereof, including the Federal Reserve Board's Qualified Thrift Lender test, dividend restrictions and transactions with affiliates regulations.

In the last several years, Quaint Oak Bancorp has experienced heightened regulatory requirements and scrutiny following the global financial crisis and as a result of the enactment in 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). Resulting reforms have caused Quaint Oak Bancorp's compliance and risk management processes, and the costs thereof, to increase. While it is anticipated that the Trump administration will not increase the regulatory burden on community banks and may reduce some of the burdens associated with implementation of the Dodd-Frank Act, we are unable to predict the actual impact of this administration's policies regarding the Dodd-Frank Act reforms with any certainty.

Restrictions Applicable to Quaint Oak Bancorp. As a non-grandfathered savings and loan holding company, Quaint Oak Bancorp is permitted to engage only in the following activities:

furnishing or performing management services for a subsidiary savings institution;

conducting an insurance agency or escrow business;

holding, managing, or liquidating assets owned or acquired from a subsidiary savings institution;

holding or managing properties used or occupied by a subsidiary savings institution;

acting as trustee under a deed of trust;

any other activity (i) that the Federal Reserve Board, by regulation, has determined to be permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act of 1956, unless the Federal Reserve Board, by regulation, prohibits or limits any such activity for savings and loan holding companies, or (ii) in which multiple savings and loan holding companies were authorized by regulation to directly engage in on March 5, 1987;

purchasing, holding, or disposing of stock acquired in connection with a qualified stock issuance if the purchase of such stock by such holding company is approved by the Federal Reserve Board; and any activity permissible for financial holding companies under section 4(k) of the Bank Holding Company Act.

Permissible activities which are deemed to be financial in nature or incidental thereto under section 4(k) of the Bank Holding Company Act include:

lending, exchanging, transferring, investing for others, or safeguarding money or securities;

insurance activities or providing and issuing annuities, and acting as principal, agent, or broker;

financial, investment, or economic advisory services;

issuing or selling instruments representing interests in pools of assets that a bank is permitted to hold directly;

underwriting, dealing in, or making a market in securities;

activities previously determined by the Federal Reserve Board to be closely related to banking;

activities that bank holding companies are permitted to engage in outside of the U.S.; and

portfolio investments made by an insurance company.

In addition, Quaint Oak Bancorp cannot be acquired unless the acquirer is engaged solely in financial activities or acquire a company unless the company is engaged solely in financial activities.

If a savings and loan holding company acquires or merges with another holding company, the holding company acquired or the holding company resulting from such merger or acquisition may only invest in assets and engage in the activities listed above, and it has a period of two years to cease any non-conforming activities and divest any non-conforming investments. As of December 31, 2017, Quaint Oak Bancorp was not engaged in any non-conforming activities and it did not have any non-conforming investments.

If the subsidiary savings association fails to meet the Qualified Thrift Lender test set forth in Section 10(m) of the Home Owners' Loan Act, as discussed below, then the savings and loan holding company must register with the Federal Reserve Board as a bank holding company, unless the savings institution requalifies as a Qualified Thrift Lender within one year thereafter.

Qualified Thrift Lender Test. A savings association can comply with the Qualified Thrift Lender test by either meeting the Qualified Thrift Lender test set forth in the Home Owners' Loan Act and implementing regulations or qualifying as a domestic building and loan association as defined in Section 7701(a)(19) of the Internal Revenue Code of 1986, as amended. Currently the Qualified Thrift Lender test in the Home Owners' Loan Act requires that 65% of an institution's portfolio assets (as defined) consist of certain housing and consumer-related assets on a monthly average basis in nine out of every twelve months. To be a Qualified Thrift Lender under the IRS test, the savings institution must meet the "business operations test" and a "60 percent assets test", each defined in the Internal Revenue Code. A savings association subsidiary of a savings and loan holding company that does not comply with the Qualified Thrift Lender test is immediately subject to the following restrictions on its operations:

the institution may not engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment is permissible for both a national bank and a savings association;

the branching powers of the institution shall be restricted to those of a national bank; and

payment of dividends by the institution shall be subject to the rules regarding payment of dividends by a national bank and must be necessary to meet the obligations of its holding company.

Upon the expiration of three years from the date the institution ceases to meet the Qualified Thrift Lender test, it must cease any activity and not retain any investment not permissible for both a national bank and a savings association (subject to safety and soundness considerations). A savings institution not in compliance with the Qualified Thrift Lender test is also subject to an enforcement action for violation of the Home Owners' Loan Act, as amended.

Quaint Oak Bank believes that it meets the provisions of the Qualified Thrift Lender test and for the year ended December 31, 2017, 90% of its portfolio assets meet the requirements.

