QUAINT OAK BANCORP INC
Form 10-Q
August 13, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended June 30, 2018
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 000-52694

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

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

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

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

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

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

[X] Yes [ ] No

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

[X] Yes [ ] No

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

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

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

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

[ ] Yes   [X] No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of August 9, 2018, 1,990,898 shares of the Registrant's common stock were issued and outstanding.

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ITEM 1. FINANCIAL STATEMENTS

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

	At June 30, 2018	At December 31, 2017
	(In thousands, except share data)	
Assets		
Due from banks, non-interest-bearing	$413	$64
Due from banks, interest-bearing	17,806	7,846
Cash and cash equivalents	18,219	7,910
Investment in interest-earning time deposits	4,920	4,879
Investment securities available for sale	7,337	7,912
Loans held for sale	5,199	7,006
Loans receivable, net of allowance for loan losses (2018 $1,830; 2017	208,178	201,667

$1,812)		
Accrued interest receivable	1,013	1,021
Investment in Federal Home Loan Bank stock, at cost	1,246	1,234
Bank-owned life insurance	3,855	3,814
Premises and equipment, net	2,130	1,988
Goodwill	515	515
Other intangible, net of accumulated amortization	392	416
Other real estate owned, net	1,674	-
Prepaid expenses and other assets	1,254	1,234
Total Assets	$ 255,932	$ 239,596
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 11,873	$ 7,956
Interest-bearing	190,125	178,265
Total deposits	201,998	186,221
Federal Home	10,000	10,000

Loan Bank short-term borrowings		
Federal Home Loan Bank long-term borrowings	18,000	18,000
Accrued interest payable	176	167
Advances from borrowers for taxes and insurance	2,330	2,423
Accrued expenses and other liabilities	496	600
Total Liabilities	233,000	217,411
Stockholders' Equity		
Preferred stock – $0.01 par value, 1,000,000 shares authorized; none issued or outstanding	-	-
Common stock – $0.01 par value; 9,000,000 shares	28	28

authorized; 2,777,250 issued; 1,990,556 and 1,920,024 outstanding at June 30, 2018 and December 31, 2017, respectively		
Additional paid-in capital	14,520	14,481
Treasury stock, at cost: 2018 786,694 shares; 2017 857,226 shares	(4,627)	(4,675)
Unallocated common stock held by:		
Employee Stock Ownership Plan (ESOP)	(219)	(253)
Recognition & Retention Plan Trust (RRP)	-	(24)
Accumulated other comprehensive loss	(4)	(15)
Retained earnings	13,234	12,643

Total Stockholders' Equity	22,932	22,185
Total Liabilities and Stockholders' Equity	$ 255,932	$ 239,596

See accompanying notes to the unaudited consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands, except for share data)			
Interest Income				
Interest and fees on loans	$2,849	$2,523	$5,558	$4,953
Interest and dividends on short-term investments and investment securities	150	81	276	166
Total Interest Income	2,999	2,604	5,834	5,119
Interest Expense				
Interest on deposits	800	654	1,529	1,302
Interest on Federal Home Loan Bank short-term borrowings	48	21	84	33
Interest on Federal Home Loan Bank long-term borrowings	91	40	182	74
Total Interest Expense	939	715	1,795	1,409
Net Interest Income	2,060	1,889	4,039	3,710
Provision for Loan Losses	94	64	165	106
Net Interest Income after Provision for Loan Losses	1,966	1,825	3,874	3,604
Non-Interest Income				
Mortgage banking and title abstract fees	217	147	327	258
Other fees and services charges	44	18	118	44
Insurance commissions	103	89	182	166
Income from bank-owned life insurance	21	22	41	44
Net gain on loans held for sale	585	716	906	824
Gain on sale of SBA loans	-	16	23	16
Gain (loss) on sales and write-downs on other real estate owned	-	(67)	63	(63)
Other	50	20	102	29
Total Non-Interest Income	1,020	961	1,762	1,318
Non-Interest Expense				
Salaries and employee benefits	1,621	1,353	3,289	2,670
Directors' fees and expenses	40	50	94	102
Occupancy and equipment	146	145	296	290
Data processing	93	86	179	133
Professional fees	123	94	183	184
FDIC deposit insurance assessment	46	43	93	87
Other real estate owned expense	2	1	2	8
Advertising	54	39	108	78
Amortization of other intangible	12	12	24	24
Other	144	165	320	303
Total Non-Interest Expense	2,281	1,988	4,588	3,879

Income before Income Taxes	705	798	1,048	1,043
Income Taxes	170	274	225	348
Net Income	$535	$524	$823	$695
Earnings per share - basic	$0.28	$0.28	$0.43	$0.38
Average shares outstanding - basic	1,904,344	1,865,612	1,903,658	1,851,945
Earnings per share - diluted	$0.27	$0.26	$0.42	$0.35
Average shares outstanding - diluted	1,963,852	2,008,404	1,962,954	1,993,280

See accompanying notes to the unaudited consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Net Income	$535	$524	$823	$695
Other Comprehensive Income (Loss):				
Unrealized gains (losses) on investment securities available-for-sale	(1)	25	14	45
Income tax effect	-	(8)	(3)	(15)
Other comprehensive income (loss)	(1)	17	11	30
Total Comprehensive Income	$534	$541	$834	$725

See accompanying notes to the unaudited consolidated financial statements.

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

For the Six Months Ended June 30, 2018

	Common Stock Number of Shares Outstanding	Amount	Additional Paid-in Capital	Treasury Stock	Unallocated Common Stock Held by Benefit Plans	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
BALANCE –DECEMBER 31, 2017	1,920,024	$ 28	$ 14,481	$ (4,675)	$ (277)	$ (15)	$ 12,643	$ 22,185
Common stock allocated by ESOP			62		34			96
Treasury stock purchased	(44,311)			(588)	2			(586)
Reissuance of treasury stock under 401(k) Plan	3,002		23	17				40
Reissuance of treasury stock under stock ncentive plan	4,997		(28)	28				-
Reissuance of treasury stock for exercise stock options	106,844		(57)	591				534
Stock based compensation expense			61					61
Release of 4,664 vested RRP shares			(22)		22			-
Cash dividends declared ($0.12 per share)							(232)	(232)
Net income							823	823
Other comprehensive income, net						11		11
BALANCE – JUNE 30, 2018	1,990,556	$ 28	$ 14,520	$ (4,627)	$ (219)	$ (4)	$ 13,234	$ 22,932

See accompanying notes to the unaudited consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2018	2017
	(In Thousands)	
Cash Flows from Operating Activities		
Net income	$823	$695
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	165	106
Depreciation expense	102	91
Amortization of intangibles	24	24
Net amortization of securities premiums	10	9
Accretion of deferred loan fees and costs, net	(169)	(178)
Stock-based compensation expense	157	156
Net gain on loans held for sale	(906)	(824)
Loans held for sale-originations	(44,934)	(34,193)
Loans held for sale-proceeds	47,647	32,510
Gain on the sale of SBA loans	(23)	(16)
Net (gain) loss on sale and write-downs of other real estate owned	(63)	63
Increase in the cash surrender value of bank-owned life insurance	(41)	(44)
Changes in assets and liabilities which provided (used) cash:		
Accrued interest receivable	8	(13)
Prepaid expenses and other assets	(23)	(599)
Accrued interest payable	9	5
Accrued expenses and other liabilities	(104)	(42)
Net Cash Provided by (Used in) Operating Activities	2,682	(2,250)
Cash Flows from Investing Activities		
Purchase of interest-earning time deposits	(541)	(562)
Redemption of interest-earning time deposits	500	1,295
Principal repayments of investment securities available for sale	579	698
Net increase in loans receivable	(8,140)	(12,151)
Purchase of Federal Home Loan Bank stock	(12)	(421)
Proceeds from the sale of other real estate owned	63	210
Capitalized expenditures on other real estate owned	(18)	(23)
Purchase of premises and equipment	(244)	(354)
Net Cash Used in Investing Activities	(7,813)	(11,308)
Cash Flows from Financing Activities		
Net increase in demand deposits, money markets, and savings accounts	3,760	1,636
Net increase in certificate accounts	12,017	460
Decrease in advances from borrowers for taxes and insurance	(93)	(47)
Net proceeds from Federal Home Loan Bank short-term borrowings	-	3,000
Proceeds from Federal Home Loan Bank long-term borrowings	-	8,000
Repayment of Federal Home Loan Bank long-term borrowings	-	(1,000)
Dividends paid	(232)	(172)
Purchase of treasury stock	(586)	(5)
Proceeds from the reissuance of treasury stock	40	68
Proceeds from the exercise of stock options	534	193
Net Cash Provided by Financing Activities	15,440	12,133
Net Increase (Decrease) in Cash and Cash Equivalents	10,309	(1,425)

Cash and Cash Equivalents – Beginning of Year	7,910	9,300
Cash and Cash Equivalents – End of Year	$18,219	$7,875
Cash payments for interest	$1,786	$1,404
Cash payments for income taxes	$290	$505
Transfer of loans to other real estate owned	$1,656	$-

See accompanying notes to the unaudited consolidated financial statements.

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

Note 1 – Financial Statement Presentation and Significant Accounting Policies

Basis of Financial Presentation. The consolidated financial statements include the accounts of Quaint Oak Bancorp, Inc., a Pennsylvania chartered corporation (the "Company" or "Quaint Oak Bancorp") and its wholly owned subsidiary, Quaint Oak Bank, a Pennsylvania chartered stock savings bank, along with its wholly owned subsidiaries. At June 30, 2018, the Bank has five wholly-owned subsidiaries, Quaint Oak Mortgage, LLC, Quaint Oak Real Estate, LLC, Quaint Oak Abstract, LLC, QOB Properties, LLC, and Quaint Oak Insurance Agency, LLC, each a Pennsylvania limited liability company. The mortgage, real estate and abstract companies offer mortgage banking, real estate sales and title abstract services, respectively, in the Lehigh Valley region of Pennsylvania, and began operation in July 2009. QOB Properties, LLC began operations in July 2012 and holds Bank properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. Quaint Oak Insurance Agency, LLC began operations in August 2016 and provides a broad range of personal and commercial insurance coverage solutions. All significant intercompany balances and transactions have been eliminated.

