

QUAIN OAK BANCORP INC
Form 10-Q
August 13, 2014

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

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

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

Pennsylvania
(State or Other Jurisdiction of Incorporation or Organization)

35-2293957
(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.

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

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

Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

(Do not check if a smaller reporting company)

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

Yes 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 11, 2014, 912,780 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, 2014	At December 31, 2013
(In thousands, except share data)		
Assets		
Due from banks, non-interest-bearing	\$ 2,195	\$ 4,989
Due from banks, interest-bearing	892	1,195
Cash and cash equivalents	3,087	6,184
Investment in interest-earning time deposits	7,411	7,633
Investment securities available for sale	1,711	1,680
Loans held for sale	3,855	1,098
Loans receivable, net of allowance for loan losses (2014 \$1,166; 2013 \$941)	116,790	106,887
Accrued interest receivable	804	735
Investment in Federal Home Loan Bank stock, at cost	615	421
Bank-owned life insurance	3,504	-
Premises and equipment, net	1,604	1,637
Other real estate owned, net	239	574
Prepaid expenses and other assets	1,024	578
Total Assets	\$ 140,644	\$ 127,427
Liabilities and Stockholders' Equity		
Liabilities		
Deposits, interest-bearing	\$ 112,597	\$ 103,324
Federal Home Loan Bank advances	9,500	5,500
Accrued interest payable	97	77
Advances from borrowers for taxes and insurance	1,181	1,224
Accrued expenses and other liabilities	353	316
Total Liabilities	123,728	110,441
Stockholders' Equity		
Preferred stock – \$0.01 par value, 1,000,000 shares authorized; none issued or outstanding	-	-
Common stock – \$0.01 par value; 9,000,000 shares authorized; 1,388,625 issued; 912,362 and 947,849 outstanding at June 30, 2014 and December 31, 2013, respectively	14	14
Additional paid-in capital	13,706	13,665
Treasury stock, at cost: 2014 476,263 shares; 2013 440,776 shares	(4,891)	(4,279)
Unallocated common stock held by:		
Employee Stock Ownership Plan (ESOP)	(489)	(536)

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Recognition & Retention Plan Trust (RRP)	(93)	(120)
Accumulated other comprehensive loss	(15)	(18)
Retained earnings	8,684	8,260
Total Stockholders' Equity	16,916	16,986
Total Liabilities and Stockholders' Equity	\$ 140,644	\$ 127,427

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
(In thousands, except for share data)				
Interest Income				
Interest on loans	\$1,732	\$1,485	\$3,450	\$2,915
Interest and dividends on short-term investments and investment securities	46	67	87	131
Total Interest Income	1,778	1,552	3,537	3,046
Interest Expense				
Interest on deposits	405	421	791	835
Interest on Federal Home Loan Bank advances	5	14	8	35
Total Interest Expense	410	435	799	870
Net Interest Income	1,368	1,117	2,738	2,176
Provision for Loan Losses	126	55	226	107
Net Interest Income after Provision for Loan Losses	1,242	1,062	2,512	2,069
Non-Interest Income				
Mortgage banking and title abstract fees	88	105	160	249
Other fees and services charges	9	15	33	23
Income from bank-owned life insurance	4	-	4	-
Net gain on sales of loans	444	282	678	469
Gain on sale of SBA loan	16	-	16	-
Loss on sale of other real estate owned	(15)	(10)	(38)	(10)
Other	11	7	15	15
Total Non-Interest Income	557	399	868	746
Non-Interest Expense				
Salaries and employee benefits	821	749	1,641	1,454
Directors' fees and expenses	53	56	106	115
Occupancy and equipment	135	126	269	234
Professional fees	107	107	185	207
FDIC deposit insurance assessment	26	5	54	35
Other real estate owned expense	9	20	17	29
Advertising	26	12	52	38
Other	99	113	197	204
Total Non-Interest Expense	1,276	1,188	2,521	2,316
Income before Income Taxes	523	273	859	499

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Income Taxes	198	100	334	186
Net Income	\$325	\$173	\$525	\$313
Earnings per share - basic	\$0.38	\$0.20	\$0.62	\$0.35
Average shares outstanding - basic	845,612	886,437	851,753	889,534
Earnings per share - diluted	\$0.36	\$0.19	\$0.58	\$0.34
Average shares outstanding - diluted	896,142	926,817	897,961	925,486

See accompanying notes to consolidated financial statements.

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Quaint Oak Bancorp, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

	For the Three Months Ended June 30, 2014		For the Six Months Ended June 30, 2014	
	2013		2013	
	(In thousands)			
Net Income	\$ 325	\$ 173	\$ 525	\$ 313
Other Comprehensive Income (Loss):				
Unrealized gains (losses) on investment securities available-for-sale	5	(64)	5	(41)
Income tax effect	(2)	21	(2)	14
Other comprehensive income (loss)	3	(43)	3	(27)
Total Comprehensive Income	\$ 328	\$ 130	\$ 528	\$ 286

See accompanying notes to consolidated financial statements.

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Quaint Oak Bancorp, Inc.

Consolidated Statements of Stockholders' Equity (Unaudited)

For the Six Months Ended June 30, 2014

	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
(In thousands, except share data)								
BALANCE – December 31, 2013	947,849	\$ 14	\$ 13,665	\$(4,279)	\$(656)	\$(18)	\$8,260	\$16,345
Common stock allocated by ESOP			29		48			77
Treasury stock purchased	(38,225)			(640)				(64,000)
Issuance of Treasury Stock Under Stock Incentive Plan	2,738		(28)	28				-
Stock based compensation expense			66					66
Release of 2,777 vested RRP shares			(26)		26			-
Cash dividends declared (\$0.11 per share)							(101)	(10,110)
Net income							525	525
Other comprehensive income						3		3
	912,362	\$ 14	\$ 13,706	\$(4,891)	\$(582)	\$(15)	\$8,684	\$16,320

BALANCE
-June 30, 2014

See accompanying notes to consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2014	2013
	(In Thousands)	
Cash Flows from Operating Activities		
Net income	\$525	\$ 313
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	226	107
Depreciation expense	82	64
Net accretion of securities discounts	-	(2)
Amortization of deferred loan fees and costs, net	120	63
Stock-based compensation expense	115	145
Gain on the sale of loans held for sale	(678)	(469)
Gain on the sale of SBA loan	(16)	-
Increase in the cash surrender value of bank-owned life insurance	(4)	-
Net loss on sale of other real estate owned	38	10
Changes in assets and liabilities which provided (used) cash:		
Loans held for sale-originations	(22,856)	(26,097)
Loans held for sale-proceeds	20,777	28,288
Accrued interest receivable	(69)	(21)
Prepaid expenses and other assets	(448)	114
Accrued interest payable	20	(6)
Accrued expenses and other liabilities	37	(172)
Net Cash (Used in) Provided by Operating Activities	(2,131)	2,337
Cash Flows from Investing Activities		
Net increase in investment in interest-earning time deposits	222	212
Purchase of investment securities available for sale	(26)	(24)
Proceeds from calls of investment securities available for sale	-	500
Net increase in loans receivable	(10,344)	(8,344)
Net (increase) decrease in investment in Federal Home Loan Bank stock	(194)	177
Purchase of bank-owned life insurance	(3,500)	-
Proceeds from the sale of other real estate owned	428	45
Capitalized expenditures on other real estate owned	(20)	(41)
Purchase of premises and equipment	(49)	(126)
Net Cash Used in Investing Activities	(13,483)	(7,601)
Cash Flows from Financing Activities		
Net increase in deposits	9,273	7,510
Proceeds from Federal Home Loan Bank advances	4,000	-
Repayment of Federal Home Loan Bank advances	-	(1,000)
Dividends paid	(101)	(88)
Purchase of treasury stock	(612)	(281)
Decrease in advances from borrowers for taxes and insurance	(43)	-
Net Cash Provided by Financing Activities	12,517	6,141
Net (Decrease) Increase in Cash and Cash Equivalents	(3,097)	877

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Cash and Cash Equivalents – Beginning of Year	6,184	12,400
Cash and Cash Equivalents – End of Year	\$3,087	\$13,277

Supplementary Disclosure of Cash Flow and Non-Cash Information:

Cash payments for interest	\$779	\$876
Cash payments for income taxes	\$596	\$130
Transfer of loans to other real estated owned	\$111	\$31

See accompanying notes to consolidated financial statements.