Regulatory Capital Requirements. The Federal Reserve Board has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a savings and loan holding company and in analyzing applications to it under the Savings and Loan Holding Company Act. The Federal Reserve Board's capital adequacy guidelines for Quaint Oak Bancorp, on a consolidated basis, are similar to those imposed on Quaint Oak Bank by the Federal Deposit Insurance Corporation. See "-Regulation of Quaint Oak Bank - Capital Requirements." Moreover, certain of the savings and loan holding company capital requirements promulgated by the Federal Reserve Board in 2013 became effective as of January 1, 2015. Those requirements establish four minimum capital ratios that Quaint Oak Bancorp had to comply with as of that date. However, in May 2015, amendments to the Federal Reserve Board's small bank holding company policy statement (the "SBHC Policy") (which also applies to small savings and loan holding companies) became effective which increased the asset threshold to qualify to utilize the provisions of the SBHC Policy from $500 million to $1.0 billion. Savings and loan holding companies which are subject to the SBHC Policy are not subject to compliance with the regulatory capital requirements set forth in the table below until they exceed $1.0 billion in assets. As a consequence, as of December 31, 2017, Quaint Oak Bancorp was not required to comply with the requirements until such time that its consolidated total assets exceed $1.0 billion or the Federal Reserve Board determines that Quaint Oak Bancorp is no longer deemed to be a small savings and loan holding company. However, if Quaint Oak Bancorp had been subject to the requirements, it would have been in compliance with such requirements.

Limitations on Transactions with Affiliates. Transactions between savings associations and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act as made applicable to savings associations by Section 11 of the Home Owners' Loan Act. An affiliate of a savings association includes any company or entity which controls the savings association or that is controlled by a company that controls the savings association. In a holding company context, the holding company of a savings association (such as Quaint Oak Bancorp) and any companies which are controlled by such holding company are affiliates of the savings association. Generally, Section 23A limits the extent to which the savings association or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such association's capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. Section 23B applies to "covered transactions" as well as certain other transactions and requires that all transactions be on terms substantially the same, or at least as favorable, to the savings association as those provided to a non-affiliate. The term "covered transaction" includes the making of loans to, purchase of assets from and issuance of a guarantee to an affiliate and similar transactions. Section 23B transactions also include the provision of services and the sale of assets by a savings association to an affiliate. In addition to the restrictions imposed by Sections 23A and 23B, Section 11 of the Home Owners' Loan Act prohibits a savings association from (i) making a loan or other extension of credit to an affiliate, except for any affiliate which engages only in certain activities which are permissible for bank holding companies, or (ii) purchasing or investing in any stocks, bonds, debentures, notes or similar obligations of any affiliate, except for affiliates which are subsidiaries of the savings association.

In addition, Sections 22(g) and (h) of the Federal Reserve Act as made applicable to savings associations by Section 11 of the Home Owners' Loan Act, place restrictions on loans to executive officers, directors and principal stockholders of the savings association and its affiliates. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% stockholder of a savings association, and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, the savings association's loans to one borrower limit (generally equal to 15% of the association's unimpaired capital and surplus). Section 22(h) also requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the association and (ii) does not give preference to any director, executive officer or principal stockholder, or certain affiliated interests of either, over other employees of the savings association. Section 22(h) also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a savings association to all insiders cannot exceed the association's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers. As an insured state-chartered savings bank, Quaint Oak Bank currently is subject to Sections 22(g) and (h) of the Federal Reserve Act and at December 31, 2017, was in compliance with the above restrictions.

Restrictions on Acquisitions. Except under limited circumstances, savings and loan holding companies are prohibited from acquiring, without prior approval of the Federal Reserve Board, (i) control of any other savings association or savings and loan holding company or substantially all the assets thereof or (ii) more than 5% of the voting shares of a savings association or holding company thereof which is not a subsidiary. Except with the prior approval of the Federal Reserve Board, no director or officer of a savings and loan holding company or person owning or controlling by proxy or otherwise more than 25% of such company's stock, may acquire control of any savings association, other than a subsidiary savings association, or of any other savings and loan holding company.

The Federal Reserve Board may only approve acquisitions resulting in the formation of a multiple savings and loan holding company which controls savings associations in more than one state if (i) the multiple savings and loan holding company involved controls a savings association which operated a home or branch office located in the state of the association to be acquired as of March 5, 1987; (ii) the acquirer is authorized to acquire control of the savings association pursuant to the emergency acquisition provisions of the Federal Deposit Insurance Act ; or (iii) the statutes of the state in which the association to be acquired is located specifically permit associations to be acquired by the state-chartered associations or savings and loan holding companies located in the state where the acquiring entity is located (or by a holding company that controls such state-chartered savings associations).

Federal Securities Laws. Quaint Oak Bancorp's common stock is registered with the Securities and Exchange Commission under Section 12(g) of the Securities Exchange Act of 1934, as amended. Quaint Oak Bancorp is subject to information, proxy solicitation, insider trading restrictions, and other requirements under the Securities Exchange Act of 1934.

The Sarbanes-Oxley Act. As a public company, Quaint Oak Bancorp is subject to the Sarbanes-Oxley Act of 2002 which addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our principal executive officer and principal financial officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

Volcker Rule Regulations. Regulations were adopted in 2013 by the federal banking agencies to implement the provisions of the Dodd Frank Act commonly referred to as the Volcker Rule. The regulations contain prohibitions and restrictions on the ability of financial institutions holding companies and their affiliates to engage in proprietary trading and to hold certain interests in, or to have certain relationships with, various types of investment funds, including hedge funds and private equity funds. The regulations became effective on April 1, 2014 with full compliance being phased in over a period ending on July 21, 2015. Quaint Oak's investment portfolio is in compliance with the Volcker Rule regulations as of December 31, 2017.