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

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

The foregoing consolidated financial statements are unaudited; but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation thereof. The balances as of December 31, 2017 have been derived from the audited financial statements. These financial statements should be read in conjunction with the financial statements and notes thereto included in Quaint Oak Bancorp's 2017 Annual Report on Form 10-K. The results of operations for the three months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Federal Home Loan Bank Stock. Federal law requires a member institution of the Federal Home Loan Bank (FHLB) system to hold restricted stock of its district Federal Home Loan Bank according to a predetermined formula. FHLB stock is carried at cost and evaluated for impairment. When evaluating FHLB stock for impairment, its value is determined based on the ultimate recoverability of the par value of the stock. We evaluate our holdings of FHLB stock for impairment each reporting period. No impairment charges were recognized on FHLB stock during the three or six months ended June 30, 2018 and 2017.

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

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

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

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

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

Other Real Estate Owned, Net. Other real estate owned or foreclosed assets are comprised of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure and loans classified as in-substance foreclosures. A loan is classified as in-substance foreclosure when the Bank has taken possession of the collateral regardless of whether formal foreclosure proceedings take place. Other real estate properties are initially recorded at fair value, net of estimated selling costs at the date of
foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of cost or fair value less estimated costs to sell. Net revenue and expenses from operations and additions to the valuation allowance are included in other expenses. The Company had two one-to-four family residential properties for which foreclosure proceedings are in process at June 30, 2018. The total investment is $242,000.

Share-Based Compensation. Compensation expense for share-based compensation awards is based on the grant date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award.
At June 30, 2018, the Company has outstanding equity awards under two share-based plans: the 2013 Stock Incentive Plan and the 2018 Stock Incentive Plan. Awards under these plans were made in May 2013 and 2018. These plans are more fully described in Note 10.
The Company also has an employee stock ownership plan ("ESOP"). This plan is more fully described in Note 10. As ESOP shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the average market price of the shares over the period earned.
Comprehensive Income.. Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated balance sheet and along with net income, are components of comprehensive income.
Earnings per Share. Amounts reported in earnings per share reflect earnings available to common stockholders' for the period divided by the weighted average number of shares of common stock outstanding during the period, exclusive of undeserved ESOP shares, unvested restricted stock (RRP) shares and treasury shares. Stock options and unvested restricted stock are regarded as potential common stock and are considered in the diluted earnings per share calculations to the extent they would have a dilutive effect if converted to common stock, computed using the "treasury stock" method.
Revenue from Contracts with Customers. The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

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

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

The Company's primary sources of revenue are derived from interest and dividends earned on loans and investment securities, gains on the sale of loans, income from bank-owned life insurance, and other financial instruments that are not within the scope of Topic 606. The main types of non-interest income within the scope of the standard are as follows:
Service Charges on Deposits: The Bank has contracts with its commercial checking deposit customers where fees are charged if the account balance falls below predetermined levels defined as compensating balances. These agreements can be cancelled at any time by either the Bank or the deposit customer. Revenue from these transactions is recognized on a monthly basis as the Bank has an unconditional right to the fee consideration. The Bank also has transaction fees related to specific transactions or activities resulting from customer request or activity that include overdraft fees, wire fees, and other transaction fees. All of these fees are attributable to specific performance obligations of the Bank where the revenue is recognized at a defined point in time, completion of the requested service/transaction.
Insurance Commissions: Insurance income generally consist of commissions from the sale of insurance policies and performance-based commissions from insurance companies. The Bank recognizes commission income from the sale of insurance policies when it acts as an agent between the insurance carrier and policyholder, arranging for the insurance carrier to provide policies to policyholders, and acts on behalf of the insurance carrier by providing customer service to the policyholder during the policy period. Commission income is recognized over time, using the output method of time elapsed, which corresponds with the underlying insurance policy period, for which the Bank is obligated to perform under contract with the insurance carrier. Commission income is variable, as it is comprised of a certain percentage of the underlying policy premium. The Bank estimates the variable consideration based upon the "most likely amount" method, and does not expect or anticipate a significant reversal of revenue in future periods, based upon historical experience. Payment is due from the insurance carrier for commission income once the insurance policy has been sold. The Bank has elected to apply a practical expedient related to capitalizable costs, which are the commissions paid to insurance producers, and will expense these commissions paid to insurance producers as incurred, as these costs are related to the commission income and would have been amortized within one year or less if they had been capitalized, the same period over which the commission income was earned. Performance-based commissions from insurance companies are recognized at a point in time, when received, and no contingencies remain.

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

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

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

The Bank has adopted this standard effective January 1, 2018. On a prospective basis, the Bank implemented changes to the measurement of the fair value of financial instruments using an exit price notion for disclosure purposes included in Note 11 to the financial statements. The Bank estimated the fair value based on guidance from ASC 820-10, Fair Value Measurements, which defines fair value as the price which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is no active observable market for sale information on community bank loans and, thus, Level III fair value procedures were utilized, primarily in the use of present value techniques incorporating assumptions that market participants would use in estimating fair values. In the absence of reliable market information, the Bank used its own assumptions in an effort to determine a reasonable estimate of fair value.

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

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

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

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

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

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

In January 2018, the FASB issued ASU 2018-01, Leases (Topic 842), which provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current lease guidance in Topic 840. An entity that elects this practical expedient should evaluate new or modified land easements under Topic 842 beginning at the date the entity adopts Topic 842; otherwise, an entity should evaluate all existing or expired land easements in connection with the adoption of the new lease requirements in Topic 842 to assess whether they meet the definition of a lease. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in ASU 2016-02. This Update is not expected to have a significant impact on the Company's financial statements

Reclassifications. Certain items in the 2017 consolidated financial statements have been reclassified to conform to the presentation in the 2018 consolidated financial statements. Such reclassifications did not have a material impact on the presentation of the overall financial statements. The reclassifications had no effect on net income or stockholders' equity.

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

Note 2 – Earnings Per Share

Earnings per share ("EPS") consists of two separate components, basic EPS and diluted EPS. Basic EPS is computed based on the weighted average number of shares of common stock outstanding for each period presented. Diluted EPS is calculated based on the weighted average number of shares of common stock outstanding plus dilutive common stock equivalents ("CSEs"). CSEs consist of shares that are assumed to have been purchased with the proceeds from the exercise of stock options, as well as unvested restricted stock (RRP) shares. Common stock equivalents which are considered antidilutive are not included for the purposes of this calculation. For the three and six months ended June 30, 2018 and 2017, all unvested restricted stock program awards and outstanding stock options representing shares were dilutive.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net Income	$535,000	$524,000	$823,000	$695,000
Weighted average shares outstanding – basic	1,904,344	1,865,612	1,903,658	1,851,945
Effect of dilutive common stock equivalents	59,508	142,792	59,296	141,335
Adjusted weighted average shares outstanding – diluted	1,963,852	2,008,404	1,962,954	1,993,280
Basic earnings per share	$0.28	$0.28	$0.43	$0.38
Diluted earnings per share	$0.27	$0.26	$0.42	$0.35

Note 3 – Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (loss) by component, net of tax, for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Unrealized Gains (Losses) on Investment Securities Available for Sale (1)			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Balance at the beginning of the period	$(3)	$(25)	$(15)	$(38)
Other comprehensive income (loss) before classifications	(1)	17	11	30
Amount reclassified from accumulated other comprehensive income (loss)	-	-	-	-
Total other comprehensive income (loss)	(1)	17	11	30
Balance at the end of the period	$(4)	$(8)	$(4)	$(8)

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

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

Note 4 – Investment in Interest-Earning Time Deposits

The investment in interest-earning time deposits as of June 30, 2018 and December 31, 2017, by contractual maturity, are shown below (in thousands):

	June 30, 2018	December 31, 2017
Due in one year or less	$1,604	$ 761
Due after one year through five years	3,316	4,118
Total	$4,920	$ 4,879

Note 5 – Investment Securities Available for Sale

The amortized cost, gross unrealized gains and losses, and fair value of investment securities available for sale at June 30, 2018 and December 31, 2017 are summarized below (in thousands):

	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available for Sale:				
Mortgage-backed securities:				
Governmental National Mortgage Association securities	$5,241	$ 32	$ (1)	$5,272
Federal Home Loan Mortgage Corporation securities	1,286	-	(32)	1,254
Federal National Mortgage Association securities	455	1	-	456
Total mortgage-backed securities	6,982	33	(33)	6,982
Debt securities:				
U.S. government agency	360	-	(5)	355
Total available-for-sale-securities	$7,342	$ 33	$ (38)	$7,337

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available for Sale:				
Mortgage-backed securities:				
Governmental National Mortgage Association securities	$5,624	$ 19	$ -	$5,643
Federal Home Loan Mortgage Corporation securities	1,377	-	(35)	1,342
Federal National Mortgage Association securities	570	-	-	570
Total mortgage-backed securities	7,571	19	(35)	7,555
Debt securities:				
U.S. government agency	360	-	(3)	357
Total available-for-sale-securities	$7,931	$ 19	$ (38)	$7,912

The amortized cost and fair value of debt securities at June 30, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Available for Sale	
	Amortized Cost	Fair Value
Debt securities		
Due after one year through five years	$360	$355
Due after ten years	6,982	6,982
Total	$7,342	$7,337

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

Note 5 – Investment Securities Available for Sale (Continued)