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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. (the “Company”) and its wholly-owned subsidiary, Quaint Oak Bank (the “Bank”) along with its wholly-owned subsidiaries. At June 30, 2014, the Bank has five wholly-owned subsidiaries, Quaint Oak Mortgage, LLC, Quaint Oak Real Estate, LLC, Quaint Oak Abstract, LLC, Quaint Oak Insurance Agency, LLC, and QOB Properties, LLC, each a Pennsylvania limited liability company. The mortgage, real estate and abstract companies offer mortgage banking, real estate sales and title abstract services, respectively, and began operation in July 2009. QOB Properties, LLC began operations in July 2012 and holds Bank properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. Quaint Oak Insurance Agency, LLC is currently inactive. 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’s two branch offices includes Bucks, Montgomery, Lehigh and Northampton Counties, Pennsylvania, and northeast Philadelphia and the surrounding area. The principal deposit products offered by the Bank are certificates of deposit, passbook savings accounts, statement savings accounts and eSavings accounts. Loan products offered are fixed and adjustable rate residential and commercial mortgages, construction loans, home equity loans, auto 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, 2013 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 2013 Annual Report on Form 10-K. The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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, the assessment of other-than-temporary impairment of investment and mortgage-backed securities, valuation of other real estate owned, 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. The consumer loan segment consists of the following classes: home equity loans and consumer non-real estate loans. Included in the home equity class are home equity loans and home equity lines of credit. Included in the consumer non-real estate loans are loans secured by saving accounts, equipment and auto loans.

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.

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

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

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

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 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 and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Federal Home Loan Bank Stock. Federal law requires a member institution of the Federal Home Loan Bank (FHLB) system to hold restricted stock of its district Federal Home Loan Bank according to a predetermined formula. FHLB stock is carried at cost and evaluated for impairment. When evaluating FHLB stock for impairment, its value is determined based on the ultimate recoverability of the par value of the stock. We evaluate our holdings of FHLB stock for impairment each reporting period. No impairment charges were recognized on FHLB stock during the three and six months ended June 30, 2014 and 2013.

Bank Owned Life Insurance (BOLI). 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 statements of financial condition. Changes in the cash surrender value are recorded in non-interest income in the consolidated statements of income.

Other Real Estate Owned. 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

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

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

revenue and expenses from operations and additions to the valuation allowance are included in other expenses.

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, 2014, the Company has three share-based plans: the 2008 Recognition and Retention Plan (“RRP”), the 2008 Stock Option Plan, and the 2013 Stock Incentive Plan. Awards under these plans were made in May 2008 and 2013. These plans are more fully described in Note 9.

The Company also has an employee stock ownership plan (“ESOP”). This plan is more fully described in Note 9. As ESOP shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the average market price of the shares over the period earned.

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

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

Recent Accounting Pronouncements. In January 2014, the FASB issued ASU 2014-04, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this Update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. This ASU is not expected to have a significant impact on the Company’s financial statements.

Reclassifications. Certain items in the 2013 consolidated financial statements have been reclassified to conform to the presentation in the 2014 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.

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 months ended June 30, 2014, all unvested restricted stock program awards and outstanding stock options representing shares were dilutive. For the six months ended June 30, 2014, unvested restricted stock program awards representing shares of 9,160 were not included in the computation of diluted earnings per share, because to do so would have been antidilutive. Unvested restricted stock program awards and outstanding stock options representing shares of 83,757 for the three months ended June 30, 2013, and shares of 91,633 for the six months ended June 30, 2013, were not included in the computation of diluted earnings per share, because to do so would have been antidilutive.

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		For the Six Months Ended	
	Ended June 30, 2014	2013	2014	2013
Net Income	\$325,000	\$173,000	\$525,000	\$313,000
Weighted average shares outstanding – basic	845,612	886,437	851,753	889,534
Effect of dilutive common stock equivalents	50,530	40,380	46,208	35,952
Adjusted weighted average shares outstanding – diluted	896,142	926,817	897,961	925,486
Basic earnings per share	\$0.38	\$0.20	\$0.62	\$0.35
Diluted earnings per share	\$0.36	\$0.19	\$0.58	\$0.34

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 months and the six months ended June 30, 2014 and 2013 (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,	
	2014	2013	2014	2013
Balance at the beginning of the period	\$(18)	\$76	\$(18)	\$60
Other comprehensive income (loss) before classifications	3	(43)	3	(27)
	-	-	-	-

Amount reclassified from accumulated other comprehensive
loss

Total other comprehensive income (loss)	3	(43)	3	(27)
Balance at the end of the period	\$(15)	\$33	\$(15)	\$33

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

There were no amounts reclassified out of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2014 and 2013.

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, 2014 and December 31, 2013, by contractual maturity, are shown below:

	June 30, 2014	December 31, 2013
(In Thousands)		
Due in one year or less	\$3,085	\$3,042
Due after one year through five years	4,326	4,591
	\$7,411	\$7,633

Note 5 – Investment Securities Available for Sale

The amortized cost and fair value of investment securities available for sale at June 30, 2014 and December 31, 2013 are summarized below (in thousands):

	June 30, 2014			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available for Sale:				
Short-term bond fund	\$1,192	-	\$(8)	\$1,184
Limited-term bond fund	542	-	(15)	527
	\$1,734	\$-	\$(23)	\$1,711

	December 31, 2013			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available for Sale:				
Short-term bond fund	\$1,170	\$-	\$(11)	\$1,159
Limited-term bond fund	538	-	(17)	521
	\$1,708	\$-	\$(28)	\$1,680

The following table shows 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, 2014 and December 31, 2013 (in thousands):

	June 30, 2014				Total Fair Value	Total Gross Unrealized
	Less than Twelve Months Fair Value	Gross Unrealized	Twelve Months or Greater Fair Value	Gross Unrealized		
Number of Securities						

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			Losses		Losses		Losses
Short-term bond fund	1	\$-	\$-	\$1,184	\$(8)	\$1,184	\$(8)
Limited-term bond fund	1	-	-	527	(15)	527	(15)
Total	2	\$-	\$-	\$1,711	\$(23)	\$1,711	\$(23)

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Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 5 – Investment Securities Available for Sale (Continued)

	December 31, 2013						
	Number of Securities	Less than Twelve Months		Twelve Months or Greater		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Short-term bond fund	1	\$ 1,159	\$(11)	\$-	\$-	\$ 1,159	\$(11)
Limited-term bond fund	1	-	-	521	(17)	521	(17)
Total	2	\$ 1,159	\$(11)	\$ 521	\$(17)	\$ 1,680	\$(28)

At June 30, 2014, there were two bond funds in an unrealized loss position that at such date had an aggregate depreciation of 1.33% 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 and 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 security until the anticipated recovery of fair value occurs. Management does not believe any individual unrealized loss as of June 30, 2014 represents an other-than-temporary impairment.

There were no impairment charges recognized during the three and six months ended June 30, 2014 or 2013.

