QUAINT OAK BANCORP INC
Form 10-Q
November 12, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from to

Commission file number: 000-52694

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

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

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

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

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

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

x Yes o No

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

x Yes o 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 | o | Accelerated filer | o |
| Non-accelerated filer | o | Smaller reporting company | x |
| (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).

oYes x No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November 11, 2014, 911,471 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 September 30, 2014 | At December 31, 2013 |
|---|---|---|
| | (In thousands, except share data) | |
| Assets | | |
| Due from banks, non-interest-bearing | $2,265 | $4,989 |
| Due from banks, interest-bearing | 5,965 | 1,195 |
| Cash and cash equivalents | 8,230 | 6,184 |
| Investment in interest-earning time deposits | 6,660 | 7,633 |
| Investment securities available for sale | 1,707 | 1,680 |
| Loans held for sale | 3,642 | 1,098 |
| Loans receivable, net of allowance for loan losses (2014 $1,148; 2013 $941) | 120,465 | 106,887 |
| Accrued interest receivable | 775 | 735 |
| Investment in Federal Home Loan Bank stock, at cost | 694 | 421 |
| Bank-owned life insurance | 3,527 | - |
| Premises and equipment, net | 1,576 | 1,637 |
| Other real estate owned, net | 209 | 574 |
| Prepaid expenses and other assets | 886 | 578 |
| | | |
| Total Assets | $148,371 | $127,427 |
| | | |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Deposits, interest-bearing | $118,127 | $103,324 |
| Federal Home Loan Bank advances | 11,500 | 5,500 |
| Accrued interest payable | 101 | 77 |
| Advances from borrowers for taxes and insurance | 982 | 1,224 |
| Accrued expenses and other liabilities | 407 | 316 |
| Total Liabilities | 131,117 | 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; 911,471 and 947,849 outstanding at September 30, 2014 and December 31, 2013, respectively | 14 | | 14 | |
| Additional paid-in capital | 13,774 | | 13,665 | |
| Treasury stock, at cost: 2014 477,154 shares; 2013 440,776 shares | (4,927 | ) | (4,279 | ) |
| Unallocated common stock held by: | (472 | ) | (536 | ) |
| Employee Stock Ownership Plan (ESOP) | | | | |
| Recognition & Retention Plan Trust (RRP) | (94 | ) | (120 | ) |
| Accumulated other comprehensive loss | (26 | ) | (18 | ) |
| Retained earnings | 8,985 | | 8,260 | |
| Total Stockholders' Equity | 17,254 | | 16,986 | |
| | | | | |
| Total Liabilities and Stockholders' Equity | $148,371 | | $127,427 | |

See accompanying notes to consolidated financial statements.

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Quaint Oak Bancorp, Inc.

Consolidated Statements of Income (Unaudited)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | (In thousands, except for share data) | | | |
| | 2014 | 2013 | 2014 | 2013 |
| Interest Income | | | | |
| Interest on loans | $1,835 | $1,497 | $5,285 | $4,412 |
| Interest and dividends on short-term investments and investment securities | 46 | 66 | 133 | 197 |
| Total Interest Income | 1,881 | 1,563 | 5,418 | 4,609 |
| | | | | |
| Interest Expense | | | | |
| Interest on deposits | 434 | 414 | 1,225 | 1,249 |
| Interest on Federal Home Loan Bank advances | 11 | 6 | 19 | 41 |
| Total Interest Expense | 445 | 420 | 1,244 | 1,290 |
| | | | | |
| Net Interest Income | 1,436 | 1,143 | 4,174 | 3,319 |
| | | | | |
| Provision for Loan Losses | 111 | 55 | 337 | 162 |
| | | | | |
| Net Interest Income after Provision for Loan Losses | 1,325 | 1,088 | 3,837 | 3,157 |
| | | | | |
| Non-Interest Income | | | | |
| Mortgage banking and title abstract fees | 52 | 103 | 212 | 352 |
| Other fees and services charges | 24 | 33 | 57 | 56 |
| Income from bank-owned life insurance | 23 | - | 27 | - |
| Net gain on sales of loans | 420 | 148 | 1,098 | 617 |
| Gain on sale of SBA loans | 48 | - | 64 | - |
| Loss on sale of other real estate owned | (3) | (13) | (41) | (23) |
| Other | 9 | 6 | 24 | 21 |
| Total Non-Interest Income | 573 | 277 | 1,441 | 1,023 |
| | | | | |
| Non-Interest Expense | | | | |
| Salaries and employee benefits | 879 | 743 | 2,520 | 2,197 |
| Directors' fees and expenses | 51 | 63 | 157 | 178 |
| Occupancy and equipment | 131 | 125 | 400 | 359 |
| Professional fees | 98 | 86 | 283 | 293 |
| FDIC deposit insurance assessment | 26 | 23 | 75 | 51 |
| Other real estate owned (recovery) expense | (1) | 12 | 16 | 41 |
| Advertising | 26 | 23 | 78 | 61 |
| Other | 131 | 70 | 333 | 281 |
| Total Non-Interest Expense | 1,341 | 1,145 | 3,862 | 3,461 |
| | | | | |
| Income before Income Taxes | 557 | 220 | 1,416 | 719 |

| | | | | |
|---|---|---|---|---|
| Income Taxes | 201 | 89 | 535 | 275 |
| | | | | |
| Net Income | $356 | $131 | $881 | $444 |
| | | | | |
| Earnings per share - basic | $0.42 | $0.15 | $1.03 | $0.50 |
| Average shares outstanding - basic | 841,858 | 892,266 | 852,025 | 890,495 |
| Earnings per share - diluted | $0.40 | $0.14 | $0.98 | $0.48 |
| Average shares outstanding - diluted | 894,209 | 933,809 | 902,953 | 927,987 |

See accompanying notes to consolidated financial statements.

Quaint Oak Bancorp, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

| | For the Three Months Ended September 30, 2014 | 2013 | For the Nine Months Ended September 30, 2014 | 2013 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Net Income | $356 | $ 131 | $ 881 | $ 444 |
| Other Comprehensive Income (Loss): | | | | |
| Unrealized gains (losses) on investment securities available-for-sale | (17) | 3 | (12) | (38) |
| Income tax effect | 6 | (1) | 4 | 13 |
| Other comprehensive income (loss) | (11) | 2 | (8) | (25) |
| Total Comprehensive Income | $345 | $ 133 | $ 873 | $ 419 |

See accompanying notes to consolidated financial statements.

Quaint Oak Bancorp, Inc.