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018						
		Less than Twelve Months		Twelve Months or Greater		Total	
	Number of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Governmental National Mortgage Association mortgage-backed securities	2	$734	$ (1)	$-	$ -	$734	$ (1)
Federal Home Loan Mortgage Corporation mortgage-backed securities	2	-	-	$1,254	$ (32)	$1,254	$ (32)
Debt securities, U.S. government agency	1	-	-	355	(5)	355	(5)
Total	5	$734	$ (1)	$1,609	$ (37)	$2,343	$ (38)

	December 31, 2017						
		Less than Twelve Months		Twelve Months or Greater		Total	
	Number of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Federal Home Loan Mortgage Corporation mortgage-backed securities	2	$-	$ -	$1,342	$ (35)	$1,342	$ (35)
Debt securities, U.S. government agency	1	-	-	357	(3)	357	(3)
Total	3	$-	$ -	$1,699	$ (38)	$1,699	$ (38)

At June 30, 2018, there were five securities in an unrealized loss position that at such date had an aggregate depreciation of 1.60% from the Company's amortized cost basis. Management believes that the estimated fair value of the securities disclosed above is primarily dependent on the movement of market interest rates. Management evaluated the length of time and the extent to which the fair value has been less than cost and the financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer. The Company has the ability and intent to hold the securities until the anticipated recovery of fair value occurs. Management does not believe any individual unrealized loss as of June 30, 2018 represents an other-than-temporary impairment. There were no impairment charges recognized during the three and six months ended June 30, 2018 or 2017.

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

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

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

	June 30, 2018	December 31, 2017
Real estate loans:		
One-to-four family residential:		
Owner occupied	$6,965	$5,681
Non-owner occupied	47,935	51,833
Total one-to-four family residential	54,900	57,514
Multi-family (five or more) residential	23,663	21,715
Commercial real estate	96,999	92,234
Construction	13,056	15,632
Home equity	4,313	5,129
Total real estate loans	192,931	192,224
Commercial business	17,793	11,954
Other consumer	125	138
Total Loans	210,849	204,316
Deferred loan fees and costs	(841)	(837)
Allowance for loan losses	(1,830)	(1,812)
Net Loans	$208,178	$201,667

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018				
	Pass	Special Mention	Substandard	Doubtful	Total
One-to-four family residential owner occupied	$6,543	$ 180	$ 242	$ -	$6,965
One-to-four family residential non-owner occupied	47,624	-	311	-	47,935
Multi-family residential	23,663	-	-	-	23,663
Commercial real estate	95,091	1,908	-	-	96,999
Construction	12,774	-	282	-	13,056
Home equity	4,313	-	-	-	4,313
Commercial business	17,267	526	-	-	17,793
Other consumer	125	-	-	-	125
Total	$207,400	$ 2,614	$ 835	$ -	$210,849

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

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

	December 31, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
One-to-four family residential owner occupied	$5,258	$423	$ -	$ -	$5,681
One-to-four family residential non-owner occupied	51,372	29	432	-	51,833
Multi-family residential	21,715	-	-	-	21,715
Commercial real estate	91,549	399	286	-	92,234
Construction	13,563	-	2,069	-	15,632
Home equity	5,129	-	-	-	5,129
Commercial business	11,419	535	-	-	11,954
Other consumer	138	-	-	-	138
Total	$200,143	$1,386	$ 2,787	$ -	$204,316

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of June 30, 2018 as well as the average recorded investment and related interest income for the period then ended (in thousands):

	June 30, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
One-to-four family residential owner occupied	$242	$ 242	$ -	$ 242	$ -
One-to-four family residential non-owner occupied	323	323	-	325	9
Multi-family residential	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	282	282	-	2,054	-
Home equity	-	-	-	44	2
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
With an allowance recorded:					
One-to-four family residential owner occupied	$-	$ -	$ -	$ -	$ -
One-to-four family residential non-owner occupied	93	93	20	93	3
Multi-family residential	-	-	-	-	-
Commercial real estate	133	133	5	133	5
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total:					
One-to-four family residential owner occupied	$242	$ 242	$ -	$ 242	$ -
One-to-four family residential non-owner occupied	416	416	20	418	12

Multi-family residential	-	-	-	-	-
Commercial real estate	133	133	5	133	5
Construction	282	282	-	2,054	-
Home equity	-	-	-	44	2
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	$ 1,073	$ 1,073	$ 25	$ 2,891	$ 19

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

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

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2017 as well as the average recorded investment and related interest income for the year then ended (in thousands):

	December 31, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
One-to-four family residential owner occupied	$ -	$ -	$ -	$ -	$ -
One-to-four family residential non-owner occupied	442	442	-	937	24
Multi-family residential	-	-	-	-	-
Commercial real estate	-	-	-	398	38
Construction	2,069	2,069	-	2,064	58
Home equity	45	45	-	47	5
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
With an allowance recorded:					
One-to-four family residential owner occupied	$ -	$ -	$ -	$ -	$ -
One-to-four family residential non-owner occupied	214	214	70	214	5
Multi-family residential	--	--	-	-	-
Commercial real estate	133	133	1	395	9
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total:					
One-to-four family residential owner occupied	$ -	$ -	$ -	$ -	$ -
One-to-four family residential non-owner occupied	656	656	70	1,151	29
Multi-family residential	-	-	-	-	-
Commercial real estate	133	133	1	793	47
Construction	2,069	2,069	-	2,064	58
Home equity	45	45	-	47	5
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	$ 2,903	$ 2,903	$ 71	$ 4,055	$ 139

The loan portfolio also includes certain loans that have been modified in a troubled debt restructuring, where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from loss mitigation activities and could include reductions in the interest rate, payment extensions, forbearance, or other actions. At June 30, 2018, the Company had four loans totaling $549,000 that were identified as troubled debt restructurings. All four of these loans were performing in accordance with their modified terms. At December 31, 2017, the Company had eight loans totaling $714,000 that were identified as troubled debt restructurings. 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. During the six months ended June 30, 2018, no new loans were identified as TDRs and four loans previously identified as TDRs were paid off.

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

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

The following tables present the Company's TDR loans as of June 30, 2018 and December 31, 2017 (dollar amounts in thousands):

	June 30, 2018				
	Number of Contracts	Recorded Investment	Non-Accrual	Accruing	Related Allowance
One-to-four family residential owner occupied	-	$ -	$ -	$ -	$ -
One-to-four family residential non-owner occupied	3	416	-	416	20
Multi-family residential	-	-	-	-	-
Commercial real estate	1	133	-	133	5
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	4	$ 549	$ -	$ 549	$ 25

	December 31, 2017				
	Number of Contracts	Recorded Investment	Non-Accrual	Accruing	Related Allowance
One-to-four family residential owner occupied	-	$ -	$ -	$ -	$ -
One-to-four family residential non-owner occupied	5	536	-	536	25
Multi-family residential	-	-	-	-	-
Commercial real estate	1	133	-	133	1
Construction	-	-	-	-	-
Home equity	2	45	-	45	-
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	8	$ 714	$ -	$ 714	$ 26

The contractual aging of the TDRs in the table above as of June 30, 2018 and December 31, 2017 is as follows (in thousands):

	June 30, 2018				
	Accruing Past Due Less than 30 Days	Past Due 30-89 Days	90 Days or More Past Due	Non-Accrual	Total
One-to-four family residential owner occupied	$-	$ -	$ -	$ -	$-
One-to-four family residential non-owner occupied	416	-	-	-	416
Multi-family residential	-	-	-	-	-
Commercial real estate	133	-	-	-	133

Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	$549	$ -	$ -	$ -	$549

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

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

	December 31, 2017				
	Accruing Past Due Less than 30 Days	Past Due 30-89 Days	90 Days or More Past Due	Non-Accrual	Total
One-to-four family residential owner occupied	$-	$ -	$ -	$ -	$-
One-to-four family residential non-owner occupied	536	-	-	-	536
Multi-family residential	-	-	-	-	-
Commercial real estate	133	-	-	-	133
Construction	-	-	-	-	-
Home equity	45	-	-	-	45
Commercial business	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	$714	$ -	$ -	$ -	$714

Any reserve for an impaired TDR loan is based upon the present value of the future expected cash flows discounted at the loan's original effective rate or upon the fair value of the collateral less costs to sell, if the loan is deemed collateral dependent. At June 30, 2018 there were no commitments to lend additional funds to debtors whose loan terms have been modified as TDRs.