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

The composition of net loans receivable is as follows:

	June 30, 2014	December 31, 2013
	(In Thousands)	
Real estate loans:		
One-to-four family residential:		
Owner occupied	\$ 8,586	\$ 8,900
Non-owner occupied	47,059	43,489
Total one-to-four family residential	55,645	52,389
Multi-family (five or more) residential	8,103	6,023
Commercial real estate	30,548	25,863
Commercial lines of credit	1,645	1,880
Construction	16,217	16,038
Home equity loans	5,832	5,682
Total real estate loans	117,990	107,875

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Auto and equipment loans	323	218
Loans secured by deposits	11	15
Total Loans	118,324	108,108
Deferred loan fees and costs	(368)	(280)
Allowance for loan losses	(1,166)	(941)
Net Loans	\$ 116,790	\$ 106,887

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 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, 2014 and December 31, 2013 (in thousands):

	June 30, 2014				Total
	Pass	Special Mention	Substandard	Doubtful	
One-to-four family residential owner occupied	\$7,217	\$164	\$902	\$303	\$8,586
One-to-four family residential non-owner occupied	45,642	350	1,067	-	47,059
Multi-family residential	8,103	-	-	-	8,103
Commercial real estate and lines of credit	31,394	102	566	131	32,193
Construction	16,217	-	-	-	16,217
Home equity	5,635	104	93	-	5,832
Consumer non-real estate	334	-	-	-	334
	\$114,542	\$720	\$2,628	\$434	\$118,324

	December 31, 2013				Total
	Pass	Special Mention	Substandard	Doubtful	
One-to-four family residential owner occupied	\$7,308	\$1,136	\$153	\$303	\$8,900
One-to-four family residential non-owner occupied	41,586	800	1,103	-	43,489
Multi-family residential	5,948	75	-	-	6,023
Commercial real estate and lines of credit	26,673	397	673	-	27,743
Construction	16,038	-	-	-	16,038
Home equity	5,391	166	125	-	5,682
Consumer non-real estate	233	-	-	-	233
	\$103,177	\$2,574	\$2,054	\$303	\$108,108

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

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

The following tables summarize information in regards to impaired loans by loan portfolio class as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014				
	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	\$ 1,205	\$ 1,205	\$-	\$ 1,206	\$ 27
One-to-four family residential non-owner occupied	836	836	-	842	21
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	234	234	-	253	-
Construction	-	-	-	-	-
Home equity	93	93	-	94	4
Consumer non-real estate	-	-	-	-	-
With an allowance recorded:					
One-to-four family residential owner occupied	\$-	\$-	\$-	\$-	\$-
One-to-four family residential non-owner occupied	231	231	30	232	5
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	463	463	134	461	5
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer non-real estate	-	-	-	-	-
Total:					
One-to-four family residential owner occupied	\$ 1,205	\$ 1,205	\$-	\$ 1,206	\$ 27
One-to-four family residential non-owner occupied	1,067	1,067	30	1,074	26
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	697	697	134	714	5
Construction	-	-	-	-	-
Home equity	93	93	-	94	4
Consumer non-real estate	-	-	-	-	-

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

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

	December 31, 2013				
	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	\$456	\$456	\$-	\$428	\$ 15
One-to-four family residential non-owner occupied	1,102	1,102	-	1,107	77
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	363	363	-	365	-
Construction	-	-	-	-	-
Home equity	125	125	-	124	9
Consumer non-real estate	-	-	-	-	-
With an allowance recorded:					
One-to-four family residential owner occupied	\$-	\$-	\$-	\$-	\$-
One-to-four family residential non-owner occupied	-	-	-	-	-
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	311	311	21	313	26
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer non-real estate	-	-	-	-	-
Total:					
One-to-four family residential owner occupied	\$456	\$456	\$-	\$428	\$ 15
One-to-four family residential non-owner occupied	1,102	1,102	-	1,107	77
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	674	674	21	678	26
Construction	-	-	-	-	-
Home equity	125	125	-	124	9
Consumer non-real estate	-	-	-	-	-

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, 2014, the Company had twelve loans totaling \$1.0 million that were identified as troubled debt restructurings. Eleven of these loans totaling \$918,000 were performing in accordance with their modified terms and one loan in the amount of \$102,000 was 61 days

delinquent. 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. The following tables present the Company's TDR loans as of June 30, 2014 and December 31, 2013 (dollar amounts in thousands):

	Number of Contracts	Recorded Investment	June 30, 2014		Related Allowance
			Non- Accrual	Accruing	
One-to-four family residential owner occupied	1	\$62	\$-	\$62	\$-
One-to-four family residential non-owner occupied	7	732	-	732	14
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	1	133	-	133	7
Construction	-	-	-	-	-
Home equity	3	93	-	93	-
Consumer non-real estate	-	-	-	-	-
Total	12	\$1,020	\$-	\$1,020	\$21

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

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

	December 31, 2013				
	Number of Contracts	Recorded Investment	Non-Accrual	Accruing	Related Allowance
One-to-four family residential owner occupied	2	\$ 153	\$ -	\$ 153	\$-
One-to-four family residential non-owner occupied	7	733	151	582	-
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	1	113	113	-	-
Construction	-	-	-	-	-
Home equity	3	95	-	95	-
Consumer non-real estate	-	-	-	-	-
Total	13	\$ 1,094	\$ 264	\$ 830	\$-

The contractual aging of the TDRs in the table above as of June 30, 2014 and December 31, 2013 is as follows (in thousands):

	June 30, 2014				
	Current & Past Due Less than 30 Days	Past Due 30-89 Days	Greater than 90 Days	Non- Accrual	Total
One-to-four family residential owner occupied	\$62	\$-	\$-	\$-	\$62
One-to-four family residential non-owner occupied	630	102	-	-	732
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	133	-	-	-	133
Construction	-	-	-	-	-
Home equity	93	-	-	-	93
Consumer non-real estate	-	-	-	-	-
Total	\$918	\$102	\$-	\$-	\$1,020

	June 30, 2013				
	Current & Past Due Less than 30 Days	Past Due 30-89 Days	Greater than 90 Days	Non- Accrual	Total
One-to-four family residential owner occupied	\$ 153	\$-	\$-	\$-	\$ 153
One-to-four family residential non-owner occupied	485	97	-	151	733
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	-	-	-	113	113

Construction	-	-	-	-	-
Home equity	95	-	-	-	95
Consumer non-real estate	-	-	-	-	-
Total	\$733	\$97	\$-	\$264	\$1,094

During the three months ended June 30, 2014 one property that had been collateral on a TDR that was on non-accrual was transferred to other real estate owned. During the six months ended June 30, 2014 one new TDR was identified in the amount of \$133,000 and one loan in the amount of \$90,000 previously identified as a TDR was removed from TDR status as the borrower is current and making regular payments since February 2013.

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, 2014 there were no commitments to lend additional funds to debtors whose loan terms have been modified as TDRs.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

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

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. As of June 30, 2014, one TDR in the amount of \$111,000 defaulted within one year of modification. As of June 30, 2013, the Company did not have any troubled debt restructurings that had defaulted within one year of modification.

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, 2014 and recorded investment in loans receivable as of June 30, 2014 (in thousands):

	1-4 Family Residential Owner Occupied	1-4 Family Residential Non-Owner Occupied	Multi- Family Residential	June 30, 2014 Commercial Real Estate and Lines of Credit	Construction	Home Equity	Consumer Non-Real Estate	Unalloca	
For the Three Months Ended June 30, 2014									
Allowance for loan losses:									
Beginning									
balance	\$61	\$450	\$48	\$303	\$102	\$54	\$3	\$20	
Charge-offs	-	-	-	(1)	-	-	-	-	
Recoveries	-	-	-	-	-	-	-	-	
Provision	(5)	41	1	38	(5)	1	-	55	
Ending									
balance	\$56	\$491	\$49	\$340	\$97	\$55	\$3	\$75	
For the Six Months Ended June 30, 2014									
Allowance for loan losses:									
Beginning									
balance	\$59	\$424	\$36	\$199	\$96	\$50	\$2	\$75	\$941
Charge-offs	-	-	-	(1)	-	-	-	-	(1)
Recoveries	-	-	-	-	-	-	-	-	-
Provision	(3)	67	13	142	1	5	1	-	226
Ending									
balance	\$56	\$491	\$49	\$340	\$97	\$55	\$3	\$75	\$1,166
Ending balance evaluated									
for									
impairment:									
Individually	\$ -	\$ 30	\$ -	\$ 134	\$ -	\$ -	\$ -	\$ -	\$ 164
Collectively	\$ 56	\$ 461	\$ 49	\$ 206	\$ 97	\$ 55	\$ 3	\$ 75	\$ 1,002
Loans receivable:									
Ending									
balance	\$ 8,586	\$ 47,059	\$ 8,103	\$ 32,193	\$ 16,217	\$ 5,832	\$ 334	\$ -	\$ 118,324