Regulation of Quaint Oak Bank

Pennsylvania Banking Law. The Pennsylvania Banking Code contains detailed provisions governing the organization, location of offices, rights and responsibilities of directors, officers and employees, as well as corporate powers, savings and investment operations and other aspects of Quaint Oak Bank and its affairs. The Pennsylvania Banking Code delegates extensive rulemaking power and administrative discretion to the Pennsylvania Department of Banking and Securities so that the supervision and regulation of state-chartered savings banks may be flexible and readily responsive to changes in economic conditions and in savings and lending practices.

One of the purposes of the Pennsylvania Banking Code is to provide savings banks with the opportunity to be competitive with each other and with other financial institutions existing under other Pennsylvania laws and other state, federal and foreign laws. A Pennsylvania savings bank may locate or change the location of its principal place of business and establish an office anywhere in the Commonwealth, with the prior approval of the Pennsylvania Department of Banking and Securities.

The Pennsylvania Department of Banking and Securities generally examines each savings bank not less frequently than once every two years. Although the Pennsylvania Department of Banking and Securities may accept the examinations and reports of the Federal Deposit Insurance Corporation in lieu of its own examination, the present practice is for the Pennsylvania Department of Banking and Securities to conduct individual examinations. The Pennsylvania Department of Banking and Securities may order any savings bank to discontinue any violation of law or unsafe or unsound business practice and may direct any director, trustee, officer, attorney or employee of a savings bank engaged in an objectionable activity, after the Pennsylvania Department of Banking and Securities has ordered the activity to be terminated, to show cause at a hearing before the Pennsylvania Department of Banking and Securities why such person should not be removed.

Insurance of Accounts. The deposits of Quaint Oak Bank are insured to the maximum extent permitted by the Deposit Insurance Fund, administered by the Federal Deposit Insurance Corporation, and are backed by the full faith and credit of the U.S. Government. The 2010 financial institution reform legislation permanently increased deposit insurance on most accounts to $250,000. As insurer, the Federal Deposit Insurance Corporation is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the Federal Deposit Insurance Corporation.

The Dodd Frank Act raises the minimum reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% and requires the FDIC to offset the effect of this increase on insured institutions with assets of less than $10 billion (small institutions). In March 2016, the FDIC adopted a rule to accomplish this by imposing a surcharge on larger institutions commencing when the reserve ratio reaches 1.15% and ending when it reaches 1.35%. The reserve ratio reached 1.15% effective as of June 30, 2016. The surcharge period began effective July 1, 2016 and is expected to end by December 31, 2018. Small institutions will receive credits for the portion of their regular assessments that contributed to growth in the reserve ratio between 1.15% and 1.35%. The credits will apply to reduce regular assessments by 2.0 basis points for quarters when the reserve ratio is at least 1.38%.

Effective July 1, 2016, the FDIC adopted changes that eliminated its risk-based premium system. Under the new premium system, the FDIC assesses deposit insurance premiums on the assessment base of a depository institution, which is its average total assets reduced by the amount of its average tangible equity. For a small institution (one with assets of less than $10 billion) that has been federally insured for at least five years, effective July 1, 2016, the initial base assessment rate ranges from 3 to 30 basis points, based on the institution's CAMELS composite and component ratings and certain financial ratios; its leverage ratio; its ratio of net income before taxes to total assets; its ratio of nonperforming loans and leases to gross assets; its ratio of other real estate owned to gross assets; its brokered deposits ratio (excluding reciprocal deposits if the institution is well capitalized and has a CAMELS composite rating of 1 or 2); its one year asset growth ratio (which penalizes growth adjusted for mergers in excess of 10%); and its loan mix index (which penalizes higher risk loans based on historical industry charge off rates). The initial base assessment rate is subject to downward adjustment (not below 1.5%) based on the ratio of unsecured debt the institution has issued to its assessment base, and to upward adjustment (which can cause the rate to exceed 30 basis points) based on its holdings of unsecured debt issued by other insured institutions. Institutions with assets of $10 billion or more are assessed using a scorecard method.

In addition, all institutions with deposits insured by the Federal Deposit Insurance Corporation are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize a predecessor to the Deposit Insurance Fund. The assessment rate is adjusted quarterly. These assessments will continue until the Financing Corporation bonds mature in 2019.

The Federal Deposit Insurance Corporation may terminate the deposit insurance of any insured depository institution, including Quaint Oak Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the Federal Deposit Insurance Corporation. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the Federal Deposit Insurance Corporation. Management is aware of no existing circumstances which would result in termination of Quaint Oak Bank's deposit insurance.