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

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

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

Following is a summary, by loan portfolio class, of changes in the allowance for loan losses for the three and six months ended June 30, 2018 and recorded investment in loans receivable as of June 30, 2018 (in thousands):

June 30, 2018	1-4 Family Residential Owner Occupied	1-4 Family Residential Non-Owner Occupied	Multi-Family Residential	Commercial Real Estate	Construction	Home Equity	Commercial Business and Other Consumer	Unallocated	Total
For the Three Months Ended June 30, 2018									
Allowance for loan losses:									
Beginning balance	$54	$ 495	$ 164	$ 720	$ 142	$26	$ 170	$ 65	$1,836
Charge-offs	-	-	-	-	(100)	-	-	-	(100)
Recoveries	-	-	-	-	-	-	-	-	-
Provision	6	(56)	2	8	137	(2)	31	(32)	94
Ending balance	$60	$ 439	$ 166	$ 728	$ 179	$24	$ 201	$ 33	$1,830
For the Six Months Ended June 30, 2018									
Allowance for loan losses:									
Beginning balance	$48	$ 540	$ 152	$ 687	$ 136	$27	$ 140	$ 82	$1,812
Charge-offs	-	(47)	-	-	(100)	-	-	-	(147)
Recoveries	-	-	-	-	-	-	-	-	-
Provision	12	(54)	14	41	143	(3)	61	(49)	165
Ending balance	$60	$ 439	$ 166	$ 728	$ 179	$24	$ 201	$ 33	$1,830
Ending balance evaluated for impairment:									
Individually	$-	$ 20	$ -	$ 5	$ -	$-	$ -	$ -	$25
Collectively	$60	$ 419	$ 166	$ 723	$ 179	$24	$ 201	$ 33	$1,805
Loans receivable:									
Ending balance:	$6,965	$ 47,935	$ 23,663	$ 96,999	$ 13,056	$4,313	$ 17,918		$210,849
Ending balance evaluated for impairment:									
Individually	$242	$ 416	$ -	$ 133	$ 282	$-	$ -		$1,073
Collectively	$6,723	$ 47,519	$ 23,663	$ 96,866	$ 12,774	$4,313	$ 17,918		$209,776

The Bank allocated decreased allowance for loan loss provisions to the 1-4 family residential non-owner occupied portfolio class for the three and six months ended June 30, 2018, due primarily to decreased balances and changes to qualitative factors in this portfolio class. The Bank allocated increased allowance for loan loss provisions to the commercial real estate portfolio classes for the three and six months ended June 30, 2018, due primarily to increased balances and delinquencies in this portfolio class. The Bank allocated increased allowance for loan loss provisions to the construction loan portfolio classes for the three and six months ended June 30, 2018, due primarily to charge-offs in this portfolio class. The Bank allocated increased allowance for loan loss provisions to the commercial business portfolio classes for the three and six months ended June 30, 2018, due primarily to increased balances in this portfolio class.

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

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

Following is a summary, by loan portfolio class, of changes in the allowance for loan losses for the three and six months ended June 30, 2017 (in thousands):

June 30, 2017	1-4 Family Residential Owner Occupied	1-4 Family Residential Non-Owner Occupied	Multi-Family Residential	Commercial Real Estate	Construction	Home Equity	Commercial Business and Other Consumer	Unallocated	Total
For the Three Months Ended June 30, 2017									
Allowance for loan losses:									
Beginning balance	$44	$ 524	$ 108	$ 612	$ 127	$ 51	$ 94	$ 90	$1,650
Charge-offs	-	-	-	(24)	-	-	-	-	(24)
Recoveries	-	-	-	-	-	-	-	-	-
Provision	1	(59)	48	57	10	(10)	17	-	64
Ending balance	$45	$ 465	$ 156	$ 645	$ 137	$ 41	$ 111	$ 90	$1,690
For the Six Months Ended June 30, 2017									
Allowance for loan losses:									
Beginning balance	$41	$ 503	$ 103	$ 616	$ 138	$ 37	$ 87	$ 80	$1,605
Charge-offs	-	-	-	(24)	-	-	-	-	(24)
Recoveries	-	-	-	3	-	-	-	-	3
Provision	4	(38)	53	50	(1)	4	24	10	106
Ending balance	$45	$ 465	$ 156	$ 645	$ 137	$ 41	$ 111	$ 90	$1,690
Ending balance evaluated for impairment:									
Individually	$-	$ 21	$ -	$ 1	$ -	$ -	$ -	$ -	$22
Collectively	$45	$ 444	$ 156	$ 644	$ 137	$ 41	$ 111	$ 90	$1,668

The Bank allocated decreased allowance for loan loss provisions to the 1-4 family residential non-owner occupied portfolio class for the three and six months ended June 30, 2017, due primarily to decreased delinquencies and changes to qualitative factors in this portfolio class. The Bank allocated increased allowance for loan loss provisions to the multi-family residential and commercial real estate portfolio classes for the three and six months ended June 30, 2017, due primarily to increased balances in these portfolio classes.

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

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

Following is a summary, by loan portfolio class, of changes in the allowance for loan losses for the year ended December 31, 2017 and recorded investment in loans receivable based on impairment evaluation as of December 31, 2017 (in thousands):

	December 31, 2017								
	1-4 Family Residential Owner Occupied	1-4 Family Residential Non-Owner Occupied	Multi-Family Residential	Commercial Real Estate	Construction	Home Equity	Commercial Business and Other Consumer	Unallocated	Total
Allowance for loan losses:									
Beginning balance	$41	$503	$ 103	$ 616	$ 138	$37	$ 87	$ 80	$1,605
Charge-offs	-	(56)	-	(24)	-	-	-	-	(80)
Recoveries	-	-	-	3	-	-	-	-	3
Provision	7	93	49	92	(2)	(10)	53	2	284
Ending balance	$48	$540	$ 152	$ 687	$ 136	$27	$ 140	$ 82	$1,812
Ending balance evaluated for impairment:									
Individually	$-	$70	$ -	$ 1	$ -	$-	$ -	$ -	$71
Collectively	$48	$470	$ 152	$ 686	$ 136	$27	$ 140	$ 82	$1,741
Loans receivable:									
Ending balance	$5,681	$51,833	$ 21,715	$ 92,234	$ 15,632	$5,129	$ 12,092		$204,316
Ending balance evaluated for impairment:									
Individually	$-	$656	$ -	$ 133	$ 2,069	$45	$ -		$2,903
Collectively	$5,681	$51,177	$ 21,715	$ 92,101	$ 13,563	$5,084	$ 12,092		$201,413

The Bank allocated increased allowance for loan loss provisions to the commercial real estate, commercial business, and multi-family portfolio classes for the year ended December 31, 2017, due primarily to increased balances in these portfolio classes. The Bank allocated increased allowance for loan loss provisions to the 1-4 family residential non-owner occupied portfolio class for the year ended December 31, 2017, due primarily to increased specific reserves in this portfolio class.

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

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

The following table presents nonaccrual loans by classes of the loan portfolio as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
One-to-four family residential owner occupied	$242	$ -
One-to-four family residential non-owner occupied	-	120
Multi-family residential	-	-
Commercial real estate	-	-
Construction	282	2,069
Home equity	-	-
Commercial business	-	-
Other consumer	-	-
Total	$524	$ 2,189

Non-performing loans, which consist of non-accruing loans plus accruing loans 90 days or more past due, amounted to $785,000 and $3.1 million at June 30, 2018 and December 31, 2017, respectively. For the delinquent loans in our portfolio, we have considered our ability to collect the past due interest, as well as the principal balance of the loan, in order to determine whether specific loans should be placed on non-accrual status. In cases where our evaluations have determined that the principal and interest balances are collectible, we have continued to accrue interest.

For the three and six months ended June 30, 2018 and 2017 there was no interest income recognized on non-accrual loans on a cash basis. Interest income foregone on non-accrual loans was approximately $9,000 and $18,000 for the three and six months ended June 30, 2018, respectively. Interest income foregone on non-accrual loans was approximately $30,000 and $55,000 for the three and six months ended June 30, 2017, respectively.

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of June 30, 2018 and December 31, 2017 (in thousands):

June 30, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Loans Receivable 90 Days or More Past Due and Accruing
One-to-four family residential owner occupied	$316	$422	$738	$6,227	$ 6,965	$ 180
One-to-four family residential non-owner occupied	974	81	1,055	46,880	47,935	81
Multi-family residential	-	-	-	23,663	23,663	-
Commercial real estate	867	-	867	96,132	96,999	-

Construction	353	282	635	12,421	13,056	-
Home equity	32	-	32	4,281	4,313	-
Commercial business	446	-	446	17,347	17,793	-
Other consumer	-	-	-	125	125	-
Total	$2,988	$785	$3,773	$207,076	$210,849	$ 261

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

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

	December 31, 2017					
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Loans Receivable 90 Days or More Past Due and Accruing
One-to-four family residential owner occupied	$670	$423	$1,093	$4,588	$5,681	$ 423
One-to-four family residential non-owner occupied	969	337	1,306	50,527	51,833	217
Multi-family residential	313	-	313	21,402	21,715	-
Commercial real estate	505	241	746	91,488	92,234	241
Construction	407	2,069	2,476	13,156	15,632	-
Home equity	51	-	51	5,078	5,129	-
Commercial business	-	-	-	11,954	11,954	-
Other consumer	-	-	-	138	138	-
Total	$2,915	$3,070	$5,985	$198,331	$204,316	$ 881

Note 7 – Goodwill and Other Intangible, Net

On August 1, 2016, Quaint Oak Insurance Agency, LLC began operations by acquiring the renewal rights to the book of business produced and serviced by an independent insurance agency located in New Britain, Pennsylvania, that provides a broad range of personal and commercial insurance coverage solutions. The Company paid $1.0 million for these rights. Based on a valuation, $515,000 of the purchase price was determined to be goodwill and $485,000 was determined to be related to the renewal rights to the book of business and deemed to be an other intangible asset. This other intangible asset is being amortized over a ten year period based upon the annual retention rate of the book of business. The balance of other intangible asset at June 30, 2018 was $392,000 net of accumulated amortization of $93,000. Amortization expense for the three and six months ended for both June 30, 2018 and 2017 amounted to $12,000 and $24,000, respectively.

Note 8 – Deposits

Deposits consist of the following classifications (in thousands):

	June 30, 2018	December 31, 2017
Non-interest bearing checking accounts	$11,873	$7,956
Passbook accounts	303	463
Savings accounts	1,912	2,353
Money market accounts	30,855	30,411

Certificates of deposit	157,055	145,038
Total deposits	$201,998	$186,221

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

Note 9 – Borrowings

Federal Home Loan Bank advances consist of the following at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018		December 31, 2017	
	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
Short-term borrowings	$10,000	2.10 %	$10,000	1.54 %
Fixed rate borrowings maturing:				
2018	3,000	1.46	3,000	1.46
2019	3,000	1.86	3,000	1.86
2020	2,000	2.00	2,000	2.00
2021	3,000	2.05	3,000	2.05
2022	3,000	2.18	3,000	2.18
2023	3,000	2.33	3,000	2.33
2024	1,000	2.54	1,000	2.54
Total FHLB long-term debt	$18,000	2.01 %	$18,000	2.01 %

Note 10 – Stock Compensation Plans

Employee Stock Ownership Plan

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

Shares of the Company's common stock purchased by the ESOP are held in a suspense account and reported as unallocated common stock held by the ESOP in stockholders' equity until released for allocation to participants. As the debt is repaid, shares are released from collateral and are allocated to each eligible participant based on the ratio of each such participant's base compensation to the total base compensation of eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the average market value of the shares, and the shares become outstanding for earnings per share computations. During the three and six months ended June 30, 2018, the Company recognized $48,000 and $96,000 of ESOP expense, respectively. During the three and six months ended June 30, 2017, the Company recognized $47,000 and $92,000 of ESOP expense, respectively.