Ending balance evaluated for impairment:									
Individually	\$1,205	\$1,067	\$-	\$697	\$-	\$93	\$-	\$-	\$3,062
Collectively	\$7,381	\$45,992	\$8,103	\$31,496	\$16,217	\$5,739	\$334	\$-	\$115,262

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, 2013 (in thousands):

	1-4 Family Residential Owner Occupied	1-4 Family Residential Non-Owner Occupied	Multi- Family Residential	June 30, 2013 Commercial Real Estate and Lines of Credit	Construction	Home Equity	Consumer Non-Real Estate	Unallocated	Total
For the Three Months Ended June 30, 2013									
Allowance for loan losses:									
Beginning									
balance	\$72	\$432	\$25	\$173	\$75	\$89	\$1	\$45	\$912
Charge-offs	-	(15)	-	-	-	-	-	-	(15)
Recoveries	-	-	-	-	-	-	-	-	-
Provision	(5)	3	(2)	4	20	21	-	14	55
Ending									
balance	\$67	\$420	\$23	\$177	\$95	\$110	\$1	\$59	\$952
For the Six Months Ended June 30, 2013									
Allowance for loan losses:									
Beginning									
balance	\$77	\$368	\$20	\$219	\$63	\$68	\$1	\$44	\$860
Charge-offs	-	(15)	-	-	-	-	-	-	(15)
Recoveries	-	-	-	-	-	-	-	-	-
Provision	(10)	67	3	(42)	32	42	-	15	107
Ending									
balance	\$67	\$420	\$23	\$177	\$95	\$110	\$1	\$59	\$952
Ending balance evaluated									
for									
impairment:									
Individually	\$-	\$61	\$-	\$25	\$-	\$73	\$-	\$-	\$159
Collectively	\$67	\$359	\$23	\$152	\$95	\$37	\$1	\$59	\$793

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, 2013 and recorded investment in loans receivable as of December 31, 2013 (in thousands):

	December 31, 2013								
	1-4 Family Residential Owner Occupied	1-4 Family Residential Non-Owner Occupied	Multi-Family Residential	Commercial Real Estate and Lines of Credit	Construction	Home Equity	Consumer Non-Real Estate	Unallocated	Total
Allowance for loan losses:									
Beginning balance	\$ 77	368	\$ 20	\$ 219	\$ 63	\$ 68	\$ 1	\$ 44	\$ 860
Charge-offs	(15)	(75)	-	-	-	(69)	-	-	(159)
Recoveries	-	-	-	-	-	-	-	-	-
Provision	(3)	131	16	(20)	33	51	1	31	240
Ending balance	\$ 59	\$ 424	\$ 36	\$ 199	\$ 96	\$ 50	\$ 2	\$ 75	\$ 941

Ending balance evaluated for impairment:

Individually	\$-	\$-	\$-	\$ 21	\$-	\$-	\$-	\$-	\$ 21
Collectively	\$ 59	\$ 424	\$ 36	\$ 178	\$ 96	\$ 50	\$ 2	\$ 75	\$ 920

Loans receivable:

Ending balance	\$ 8,900	\$ 43,489	\$ 6,023	\$ 27,743	\$ 16,038	\$ 5,682	\$ 233	\$-	\$ 108,108
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Ending balance evaluated for impairment:

Individually	\$ 456	\$ 1,102	\$-	\$ 674	\$-	\$ 125	\$-	\$-	\$ 2,357
Collectively	\$ 8,444	\$ 42,387	\$ 6,023	\$ 27,069	\$ 16,038	\$ 5,557	\$ 233	\$-	\$ 105,751

The following table presents nonaccrual loans by classes of the loan portfolio as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
One-to-four family residential owner occupied	\$ 303	\$ 303
One-to-four family residential non-owner occupied	194	378
Multi-family residential	-	-
Commercial real estate and lines of credit	565	474
Construction	-	-
Home equity	-	30

Consumer non-real estate	-	-
	\$ 1,062	\$ 1,185

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

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

Non-performing loans, which consist of non-accruing loans plus accruing loans 90 days or more past due, amounted to \$2.4 million and \$1.9 million at June 30, 2014 and December 31, 2013, 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 months ended June 30, 2014 and 2013 there was no interest income recognized on non-accrual loans. Gross interest income that would have been recorded on non-accrual loans had they been current in accordance with their original terms, was approximately \$17,000 and \$29,000 for the three months ended June 30, 2014 and 2013, respectively. For the six months ended June 30, 2014 and 2013, approximately \$0 and \$4,000 of interest income was recognized on non-accrual loans. Interest income foregone on non-accrual loans was approximately \$28,000 and \$48,000 for the six months ended June 30, 2014 and 2013, 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, 2014 and December 31, 2013 (in thousands):

	June 30, 2014					Loans Receivable > 90 Days and Accruing
	30-90 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	
One-to-four family residential owner occupied	\$ 315	\$ 1,143	\$ 1,458	\$ 7,128	\$ 8,586	\$ 840
One-to-four family residential non- owner occupied	893	684	1,577	45,482	47,059	490
Multi-family residential	74	-	74	8,029	8,103	-
Commercial real estate and lines of credit	1,302	565	1,867	30,326	32,193	-
Construction	175	-	175	16,042	16,217	-
Home equity	203	-	203	5,629	5,832	-
Consumer non-real estate	-	-	-	334	334	-
	\$ 2,962	\$ 2,392	\$ 5,354	\$ 112,970	\$ 118,324	\$ 1,330

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December 31, 2013

	30-90 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
One-to-four family residential owner occupied	\$ 1,916	\$ 559	\$ 2,475	\$ 6,425	\$ 8,900	\$ 256
One-to-four family residential non- owner occupied	884	575	1,459	42,030	43,489	197
Multi-family residential	-	75	75	5,948	6,023	75
Commercial real estate and lines of credit	322	674	996	26,747	27,743	200
Construction	334	-	334	15,704	16,038	-
Home equity	168	30	198	5,484	5,682	-
Consumer non-real estate	-	-	-	233	233	-
	\$ 3,624	\$ 1,913	\$ 5,537	\$ 102,571	\$ 108,108	\$ 728

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 7 – Deposits

Deposits consist of the following classifications (in thousands):

		June 30, 2014		December 31, 2013
Passbook savings accounts	\$	2,745	\$	2,655
Statement savings accounts		6,033		5,496
eSavings accounts		15,225		14,938
Certificates of deposit		88,594		80,235
Total deposits	\$	112,597	\$	103,324

Note 8 – Borrowings

Federal Home Loan Bank advances consist of the following at June 30, 2014 and December 31, 2013 (in thousands):

Maturity Period	June 30, 2014			December 31, 2013		
	Amount	Weighted Interest Rate		Amount	Weighted Interest Rate	
1 to 12 months	\$ 9,500	0.30	%	\$ 5,500	0.25	%

Note 9 – Stock Compensation Plans

Employee Stock Ownership Plan

The Company adopted an Employee Stock Ownership Plan (ESOP) during fiscal 2007 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 111,090 shares of the Company's then outstanding common stock in the open market at an average price of \$9.35 for a total of \$1.0 million. 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, 2014, the Company recognized \$34,000 and \$66,000 of ESOP expense, respectively. During the three and six months June 30, 2013, the Company recognized \$59,000 and

\$85,000 of ESOP expense, respectively.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 9 – Stock Compensation Plans (Continued)

Recognition & Retention Plan

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 55,545 shares of the Company’s stock in the open market at an average price of \$9.36 totaling \$520,000. In May 2013, the shareholders of Quaint Oak Bancorp approved the adoption of the 2013 Stock Incentive Plan (the “Stock Incentive Plan”). The Stock Incentive Plan provides that no more than 24,375, or 25%, of the shares may be granted as restricted stock awards.

As of June 30, 2014, a total of 20,983 awards of restricted stock were unvested under the RRP and Stock Incentive Plan and 10,684 restricted stock awards were available for future grant under the Stock Incentive Plan and none under the RRP. The RRP and Stock Incentive Plan share awards have vesting periods from five to seven years.