Basel III and Dodd-Frank Act Regulatory Capital Regulations. In July of 2013 the respective U.S. federal banking agencies issued final rules implementing Basel III and the Dodd-Frank Act capital requirements to be fully-phased in on a global basis on January 1, 2019. The regulations established a new tangible common equity capital requirement, increase the minimum requirement for the current Tier 1 risk-weighted asset ("RWA") ratio, phase out certain kinds of intangibles treated as capital and certain types of instruments and change the risk weightings of certain assets used to determine required capital ratios. The common equity Tier 1 capital component requires capital of the highest quality – predominantly composed of retained earnings and common stock instruments. For community banks, such as Quaint Oak Bank, a common equity Tier 1 capital ratio of 4.5% became effective on January 1, 2015. The capital rules also increased the current minimum Tier 1 capital ratio from 4.0% to 6.0% beginning on January 1, 2015. In addition, in order to make capital distributions and pay discretionary bonuses to executive officers without restriction, an institution must also maintain greater than 2.5% in common equity attributable to a capital conservation buffer to be phased in from January 1, 2016 until January 1, 2019. The rules also increase the risk weights for several categories of assets, including an increase from 100% to 150% for certain acquisition, development and construction loans and more than 90-day past due exposures. The capital rules maintain the general structure of the prompt corrective action rules (described below), but incorporate the new common equity Tier 1 capital requirement and the increased Tier 1 RWA requirement into the prompt corrective action framework.

Regulatory Capital Requirements. Federally insured state-chartered non-member banks and savings banks are required to maintain minimum levels of regulatory capital. Current Federal Deposit Insurance Corporation capital standards require these institutions to satisfy a common equity Tier 1 capital requirement, a leverage capital requirement and a risk-based capital requirement. The common equity Tier 1 capital component generally consists of retained earnings and common stock instruments and must equal at least 4.5% of risk-weighted assets. Leverage capital, also known as "core" capital, must equal at least 3.0% of adjusted total assets for the most highly rated state-chartered non-member banks and savings banks. Core capital generally consists of common stockholders' equity (including retained earnings). An additional cushion of at least 100 basis points is required for all other institutions, which effectively increases their minimum Tier 1 leverage ratio to 4.0% or more. Under the Federal Deposit Insurance Corporation's regulations, the most highly-rated banks are those that the Federal Deposit Insurance Corporation determines are strong banking organization and are rated composite 1 under the Uniform Financial Institutions Rating System. Under the risk-based capital requested, "total" capital (a combination of core and "supplementary" capital) must equal at least 8.0% of "risk-weighted" assets. The Federal Deposit Insurance Corporation also is authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

In determining compliance with the risk-based capital requirement, a savings bank is allowed to include both core capital and supplementary capital in its total capital, provided that the amount of supplementary capital included does not exceed the savings bank's core capital. Supplementary capital generally consists of general allowances for loan losses up to a maximum of 1.25% of risk-weighted assets, together with certain other items. In determining the required amount of risk-based capital, total assets, including certain off-balance sheet items, are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights range from 0% for cash and securities issued by the U.S. Government or unconditionally backed by the full faith and credit of the U.S. Government to 100% for loans (other than qualifying residential loans weighted at 80%) and repossessed assets.

Savings banks must value securities available for sale at amortized cost for regulatory capital purposes. This means that in computing regulatory capital, savings banks should add back any unrealized losses and deduct any unrealized gains, net of income taxes, on debt securities reported as a separate component of capital, as defined by generally accepted accounting principles.

Any savings bank that fails any of the capital requirements is subject to possible enforcement action by the Federal Deposit Insurance Corporation. Such action could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on the institution's operations, termination of federal deposit insurance and the appointment of a conservator or receiver. The Federal Deposit Insurance Corporation's capital regulations provide that such actions, through enforcement proceedings or otherwise, could require one or more of a variety of corrective actions.

At December 31, 2017, Quaint Oak Bank's capital ratios exceeded each of its capital requirements. See Note 16 to the notes to our financial statements included in Exhibit 13.0 hereto.

Pennsylvania Department of Banking and Securities Capital Requirements. Quaint Oak Bank is also subject to more stringent Pennsylvania Department of Banking and Securities capital guidelines. Although not adopted in regulation form, the Pennsylvania Department of Banking and Securities utilizes capital standards requiring a minimum of 6% leverage capital and 10% risk-based capital. The components of leverage and risk-based capital are substantially the same as those defined by the Federal Deposit Insurance Corporation. At December 31, 2017, Quaint Oak Bank's capital ratios exceeded each of its capital requirements.

Prompt Corrective Action. The following table shows the amount of capital associated with the different capital categories set forth in the prompt corrective action regulations.

Capital Category	Total Risk-Based Capital	Tier 1 Risk-Based Capital	Tier 1 Common Equity Capital	Tier 1 Leverage Capital
Well capitalized	10% or more	8% or more	6.5% or more	5% or more
Adequately capitalized	8% or more	6% or more	4.5% or more	4% or more
Undercapitalized	Less than 8%	Less than 6%	Less than 4.5%	Less than 4%
Significantly undercapitalized	Less than 6%	Less than 4%	Less than 3%	Less than 3%

In addition, an institution is "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Under specified circumstances, a federal banking agency may reclassify a well-capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category (except that the Federal Deposit Insurance Corporation may not reclassify a significantly undercapitalized institution as critically undercapitalized).