Recognition & Retention and Stock Incentive Plans

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

May 2013, the shareholders of Quaint Oak Bancorp approved the adoption of the 2013 Stock Incentive Plan (the "Stock Incentive Plan"). The 2013 Stock Incentive Plan approved by shareholders in May 2013 covered a total of 195,000 shares, of which 48,750, or 25%, may be restricted stock awards, for a balance of 146,250 stock options assuming all the restricted shares are awarded. In May 2018, the shareholders of Quaint Oak Bancorp approved the adoption of the 2018 Stock Incentive Plan (the "Stock Incentive Plan"). The Stock Incentive Plan approved by shareholders in May 2018 covered a total of 155,000 shares, of which 37,750, or 25%, may be restricted stock awards, for a balance of 117,250 stock options assuming all the restricted shares are awarded.

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

Note 10 – Stock Compensation Plans (Continued)

Recognition & Retention and Stock Incentive Plans (Continued)

As of June 30, 2018, a total of 48,608 share awards were unvested under the 2013 and 2018 Stock Incentive Plan and up to 11,750 share awards were available for future grant under the 2018 Stock Incentive Plan and none under the 2013 Stock Incentive Plan. The 2013 and 2018 Stock Incentive Plan share awards have vesting periods of five years.

A summary of the status of the share awards under the 2013 and 2018 Stock Incentive Plan as of June 30, 2018 and 2017 and changes during the six months ended June 30, 2018 and 2017 is as follows:

	June 30, 2018		June 30, 2017	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at the beginning of the period	10,061	$ 8.10	20,524	$ 8.10
Granted	48,608	13.30	-	-
Vested	(9,661)	8.10	(10,263)	8.10
Forfeited	(400)	8.10	-	-
Unvested at the end of the period	48,608	$ 13.30	10,261	$ 8.10

Compensation expense on the restricted stock awards is recognized ratably over the five year vesting period in an amount which is equal to the fair value of the common stock at the date of grant. During both the six months ended June 30, 2018 and 2017, the Company recognized approximately $42,000 of compensation expense. A tax benefit of approximately $9,000 and $14,000 was recognized during the three months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, approximately $630,000 in additional compensation expense will be recognized over the remaining service period of approximately 4.9 years.

Stock Option and Stock Incentive Plans

In May 2008, the shareholders of Quaint Oak Bancorp approved the adoption of the 2008 Stock Option Plan (the "Option Plan"). In May 2013, the shareholders of Quaint Oak Bancorp approved the adoption of the 2013 Stock Incentive Plan (the "Stock Incentive Plan"). The Option Plan authorizes the grant of stock options to officers, employees and directors of the Company to acquire 277,726 shares of common stock with an exercise price no less than the fair market value on the date of the grant. The 2013 Stock Incentive Plan approved by shareholders in May 2013 covered a total of 195,000 shares, of which 48,750, or 25%, may be restricted stock awards, for a balance of 146,250 stock options assuming all the restricted shares are awarded. In May 2018, the shareholders of Quaint Oak Bancorp approved the adoption of the 2018 Stock Incentive Plan (the "Stock Incentive Plan"). The Stock Incentive Plan approved by shareholders in May 2018 covered a total of 155,000 shares, of which 37,750, or 25%, may be restricted stock awards, for a balance of 117,250 stock options assuming all the restricted shares are awarded.

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

Note 10 – Stock Compensation Plans (Continued)

Stock Option and Stock Incentive Plans (Continued)

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

As of June 30, 2018, a total of 279,836 grants of stock options were outstanding under the Option Plan and Stock Incentive Plan and 38,250 stock options were available for future grant under the Stock Incentive Plan and none under the Option Plan. Options will become vested and exercisable over a five year period and are generally exercisable for a period of ten years after the grant date.

A summary of option activity under the Company's Option Plan and 2013 and 2018 Stock Incentive Plans of June 30, 2018 and 2017 and changes during the six months ended June 30, 2018 and 2017 is as follows:

	2018			2017		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
Outstanding at the beginning of the year	265,302	$ 6.74	3.2	316,348	$ 6.49	3.8
Granted	136,636	13.30	9.9	-	-	-
Exercised	(106,844)	5.00	-	(38,800)	5.00	-
Forfeited	(15,258)	6.22	-	-	-	-
Outstanding at end of period	279,836	$ 10.64	7.8	277,548	$ 6.70	3.6
Exercisable at end of period	143,200	$ 8.10	4.9	247,228	$ 6.53	3.4

During both the six month periods ended June 30, 2018 and 2017, compensation expense was recognized in the amount of approximately $19,000 and $22,000, respectively. A tax expense of approximately $1,000 was recognized during the six months ended June 30, 2018. A tax benefit of approximately $2,000 was recognized during the six months ended June 30, 2018. As of June 30, 2018, approximately $127,000 in additional compensation expense will be recognized over the remaining service period of approximately 4.9 years.

Note 11 – Fair Value Measurements and Fair Values of Financial Instruments

Fair value estimates are based on quoted market prices, if available, quoted market prices of similar assets or liabilities, or the present value of expected future cash flows and other valuation techniques. These valuations are significantly affected by discount rates, cash flow assumptions, and risk assumptions used. Therefore, fair value estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realizable in an immediate settlement of the instruments.

Fair value is determined at one point in time and is not representative of future value. These amounts do not reflect the total value of a going concern organization. Management does not have the intention to dispose of a significant portion of its assets and liabilities and therefore, the unrealized gains or losses should not be interpreted as a forecast of future earnings and cash flows.

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

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

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

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

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

Note 11 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)
The table below sets forth the financial assets and liabilities that were accounted for on a recurring and nonrecurring basis by level within the fair value hierarchy as of June 30, 2018 (in thousands):

	June 30, 2018 Fair Value Measurements Using:			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Recurring fair value measurements				
Investment securities available for sale				
Governmental National Mortgage Association mortgage-backed securities	$5,272	$ -	$ 5,272	$ -
Federal Home Loan Mortgage Corporation mortgage-backed securities	1,254	-	1,254	-
Federal National Mortgage Association mortgage-backed securities	456	-	456	-
Debt securities, U.S. government agency	355	-	355	-
Total investment securities available for sale	$7,337	$ -	$ 7,337	$ -
Total recurring fair value measurements	$7,337	$ -	$ 7,337	$ -
Nonrecurring fair value measurements				
Impaired loans	$1,048	$ -	$ -	$ 1,048
Other real estate owned	1,674	-	-	1,674
Total nonrecurring fair value measurements	$1,722	$ -	$ -	$ 1,722

The table below sets forth the financial assets and liabilities that were accounted for on a recurring and nonrecurring basis by level within the fair value hierarchy as of December 31, 2017 (in thousands):

	December 31, 2017 Fair Value Measurements Using:			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Recurring fair value measurements				
Investment securities available for sale				
Governmental National Mortgage Association mortgage-backed securities	$5,643	$ -	$ 5,643	$ -

Federal Home Loan Mortgage Corporation mortgage-backed securities	1,342	-	1,342	-
Federal National Mortgage Association mortgage-backed securities	570	-	570	-
Debt securities, U.S. government agency	357	-	357	-
Total investment securities available for sale	$7,912	$ -	$ 7,912	$ -
Total recurring fair value measurements	$7,912	$ -	$ 7,912	$ -
Nonrecurring fair value measurements				
Impaired loans	$2,832	$ -	$ -	$ 2,832
Total nonrecurring fair value measurements	$2,832	$ -	$ -	$ 2,832

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

Note 11 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)
The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has used Level 3 inputs to determine fair value as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018			
	Quantitative Information About Level 3 Fair Value Measurements			
	Total Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$1,048	Appraisal of collateral (1)	Appraisal adjustments (2)	8%-22% (1 %)
Other real estate owned	$1,674	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-6% (6 %)

	December 31, 2017			
	Quantitative Information About Level 3 Fair Value Measurements			
	Total Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$2,832	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-27% (1 %)

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

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

The estimated fair values of the Company's financial instruments that are not required to be measured or reported at fair value were as follows at June 30, 2018 and December 31, 2017 (in thousands):

			Fair Value Measurements at June 30, 2018		
	Carrying Amount	Fair Value Estimate	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Financial Assets					
Cash and cash equivalents	$18,219	$18,219	$18,219	$ -	$ -
Investment in interest-earning time deposits	4,920	4,943	-	-	4,943
Loans held for sale	5,199	5,384	5,384	-	-

Loans receivable, net	208,178	209,716	-	-	209,716
Accrued interest receivable	1,013	1,013	1,013	-	-
Investment in FHLB stock	1,246	1,246	1,246	-	-
Bank-owned life insurance	3,855	3,855	3,855	-	-
Financial Liabilities					
Deposits	201,998	202,732	44,943	-	157,789
FHLB short-term borrowings	10,000	10,000	10,000	-	-
FHLB long-term borrowings	18,000	16,962	-	-	16,962
Accrued interest payable	176	176	176	-	-
Advances from borrowers for taxes and insurance	2,330	2,330	2,330	-	-

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

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

			Fair Value Measurements at December 31, 2017		
	Carrying Amount	Fair Value Estimate	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Financial Assets					
Cash and cash equivalents	$7,910	$7,910	$7,910	$ -	$ -
Investment in interest-earning time deposits	4,879	4,912	-	-	4,912
Loans held for sale	7,006	7,232	7,232	-	-
Loans receivable, net	201,667	202,803	-	-	202,803
Accrued interest receivable	1,021	1,021	1,021	-	-
Investment in FHLB stock	1,234	1,234	1,234	-	-
Bank-owned life insurance	3,814	3,814	3,814	-	-
Financial Liabilities					
Deposits	186,221	187,309	41,183	-	146,126
FHLB short-term borrowings	10,000	10,000	10,000	-	-
FHLB long-term borrowings	18,000	16,982	-	-	16,982
Accrued interest payable	167	167	167	-	-
Advances from borrowers for taxes and insurance	2,423	2,423	2,423	-	-

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

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

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

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

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

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

Quaint Oak Bancorp, Inc.
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Note 11 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)

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

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

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

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

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

Advances from Borrowers for Taxes and Insurance. The carrying amount of advances from borrowers for taxes and insurance approximates its fair value.