Consolidated Statement of Stockholder's Equity (Unaudited)

For the Nine Months Ended September 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 | Tot Sto Equ |
|---|---|---|---|---|---|---|---|---|
| BALANCE – December 31, 2013 | 947,849 | $ 14 | $ 13,665 | $(4,279) | $(656) | $(18) | $8,260 | $16, |
| Common stock allocated by ESOP | | | 43 | | 64 | | | 1 |
| Treasury stock purchased | (42,225) | | | (708) | | | | (70 |
| Reissuance of Treasury Stock Under Stock Incentive Plan | 2,738 | | (28) | 28 | | | | - |
| Reissuance of Treasury Stock Under 401(k) Plan | 3,109 | | 21 | 32 | | | | 53 |
| Stock based compensation expense | | | 99 | | | | | 99 |
| Release of 2,777 vested RRP shares | | | (26) | | 26 | | | - |
| Cash dividends declared ($0.17 per share) | | | | | | | (156) | (15 |
| Net income | | | | | | | 881 | 881 |
| Other comprehensive income (loss) | | | | | | (8) | | (8 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| BALANCE –September 30, 2014 | 911,471 | $ 14 | $ 13,774 | $(4,927 ) | $(566 ) | $(26 ) | $8,985 | $17, |

See accompanying notes to consolidated financial statements.

Quaint Oak Bancorp, Inc.

Consolidated Statement of Cash Flows (Unaudited)

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Cash Flows from Operating Activities | (In Thousands) | |
| Net income | $881 | $ 444 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Provision for loan losses | 337 | 162 |
| Depreciation expense | 124 | 104 |
| Net accretion of securities discounts | - | (4) |
| (Accretion) amortization of deferred loan fees and costs, net | (196) | 103 |
| Stock-based compensation expense | 206 | 210 |
| Gain on the sale of loans held for sale | (1,098) | (617) |
| Gain on the sale of SBA loan | (64) | - |
| Increase in the cash surrender value of bank-owned life insurance | (27) | - |
| Net loss on sale of other real estate owned | 41 | 23 |
| Changes in assets and liabilities which provided (used) cash: | | |
| Loans held for sale-originations | (39,865) | (35,393) |
| Loans held for sale-proceeds | 38,419 | 38,475 |
| Accrued interest receivable | (40) | (6) |
| Prepaid expenses and other assets | (304) | 145 |
| Accrued interest payable | 24 | (11) |
| Accrued expenses and other liabilities | 91 | (172) |
| Net Cash (Used in) Provided by Operating Activities | (1,471) | 3,463 |
| Cash Flows from Investing Activities | | |
| Net decrease in investment in interest-earning time deposits | 973 | 499 |
| Purchase of investment securities available for sale | (39) | (36) |
| Proceeds from calls of investment securities available for sale | - | 500 |
| Net increase in loans receivable | (13,766) | (15,080) |
| Net (increase) decrease in investment in Federal Home Loan Bank stock | (273) | 236 |
| Purchase of bank-owned life insurance | (3,500) | - |
| Proceeds from the sale of other real estate owned | 463 | 93 |
| Capitalized expenditures on other real estate owned | (28) | (42) |
| Purchase of premises and equipment | (63) | (153) |
| Net Cash Used in Investing Activities | (16,233) | (13,983) |
| Cash Flows from Financing Activities | | |
| Net increase in deposits | 14,803 | 6,130 |
| Proceeds from Federal Home Loan Bank advances | 6,000 | - |
| Repayment of Federal Home Loan Bank advances | - | (2,000) |
| Dividends paid | (156) | (136) |
| Purchase of treasury stock | (708) | (297) |
| Proceeds from the reissuance of treasury stock | 53 | - |
| Decrease in advances from borrowers for taxes and insurance | (242) | (295) |
| Net Cash Provided by Financing Activities | 19,750 | 3,402 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 2,046 | (7,118) |
| Cash and Cash Equivalents – Beginning of Year | 6,184 | 12,400 |

| | | |
|---|---|---|
| Cash and Cash Equivalents – End of Period | $8,230 | $5,282 |
| | | |
| Supplementary Disclosure of Cash Flow and Non-Cash Information: | | |
| Cash payments for interest | $1,220 | $1,301 |
| Cash payments for income taxes | $668 | $205 |
| Transfer of loans to other real estate owned | $111 | $ 241 |

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 September 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 nine months ended September 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.

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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 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.

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Notes to Unaudited Consolidated Financial Statements

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

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

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

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

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

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

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

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for all loans (except one-to-four family residential owner-occupied loans) where the total amount outstanding to any borrower or group of borrowers exceeds $500,000, or when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized 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 nine months ended September 30, 2014 and 2013.

Bank Owned Life Insurance (BOLl). The Company purchases bank owned life insurance as a mechanism for funding various employee benefit costs. The Company is the beneficiary of these policies that insure the lives of certain officers of its subsidiaries. The Company has recognized the cash surrender value under the insurance policies as an asset in the consolidated 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 revenue and expenses from operations and additions to the valuation allowance are included in other expenses.

Notes to Unaudited Consolidated Financial Statements

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

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

At September 30, 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.

Notes to Unaudited Consolidated Financial Statements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (a new revenue recognition standard). The Update's core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This Update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is evaluating the effect of adopting this new accounting Update.

In August 2014, the FASB issued ASU 2014-14, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40). The amendments in this Update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. 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. This Update 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 and nine months ended September 30, 2014, all unvested restricted stock program awards and outstanding stock options representing shares were dilutive. Unvested restricted stock program awards and outstanding stock options representing shares of 77,000 for the three months ended September 30, 2013, and shares of 86,185 for the nine months ended September 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 Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net Income | $356,000 | $131,000 | $881,000 | $444,000 |
| | | | | |
| Weighted average shares outstanding – basic | 841,858 | 892,266 | 852,025 | 890,495 |
| Effect of dilutive common stock equivalents | 52,351 | 41,543 | 50,928 | 37,492 |
| Adjusted weighted average shares outstanding – diluted | 894,209 | 933,809 | 902,953 | 927,987 |
| | | | | |
| Basic earnings per share | $0.42 | $0.15 | $1.03 | $0.50 |
| Diluted earnings per share | $0.40 | $0.14 | $0.98 | $0.48 |

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 nine months ended September 30, 2014 and 2013 (in thousands):

| | Unrealized Gains (Losses) on Investment Securities Available for Sale (1) | | | |
|---|---|---|---|---|
| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Balance at the beginning of the period | $(15) | $33 | $(18) | $60 |
| Other comprehensive income (loss) before classifications | (11) | 2 | (8) | (25) |
| Amount reclassified from accumulated other comprehensive loss | - | - | - | - |

| | | | | |
|---|---|---|---|---|
| Total other comprehensive income (loss) | (11 ) | 2 | (8 ) | (25 ) |
| Balance at the end of the period | $(26 ) | $35 | $(26 ) | $35 |

(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 nine months ended September 30, 2014 and 2013.