An institution generally must file a written capital restoration plan which meets specified requirements within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. A federal banking agency must provide the institution with written notice of approval or disapproval within 60 days after receiving a capital restoration plan, subject to extensions by the agency. An institution which is required to submit a capital restoration plan must concurrently submit a performance guaranty by each company that controls the institution. In addition, undercapitalized institutions are subject to various regulatory restrictions, and the appropriate federal banking agency also may take any number of discretionary supervisory actions.

At December 31, 2017, Quaint Oak Bank was deemed a well-capitalized institution for purposes of the prompt corrective regulations and as such is not subject to the above mentioned restrictions.

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Activities and Investments of Insured State-Chartered Savings Banks. The activities and equity investments of Federal Deposit Insurance Corporation-insured, state-chartered savings banks are generally limited to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank is not prohibited from, among other things:

acquiring or retaining a majority interest in a subsidiary;

investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets;

acquiring up to 10% of the voting stock of a company that solely provides or reinsures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions; and

acquiring or retaining the voting shares of a depository institution if certain requirements are met.

The Federal Deposit Insurance Corporation has adopted regulations pertaining to the other activity restrictions imposed upon insured state banks and their subsidiaries. Pursuant to such regulations, insured state banks engaging in impermissible activities may seek approval from the Federal Deposit Insurance Corporation to continue such activities. State banks not engaging in such activities but that desire to engage in otherwise impermissible activities either directly or through a subsidiary may apply for approval from the Federal Deposit Insurance Corporation to do so; however, if such bank fails to meet the minimum capital requirements or the activities present a significant risk to the Deposit Insurance Fund, such application will not be approved by the Federal Deposit Insurance Corporation. Pursuant to this authority, the Federal Deposit Insurance Corporation has determined that investments in certain majority-owned subsidiaries of insured state banks do not represent a significant risk to the deposit insurance funds. Investments permitted under that authority include real estate activities and securities activities.

Restrictions on Capital Distributions. Federal Reserve Board and Federal Deposit Insurance Corporation regulations govern capital distributions by savings institutions, which include cash dividends, stock repurchases and other transactions charged to the capital account of a savings institution to make capital distributions. These regulations apply to Quaint Oak Bancorp because Quaint Oak Bank is considered a savings association for certain purposes under Home Owners' Loan Act, as amended. Under applicable regulations, a savings association must file an application for Federal Deposit Insurance Corporation approval of the capital distribution if:

the total capital distributions for the applicable calendar year exceed the sum of the institution's net income for that year to date plus the institution's retained net income for the preceding two years;

the institution would not be at least adequately capitalized following the distribution;

the distribution would violate any applicable statute, regulation, agreement or Federal Deposit Insurance Corporation-imposed condition; or

the institution is not eligible for expedited treatment of its filings with the Federal Deposit Insurance Corporation.

If an application is not required to be filed, state savings banks that elect to be treated as savings associations such as Quaint Oak Bank must still file a notice with the Federal Deposit Insurance Corporation at least 30 days before the board of directors declares a dividend or approves a capital distribution if either (1) the institution would not be well-capitalized following the distribution; or (2) the proposed distribution would reduce the amount or retire any part of its common or preferred stock or retire any part of a debt instrument included in its regulatory capital. In addition, a savings institution, such as Quaint Oak Bank, that is the subsidiary of a stock saving and loan holding company, must also file a notice with the appropriate Federal Reserve Bank at least 30 days before the proposed declaration of a dividend by its board of directors.

A savings association that either before or after a proposed capital distribution fails to meet its then applicable minimum capital requirement or that has been notified that it needs more than normal supervision may not make any capital distributions without the prior written approval of the Federal Deposit Insurance Corporation. In addition, the Federal Deposit Insurance Corporation may prohibit a proposed capital distribution, which would otherwise be permitted by Federal Deposit Insurance Corporation regulations, if the Federal Deposit Insurance Corporation determines that such distribution would constitute an unsafe or unsound practice.

The Federal Deposit Insurance Corporation prohibits an insured depository institution from paying dividends on its capital stock or interest on its capital notes or debentures (if such interest is required to be paid only out of net profits) or distributing any of its capital assets while it remains in default in the payment of any assessment due the Federal Deposit Insurance Corporation. Quaint Oak Bank is currently not in default in any assessment payment to the Federal Deposit Insurance Corporation.

Privacy Requirements of the Gramm-Leach-Bliley Act. Federal law places limitations on financial institutions like Quaint Oak Bank regarding the sharing of consumer financial information with unaffiliated third parties. Specifically, these provisions require all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of personal financial information with unaffiliated third parties. Quaint Oak Bank currently has a privacy protection policy in place and believes such policy is in compliance with the regulations.

Consumer Financial Services. The historical structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly with the establishment of the Consumer Financial Protection Bureau ("CFPB") as part of the Dodd-Frank Act reforms. On July 21, 2011, the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including Quaint Oak Bank, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. FDIC-insured institutions with $10 billion or less in assets, like Quaint Oak Bank, continue to be examined by their applicable bank regulators.