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

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

Forward-Looking Statements Are Subject to Change

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

General

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

At June 30, 2018, the Bank has five wholly-owned subsidiaries, Quaint Oak Mortgage, LLC, Quaint Oak Real Estate, LLC, Quaint Oak Abstract, LLC, QOB Properties, LLC, and Quaint Oak Insurance Agency, LLC, each a Pennsylvania limited liability company. The mortgage, real estate and abstract companies offer mortgage banking, real estate sales and title abstract services, respectively, in the Lehigh Valley region of Pennsylvania, and began operation in July 2009. QOB Properties, LLC began operations in July 2012 and holds Bank properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. Quaint Oak Insurance Agency, LLC began operations in August 2016 and provides a broad range of personal and commercial insurance coverage solutions.

Critical Accounting Policies

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

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

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

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

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

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

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

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

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

Comparison of Financial Condition at June 30, 2018 and December 31, 2017

General. The Company's total assets at June 30, 2018 were $255.9 million, an increase of $16.3 million, or 6.8%, from $239.6 million at December 31, 2017. This growth in total assets was primarily due to a $10.3 million, or 130.3% increase in cash and cash equivalents, a $6.5 million, or 3.2%, increase in loans receivable, net, and a $1.7 million increase in other real estate owned, net, partially offset by a $1.8 million, or 25.8%, decrease in loans held for sale and a $575,000, or 7.3% decrease in investment securities available for sales. Asset growth was funded primarily by deposits which increased $15.8 million, or 8.5%, to $202.0 million at June 30, 2018 from $186.2 million at December 31, 2017.

Cash and Cash Equivalents. Cash and cash equivalents increased $10.3 million, or 130.3%, from $7.9 million at December 31, 2017 to $18.2 million at June 30, 2018 with the expectation that excess liquidity will be used to fund loans.

Investment Securities Available for Sale. Investment securities available for sale decreased $575,000, or 7.3%, from $7.9 million at December 31, 2017 to $7.3 million at June 30, 2018, due primarily to the principal repayments on these securities during the six months ended June 30, 2018.

Loans Held for Sale. Loans held for sale decreased $1.8 million, or 25.8%, from $7.0 million at December 31, 2017 to $5.2 million at June 30, 2018 as the Bank's mortgage banking subsidiary, Quaint Oak Mortgage, LLC, originated $43.4 million of one-to-four family residential loans during the six months ended June 30, 2018 and sold $45.1 million of loans in the secondary market during this same period. In addition, the Bank originated $1.5 million of equipment loans held for sale during the six months ended June 30, 2018 and sold $1.6 million of equipment loans during this same period.

Loans Receivable, Net. Loans receivable, net, increased $6.5 million, or 3.2%, to $208.2 million at June 30, 2018 from $201.7 million December 31, 2017. This increase was funded primarily from deposits and proceeds from the sale of loans held for sale. Increases within the portfolio occurred in commercial real estate loans which increased $4.8 million, or 5.2%, commercial business loans which increased $5.8 million, or 48.8%, multi-family residential loans which increased $1.9 million, or 9.0%, and one-to-four family residential owner occupied loans which increased $1.3 million, or 22.6%. These increases were partially offset by a $3.9 million, or 7.5%, decrease in one-to-four family residential non-owner occupied loans, a $2.6 million, or 16.5%, decrease in construction loans an $816,000, or 15.9%, decrease in home equity loans, and a $13,000, or 9.4%, decrease in other consumer loans. The Company continues its strategy of diversifying its loan portfolio with higher yielding and shorter-term loan products and selling substantially all of its newly originated one-to-four family owner-occupied loans into the secondary market.

Other Real Estate Owned. Other real estate owned (OREO) amounted to $1.7 million at June 30, 2018, consisting of one property. There were no properties in other real estate owned at December 31, 2017. During the quarter, collateral for a non-performing construction loan with an aggregate outstanding balance of $1.8 million at the time of foreclosure, was transferred into OREO. In conjunction with this transfer, $100,000 of the outstanding loan balance was charged-off through the allowance for loan losses. Non-performing assets amounted to $2.5 million, or 0.96% of total assets at June 30, 2018 compared to $3.1 million, or 1.28% of total assets at December 31, 2017.

Deposits. Total deposits increased $15.8 million, or 8.5%, to $202.0 million at June 30, 2018 from $186.2 million at December 31, 2017. This increase in deposits was primarily attributable to increases of $12.0 million, or 8.3%, in certificates of deposit, $3.9 million, or 49.2% in non-interest bearing checking accounts, and $444,000, or 1.5%, in money market accounts, partially offset by a $441,000, or 18.7% decrease in savings accounts and a $160,000, or 34.6% decrease in passbook accounts.

Stockholders' Equity. Total stockholders' equity increased $747,000, or 3.4%, to $22.9 million at June 30, 2018 from $22.2 million at December 31, 2017. Contributing to the increase was net income for the six months ended June 30, 2018 of $823,000, the reissuance of treasury stock for exercised stock options of $534,000, common stock earned by participants in the employee stock ownership plan of $96,000, amortization of stock awards and options under our stock compensation plans of $61,000, the reissuance of treasury stock under the Bank's 401(k) Plan of $40,000, and other comprehensive income, net of $11,000. These increases were partially offset by the purchase of treasury stock of $586,000 and by dividends paid of $232,000.

Comparison of Operating Results for the Three Months Ended June 30, 2018 and 2017

General. Net income amounted to $535,000 for the three months ended June 30, 2018, an increase of $11,000, or 2.1%, compared to net income of $524,000 for three months ended June 30, 2017. The increase in net income on a comparative quarterly basis was primarily the result of an increase in net interest income of $171,000, a decrease in the provision for income taxes of $104,000, and an increase in non-interest income of $59,000, partially offset by an increase in non-interest expense of $293,000 and an increase in the provision for loan losses of $30,000.

Net Interest Income. Net interest income increased $171,000, or 9.1%, to $2.1 million for the three months ended June 30, 2018 from $1.9 million for the three months ended June 30, 2017. The increase was driven by a $395,000, or 15.2%, increase in interest income, partially offset by a $224,000, or 31.3%, increase in interest expense.

Interest Income. Interest income increased $395,000, or 15.2%, to $3.0 million for the three months ended June 30, 2018 from $2.6 million for the three months ended June 30, 2017. The increase in interest income was primarily due to a $25.7 million increase in average loans receivable, net, including loans held for sale, which increased from an average balance of $187.9 million for the three months ended June 30, 2017 to an average balance of $213.6 million for the three months ended June 30, 2018, and had the effect of increasing interest income $345,000. The increase in interest income was also due to a $10.4 million increase in average cash and cash equivalents due from banks, interest bearing, which increased from an average balance of $6.7 million for the three months ended June 30, 2017 to an average balance of $17.1 million for the three months ended June 30, 2018, and had the effect of increasing interest income $27,000. Also contributing to this increase was a 64 basis point increase in the yield on average cash and cash equivalents due from banks, interest bearing, which increased from 1.02% for the three months ended June 30, 2017 to 1.66% for the three months ended June 30, 2018, which had the effect of increasing interest income $27,000.

Interest Expense. Interest expense increased $224,000, or 31.3%, to $939,000 for the three months ended June 30, 2018 from $715,000 for the three months ended June 30, 2017. The increase in interest expense was primarily attributable to a $28.2 million increase in average interest-bearing liabilities, which increased from an average balance of $189.0 million for the three months ended June 30, 2017 to an average balance of $217.2 million for the three months ended June 30, 2018, and had the effect of increasing interest expense $122,000. This increase in average interest-bearing liabilities was primarily attributable to an $18.7 million increase in average certificate of deposit accounts which increased from an average balance of $136.2 million for the three months ended June 30, 2017 to an average balance of $154.9 million for the three months ended June 30, 2018, and had the effect of increasing interest expense $81,000, and an $11.1 million increase in average Federal Home Loan Bank borrowings which increased from an average balance of $16.9 million for the three months ended June 30, 2017 to an average balance of $28.0 million for the three months ended June 30, 2018, and had the effect of increasing interest expense $45,000. Also contributing to this increase was a 22 basis point increase in the average rate on interest-bearing liabilities, from 1.51% for the three months ended June 30, 2017 to 1.73% for the three months ended June 30, 2018, which had the effect of increasing interest expense by $102,000. This increase in rate was primarily attributable to an 18 basis point increase in rate on average certificate of deposit accounts, which increased from 1.72% for the three months ended June 30, 2017 to 1.90% for the three months ended June 30, 2018, and had the effect of increasing interest expense by $68,000, and a 55 basis point increase in rate on average Federal Home Loan Bank borrowings, which increased from 1.44% for the three months ended June 30, 2017 to 1.99% for the three months ended June 30, 2018, which had the effect of increasing interest expense by $34,000.