Notes to Unaudited Consolidated Financial Statements

Note 4 – Investment in Interest-Earning Time Deposits

The investment in interest-earning time deposits as of September 30, 2014 and December 31, 2013, by contractual maturity, are shown below:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (In Thousands) | |
| Due in one year or less | $ 2,337 | $ 3,042 |
| Due after one year through five years | 4,323 | 4,591 |
| | $ 6,660 | $ 7,633 |

Note 5 – Investment Securities Available for Sale

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

| | September 30, 2014 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available for Sale: | | | | |
| Short-term bond fund | $1,203 | - | $(21) | $1,182 |
| Limited-term bond fund | 544 | - | (19) | 525 |
| | $1,747 | $- | $(40) | $1,707 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| 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 September 30, 2014 and December 31, 2013 (in thousands):

| September 30, 2014 | | | |
|---|---|---|---|
| | Less than Twelve Months | Twelve Months or Greater | Total |

| | Number of Securities | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
|---|---|---|---|---|---|---|---|
| Short-term bond fund | 1 | $ - | $ - | $ 1,182 | $ (21 ) | $ 1,182 | $ (21 ) |
| Limited-term bond fund | 1 | - | - | 525 | (19 ) | 525 | (19 ) |
| Total | 2 | $ - | $ - | $ 1,707 | $ (40 ) | $ 1,707 | $ (40 ) |

Notes to Unaudited Consolidated Financial Statements

Note 5 – Investment Securities Available for Sale (Continued)

| | December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Less than Twelve Months | | Twelve Months or Greater | | Total | |
| | Number of Securities | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| 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 September 30, 2014, there were two bond funds in an unrealized loss position that at such date had an aggregate depreciation of 2.27% 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 September 30, 2014 represents an other-than-temporary impairment.

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

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

The composition of net loans receivable is as follows:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (In Thousands) | |
| Real estate loans: | | |
| One-to-four family residential: | | |
| Owner occupied | $ 8,376 | $ 8,900 |
| Non-owner occupied | 48,935 | 43,489 |
| Total one-to-four family residential | 57,311 | 52,389 |
| | | |
| Multi-family (five or more) residential | 9,391 | 6,023 |
| Commercial real estate | 32,767 | 25,863 |
| Commercial lines of credit | 1,549 | 1,880 |
| Construction | 14,323 | 16,038 |
| Home equity loans | 6,208 | 5,682 |
| Total real estate loans | 121,549 | 107,875 |

| | | | | |
|---|---|---|---|---|
| Non-real estate loans: | | | | |
| Auto and equipment loans | | 468 | | 218 |
| Loans secured by deposits | | 21 | | 15 |
| Total Loans | | 122,038 | | 108,108 |
| | | | | |
| Deferred loan fees and costs | | (425) | | (280) |
| Allowance for loan losses | | (1,148) | | (941) |
| | | | | |
| Net Loans | $ | 120,465 | $ | 106,887 |

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Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

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

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of September 30, 2014 and December 31, 2013 (in thousands):

| | September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Total |
| One-to-four family residential owner occupied | $7,235 | $- | $838 | $303 | $8,376 |
| One-to-four family residential non-owner occupied | 47,396 | 79 | 1,231 | 229 | 48,935 |
| Multi-family residential | 9,320 | - | 71 | - | 9,391 |
| Commercial real estate and lines of credit | 33,633 | 102 | 382 | 199 | 34,316 |
| Construction | 14,323 | - | - | - | 14,323 |
| Home equity | 5,938 | 178 | 92 | - | 6,208 |
| Non-real estate | 489 | - | - | - | 489 |
| | $118,334 | $359 | $2,614 | $731 | $122,038 |

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Total |
| 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 |
| Non-real estate | 233 | - | - | - | 233 |
| | $103,177 | $2,574 | $2,054 | $303 | $108,108 |

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Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

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

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

| | September 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 | $838 | $838 | $- | $840 | $11 |
| One-to-four family residential non-owner occupied | 1,134 | 1,134 | - | 1,141 | 26 |
| Multi-family residential | 71 | 71 | - | 74 | - |
| Commercial real estate and lines of credit | 249 | 249 | - | 252 | 14 |
| Construction | - | - | - | - | - |
| Home equity | 92 | 92 | - | 94 | 6 |
| Non-real estate | - | - | - | - | - |
| | | | | | |
| With an allowance recorded: | | | | | |
| One-to-four family residential owner occupied | $303 | $303 | $59 | $303 | $- |
| One-to-four family residential non-owner occupied | 326 | 326 | 30 | 328 | 4 |
| Multi-family residential | - | - | - | - | - |
| Commercial real estate and lines of credit | 332 | 332 | 28 | 330 | 7 |
| Construction | - | - | - | - | - |
| Home equity | - | - | - | - | - |
| Non-real estate | - | - | - | - | - |
| | | | | | |
| Total: | | | | | |
| One-to-four family residential owner occupied | $1,141 | $1,141 | $59 | $1,143 | $11 |
| One-to-four family residential non-owner occupied | 1,460 | 1,460 | 30 | 1,469 | 30 |
| Multi-family residential | 71 | 71 | - | 74 | - |
| Commercial real estate and lines of credit | 581 | 581 | 28 | 582 | 21 |
| Construction | - | - | - | - | - |
| Home equity | 92 | 92 | - | 94 | 6 |
| Non-real estate | - | - | - | - | - |

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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 |
| 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 | - | - | - | - | - |
| 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 |
| 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 September 30, 2014, the Company had eleven loans totaling $956,000 that were identified as troubled debt restructurings. Two of these loans totaling $156,000 were on non-accrual, five loans totaling $274,000 were 30 days delinquent, and four loans totaling $526,000 were performing in accordance with their modified terms. If a TDR is placed on non-accrual it is not reverted back to accruing status until the borrower makes timely payments as contracted for at least nine months and future collection under the revised terms is probable. The following tables present the Company’s TDR loans as of September 30, 2014 and December 31, 2013 (dollar amounts in thousands):

| | September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Number of Contracts | Recorded Investment | Non-Accrual | Accruing | Related Allowance |
| One-to-four family residential owner occupied | - | $- | $- | $- | $- |
| One-to-four family residential non-owner occupied | 7 | 731 | 156 | 575 | 10 |
| Multi-family residential | - | - | - | - | - |
| Commercial real estate and lines of credit | 1 | 133 | - | 133 | 7 |
| Construction | - | - | - | - | - |
| Home equity | 3 | 92 | - | 92 | - |
| Non-real estate | - | - | - | - | - |
| Total | 11 | $956 | $156 | $800 | $17 |

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 | - |
| Non-real estate | - | - | - | - | - |
| Total | 13 | $1,094 | $264 | $830 | $- |

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

| | September 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 | $- | $- | $ - | $ - | $- |
| One-to-four family residential non-owner occupied | 359 | 216 | - | 156 | 731 |
| Multi-family residential | - | - | - | - | - |
| Commercial real estate and lines of credit | 133 | - | - | - | 133 |
| Construction | - | - | - | - | - |
| Home equity | 34 | 58 | - | - | 92 |
| Non-real estate | - | - | - | - | - |
| Total | $526 | $274 | $ - | $ 156 | $956 |

| | December 31, 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 |
| Non-real estate | - | - | - | - | - |
| Total | $733 | $97 | $- | $264 | $1,094 |

During the three months ended September 30, 2014 one TDR in the amount of $62,000 was paid-off. During the nine months ended September 30, 2014 one new TDR was identified in the amount of $133,000, 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, one TDR in the amount of $62,000 was paid-off, and one property that had been collateral on a TDR that was on non-accrual was transferred to other real estate owned.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