A summary of the status of the shares under the RRP and Stock Incentive Plan as of June 30, 2014 and 2013 and changes during the six months ended June 30, 2014 and 2013 is as follows:

	June 30, 2014		June 30, 2013	
	Number of	Weighted	Number of	Weighted
	Shares	Average	Shares	Average
		Grant		Grant
		Date Fair		Date Fair
		Value		Value
Unvested at the beginning of the period	26,500	\$ 16.11	8,894	\$ 9.05
Granted	-	-	26,150	16.20
Vested	(5,517)	15.83	(8,544)	9.05
Forfeited	-	-	-	-
Unvested at the end of the period	20,983	\$ 16.18	26,500	\$ 16.11

Compensation expense on the restricted stock awards is recognized ratably over the five to seven year vesting period in an amount which is equal to the fair value of the common stock at the date of grant. During the three and six months ended June 30, 2014, approximately \$21,000 and \$43,000 in compensation expense was recognized, respectively. A tax benefit of approximately \$7,000 and \$15,000, respectively, was recognized during each of these periods. During the three and six months ended June 30, 2013, approximately \$19,000 and \$39,000 in compensation expense was recognized, respectively. A tax benefit of approximately \$6,000 and \$13,000, respectively, was recognized during each of these periods. As of June 30, 2014, approximately \$329,000 in additional compensation expense will be recognized over the remaining service period of approximately 3.8 years.

Stock Option Plan

In May 2008, the shareholders of Quaint Oak Bancorp approved the adoption of the 2008 Stock Option Plan (the “Option Plan”). The Option Plan authorizes the grant of stock options to officers, employees and directors of the Company to acquire 138,863 shares of common stock with an exercise price no less than the fair market value on the

date of the grant. The Stock Incentive Plan approved by shareholders in May 2013 covered a total of 97,500 shares, of which 24,375 may be restricted stock awards, for a balance of 73,125 stock options assuming all the restricted shares are awarded.

For grants in May 2008, the Compensation Committee of the Board of Directors determined to grant the stock options at an exercise price equal to \$10.00 per share 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

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 9 – Stock Compensation Plans (Continued)

Stock Option Plan (Continued)

Stock Incentive Plan are intended to comply with the requirements of Section 422 of the Internal Revenue Code.

As of June 30, 2014, a total of 184,570 grants of stock options were outstanding under the Option Plan and Stock Incentive Plan and 27,418 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 to seven year period and are generally exercisable for a period of ten years after the grant date.

A summary of option activity under the Company's Option Plan and Stock Incentive Plan of June 30, 2014 and 2013 and changes during the six months ended June 30, 2014 and 2013 is as follows:

	2014			2013	
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Number of Shares	Weighted Average Exercise Price
Outstanding at the beginning of the year	184,570	\$12.59	6.5	107,570	\$10.00
Granted	-	-	-	77,000	16.20
Exercised	-	-	-	-	-
Forfeited	-	-	-	-	-
Outstanding at the end of the period	184,570	\$12.59	6.0	184,570	\$12.59
Exercisable at the end of the period	122,970	\$10.78	3.9	106,665	\$10.00

During the three and six months ended June 30, 2014, approximately \$12,000 and \$23,000 in compensation expense was recognized, respectively. A tax benefit of approximately \$3,000 and \$6,000, respectively, was recognized during each of these periods. During the three and six months ended June 30, 2013, approximately \$10,000 and \$21,000 in compensation expense was recognized, respectively. A tax benefit of approximately \$2,000 and \$4,000, respectively, was recognized during each of these periods. As of June 30, 2014, approximately \$175,000 in additional compensation expense will be recognized over the remaining service period of approximately 3.8 years.

Note 10 – Fair Value Measurements

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

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

The following is a discussion of assets and liabilities measured at fair value on a recurring basis and valuation techniques applied:

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 10 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Investment Securities Available-For-Sale: The fair value of securities available for sale (carried at fair value) is 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 US 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.

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, 2014 (in thousands):

	June 30, 2014			
	Total Fair Value	Fair Value Measurements Using:		
		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				
Short-term bond fund	\$1,184	\$1,184	\$-	\$ -
Limited-term bond fund	527	527	-	-
Total investment securities available for sale	\$1,711	\$1,711	\$-	\$ -
Total recurring fair value measurements	\$1,711	\$1,711	\$-	\$ -
Nonrecurring fair value measurements				
Impaired loans	\$2,898	\$-	\$-	\$ 2,898
Other real estate owned	239	-	-	239

Total nonrecurring fair value measurements	\$3,137	\$-	\$-	\$ 3,137
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Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 10 – 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 December 31, 2013 (in thousands):

	December 31, 2013			
	Total Fair Value	Fair Value Measurements Using:		
		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				
Short-term bond fund	\$1,159	\$1,159	\$-	\$ -
Limited-term bond fund	521	521	-	-
Total investment securities available for sale	\$1,680	\$1,680	\$-	\$ -
Total recurring fair value measurements	\$1,680	\$1,680	\$-	\$ -
Nonrecurring fair value measurements				
Impaired loans	\$2,336	\$-	\$-	\$ 2,336
Other real estate owned	574	-	-	574
Total nonrecurring fair value measurements	\$2,910	\$-	\$-	\$ 2,910

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, 2014 and December 31, 2013 (in thousands):

June 30, 2014				
Quantitative Information About Level 3 Fair Value Measurements				
	Total Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	\$ 2,898	Appraisal of collateral (1)	Appraisal adjustments (2)	8%-10% (8%)
Other real estate owned	\$ 239	Appraisal of collateral (1)	Appraisal adjustments (2)	1%-33% (12%)

December 31, 2013

Quantitative Information About Level 3 Fair Value Measurements

	Total Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	\$ 2,336	Appraisal of collateral (1)	Appraisal adjustments (2)	8%-9% (8%)
Other real estate owned	\$ 574	Appraisal of collateral (1)	Appraisal adjustments (2)	5%-33% (13%)

(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.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 10 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)

The estimated fair values of the Company's financial instruments were as follows at June 30, 2014 and December 31, 2013 (in thousands):

	Carrying Amount	Fair Value Estimate	Fair Value Measurements at June 30, 2014		
			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	\$3,087	\$3,087	\$3,087	\$-	\$ -
Investment in interest-earning time deposits	7,411	7,547	-	7,547	-
Investment securities available for sale	1,711	1,711	1,711	-	-
Loans held for sale	3,855	4,043	-	4,043	-
Loans receivable, net	116,790	117,914	-	-	117,914
Accrued interest receivable	804	804	804	-	-
Investment in FHLB stock	615	615	615	-	-
Bank-owned life insurance	3,504	3,504	3,504	-	-
Financial Liabilities					
Deposits	112,597	114,455	24,003	-	90,452
FHLB advances, short-term	9,500	9,500	9,500	-	-
Accrued interest payable	97	97	97	-	-

	Carrying Amount	Fair Value Estimate	Fair Value Measurements at December 31, 2013		
			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	\$6,184	\$6,184	\$6,184	\$-	\$ -

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Investment in interest-earning time deposits	7,633	7,747	-	7,747	-
Investment securities available for sale	1,680	1,680	1,680	-	-
Loans held for sale	1,098	1,147	-	1,147	-
Loans receivable, net	106,887	108,356	-	-	108,356
Accrued interest receivable	735	735	735	-	-
Investment in FHLB stock	421	421	421	-	-

Financial Liabilities

Deposits	103,324	105,254	23,089	-	82,165
FHLB advances, short-term	5,500	5,500	5,500	-	-
Accrued interest payable	77	77	77	-	-

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 10 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)

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 sheet 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.

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 advances are estimated based on rates currently available to the Company for similar terms and remaining maturities.

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

Off-Balance Sheet Financial Instruments. Off-balance sheet financial instruments consist of commitments to extend credit. Fair values for commitments to extend credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the present credit standing of the

counterparties. The estimated fair value of the commitments to extend credit are insignificant and therefore are not presented in the above table.