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

	Three Months Ended June 30,					
	2018			2017		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Due from banks, interest-bearing	$17,070	$71	1.66 %	$6,697	$17	1.02 %
Investment in interest-earning time deposits	4,920	22	1.79	5,361	20	1.49
Investment securities available for sale	7,554	37	1.96	9,102	36	1.58
Loans receivable, net (1) (2) (3)	213,555	2,849	5.34	187,863	2,523	5.37
Investment in FHLB stock	1,246	20	6.42	797	8	4.02
Total interest-earning assets	244,345	2,999	4.91 %	209,820	2,604	4.96 %
Non-interest-earning assets	8,812			9,034		
Total assets	$253,157			$218,854		
Interest-bearing liabilities:						
Passbook accounts	$329	$*	* %	$721	$*	* %
Savings accounts	1,968	1	0.20	1,437	1	0.28
Money market accounts	31,948	64	0.80	33,718	67	0.79
Certificate of deposit accounts	154,925	735	1.90	136,170	586	1.72
Total deposits	189,170	800	1.69	172,046	654	1.52
FHLB short-term borrowings	10,000	48	1.92	7,750	21	1.08
FHLB long-term borrowings	18,000	91	2.02	9,179	40	1.74
Total interest-bearing liabilities	217,170	939	1.73 %	188,975	715	1.51 %
Non-interest-bearing liabilities	13,299			8,406		
Total liabilities	230,469			197,381		
Stockholders' Equity	22,688			21,473		
Total liabilities and Stockholders' Equity	$253,157			$218,854		
Net interest-earning assets	$27,175			$20,845		
Net interest income; average interest rate spread		$2,060	3.18 %		$1,889	3.45 %
Net interest margin (4)			3.37 %			3.60 %
Average interest-earning assets to average interest-bearing liabilities			112.51 %			111.03 %

* Not meaningful.

(1) Includes loans held for sale.

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

(3) Includes tax free municipal leases with an aggregate average balance of $20,000 and an average yield of 3.63% for the three months ended June 30, 2018 and an aggregate average balance of $73,000 and an average yield of 4.04% for the three months ended June 30, 2017. The tax-exempt income from such loans has not been calculated on a tax equivalent basis.

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

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Provision for Loan Losses. The provision for loan losses increased $30,000, or 46.9%, from $64,000 for the three months ended June 30, 2017 to $94,000 for the three months ended June 30, 2018. The increase was based on an evaluation of the allowance relative to such factors as volume of the loan portfolio, concentrations of credit risk, prevailing economic conditions, prior loan loss experience and amount of non-performing loans at June 30, 2018.

Non-performing loans amounted to $785,000, or 0.38% of net loans receivable at June 30, 2018, consisting of five loans, three of which are on non-accrual status and two of which are 90 days or more past due and accruing interest. Comparably, non-performing loans amounted to $3.1 million, or 1.52% of net loans receivable at December 31, 2017, consisting of eleven loans, three of which were on non-accrual status and eight of which were 90 days or more past due and accruing interest. The non-performing loans at June 30, 2018 include three one-to-four family owner occupied residential loans, one construction loan, and one commercial real estate loan, and all are generally well-collateralized or adequately reserved for. During the quarter ended June 30, 2018, no new loans were placed on non-accrual status and one loan was transferred to other real estate owned. The allowance for loan losses as a percent of total loans receivable was 0.87% at June 30, 2018 and 0.89% at December 31, 2017.

Other real estate owned (OREO) amounted to $1.7 million at June 30, 2018, consisting of one property. There were no properties in other real estate owned at December 31, 2017. During the quarter, collateral for a non-performing construction loan with an aggregate outstanding balance of $1.8 million at the time of foreclosure, was transferred into OREO. In conjunction with this transfer, $100,000 of the outstanding loan balance was charged-off through the allowance for loan losses. Non-performing assets amounted to $2.5 million, or 0.96% of total assets at June 30, 2018 compared to $3.1 million, or 1.28% of total assets at December 31, 2017.

Non-Interest Income. Non-interest income increased $59,000, or 6.1%, from $961,000 for the three months ended June 30, 2017 to $1.0 million for the three months ended June 30, 2018 due primarily to a $70,000, or 47.6%, increase in mortgage banking and title abstract fees, a $67,000 decrease in loss on sales and write-downs on other real estate owned, a $30,000, or 150.0%, increase in other non-interest income, a $26,000, or 144.4%, increase in other fees and service charges, and a $14,000, or 15.7%, increase in insurance commissions earned by Quaint Oak Insurance Agency, a wholly owned insurance subsidiary of Quaint Oak Bank. These increases were partially offset by a $131,000, or 18.3%, decrease in net gain on loans held for sale, a $16,000 decrease in gain on the sale of SBA loans, and a $1,000, or 4.5%, decrease in income from bank-owned life insurance.

Non-Interest Expense. Non-interest expense increased $293,000, or 14.8%, from $2.0 million for the three months ended June 30, 2017 to $2.3 million for the three months ended June 30, 2018. Salaries and employee benefits expense accounted for $268,000 of the change as this expense increased 19.8%, from $1.4 million for the three months ended June 30, 2017 to $1.6 million for the three months ended June 30, 2018 due primarily to increased staff related to the continued expansion of the Company's mortgage banking and lending operations, and the expansion of our real estate agency subsidiary through the acquisition of a local real estate agency in August 2017. Also contributing to the increase was a $29,000, or 30.9%, increase in professional fees, a $15,000, or 38.5%, increase in advertising expense, a $7,000, or 8.1%, increase in data processing expense, a $3,000, or 7.0%, increase in FDIC insurance assessment, a $1,000, or 0.7%, increase in occupancy and equipment expense, and a $1,000, or 100.0%, increase in other real estate owned expense. These increases were partially offset by a $21,000, or 12.7%, decrease in other non-interest expense and a $10,000, or 20.0%, decrease in directors' fees and expenses.

Provision for Income Tax. The provision for income tax decreased $104,000, or 38.0%, from $274,000 for the three months ended June 30, 2017 to $170,000 for the three months ended June 30, 2018 as our effective tax rate decreased from 34.3% for the three months ended June 30, 2017 to 24.1% for the three months ended June 30, 2018 primarily due to the decrease in the Company's federal income tax rate from 34% in 2017 to 21% in 2018 as a result of the Tax Cuts and Jobs Act which was signed into law on December 22, 2017.

Comparison of Operating Results for the Six Months Ended June 30, 2018 and 2017

General. Net income amounted to $823,000 for the six months ended June 30, 2018, an increase of $128,000, or 18.4%, compared to net income of $695,000 for six months ended June 30, 2017. The increase in net income was primarily the result of increases in non-interest income of $444,000 and net interest income of $329,000, and a decrease in the provision for income taxes of $123,000, partially offset by an increase in non-interest expense of $709,000 and an increase in the provision for loan losses of $59,000.

Net Interest Income. Net interest income increased $329,000, or 8.9%, to $4.0 million for the six months ended June 30, 2018 from $3.7 million for the six months ended June 30, 2017 due primarily to a $715,000, or 14.0%, increase in interest income, partially offset by a $386,000, or 27.4%, increase in interest expense.

Interest Income. Interest income increased $715,000, or 14.0%, to $5.8 million for the six months ended June 30, 2018 from $5.1 million for the six months ended June 30, 2017. The increase in interest income was primarily due to a $25.9 million increase in average loans receivable, net, including loans held for sale, which increased from an average balance of $184.8 million for the six months ended June 30, 2017 to an average balance of $210.7 million for the six months ended June 30, 2018, and had the effect of increasing interest income $694,000. Partially offsetting this increase was an eight basis point decline in the yield on loans receivable, net, including loans held for sale, from 5.36% for the six months ended June 30, 2017 to 5.28% for the six months ended June 30, 2018, which had the effect of decreasing interest income by $89,000. The increase in interest income was also due to a $6.3 million increase in average cash and cash equivalents due from banks, interest bearing, which increased from an average balance of $8.4 million for the six months ended June 30, 2017 to an average balance of $14.7 million for the six months ended June 30, 2018, and had the effect of increasing interest income $30,000. Also contributing to this increase was a 69 basis point increase in the yield on average cash and cash equivalents due from banks, interest bearing, which increased from 0.95% for the six months ended June 30, 2017 to 1.64% for the six months ended June 30, 2018, which had the effect of increasing interest income by $51,000.

Interest Expense. Interest expense increased $386,000, or 27.4%, to $1.8 million for the six months ended June 30, 2018 from $1.4 million for the six months ended June 30, 2017. The increase in interest expense was primarily attributable to a $25.0 million increase in average interest-bearing liabilities, which increased from an average balance of $188.6 million for the six months ended June 30, 2017 to an average balance of $213.6 million for the six months ended June 30, 2018, and had the effect of increasing interest expense $210,000. This increase in average interest-bearing liabilities was primarily attributable to a $14.8 million increase in average certificate of deposit accounts which increased from an average balance of $137.0 million for the six months ended June 30, 2017 to an average balance of $151.8 million for the six months ended June 30, 2018, and had the effect of increasing interest expense $127,000, and an $11.8 million increase in average Federal Home Loan Bank borrowings which increased from an average balance of $16.2 million for the six months ended June 30, 2017 to an average balance of $28.0 million for the six months ended June 30, 2018, and had the effect of increasing interest expense $89,000. Also contributing to this increase was a 19 basis point increase in the average rate on interest-bearing liabilities, from 1.49% for the six months ended June 30, 2017 to 1.68% for the six months ended June 30, 2018, which had the effect of increasing interest expense by $176,000. This increase in rate was primarily attributable to a 14 basis point increase in rate on average certificate of deposit accounts, which increased from 1.71% for the six months ended June 30, 2017 to 1.85% for the six months ended June 30, 2018, and had the effect of increasing interest expense by $106,000, and a 58 basis point increase in rate on average Federal Home Loan Bank borrowings, which increased from 1.32% for the six months ended June 30, 2017 to 1.90% for the six months ended June 30, 2018, which had the effect of increasing interest expense by $70,000.