Anti-Money Laundering. Federal anti-money laundering rules impose various requirements on financial institutions intended to prevent the use of the U.S. financial system to fund terrorist activities. These provisions include a requirement that financial institutions operating in the United States have anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such compliance programs supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations. Quaint Oak Bank has established policies and procedures to ensure compliance with the federal anti-laundering provisions.

Regulatory Enforcement Authority. The federal banking laws provide substantial enforcement powers available to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

Community Reinvestment Act. All insured depository institutions have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. An institution's failure to comply with the provisions of the Community Reinvestment Act could result in restrictions on its activities. Quaint Oak Bank received a "satisfactory" Community Reinvestment Act rating in its most recently completed examination.

Federal Home Loan Bank System. Quaint Oak Bank is a member of the Federal Home Loan Bank of Pittsburgh, which is one of 12 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the Federal Home Loan Bank.

As a member, Quaint Oak Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Pittsburgh in an amount in accordance with the Federal Home Loan Bank's capital plan and sufficient to ensure that the Federal Home Loan Bank remains in compliance with its minimum capital requirements. At December 31, 2017, Quaint Oak Bank was in compliance with this requirement.

Federal Reserve Board System. The Federal Reserve Board requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts, which are primarily checking and NOW accounts, and non-personal time deposits. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy the liquidity requirements that are imposed by the Pennsylvania Department of Banking and Securities. At December 31, 2017, Quaint Oak Bank was in compliance with these reserve requirements.

TAXATION

Federal Taxation

General. Quaint Oak Bancorp and Quaint Oak Bank are subject to federal income tax provisions of the Internal Revenue Code of 1986, as amended, in the same general manner as other corporations with some exceptions listed below. For federal income tax purposes, Quaint Oak Bancorp files a consolidated federal income tax return with its wholly owned subsidiaries on a fiscal year basis. The applicable federal income tax expense or benefit will be properly allocated to each entity based upon taxable income or loss calculated on a separate company basis.

Method of Accounting. For federal income tax purposes, income and expenses are reported on the accrual method of accounting and Quaint Oak Bancorp files its federal income tax return using a December 31 fiscal year end.

Bad Debt Reserves. The Small Business Job Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings institutions, effective for taxable years beginning after 1995. Prior to that time, Quaint Oak Bank was permitted to establish a reserve for bad debts and to make additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at taxable income. As a result of the Small Business Job Protection Act, savings associations must use the specific charge-off method in computing their bad debt deduction beginning with their 1996 federal tax return.

Taxable Distributions and Recapture. Prior to the Small Business Job Protection Act, bad debt reserves created prior to January 1, 1988 were subject to recapture into taxable income if a savings bank failed to meet certain thrift asset and definitional tests. New federal legislation eliminated these thrift related recapture rules. However, under current law, pre-1988 reserves remain subject to recapture should a savings bank make certain non-dividend distributions or cease to maintain a savings bank charter. At December 31, 2017, Quaint Oak Bank did not have federal pre-1988 reserves subject to recapture.

Minimum Tax. The Internal Revenue Code imposes an alternative minimum tax ("AMT") at a rate of 20% on a base of regular taxable income plus certain tax preferences ("alternative minimum taxable income" or "AMTI"). The AMT is payable to the extent such AMTI is in excess of an exemption amount. Net operating losses can offset no more than 90% of AMTI. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. Quaint Oak Bancorp has not been subject to the AMT nor does it have any such amounts available as credits for carryover.

Corporate Dividends Received Deduction. Quaint Oak Bancorp may exclude from income 100% of dividends received from a member of the same affiliated group of corporations. The corporate dividends received deduction is 80% in the case of dividends received from corporations, which a corporate recipient owns less than 80%, but at least 20% of the distribution corporation. Corporations that own less than 20% of the stock of a corporation distributing a dividend may deduct only 70% of dividends received.

Other Matters. The Company is no longer subject to examination by taxing authorities for the years before January 1, 2014.

State and Local Taxation

Pennsylvania Taxation. Quaint Oak Bancorp is subject to the Pennsylvania Corporate Net Income Tax. The Corporation Net Income Tax rate for 2017 is 9.99% and is imposed on unconsolidated taxable income for federal purposes with certain adjustments.

Quaint Oak Bank is subject to tax under the Pennsylvania Mutual Thrift Institutions Tax Act (the "MTIT"), as amended to include thrift institutions having capital stock. Pursuant to the MTIT, the tax rate is 11.5%. The MTIT exempts Quaint Oak Bank from other taxes imposed by the Commonwealth of Pennsylvania for state income tax purposes and from all local taxation imposed by political subdivisions, except taxes on real estate and real estate transfers. The MTIT is a tax upon net earnings, determined in accordance with U.S. generally accepted accounting principles with certain adjustments. The MTIT, in computing income under U.S. generally accepted accounting principles, allows for the deduction of interest earned on state and federal obligations, while disallowing a percentage of thrift's interest expense deduction in the proportion of interest income on those securities to the overall interest income of Quaint Oak Bank. Net operating losses, if any, thereafter can be carried forward three years for MTIT purposes.

Item 1A. Risk Factors.

Not applicable.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The following table provides certain information as of December 31, 2017 with respect to our main office located in Southampton, Pennsylvania, our regional office, mortgage banking, real estate sales and title abstract property in Allentown, Pennsylvania and our insurance agency office in Chalfont, Pennsylvania.