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

Any reserve for an impaired TDR loan is based upon the present value of the future expected cash flows discounted at the loan’s original effective rate or upon the fair value of the collateral less costs to sell, if the loan is deemed collateral dependent. At September 30, 2014 there were no commitments to lend additional funds to debtors whose loan terms have been modified as TDRs. The general practice of the Bank is to work with borrowers so that they are able to pay back their loan in full. If a borrower continues to be delinquent or cannot meet the terms of a TDR modification and the loan is determined to be uncollectible, the loan will be charged off. As of September 30, 2014, one TDR in the amount of $111,000 defaulted within one year of modification. As of September 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 nine months ended September 30, 2014 and recorded investment in loans receivable as of September 30, 2014 (in thousands):

| September 30, 2014 | 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 | Non-Real Estate | Unalloc | |
|---|---|---|---|---|---|---|---|---|---|
| For the Three Months Ended September 30, 2014 | | | | | | | | | |
| Beginning balance | $56 | $491 | $49 | $340 | $97 | $55 | $3 | $75 | |
| Charge-offs | - | - | - | (131) | - | - | - | - | |
| Recoveries | - | - | - | 2 | - | - | - | - | |
| Provision | 62 | (10) | 7 | 70 | (11) | - | 1 | (8 | |
| Ending balance | $118 | $481 | $56 | $281 | $86 | $55 | $4 | $67 | |
| For the Nine Months Ended September 30, 2014 | | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | |
| Beginning balance | $59 | $424 | $36 | $199 | $96 | $50 | $2 | $75 | $941 |
| Charge-offs | - | - | - | (132) | - | - | - | - | (132) |
| Recoveries | - | - | - | 2 | - | - | - | - | 2 |
| Provision | 59 | 57 | 20 | 212 | (10) | 5 | 2 | (8) | 337 |
| Ending balance | $118 | $481 | $56 | $281 | $86 | $55 | $4 | $67 | $1,148 |
| Ending balance evaluated for impairment: | | | | | | | | | |
| Individually | $59 | $30 | $- | $28 | $- | $- | $- | $- | $117 |
| Collectively | $59 | $451 | $56 | $253 | $86 | $55 | $4 | $67 | $1,031 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Loans receivable: | | | | | | | | | |
| Ending balance | $8,376 | $48,935 | $9,391 | $34,316 | $14,323 | $6,208 | $489 | $- | $122,038 |
| Ending balance evaluated for impairment: | | | | | | | | | |
| Individually | $1,141 | $1,460 | $71 | $581 | $- | $92 | $- | $- | $3,345 |
| Collectively | $7,235 | $47,475 | $9,320 | $33,735 | $14,323 | $6,116 | $489 | $- | $118,693 |

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Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

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

Following is a summary, by loan portfolio class, of changes in the allowance for loan losses for the three and nine months ended September 30, 2013 (in thousands):

| September 30, 2013 | 1-4 Family Residential Owners Occupied | 1-4 Family Residential Non-Owner Occupied | Multi-Family Residential | Commercial Real Estate and Lines of Credit | Construction | Home Equity | Non-Real Estate | Unalloc | |
|---|---|---|---|---|---|---|---|---|---|
| For the Three Months Ended September 30, 2013 | | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | |
| Beginning balance | $67 | $420 | $23 | $177 | $95 | $110 | $1 | $59 | |
| Charge-offs | - | (60) | - | - | - | (69) | - | - | |
| Recoveries | - | - | - | - | - | - | - | - | |
| Provision | 5 | 38 | 3 | - | (1) | 8 | - | 2 | |
| Ending balance | $72 | $398 | $26 | $177 | $94 | $49 | $1 | $61 | |
| For the Nine Months Ended September 30, 2013 | | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | |
| Beginning balance | $77 | $368 | $20 | $219 | $63 | $68 | $1 | $44 | $860 |
| Charge-offs | - | (75) | - | - | - | (69) | - | - | (144) |
| Recoveries | - | - | - | - | - | - | - | - | - |
| Provision | (5) | 105 | 6 | (42) | 31 | 50 | - | 17 | 162 |
| Ending balance | $72 | $398 | $26 | $177 | $94 | $49 | $1 | $61 | $878 |
| Ending balance evaluated for impairment: | | | | | | | | | |
| Individually | $10 | $- | $- | $21 | $- | $- | $- | $- | $31 |
| Collectively | $62 | $398 | $26 | $156 | $94 | $49 | $1 | $61 | $847 |

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Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

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

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 | Non-Real Estate | Unalloc | |
| Allowance for loan losses: | | | | | | | | | |
| Beginning balance | $77 | 368 | $20 | $219 | $63 | $68 | $1 | $44 | |
| Charge-offs | (15) | (75) | - | - | - | (69) | - | - | |
| Recoveries | - | - | - | - | - | - | - | - | |
| Provision | (3) | 131 | 16 | (20) | 33 | 51 | 1 | 31 | |
| Ending balance | $59 | $424 | $36 | $199 | $96 | $50 | $2 | $75 | |
| 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 |
| 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 September 30, 2014 and December 31, 2013 (in thousands):

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| One-to-four family residential owner occupied | $ 891 | $ 303 |
| One-to-four family residential non-owner occupied | 747 | 378 |
| Multi-family residential | 71 | - |

| | | | | |
|---|---|---|---|---|
| Commercial real estate and lines of credit | | 199 | | 474 |
| Construction | | - | | - |
| Home equity | | - | | 30 |
| Non-real estate | | - | | - |
| | $ | 1,908 | $ | 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 $2.2 million and $1.9 million at September 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 September 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 $60,000 and $15,000 for the three months ended September 30, 2014 and 2013, respectively. For the nine months ended September 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 $88,000 and $63,000 for the nine months ended September 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 September 30, 2014 and December 31, 2013 (in thousands):

| | September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 386 | $891 | $1,277 | $7,099 | $8,376 | $- |
| One-to-four family residential non-owner occupied | 761 | 886 | 1,647 | 47,288 | 48,935 | 139 |
| Multi-family residential | - | 71 | 71 | 9,320 | 9,391 | - |
| Commercial real estate and lines of credit | 1,039 | 327 | 1,366 | 32,950 | 34,316 | 128 |
| Construction | - | - | - | 14,323 | 14,323 | - |
| Home equity | 236 | - | 236 | 5,972 | 6,208 | - |
| Non-real estate | - | - | - | 489 | 489 | - |
| | $ 2,422 | $2,175 | $4,597 | $117,441 | $122,038 | $267 |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | 30-90 Days Past | Greater than 90 | Total | | Total | Loans Receivable > |

| | Due | Days | Past Due | Current | 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 | - |
| Non-real estate | - | - | - | 233 | 233 | - |
| | $ 3,624 | $1,913 | $5,537 | $102,571 | $108,108 | $728 |

Notes to Unaudited Consolidated Financial Statements

Note 7 – Deposits

Deposits consist of the following classifications (in thousands):

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Passbook savings accounts | $ 2,685 | $ 2,655 |
| Statement savings accounts | 5,659 | 5,496 |
| eSavings accounts | 16,504 | 14,938 |
| Certificates of deposit | 93,279 | 80,235 |
| Total deposits | $ 118,127 | $ 103,324 |

Note 8 – Borrowings

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

| | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Maturity Period | Amount | Weighted Interest Rate | Amount | Weighted Interest Rate |
| 1 to 12 months | $7,000 | 0.28 % | $ 5,500 | 0.25 % |
| 13 to 24 months | 1,000 | 0.88 % | - | - |
| 25 to 36 months | 1,500 | 1.30 % | - | - |
| 37 to 48 months | 1,000 | 1.71 % | - | - |
| 49 to 60 months | 1,000 | 2.02 % | - | - |
| Total | $11,500 | 0.74 % | $ 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 nine months ended September 30, 2014, the Company recognized $37,000 and $103,000 of ESOP expense, respectively. During the three and nine months ended September 30, 2013, the Company recognized $30,000 and $115,000 of ESOP expense, respectively.