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

	Six Months Ended June 30,					
	2018			2017		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Due from banks, interest-bearing	$14,754	$121	1.64 %	$8,453	$40	0.95 %
Investment in interest-earning time deposits	4,903	45	1.84	5,712	46	1.61
Investment securities available for sale	7,681	72	1.87	9,254	65	1.40
Loans receivable, net (1) (2) (3)	210,708	5,558	5.28	184,824	4,953	5.36
Investment in FHLB stock	1,240	38	6.13	755	15	3.97
Total interest-earning assets	239,286	5,834	4.88 %	208,998	5,119	4.90 %
Non-interest-earning assets	8,741			9,135		
Total assets	$248,027			$218,133		
Interest-bearing liabilities:						
Passbook accounts	$362	$*	* %	$817	$1	0.24 %
Savings accounts	1,986	2	0.20	1,608	2	0.25
Money market accounts	31,509	125	0.79	33,000	131	0.79
Certificate of deposit accounts	151,785	1,402	1.85	136,961	1,168	1.71
Total deposits	185,642	1,529	1.65	172,386	1,302	1.51
FHLB short-term borrowings	10,000	84	1.68	7,429	33	0.89
FHLB long-term borrowings	18,000	182	2.02	8,789	74	1.68
Total interest-bearing liabilities	213,642	1,795	1.68 %	188,604	1,409	1.49 %
Non-interest-bearing liabilities	11,858			8,261		
Total liabilities	225,500			196,865		
Stockholders' Equity	22,527			21,268		
Total liabilities and Stockholders' Equity	$248,027			$218,133		
Net interest-earning assets	$25,644			$20,394		
Net interest income; average interest rate spread		$4,039	3.20 %		$3,710	3.41 %
Net interest margin (4)			3.38 %			3.55 %
Average interest-earning assets to average interest-bearing liabilities			112.00 %			110.81 %

(1) Includes loans held for sale.

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

(3) Includes tax free municipal leases with an aggregate average balance of $27,000 and an average yield of 4.23% for the six months ended June 30, 2018 and an aggregate average balance of $79,000 and an average yield of 4.03% for the six months ended June 30, 2017. The tax-exempt income from such loans has not been calculated on a tax equivalent basis.

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

Provision for Loan Losses. The Company increased its provision for loan losses by $59,000, or 55.7%, from $106,000 for the six months ended June 30, 2017 to $165,000 for the six months ended June 30, 2018. As was the case for the quarter, the increase was based on an evaluation of the allowance relative to such factors as volume of the loan portfolio, concentrations of credit risk, prevailing economic conditions, prior loan loss experience and amount of non-performing loans. See additional discussion under "Comparison of Operating Results for the Three Months Ended June 30, 2018 and 2017-Provision for Loan Losses."

Non-Interest Income. Non-interest income increased $444,000, or 33.7%, for the six months ended June 30, 2018 over the comparable period in 2017 primarily due to a $126,000 net increase in gain on sales and write-downs on other real estate owned, an $82,000, or 10.0%, increase in net gain on loans held for sale, a $74,000, or 168.2%, increase in other fees and services charges, a $73,000, or 251.7%, increase in other non-interest income, a $69,000, or 26.7%, increase in mortgage banking and title abstract fees, a $16,000, or 9.6%, increase in insurance commissions earned by Quaint Oak Insurance Agency, a wholly owned insurance subsidiary of Quaint Oak Bank, and a $7,000, or 43.8%, increase in gain on sale of SBA loans. These increases were partially offset by a $3,000, or 6.8%, decrease in income from bank-owned life insurance.

Non-Interest Expense. Non-interest expense increased $709,000, or 18.3%, from $3.9 million for the six months ended June 30, 2017 to $4.6 million for the six months ended June 30, 2018. Salaries and employee benefits expense accounted for $619,000 of the change as this expense increased 23.2%, from $2.7 million for the six months ended June 30, 2017 to $3.3 million for the six months ended June 30, 2018 due primarily to increased staff related to the continued expansion of the Company's mortgage banking and lending operations, and the expansion of our real estate agency subsidiary through the acquisition of a local real estate agency in August 2017. Also contributing to the increase was a $46,000, or 34.6%, increase in data processing expense, a $30,000, or 38.5%, increase in advertising expense, a $17,000, or 5.6%, increase in other non-interest expense, a $6,000, or 2.1%, increase in occupancy and equipment expense, and a $6,000, or 6.9%, increase in FDIC insurance assessment. These increases were partially offset by an $8,000, or 7.8%, decrease in directors' fees and expenses, a $6,000, or 75.0%, decrease in other real estate owned expense, and a $1,000, or 0.5%, decrease in professional fees.

Provision for Income Tax. The provision for income tax decreased $123,000, or 35.3%, from $348,000 for the six months ended June 30, 2017 to $225,000 for the six months ended June 30, 2018 as our effective tax rate decreased from 33.4% for the six months ended June 30, 2017 to 21.5% for the six months ended June 30, 2018 primarily due to the decrease in the Company's federal income tax rate from 34% in 2017 to 21% in 2018 as a result of the Tax Cuts and Jobs Act, and an increase in a tax deduction taken related to the exercise of non-qualified stock options during this same period.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, amortization and prepayment of loans and to a lesser extent, loan sales and other funds provided from operations. While scheduled principal and interest payments on loans are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company sets the interest rates on its deposits to maintain a desired level of total deposits. In addition, the Company invests excess funds in short-term interest-earning assets that provide additional liquidity. At June 30, 2018, the Company's cash and cash equivalents amounted to $18.2 million. At such date, the Company also had $1.6 million invested in interest-earning time deposits maturing in one year or less.

The Company uses its liquidity to fund existing and future loan commitments, to fund deposit outflows, to invest in other interest-earning assets and to meet operating expenses. At June 30, 2018, Quaint Oak Bank had outstanding commitments to originate loans of $12.8 million and commitments under unused lines of credit of $13.3 million.

At June 30, 2018, certificates of deposit scheduled to mature in less than one year totaled $47.7 million. Based on prior experience, management believes that a significant portion of such deposits will remain with us, although there can be no assurance that this will be the case.

In addition to cash flow from loan payments and prepayments and deposits, the Company has significant borrowing capacity available to fund liquidity needs. If the Company requires funds beyond its ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Pittsburgh (FHLB), which provide an additional source of funds. As of June 30, 2018, we had $28.0 million of borrowings from the FHLB and had $125.2 million in borrowing capacity. Under terms of the collateral agreement with the FHLB of Pittsburgh, we pledge residential mortgage loans as well as Quaint Oak Bank's FHLB stock as collateral for such advances. In addition, as of June 30, 2018 Quaint Oak Bank had $850,000 in borrowing capacity with the Federal Reserve Bank of Philadelphia. There were no borrowings under this facility at June 30, 2018.

Our stockholders' equity amounted to $22.9 million at June 30, 2018, an increase of $747,000 million, or 3.4%, from $22.2 million at December 31, 2017. Contributing to the increase was net income for the six months ended June 30, 2018 of $823,000, the reissuance of treasury stock for exercised stock options of $534,000, common stock earned by participants in the employee stock ownership plan of $96,000, amortization of stock awards and options under our stock compensation plans of $61,000, the reissuance of treasury stock under the Bank's 401(k) Plan of $40,000, and other comprehensive income, net of $11,000. These increases were partially offset by the purchase of treasury stock of $586,000 and by dividends paid of $232,000. For further discussion of the stock compensation plans, see Note 10 in the Notes to Unaudited Consolidated Financial Statements contained elsewhere herein.

Quaint Oak Bank is required to maintain regulatory capital sufficient to meet tier 1 leverage, common equity tier 1 capital, tier 1 risk-based and total risk-based capital ratios of at least 4.00%, 4.50%, 6.00%, and 8.00%, respectively. At June 30, 2018, Quaint Oak Bank exceeded each of its capital requirements with ratios of 8.17%, 11.14%, 11.14 and 12.15%, respectively. As a small savings and loan holding company eligible for exemption, the Company is not currently subject to any regulatory capital requirements.

Off-Balance Sheet Arrangements

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

Commitments. At June 30, 2018, we had unfunded commitments under lines of credit of $13.3 million and $12.8 million of commitments to originate loans. We had no commitments to advance additional amounts pursuant to outstanding lines of credit or undisbursed construction loans.

Impact of Inflation and Changing Prices

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of June 30, 2018. Based on their evaluation of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and regulations are operating in an effective manner.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the second fiscal quarter of fiscal 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Not applicable.

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

(a) Not applicable.

(b) Not applicable.

(c) Purchases of Equity Securities

The Company's repurchases of its common stock made during the quarter ended June 30, 2018 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)
April 1, 2018 – April 30, 2018	5,000	$ 13.14	5,000	14,344
May 1, 2018 – May 31, 2018	19,210	13.07	-	14,344
June 1, 2018 – June 30, 2018	-	-	-	14,344
Total	24,210	$ 13.08	5,000	14,344

Notes to this table:

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

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

SIGNATURES

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

Date: August 13, 2018 By: /s/Robert T. Strong
Robert T. Strong
President and Chief Executive Officer

Date: August 13, 2018 By: /s/John J. Augustine
John J. Augustine
Executive Vice President and
Chief Financial Officer