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

Forward-Looking Statements Are Subject to Change

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

General

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

At June 30, 2014 the Bank had five subsidiaries, Quaint Oak Mortgage, LLC, Quaint Oak Real Estate, LLC, Quaint Oak Abstract, LLC, Quaint Oak Insurance Agency, LLC, and QOB Properties, LLC, each a Pennsylvania limited liability company. The mortgage, real estate and abstract companies offer mortgage banking, real estate sales and title abstract services, respectively, and began operation in July 2009. QOB Properties, LLC began operations in July 2012 and holds Bank properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. Quaint Oak Insurance Agency, LLC is currently inactive.

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.

Other-Than-Temporary Impairment of Securities. Securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and whether or not management intends to sell or expects that it is more likely than not that it will be required to sell the security prior to an anticipated recovery of the fair value. The term “other-than-temporary” is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value for a debt security is determined to be other-than-temporary, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income, except for equity securities, where the full amount of the other-than-temporary impairment is recognized in earnings.

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, 2014 and December 31, 2013

General. The Company's total assets at June 30, 2014 were \$140.6 million, an increase of \$13.2 million, or 10.4%, from \$127.4 million at December 31, 2013. This growth in total assets was primarily due to increases in loans receivable, net of \$9.9 million, loans held for sale of \$2.8 million, and a \$3.5 million investment in bank-owned life insurance, partially offset by a decrease in cash and cash equivalents of \$3.1 million and a decrease of \$335,000 in other real estate owned, net.

Cash and Cash Equivalents. Cash and cash equivalents decreased \$3.1 million, or 50.1%, from \$6.2 million at December 31, 2013 to \$3.1 million at June 30, 2014 as excess liquidity was used to fund loan growth.

Loans Held for Sale. Loans held for sale increased \$2.8 million to \$3.9 million at June 30, 2014 from \$1.1 million at December 31, 2013 as the Bank's mortgage banking subsidiary, Quaint Oak Mortgage, LLC, originated \$22.9 million of one-to-four family residential loans during the period ending June 30, 2014 and sold \$20.1 million of loans in the secondary market during this same period.

Loans Receivable, Net. Loans receivable, net, increased \$9.9 million, or 9.3%, to \$116.8 million at June 30, 2014 from \$106.9 million at December 31, 2013. This increase was funded primarily from deposits, Federal Home Loan Bank advances, and excess liquidity in cash and cash equivalents. Increases within the portfolio occurred in the commercial real estate loan category which increased \$4.7 million, or 18.1%, one-to-four family residential non-owner occupied loans which increased \$3.6 million, or 8.2%, and multi-family residential loans which increased \$2.1 million, or 34.5%. Offsetting these increases was a \$314,000, or 3.5% decrease in one-to-four family residential owner occupied loans and a \$235,000, or 12.5% decrease in commercial lines of credit. 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.

Bank-Owned Life Insurance. In the second quarter of 2014 the Company purchased \$3.5 million in bank-owned life insurance (BOLI) 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.

Other Real Estate Owned, Net. Other real estate owned (OREO) amounted to \$239,000 at June 30, 2014, consisting of three properties. This compares to six properties that totaled \$574,000 at December 31, 2013. During the six months ended June 30, 2014, the Company transferred in one property in the amount of \$111,000 to OREO, made \$20,000 of capital improvements to the properties, and sold four properties totaling \$466,000.

Deposits. Total interest-bearing deposits increased \$9.3 million, or 9.0%, to \$112.6 million at June 30, 2014 from \$103.3 million at December 31, 2013. This increase in deposits was primarily attributable to increases of \$8.4 million in certificates of deposit, \$537,000 in statement savings accounts, and \$287,000 in eSavings accounts. The increases in certificates of deposit and statement savings accounts were primarily due to the competitive interest rates offered by the Bank and investors continuing to seek the safety of insured bank deposits.

Federal Home Loan Bank Advances. Total Federal Home Loan Bank advances increased \$4.0 million, or 72.7%, to \$9.5 million at June 30, 2014 from \$5.5 million at December 31, 2013. During the six months ended June 30, 2014, the Company made no repayments and borrowed \$4.0 million in overnight funding to fund loan demand.

Stockholders' Equity. Total stockholders' equity decreased \$70,000 to \$16.9 million at June 30, 2014 from \$17.0 million at December 31, 2013. Contributing to the decrease was the purchase of 38,225 shares of the Company's stock as part of the Company's stock repurchase program for an aggregate purchase price of \$640,000 and dividends paid of \$101,000. These decreases were partially offset by net income for the six months ended June 30, 2014 of \$525,000, common stock earned by participants in the employee stock ownership plan of \$77,000, amortization of stock awards and options under our stock compensation plans of \$66,000, and a decrease in accumulated other comprehensive loss of \$3,000.

Comparison of Operating Results for the Three Months Ended June 30, 2014 and 2013

General. Net income amounted to \$325,000 for the three months ended June 30, 2014, an increase of \$152,000, or 87.9%, compared to net income of \$173,000 for three months ended June 30, 2013. The increase in net income on a comparative quarterly basis was primarily the result of an increase in net interest income of \$251,000 and an increase in non-interest income of \$158,000, offset by increases in the provision for income taxes of \$98,000, non-interest expense of \$88,000, and the provision for loan losses of \$71,000.

Net Interest Income. Net interest income increased \$251,000, or 22.5%, to \$1.4 million for the three months ended June 30, 2014 from \$1.1 million for the three months ended June 30, 2013 due primarily to a \$226,000, or 14.6% increase in interest income and a \$25,000, or 5.7% decrease in interest expense.

Interest Income. Interest income increased \$226,000, or 14.6%, to \$1.8 million for the three months ended June 30, 2014 from \$1.6 million for the three months ended June 30, 2013. The increase in interest income was primarily due to a \$23.2 million increase in average loans receivable, net, including loans held for sale, which increased from an average balance of \$93.8 million for the three months ended June 30, 2013 to an average balance of \$117.0 million for the three months ended June 30, 2014, which had the effect of increasing interest income \$366,000. Also contributing to the increase was a 51 basis point increase in the yield on short-term investments and investment securities available for sale from 1.00% for the three months ended June 30, 2013 to 1.51% for the three months ended June 30, 2014, which had the effect of increasing interest income by \$15,000. Offsetting these increases was a 41 basis point decline in the yield on average loans receivable, net, including loans held for sale, from 6.33% for the three months ended June 30, 2013 to 5.92% for the three months ended June 30, 2014, which had the effect of decreasing interest income by \$119,000, and a \$14.5 million decrease in average short-term investments and investment securities available from an average balance of \$26.7 million for the three months ended June 30, 2013 to an average balance of \$12.2 million for the three months ended June 30, 2014, which had the effect of decreasing interest income \$36,000.

Interest Expense. Interest expense decreased \$25,000, or 5.7%, to \$410,000 for the three months ended June 30, 2014 from \$435,000 for the three months ended June 30, 2013. The decrease in interest expense was primarily attributable to a 25 basis point decrease in the overall cost of interest-bearing liabilities from 1.64% for the three months ended June 30, 2013 to 1.39% for the same period in 2014, which had the effect of decreasing interest expense by \$120,000. This decrease was offset by an increase of \$5.5 million in average total deposits which increased from \$104.5 million for the three months ended June 30, 2013 to an average balance of \$110.0 million for the three months ended June 30, 2014, which had the effect of increasing interest expense \$20,000. Also offsetting this decrease was a

\$7.0 million increase in average total FHLB borrowings which increased from \$1.2 million for the three months ended June 30, 2013 to an average balance of \$8.2 million for the three months ended June 30, 2014, which had the effect of increasing interest expense \$75,000. The overall decrease in rates was consistent with the decrease in market interest rates from June 30, 2013 to June 30, 2014. The increase in average total deposit accounts on a comparative quarterly basis was due to the competitive interest rates offered by the Bank and investors continuing to seek the safety of insured bank deposits while the increase in the average FHLB advances was attributable to funding loan demand.