Description/Address	Leased/Owned	Date of Lease Expiration	Net Book Value of Property	Amount of Deposits
			(In Thousands)	
501-503 Knowles Avenue Southampton, Pennsylvania 18966	Leased	11/30/2021(1)	$163	$ 131,330
1710 Union Boulevard Allentown, Pennsylvania 18019	Owned	NA	1,395	54,891
4275 County Line Road (Suite #14) Chalfont, Pennsylvania 18914	Leased	5/31/2027(2)	--	Not applicable

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(1) Such lease has a five year renewal option which would commence on December 1, 2021 and end on November 30, 2026.

(2) Such lease has a five year renewal option which would commence on June 1, 2027 and end on May 31, 2032.

Item 3. Legal Proceedings.

Quaint Oak Bancorp is not involved in any legal proceedings except nonmaterial litigation incidental to the ordinary course of business.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Quaint Oak Bancorp's common shares trade on the OTCQX, the OTC market tier for companies that report to the SEC or a U.S. banking or insurance regulator, under the symbol "QNTO." Presented below are the quarterly high and low sales prices for Quaint Oak Bancorp's common shares for 2017 and 2016. Such prices do not include retail financial markups, markdowns or commissions. Information relating to prices has been obtained from the OTC Markets Group Inc.

Quarter ended:	High	Low	Cash dividends per share
December 31, 2017	$13.30	$12.51	$ 0.05
September 30, 2017	$13.00	$12.51	$ 0.05
June 30, 2017	$13.24	$12.81	$ 0.05
March 31, 2017	$12.81	$12.00	$ 0.04

Quarter ended:	High	Low	Cash dividends per share
December 31, 2016	$12.10	$11.60	$ 0.04
September 30, 2016	$12.00	$11.70	$ 0.04
June 30, 2016	$12.00	$11.70	$ 0.04
March 31, 2016	$12.10	$11.55	$ 0.0375

As of March 20, 2018 Quaint Oak Bancorp had 1,958,049 common shares outstanding held of record by 163 shareholders. The number of shareholders does not reflect the number of persons or entities who may hold stock in nominee or "street" name through brokerage firms or others.

(b) Not applicable.

(c) Purchases of Equity Securities

Quaint Oak Bancorp's repurchases of its common stock made during the quarter ended December 31, 2017, including stock-for-stock option exercises of outstanding stock options, 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)
October 1, 2017 – October 31, 2017	--	$ --	--	23,344
November 1, 2017 – November 30, 2017	2,030	13.23	--	23,344
December 1, 2017 – December 31, 2017	--	--	--	23,344
Total	2,030	$ 13.23	--	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 6. Selected Financial Data.

The information required herein is incorporated by reference from page 1 of the Annual Report attached hereto as Exhibit 13.0 ("Annual Report").

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information required herein is incorporated by reference from pages 2 to 14 of the Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company (as defined) we are not required to provide this information.

Item 8. Financial Statements and Supplementary Data.

The information required herein is incorporated by reference from pages 15 to 58 of the Annual Report.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not Applicable.

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Item 9A. Controls and Procedures.

(a) 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 December 31, 2017. Based on their evaluation of Quaint Oak Bancorp's disclosure controls and procedures, Quaint Oak Bancorp'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 Quaint Oak Bancorp 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.

(b) Management's Annual Report on Internal Control over Financial Reporting

Management of Quaint Oak Bancorp is responsible for establishing and maintaining an adequate system of internal control over financial reporting. An adequate system of internal control encompasses the processes and procedures that have been established by management to:

Maintain records that accurately reflect Quaint Oak Bancorp's transactions;

Prepare financial statements and footnote disclosures in accordance with GAAP that can be relied upon by external users;

Prevent and detect unauthorized acquisition, use or disposition of Quaint Oak Bancorp's assets that could have a material effect of the financial statements.

Management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of Quaint Oak Bancorp's controls over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on our evaluation under the framework in Internal Control – Integrated Framework, management concluded that Quaint Oak Bancorp's internal control over financial reporting was effective as of December 31, 2017. Furthermore, during the conduct of its assessment, management identified no material weakness in its financial reporting control system.

(c) 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 fourth fiscal quarter of fiscal 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors and Executive Officers and Corporate Governance.

The information required herein is incorporated by reference from the information contained in the sections captioned "Information with Respect to Nominees for Director, Continuing Directors and Executive Officers" and "Beneficial Ownership of Common Stock by Certain Owners and Management – Section 16(a) Beneficial Ownership Reporting Compliance" in Quaint Oak Bancorp's definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 9, 2018 (the "Proxy Statement"), a copy of which will be filed with the Securities and Exchange Commission.

Quaint Oak Bancorp has adopted a Code of Conduct and Ethics that applies to its principal executive officer and principal financial officer, as well as other officers and employees of Quaint Oak Bancorp and Quaint Oak Bank. A copy of the Code of Ethics is available on the Company's website at www.quaintoak.com.

Item 11. Executive Compensation.