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 September 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 September 30, 2014 and 2013 and changes during the nine months ended September 30, 2014 and 2013 is as follows:

| | September 30, 2014 | | September 30, 2013 | |
|---|---|---|---|---|
| | Number of Shares | Weighted Average Grant Date Fair Value | Number of Shares | Weighted Average Grant Date Fair Value |
| Unvested at the beginning of the period | 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 nine months ended September 30, 2014, approximately $22,000 and $65,000 in compensation expense was recognized, respectively. A tax benefit of approximately $7,000 and $22,000, respectively, was recognized during each of these periods. During the three and nine months ended September 30, 2013, approximately $23,000 and $62,000 in compensation expense was recognized, respectively. A tax benefit of approximately $8,000 and $21,000 was recognized during each of these periods. As of September 30, 2014, approximately $307,000 in additional compensation expense will be recognized over the remaining service period of approximately 3.6 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.

Notes to Unaudited Consolidated Financial Statements

Note 9 – Stock Compensation Plans (Continued)

For grants in May 2008, the Compensation Committee of the Board of Directors determined to grant the stock options at an exercise price equal to $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 Stock Incentive Plan are intended to comply with the requirements of Section 422 of the Internal Revenue Code.

As of September 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 September 30, 2014 and 2013 and changes during the nine months ended September 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 | 5.7 | 184,570 | $ 12.59 |
| Exercisable at the end of the period | 122,970 | $ 10.78 | 3.6 | 106,665 | $ 10.00 |

During the three and nine months ended September 30, 2014, approximately $11,000 and $34,000 in compensation expense was recognized, respectively. A tax benefit of approximately $1,000 and $3,000, respectively, was recognized during each of these periods. During the three and nine months ended September 30, 2013 approximately $12,000 and $33,000 in compensation expense was recognized. A tax benefit of approximately $1,000 and $5,000, respectively, was recognized during each of these periods. As of September 30, 2014, approximately $164,000 in additional compensation expense will be recognized over the remaining service period of approximately 3.6 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.

Notes to Unaudited Consolidated Financial Statements

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

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

Investment Securities Available-For-Sale: The fair value of securities available for sale (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 September 30, 2014 (in thousands):

| | September 30, 2014 Fair Value Measurements Using: | | | |
|---|---|---|---|---|
| | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
| Recurring fair value measurements | | | | |
| Investment securities available for sale | | | | |
| Short-term bond fund | $1,182 | $1,182 | $- | $ - |
| Limited-term bond fund | 525 | 525 | - | - |
| Total investment securities available for sale | $1,707 | $1,707 | $- | $ - |
| Total recurring fair value measurements | $1,707 | $1,707 | $- | $ - |

| | | | | |
|---|---|---|---|---|
| Nonrecurring fair value measurements | | | | |
| Impaired loans | $3,228 | $- | $- | $ 3,228 |
| Other real estate owned | 209 | - | - | 209 |
| Total nonrecurring fair value measurements | $3,437 | $- | $- | $ 3,437 |

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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 Fair Value Measurements Using: | | | |
|---|---|---|---|---|
| | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
| Recurring fair value measurements | | | | |
| Investment securities available for sale | | | | |
| 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 September 30, 2014 and December 31, 2013 (in thousands):

| | September 30, 2014 Quantitative Information About Level 3 Fair Value Measurements | | | |
|---|---|---|---|---|
| | Total Fair Value | Valuation Techniques | Unobservable Input | Range (Weighted Average) |
| Impaired loans | $3,228 | Appraisal of collateral (1) | Appraisal adjustments (2) | 8%-21% (13%) |
| | | | | |
| Other real estate owned | $209 | Appraisal of collateral (1) | Appraisal adjustments (2) | 1%-14% (7%) |

| | 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.

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 September 30, 2014 and December 31, 2013 (in thousands):

| | | | Fair Value Measurements at September 30, 2014 | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value Estimate | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
| Financial Assets | | | | | |
| Cash and cash equivalents | $8,230 | $8,230 | $8,230 | $- | $ - |
| Investment in interest-earning time deposits | 6,660 | 6,776 | - | 6,776 | ,- |
| Investment securities available for sale | 1,707 | 1,707 | 1,707 | - | - |
| Loans held for sale | 3,642 | 3,775 | - | 3,775 | - |
| Loans receivable, net | 120,465 | 121,030 | - | - | 121,030 |
| Accrued interest receivable | 775 | 775 | 775 | - | - |
| Investment in FHLB stock | 694 | 694 | 694 | - | - |
| Bank-owned life insurance | 3,527 | 3,527 | 3,527 | - | - |
| | | | | | |
| Financial Liabilities | | | | | |
| Deposits | 118,127 | 119,909 | 24,848 | - | 95,061 |
| FHLB advances, short-term | 7,000 | 7,000 | 7,000 | - | - |
| FHLB advances, long-term | 4,500 | 4,340 | - | - | 4,340 |
| Accrued interest payable | 101 | 101 | 101 | - | - |

| | | | Fair Value Measurements at December 31, 2013 | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value Estimate | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
| Financial Assets | | | | | |
| Cash and cash equivalents | $6,184 | $6,184 | $6,184 | $- | $ - |

| | | | | | |
|---|---|---|---|---|---|
| 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 | - | - |

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 September 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.

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

Comparison of Financial Condition at September 30, 2014 and December 31, 2013

General. The Company's total assets at September 30, 2014 were $148.4 million, an increase of $20.9 million, or 16.4%, from $127.4 million at December 31, 2013. This growth in total assets was primarily due to increases in loans receivable, net of $13.6 million, loans held for sale of $2.5 million, investment in bank-owned life insurance of $3.5 million, and cash and cash equivalents of $2.0 million, partially offset by a decrease in investment in interest-earning time deposits of $973,000 and a decrease in other real estate owned, net of $365,000.

Cash and Cash Equivalents. Cash and cash equivalents increased $2.0 million, or 33.1%, from $6.2 million at December 31, 2013 to $8.2 million at September 30, 2014 as excess deposits and proceeds from the maturities of investments in interest-earning time deposits, not used to fund loans, were invested in liquid money market accounts.