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,						
	2014			2013			
	Average Balance	Interest	Average Yield/ Rate (Dollars in thousands)	Average Balance	Interest	Average Yield/ Rate	
Interest-earning assets:							
Short-term investments and investment securities available for sale							
securities available for sale	\$12,211	\$46	1.51 %	\$26,731	\$67	1.00 %	
Loans receivable, net (1)(2)(3)	116,965	1,732	5.92	93,838	1,485	6.33	
Total interest-earning assets	129,176	1,778	5.51 %	120,569	1,552	5.15 %	
Non-interest-earning assets	6,855			2,970			
Total assets	\$136,031			\$23,539			
Interest-bearing liabilities:							
Passbook accounts	\$2,774	1	0.14 %	\$2,829	1	0.14 %	
Statement savings accounts	5,845	5	0.34	5,718	5	0.35	
eSavings accounts	15,381	28	0.73	13,503	25	0.74	
Certificate of deposit accounts	85,971	371	1.73	82,492	390	1.89	
Total deposits	109,971	405	1.47	104,542	421	1.61	
FHLB advances	8,203	5	0.24	1,242	14	4.51	
Total interest-bearing liabilities	118,175	410	1.39 %	105,783	435	1.64 %	
Non-interest-bearing liabilities	1,125			930			
Total liabilities	119,300			106,713			
Stockholders' Equity	16,731			16,826			
Total liabilities and Stockholders' Equity	\$136,031			\$123,539			
Net interest-earning assets	\$11,001			\$14,786			
Net interest income; average interest rate spread							
		\$1,368	4.12 %		\$1,117	3.51 %	
Net interest margin (4)			4.24 %			3.71 %	
Average interest-earning assets to average interest-bearing liabilities							
			109.31 %			113.98 %	

(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 \$207,000 and an average yield of 4.05%.
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's provision for loan losses increased by \$71,000, or 129.1%, from \$55,000 for the three months ended June 30, 2013 to \$126,000 for the three months ended June 30, 2014, 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, 2014.

Non-performing loans amounted to \$2.4 million, or 2.05% of net loans receivable at June 30, 2014, consisting of sixteen loans, seven of which are on non-accrual status and nine of which are 90 days or more past due and accruing interest. Comparably, non-performing loans amounted to \$1.9 million, or 1.79% of net loans receivable at December 31, 2013, consisting of seventeen loans, ten of which were on non-accrual status and seven of which were 90 days or more past due and accruing interest. The non-performing loans at June 30, 2014 include nine one-to-four family non-owner occupied residential loans, four commercial real estate loans, and three one-to-four family owner-occupied residential loans, and all are generally well-collateralized or adequately reserved for. During the quarter ended June 30, 2014, two loans were placed on non-accrual status resulting in the reversal of approximately \$21,000 of previously accrued interest income, and a property that had been collateral for one loan that was on non-accrual was transferred to other real estate owned. At June 30, 2014, the Company had twelve loans totaling \$1.0 million that were identified as troubled debt restructurings. Eleven of these loans totaling \$918,000 were performing in accordance with their modified terms, and one loan in the amount of \$102,000 was 61 days delinquent. The allowance for loan losses as a percent of total loans receivable was 0.99% at June 30, 2014 and 0.87% at December 31, 2013.

Other real estate owned (OREO) amounted to \$239,000 at June 30, 2014, consisting of three properties. This compares to six properties that totaled \$574,000 at December 31, 2013. During the quarter-ended on June 30, 2014, the Company made \$10,000 of capital improvements to the properties, sold two properties totaling \$290,000, and realized an aggregate loss of \$15,000 on the sales. Also during the quarter ended June 30, 2014, a property that had been collateral for a loan in the amount of \$111,000 previously on non-accrual, was transferred to OREO. In conjunction with this transfer, \$1,000 of the outstanding loan balance was charged-off though the allowance for loan losses. Non-performing assets amounted to \$2.6 million, or 1.87% of total assets at June 30, 2014 compared to \$2.5 million, or 1.95% of total assets at December 31, 2013.

Non-Interest Income. Non-interest income increased \$158,000 or 39.6%, for the three months ended June 30, 2014 over the comparable period in 2013 due primarily to a \$162,000 increase in net gains on the sales of residential mortgage loans, a \$16,000 increase in the gain on the sale of SBA loans, a \$4,000 increase in income from bank-owned life insurance, and a \$4,000 increase in other income. These increases were partially offset by a \$17,000 decrease in fee income generated by Quaint Oak Bank's mortgage banking and title abstract subsidiaries, a \$6,000 decrease in other banking fees and service charges, and a \$5,000 decrease in the loss on the sales of other real estate owned.

Non-Interest Expense. Non-interest expense increased \$88,000, or 7.4%, from \$1.2 million for the three months ended June 30, 2013 to \$1.3 million for the three months ended June 30, 2014. Salaries and employee benefits expense accounted for \$72,000 of the change as this expense increased 9.6%, from \$749,000 for the three months ended June 30, 2013 to \$821,000 for the three months ended June 30, 2014 due primarily to increased staff as the Company continues to expand its mortgage banking and lending operations. Also contributing to the period over period increase was a \$21,000, or 420.0%, increase in FDIC insurance assessment, a \$14,000 increase in advertising expense, and a \$9,000 increase in occupancy and equipment expense. The increase in FDIC deposit insurance assessment was primarily attributable to a refund of unused prepaid assessment credits during the quarter ended June 30, 2013. These increases were partially offset by a \$14,000, or 12.4%, decrease in other expense, an \$11,000, or 55.0%, decrease in other real estate owned expense, and a \$3,000, or 5.4%, decrease in directors' fees and expenses.

Provision for Income Tax. The provision for income tax increased \$98,000, or 98.0%, from \$100,000 for the three months ended June 30, 2013 to \$198,000 for the three months ended June 30, 2014 due primarily to the increase in pre-tax income as our effective tax rate remained relatively consistent at 37.9% for the 2014 period compared to 36.6% for the comparable period in 2013.

Comparison of Operating Results for the Six Months Ended June 30, 2014 and 2013

General. Net income amounted to \$525,000 for the six months ended June 30, 2014, an increase of \$212,000, or 67.7%, compared to net income of \$313,000 for six months ended June 30, 2013. The increase in net income was primarily the result of an increase in net interest income of \$562,000 and an increase in non-interest income of \$122,000, offset by increases in non-interest expense of \$205,000, the provision for income taxes of \$148,000, and the provision for loan losses of \$119,000.

Net Interest Income. Net interest income increased \$562,000, or 25.8%, to \$2.7 million for the six months ended June 30, 2014 from \$2.2 million for the six months ended June 30, 2013 due primarily to a \$491,000, or 16.1% increase in interest income and a \$71,000, or 8.2% decrease in interest expense.

Interest Income. Interest income increased \$491,000, or 16.1%, to \$3.5 million for the six months ended June 30, 2014 from \$3.0 million for the six months ended June 30, 2013. The increase in interest income was primarily due to a \$21.0 million increase in average loans receivable, net, including loans held for sale, which increased from an average balance of \$92.9 million for the six months ended June 30, 2013 to an average balance of \$113.9 million for the six months ended June 30, 2014, which had the effect of increasing interest income \$658,000. Also contributing to the increase was a 40 basis point increase in the yield on short-term investments and investment securities available for sale from 1.01% for the six months ended June 30, 2013 to 1.41% for the six months ended June 30, 2014, which had the effect of increasing interest income by \$24,000. Offsetting these increases was a 21 basis point decline in the yield on average loans receivable, net, including loans held for sale, from 6.27% for the six months ended June 30, 2013 to 6.06% for the six months ended June 30, 2014, which had the effect of decreasing interest income by \$122,000, and a \$13.6 million decrease in average short-term investments and investment securities available from an average balance of \$25.9 million for the six months ended June 30, 2013 to an average balance of \$12.3 million for the six months ended June 30, 2014, which had the effect of decreasing interest income \$69,000.