The information required herein is incorporated by reference from the information contained in the sections captioned "Information with Respect to Nominees for Director, Continuing Directors and Executive Officers – Director Compensation" and "Executive Compensation" in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required herein is incorporated by reference from the information contained in the section captioned "Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management" in the Proxy Statement.

Equity Compensation Plan Information. The following table provides information as of December 31, 2017 with respect to shares of common stock that may be issued under our existing equity compensation plans, which consist of the 2008 Stock Option Plan, 2008 Recognition and Retention Plan, and the 2013 Stock Incentive Plan. All of these plans were approved by our shareholders.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted-average exercise price of outstanding options, warrants and rights (b)		Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	275,363	(1)	$ 6.78	(1)	83,956
Equity compensation plans not approved by security holders	--		--		--
Total	275,363		$ 6.78		83,956

(1) Includes 10,061 shares subject to restricted stock grants which were not vested as of December 31, 2017. The weighted-average exercise price excludes such restricted stock grants.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required herein is incorporated by reference from the information contained in the section captioned "Information with Respect to Nominees for Director, Continuing Directors and Executive Officers – Transactions with Certain Related Persons" in the Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required herein is incorporated by reference from the information contained in the section captioned "Ratification of Appointment of Independent Registered Public Accounting Firm – Audit Fees" in the Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) (1) The following financial statements are incorporated by reference from Item 8 hereof (see Exhibit 13.0):

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2017 and 2016
Consolidated Statements of Income for the Years Ended December 31, 2017 and 2016
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017 and 2016
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2017 and 2016
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017 and 2016
Notes to Consolidated Financial Statements

(2) All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

The following exhibits are filed as part of this Form 10-K and this list includes the Exhibit Index.

No.	Exhibits	Location
3.1	Articles of Incorporation of Quaint Oak Bancorp, Inc.	(1)
3.2	Bylaws of Quaint Oak Bancorp, Inc.	(1)
4.1	Form of Stock Certificate of Quaint Oak Bancorp, Inc.	(1)
10.1	Amended and Restated Employment Agreement by and between Robert T. Strong and Quaint Oak Bank*	(2)
10.2	Quaint Oak Bancorp, Inc. 2008 Stock Option Plan*	(3)
10.3	Quaint Oak Bancorp, Inc. 2008 Recognition and Retention Plan and Trust Agreement*	(3)
10.4	Employment Agreement between Quaint Oak Bank and John J. Augustine*	(4)
10.5	Quaint Oak Bancorp, Inc. 2013 Stock Incentive Plan*	(5)
10.6	Employment Agreement between Quaint Oak Mortgage, LLC, Quaint Oak Real Estate, LLC, and Quaint Oak Abstract, LLC, and William R. Gonzalez, as amended*	(6)
13.0	Annual Report to Shareholders	Filed herewith
21.0	Subsidiaries of the Registrant	Filed herewith
23.1	Consent of S.R. Snodgrass, P.C.	Filed herewith
31.1	Certification of Chief Executive Officer	Filed herewith
31.2	Certification of Chief Financial Officer	Filed herewith
32.0	Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer	Filed herewith
101.INS	XBRL Instance Document	

		Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document	Filed herewith

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* Denotes management compensation plan or arrangement.

(1) Incorporated by reference from the Company's Registration Statement on Form SB-2, filed on March 21, 2007, as amended, and declared effective on May 14, 2007 (File No. 333-141474).

(2) Incorporated by reference from the Company's Current Report on Form 8-K, filed on December 16, 2008 (File No. 000-52694).

(3) Incorporated by reference from the Company's definitive proxy statement for the Annual Meeting of Shareholders held on May 14, 2008 (Commission File No. 000-52694) filed with the Commission on April 11, 2008.

(4) Incorporated by reference from the Company's Current Report on Form 8-K, filed on September 18, 2012 (File No. 000-52694).

(5) Incorporated by reference from the Company's definitive proxy statement for the Annual Meeting of Shareholders held on May 8, 2013 (Commission File No. 000-526341) filed with the Commission on April 8, 2013.

(6) Incorporated by reference from the Company's Annual Report on Form 10-K, filed with the Commission on March 26, 2015 (File No. 000-52694).

(b) Exhibits

The exhibits listed under (a)(3) of this Item 15 are filed herewith.

(c) Reference is made to (a)(2) of this Item 15.

<u>Item 16. Form 10-K Summary</u>.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

QUAINT OAK BANCORP, INC.

March 29, 2018 By: /s/Robert T. Strong
Robert T. Strong
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Name	Title	Date
/s/Robert T. Strong Robert T. Strong	President and Chief Executive Officer	March 29, 2018
/s/John J. Augustine John J. Augustine	Executive Vice President and Chief Financial Officer	March 29, 2018
/s/Robert J. Phillips Robert J. Phillips	Chairman	March 29, 2018
/s/George M. Ager, Jr. George M. Ager, Jr.	Director	March 29, 2018
/s/James J. Clarke James J. Clarke, Ph.D.	Director	March 29, 2018
/s/Andrew E. DiPiero, Jr. Andrew E. DiPiero, Jr.	Director	March 29, 2018
/s/Kenneth R. Gant Kenneth R. Gant	Director	March 29, 2018