Loans Held for Sale. Loans held for sale increased $2.5 million to $3.6 million at September 30, 2014 from $1.1 million at December 31, 2013 as the Bank's mortgage banking subsidiary, Quaint Oak Mortgage, LLC, originated $39.9 million of one-to-four family residential loans during the period ending September 30, 2014 and sold $37.4 million of loans in the secondary market during this same period.

Loans Receivable, Net. Loans receivable, net, increased $13.6 million, or 12.7%, to $120.5 million at September 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 $6.9 million, or 26.7%, one-to-four family residential non-owner occupied loans which increased $5.4 million, or 12.5%, multi-family residential loans which increased $3.4 million, or 55.9%, home equity loans which increased $526,000, or 9.3%, and non-real estate loans which increased $256,000, or 109.9%. Offsetting these increases was a $1.7 million, or 10.7% decrease in construction loans, a $524,000, or 5.9% decrease in one-to-four family residential owner occupied loans, and a $331,000, or 17.6% 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 $209,000 at September 30, 2014, consisting of two properties. This compares to six properties that totaled $574,000 at December 31, 2013. During the nine months ended September 30, 2014, the Company transferred one property in the amount of $111,000 to OREO, made $28,000 of capital improvements to the properties, and sold five properties totaling $504,000.

Deposits. Total interest-bearing deposits increased $14.8 million, or 14.3%, to $118.1 million at September 30, 2014 from $103.3 million at December 31, 2013. This increase in deposits was attributable to increases of $13.0 million in certificates of deposit, $1.6 million in eSavings accounts, $163,000 in statement savings accounts, and $30,000 in passbook savings accounts. The increases in certificates of deposit and eSavings 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 (FHLB) advances increased $6.0 million, or 109.1%, to $11.5 million at September 30, 2014 from $5.5 million at December 31, 2013. During the nine months ended September 30, 2014, the Company borrowed $6.0 million in overnight funding to fund loan demand and made no repayments. During the third quarter the Company converted $4.5 million of the $11.5 million of overnight funds into term loans with maturities between two and five years to take advantage of current FHLB borrowing rates.

Stockholders' Equity. Total stockholders' equity increased $268,000 to $17.3 million at September 30, 2014 from $17.0 million at December 31, 2013. Contributing to the increase was net income for the nine months ended September 30, 2014 of $881,000, common stock earned by participants in the employee stock ownership plan of $107,000, amortization of stock awards and options under our stock compensation plans of $99,000, and the issuance of stock under the Bank's 401(k) Plan of $53,000. These increases were partially offset by the purchase of 42,225 shares of the Company's stock as part of the Company's stock repurchase program for an aggregate purchase price of $708,000, dividends paid of $156,000, and an increase in other comprehensive loss of $8,000.

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

General. Net income amounted to $356,000 for the three months ended September 30, 2014, an increase of $225,000, or 171.8%, compared to net income of $131,000 for three months ended September 30, 2013. The increase in net income on a comparative quarterly basis was primarily the result of an increase in net interest income of $293,000 and an increase in non-interest income of $296,000, offset by increases in non-interest expense of $196,000, the provision for income taxes of $112,000, and the provision for loan losses of $56,000.

Net Interest Income. Net interest income increased 293,000, or 25.6%, to $1.4 million for the three months ended September 30, 2014 from $1.1 million for the three months ended September 30, 2013 due primarily to a $318,000, or 20.3% increase in interest income, offset by a $25,000, or 6.0% increase in interest expense.

Interest Income. Interest income increased $318,000, or 20.3%, to $1.9 million for the three months ended September 30, 2014 from $1.6 million for the three months ended September 30, 2013. The increase in interest income was primarily attributable to an $26.9 million increase in average loans receivable, net, including loans held for sale, which increased from an average balance of $96.4 million for the three months ended September 30, 2013 to an average balance of $123.3 million for the three months ended September 30, 2014, which had the effect of increasing interest income $418,000. Also contributing to the increase was a 24 basis point increase in the yield on short-term investments and investment securities available for sale from 1.26% for the three months ended September 30, 2013 to 1.50% for the three months ended September 30, 2014, which had the effect of increasing interest income by $8,000. Offsetting these increases was a 25 basis point decline in the yield on average loans receivable, net, including loans held for sale, from 6.21% for the three months ended September 30, 2013 to 5.96% for the three months ended September 30, 2014, which had the effect of decreasing interest income by $80,000, and an $8.8 million decrease in average short-term investments and investment securities available for sale from an average balance of $21.0 million for the three months ended September 30, 2013 to an average balance of $12.2 million for the three months ended September 30, 2014, which had the effect of decreasing interest income $28,000.

Interest Expense. Interest expense increased $25,000, or 6.0%, to $445,000 for the three months ended September 30, 2014 from $420,000 for the three months ended September 30, 2013. The increase in interest expense was primarily attributable to an $11.9 million increase in average total deposits, which increased from an average balance of $103.9 million for the three months ended September 30, 2013 to an average balance of $115.8 million for the three months ended September 30, 2014, which had the effect of increasing interest expense by $49,000. Also contributing to the increase was a $9.7 million increase in average total FHLB borrowings which increased from $609,000 for the three months ended September 30, 2013 to an average balance of $10.3 million for the three months ended September 30, 2014, which had the effect of increasing interest expense $97,000. Offsetting these increases was a 9 basis point decline in the cost of total average deposits from 1.59% for the three months ended September 30, 2013 to 1.50% for the three months ended September 30, 2014, which had the effect of decreasing interest income by $29,000. Also offsetting the increase was a 351 basis point decline in the cost of FHLB borrowings from 3.94% for the three months ended September 30, 2013 to 0.43% for the three months ended September 30, 2014, which had the effect of decreasing interest expense by $92,000. 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 September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | | | 2013 | | | |
| | Average Balance | Interest | Average Yield/ Rate | | Average Balance | Interest | Average Yield/ Rate | |
| Interest-earning assets: | | | (Dollars in thousands) | | | | | |
| Short-term investments and investment securities available for sale | $12,236 | $46 | 1.50 | % | $21,013 | $66 | 1.26 | % |
| Loans receivable, net (1)(2)(3) | 123,255 | 1,835 | 5.96 | | 96,359 | 1,497 | 6.21 | |
| Total interest-earning assets | 135,491 | 1,881 | 5.55 | % | 117,372 | 1,563 | 5.33 | % |
| Non-interest-earning assets | 8,930 | | | | 5,149 | | | |
| Total assets | $144,421 | | | | $122,521 | | | |
| Interest-bearing liabilities: | | | | | | | | |
| Passbook accounts | $2,718 | 1 | 0.15 | % | $2,775 | 1 | 0.14 | % |
| Statement savings accounts | 5,774 | 5 | 0.35 | | 5,329 | 5 | 0.38 | |
| eSavings accounts | 15,900 | 31 | 0.78 | | 14,145 | 26 | 0.74 | |
| Certificate of deposit accounts | 91,421 | 397 | 1.74 | | 81,652 | 382 | 1.87 | |
| Total deposits | 115,813 | 434 | 1.50 | | 103,901 | 414 | 1.59 | |
| FHLB advances | 10,283 | 11 | 0.43 | | 609 | 6 | 3.94 | |
| Total interest-bearing liabilities | 126,096 | 445 | 1.41 | % | 104,510 | 420 | 1.61 | % |
| Non-interest-bearing liabilities | 1,286 | | | | 1,036 | | | |
| Total liabilities | 127,381 | | | | 105,546 | | | |
| Stockholders' Equity | 17,040 | | | | 16,975 | | | |
| Total liabilities and Stockholders' Equity | $144,421 | | | | $122,521 | | | |
| Net interest-earning assets | $9,396 | | | | $12,862 | | | |
| Net interest income; average interest rate spread | | $1,436 | 4.14 | % | | $1,143 | 3.72 | % |
| Net interest margin (4) | | | 4.25 | % | | | 3.90 | % |
| Average interest-earning assets to average interest-bearing liabilities | | | 107.45 | % | | | 112.31 | % |