Interest Expense. Interest expense decreased \$71,000, or 8.2%, to \$799,000 for the six months ended June 30, 2014 from \$870,000 for the six months ended June 30, 2013. The decrease in interest expense was primarily attributable to a 28 basis point decrease in the overall cost of interest-bearing liabilities from 1.67% for the six months ended June 30, 2014 to 1.39% for the same period in 2014, which had the effect of decreasing interest expense by \$226,000. This decrease was offset by an increase of \$5.1 million in average total deposits which increased from \$102.4 million for the six months ended June 30, 2013 to an average balance of \$107.5 million for the six months ended June 30, 2014, which had the effect of increasing interest expense \$35,000. Also offsetting this decrease was a \$5.6 million increase in average total FHLB borrowings which increased from \$1.6 million for the six months ended June 30, 2013 to an average balance of \$7.2 million for the six months ended June 30, 2014, which had the effect of increasing interest expense \$120,000. The overall decrease in rates was consistent with the decrease in market interest rates from June 30, 2013 to June 30, 2014. The increase in average total deposit accounts on a comparative six month basis was due to the competitive interest rates offered by the Bank and investors continuing to seek the safety of insured bank deposits while the increase in the average FHLB advances was attributable to funding loan demand.

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.

	2014		Six Months Ended June 30,		2013		Average Yield/Rate
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate	
Interest-earning assets:							
Short-term investments and investment securities available for sale	\$ 12,338	\$ 87	1.41 %	\$ 25,946	\$ 131	1.01 %	
Loans receivable, net (1)(2)(3)	113,879	3,450	6.06	92,919	2,915	6.27	
Total interest-earning assets	126,217	3,537	5.60 %	118,865	3,046	5.13 %	
Non-interest-earning assets	6,546			2,938			
Total assets	\$ 132,763			\$ 121,803			
Interest-bearing liabilities:							
Passbook accounts	\$ 2,759	2	0.14 %	\$ 2,841	3	0.21 %	
Statement savings accounts	5,824	11	0.38	5,719	11	0.38	
eSavings accounts	15,181	55	0.72	12,766	51	0.80	
Certificate of deposit accounts	83,758	723	1.73	81,058	770	1.90	
Total deposits	107,522	791	1.47	102,384	835	1.63	
FHLB advances	7,224	8	0.22	1,619	35	4.32	
Total interest-bearing liabilities	114,746	799	1.39 %	104,002	870	1.67 %	
Non-interest-bearing liabilities	1,258			993			
Total liabilities	116,004			104,995			
Stockholders' Equity	16,759			16,809			
Total liabilities and Stockholders' Equity	\$ 132,763			\$ 121,803			
Net interest-earning assets	\$ 11,471			\$ 14,863			
Net interest income; average interest rate							
spread		\$ 2,738	4.21 %		\$ 2,176	3.46 %	
Net interest margin (4)			4.34 %			3.66 %	
Average interest-earning assets to average interest-bearing liabilities							
			110.00 %			114.29 %	

- (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 \$181,000 and an average yield of 4.88%. 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 \$119,000, or 111.2% from \$107,000 for the six months ended June 30, 2013 to \$226,000 for the six months ended June 30, 2014. 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, 2014 and 2013 – Provision for Loan Losses.”

Non-Interest Income. Non-interest income increased \$122,000 or 16.4%, for the six months ended June 30, 2014 over the comparable period in 2013 due primarily to a \$209,000 increase in net gains on the sales of loans, a \$16,000 increase in the gain on the sale of SBA loans, a \$10,000 increase in other banking fees and service charges, and a \$4,000 increase in income from bank-owned life insurance. These increases were partially offset by an \$89,000 decrease in fee income generated by Quaint Oak Bank’s mortgage banking and title abstract subsidiaries and a \$28,000 increase in the loss on the sales of other real estate owned.

Non-Interest Expense. Non-interest expense increased \$205,000, or 8.9%, from \$2.3 million for the six months ended June 30, 2013 to \$2.5 million for the six months ended June 30, 2014. Salaries and employee benefits expense accounted for \$187,000 of the change as this expense increased 12.9%, from \$1.5 million for the six months ended June 30, 2013 to \$1.6 million for the six months ended June 30, 2014 due primarily to increased staff as the Company continues to expand its mortgage banking and lending operations. Also contributing to the period over period increase was a \$35,000, or 15.0% increase in occupancy and equipment expense, a \$19,000, or 54.3% increase in FDIC deposit insurance assessment, and a \$14,000, or 36.8% increase in advertising expense. The increase in occupancy and equipment expense was primarily attributable to computer system upgrades. These increases were partially offset by a \$22,000, or 10.6% decrease in professional fees, a \$12,000, or 41.4% decrease in other real estate owned expense, a \$9,000, or 7.8% decrease in directors' fees and expenses, and a \$7,000, or 3.4% decrease in other expense. The decrease in professional fees was primarily due to a decline in legal fees related to loan collections.

Provision for Income Tax. The provision for income tax increased \$148,000, or 79.6%, from \$186,000 for the six months ended June 30, 2013 to \$334,000 for the six months ended June 30, 2014 due primarily to the increase in pre-tax income as our effective tax rate remained relatively consistent at 38.9% for the 2014 period compared to 37.3% for the comparable period in 2013.

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, 2014, the Company's cash and cash equivalents amounted to \$3.1 million. At such date, the Company also had \$3.1 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, 2014, Quaint Oak Bank had outstanding commitments to originate loans of \$9.0 million and commitments under unused lines of credit of \$15.3 million.

At June 30, 2014, certificates of deposit scheduled to mature in less than one year totaled \$26.5 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, which provide an additional source of funds. As of June 30, 2014, we had \$9.5 million of advances from the Federal Home Loan Bank of Pittsburgh and had \$54.7 million in borrowing capacity. In addition, as of June 30, 2014 Quaint Oak Bank had \$1.8 million in borrowing capacity with the Federal Reserve Bank of Philadelphia. There were no borrowings under this facility at June 30, 2014. Quaint Oak Bank currently has two additional line of credit commitments with two different banks totaling \$1.5 million. There were no borrowings under these lines of credit at June 30, 2014.

Our stockholders' equity amounted to \$16.9 million at June 30, 2014, a decrease of \$70,000, or 0.4% from \$17.0 million at December 31, 2013. Contributing to the decrease was the purchase of 38,225 shares of the Company's stock as part of the Company's stock repurchase program for an aggregate

purchase price of \$640,000 and dividends paid of \$101,000. These decreases were partially offset by net income for the six months ended June 30, 2014 of \$525,000, common stock earned by participants in the employee stock ownership plan of \$77,000, amortization of stock awards and options under our stock compensation plans of \$66,000, and a decrease in accumulated other comprehensive loss of \$3,000. For further discussion of the stock compensation plans, see Note 9 in the Notes to Consolidated Financial Statements contained elsewhere herein.

Quaint Oak Bank is required to maintain regulatory capital sufficient to meet tier 1 leverage, tier 1 risk-based and total risk-based capital ratios of at least 4.00%, 4.00% and 8.00%, respectively. At June 30, 2014, Quaint Oak Bank exceeded each of its capital requirements with ratios of 11.34%, 16.15% and 17.36%, respectively. As a savings and loan holding company, 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, 2014, we had unfunded commitments under lines of credit of \$15.3 million and \$9.0 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 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, 2014. Based on their evaluation of the Company's disclosure controls and procedures, the Company's 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 2014 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, 2014 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, 2014 – April 30, 2014	-	\$ -	-	27,216
May 1, 2014 – May 31, 2014	525	17.00	525	26,691
June 1, 2014 – June 30, 2014	-	-	-	26,691
Total	525	\$ 17.00	525	26,691

Notes to this table:

(1) On February 21, 2014, the Board of Directors of the Company approved its fourth share repurchase program which provides for the repurchase of up to 34,716 shares, or approximately 2.5% of the Company's issued and outstanding shares of common stock, and announced the fourth repurchase program on Form 8-K filed on February 26, 2014. The repurchase program does not have an expiration date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

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

SIGNATURES

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

Date: August 13, 2014

By: /s/ Robert T. Strong
Robert T. Strong
President and Chief Executive Officer

Date: August 13, 2014

By: /s/ John J. Augustine
John J. Augustine
Chief Financial Officer