(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 $200,000 and an average yield of 4.0% for the three months September 30, 2014. 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 $56,000, or 101.8%, from $55,000 for the three months ended September 30, 2013 to $111,000 for the three months ended September 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 September 30, 2014.

Non-performing loans amounted to $2.2 million, or 1.81% of net loans receivable at September 30, 2014, consisting of seventeen loans, fourteen of which are on non-accrual status and three 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 September 30, 2014 include twelve one-to-four family non-owner occupied residential loans, two commercial real estate loans, two one-to-four family owner-occupied residential loans, and one multi-family residential loan, and all are generally well-collateralized or adequately reserved for. During the quarter ended September 30, 2014, ten loans were placed on non-accrual status resulting in the reversal of approximately $51,000 of previously accrued interest income, and one loan that was on non-accrual in the amount of $131,000 was written-off. At September 30, 2014, the Company had eleven loans totaling $956,000 that were identified as troubled debt restructurings. Two of these loans totaling $156,000 were on non-accrual, five loans totaling $274,000 were 30 days delinquent, and four loans totaling $526,000 were performing in accordance with their modified terms. The allowance for loan losses as a percent of total loans receivable was 0.94% at September 30, 2014 and 0.87% at December 31, 2013.

Other real estate owned (OREO) amounted to $209,000 at September 30, 2014, consisting of two properties. This compares to six properties that totaled $574,000 at December 31, 2013. During the quarter-ended on September 30, 2014, the Company made $8,000 of capital improvements to the properties, sold one property totaling $38,000, and realized a loss of $3,000 on the sale. Subsequent to September 30, 2014, the Company sold one property totaling $98,000 and realized a loss of $21,000 on the sale. Non-performing assets amounted to $2.4 million, or 1.61% of total assets at September 30, 2014 compared to $2.5 million, or 1.95% of total assets at December 31, 2013.

Non-Interest Income. Non-interest income increased $296,000, or 106.9%, from $277,000 for the three months ended September 30, 2013 to $573,000 for the three months ended September 30, 2014 due primarily to a $272,000 increase in net gains on the sales of residential mortgage loans, a $48,000 increase in the gain on the sale of SBA loans, a $23,000 increase in income from bank-owned life insurance, a $10,000 decrease in loss on sale of other real estate owned, and a $3,000 increase in other income. These increases were partially offset by a $51,000 decrease in fee income generated by Quaint Oak Bank's mortgage banking and title abstract subsidiaries, and a $9,000 decrease in other banking and fee service charges.

Non-Interest Expense. Non-interest expense increased $196,000, or 17.1%, from $1.1 million for the three months ended September 30, 2013 to $1.3 million for the three months ended September 30, 2014. Salaries and employee benefits expense accounted for $136,000 of the change as this expense increased 18.3%, from $743,000 for the three months ended September 30, 2013 to $879,000 for the three months ended September 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 $61,000, or 87.1% increase in other expense, a $12,000, or 14.0% increase in professional fees, a $6,000, or 4.8% increase in occupancy and equipment expense, a $3,000, or 13.0% increase in FDIC deposit insurance assessment, and a $3,000, or 13.0% increase in advertising expense. These increases were partially offset by a $13,000, or 108.3% decrease in other real estate owned expense and a $12,000, or 19.0% decrease in directors' fees and expenses.

Provision for Income Tax. The provision for income tax increased $112,000, or 125.8%, from $89,000 for the three months ended September 30, 2013 to $201,000 for the three months ended September 30, 2014 due primarily to the increase in pre-tax income. Our effective tax rate decreased to 36.1% during the three months ended September 30, 2014 from 40.5% for the comparable period in 2013 primarily due to the utilization of a state tax credit during the 2014 period.

Comparison of Operating Results for the Nine Months Ended September 30, 2014 and 2013

General. Net income amounted to $881,000 for the nine months ended September 30, 2014, an increase of $437,000, or 98.4%, compared to net income of $444,000 for nine months ended September 30, 2013. The increase in net income was primarily the result of an increase in net interest income of $855,000 and an increase in non-interest income of $418,000, offset by increases in non-interest expense of $401,000, the provision for income taxes of $260,000, and the provision for loan losses of $175,000.

Net Interest Income. Net interest income increased $855,000, or 25.8%, to $4.2 million for the nine months ended September 30, 2014 from $3.3 million for the nine months ended September 30, 2013 due primarily to an $809,000, or 17.6% increase in interest income and a $46,000, or 3.6% decrease in interest expense.

Interest Income. Interest income increased $809,000, or 17.6%, to $5.4 million for the nine months ended September 30, 2014 from $4.6 million for the nine months ended September 30, 2013. The increase in interest income was primarily due to a $23.0 million increase in average loans receivable, net, including loans held for sale, which increased from an average balance of $94.1 million for the nine months ended September 30, 2013 to an average balance of $117.0 million for the nine months ended September 30, 2014, which had the effect of increasing interest income $1.1 million. Also contributing to the increase was a 29 basis point increase in the yield on short-term investments and investment securities available for sale from 1.15% for the nine months ended September 30, 2013 to 1.44% for the nine months ended September 30, 2014, which had the effect of increasing interest income by $27,000. Offsetting these increases was a 23 basis point decline in the yield on average loans receivable, net, including loans held for sale, from 6.25% for the nine months ended September 30, 2013 to 6.02% for the nine months ended September 30, 2014, which had the effect of decreasing interest income by $204,000, and a $10.5 million decrease in average short-term investments and investment securities available for sale from an average balance of $22.8 million for the nine months ended September 30, 2013 to an average balance of $12.3 million for the nine months ended September 30, 2014, which had the effect of decreasing interest income $91,000.

Interest Expense. Interest expense decreased $46,000, or 3.6%, to $1.2 million for the nine months ended September 30, 2014 from $1.3 million for the nine months ended September 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 1.65% for the nine months ended September 30, 2013 to 1.40% for the same period in 2014, which had the effect of decreasing interest expense by $353,000. This decrease was offset by an increase of $7.4 million in average total deposits which increased from $102.9 million for the nine months ended September 30, 2013 to an average balance of $110.3 million for the nine months ended September 30, 2014, which had the effect of increasing interest expense $85,000. Also offsetting this decrease was a $7.0 million increase in average total FHLB borrowings which increased from $1.3 million for the nine months ended September 30, 2013 to an average balance of $8.3 million for the nine months ended September 30, 2014, which had the effect of increasing interest expense $222,000. The overall decrease in rates on interest-bearing liabilities was consistent with the decrease in market interest rates from September 30, 2013 to September 30, 2014. The increase in average total deposit accounts on a comparative nine 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.

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Average Balance | Interest | Average Yield/ Rate | Average Balance | Interest | Average Yield/ Rate |
| Interest-earning assets: | | | (Dollars in thousands) | | | |
| Short-term investments and investment securities available for sale | $12,301 | $133 | 1.44 % | $22,795 | $197 | 1.15 % |
| Loans receivable, net (1)(2)(3) | 117,039 | 5,285 | 6.02 | 94,078 | 4,412 | 6.25 |
| Total interest-earning assets | 129,340 | 5,418 | 5.59 % | 116,873 | 4,609 | 5.26 % |
| Non-interest-earning assets | 7,352 | | | 5,172 | | |
| Total assets | $136,692 | | | $122,045 | | |
| Interest-bearing liabilities: | | | | | | |
| Passbook accounts | $2,745 | 3 | 0.15 % | $2,819 | 4 | 0.19 % |
| Statement savings accounts | 5,807 | 16 | 0.37 | 5,588 | 16 | 0.38 |
| eSavings accounts | 15,423 | 86 | 0.74 | 13,230 | 77 | 0.78 |
| Certificate of deposit accounts | 86,340 | 1,120 | 1.73 | 81,258 | 1,152 | 1.89 |
| Total deposits | 110,315 | 1,225 | 1.48 | 102,895 | 1,249 | 1.62 |
| FHLB advances | 8,255 | 19 | 0.31 | 1,278 | 41 | 4.28 |
| Total interest-bearing liabilities | 118,570 | 1,244 | 1.40 % | 104,173 | 1,290 | 1.65 % |
| Non-interest-bearing liabilities | 1,268 | | | 1,007 | | |
| Total liabilities | 119,838 | | | 105,180 | | |
| Stockholders' Equity | 16,854 | | | 16,865 | | |
| Total liabilities and Stockholders' Equity | $136,692 | | | $122,045 | | |
| Net interest-earning assets | $10,770 | | | $12,700 | | |
| Net interest income; average interest rate spread | | $4,174 | 4.19 % | | $3,319 | 3.61 % |
| Net interest margin (4) | | | 4.30 % | | | 3.79 % |
| Average interest-earning assets to average interest-bearing liabilities | | | 109.08 % | | | 112.19 % |

(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 $187,000 and an average yield of 4.28% for the nine months September 30, 2014. 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 $175,000, or 108.0% from $162,000 for the nine months ended September 30, 2013 to $337,000 for the nine months ended September 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 September 30, 2014 and 2013-Provision for Loan Losses."

Non-Interest Income.  Non-interest income increased $418,000 or 40.9%, from $1.0 million for the nine months ended September 30, 2013 to $1.4 million for the nine months ended September 30, 2014 due primarily to a $481,000 increase in net gains on the sales of loans, a $64,000 increase in the gain on the sale of SBA loans, a $27,000 increase in income from bank-owned life insurance, a $3,000 increase in other income, and a $1,000 increase in other banking and fee service charges.  These increases were partially offset by a $140,000 decrease in fee income generated by Quaint Oak Bank's mortgage banking and title abstract subsidiaries and an $18,000 increase in the loss on the sales of other real estate owned.

Non-Interest Expense. Non-interest expense increased $401,000, or 11.6%, from $3.5 million for the nine months ended September 30, 2013 to $3.9 million for the nine months ended September 30, 2014. Salaries and employee benefits expense accounted for $323,000 of the change as this expense increased 14.7%, from $2.2 million for the nine months ended September 30, 2013 to $2.5 million for the nine months ended September 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 $52,000, or 18.5% increase in other expense, a $41,000, or 11.4% increase in occupancy and equipment expense, a $24,000, or 47.1% increase in FDIC deposit insurance assessment, and a $17,000, or 27.9% 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 $25,000, or 61.0% decrease in other real estate owned expense, a $21,000, or 11.8% decrease in directors' fees and expenses, and a $10,000, or 3.4% decrease in professional fees.

Provision for Income Tax. The provision for income tax increased $260,000, or 94.5%, from $275,000 for the nine months ended September 30, 2013 to $535,000 for the nine months ended September 30, 2014 due primarily to the increase in pre-tax income as our effective tax rate remained relatively consistent at 37.8% for the 2014 period compared to 38.2% 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 September 30, 2014, the Company's cash and cash equivalents amounted to $8.2 million. At such date, the Company also had $2.3 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 September 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 September 30, 2014, certificates of deposit scheduled to mature in less than one year totaled $27.2 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 September 30, 2014, we had $11.5 million of advances from the Federal Home Loan Bank of Pittsburgh and had $58.5 million in borrowing capacity. In addition, as of September 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 September 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 September 30, 2014.

Our stockholders' equity amounted to $17.3 million at September 30, 2014, an increase of $268,000, or 1.6% from $17.0 million at December 31, 2013. Contributing to the increase was net income for the nine months ended September 30, 2014 of $881,000, common stock earned by participants in the employee stock ownership plan of $107,000, amortization of stock awards and options under our stock compensation plans of $99,000, and the issuance of stock under the Bank's 401(k) Plan of $53,000. These increases were partially offset by the purchase of 42,225 shares of the Company's stock as part of the Company's stock repurchase program for an aggregate purchase price of $708,000, dividends paid of $156,000, and an increase in other comprehensive loss of $8,000. 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 September 30, 2014, Quaint Oak Bank exceeded each of its capital requirements with ratios of 11.14%, 15.99% and 17.15%, 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 September 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 September 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 third fiscal quarter of fiscal 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Not applicable.

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

(a) Not applicable.

(b) Not applicable.

(c) Purchases of Equity Securities

The Company's repurchases of its common stock made during the quarter ended September 30, 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) |
|---|---|---|---|---|
| July 1, 2014 – July 31, 2014 | - | $ - | - | 26,691 |
| August 1, 2014 – August 31, 2014 | - | - | - | 26,691 |
| September 1, 2014 – September 30, 2014 | 4,000 | 17.17 | 3,500 | 23,191 |
| Total | 4,000 | $ 17.17 | 3,500 | 23,191 |

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: November 12, 2014 | By: /s/Robert T. Strong<br>Robert T. Strong<br>President and Chief Executive Officer |
| Date: November 12, 2014 | By: /s/John J. Augustine<br>John J. Augustine<br>Chief Financial Officer |