QUAINT OAK BANCORP INC
Form 10-Q
August 12, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended June 30, 2016
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 000-52694

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12

months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
[X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
[X] Yes [ ] No

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

| | | | |
|---|---|---|---|
| Large accelerated filer | [ ] | Accelerated filer | [ ] |
| Non-accelerated filer<br>(Do not check if a smaller reporting company) | [ ] | Smaller reporting company | [X] |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
[ ] Yes [X] No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of August 11, 2016, 1,878,037 shares of the Registrant's common stock were issued and outstanding.

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ITEM 1. FINANCIAL STATEMENTS

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

| | At June 30, 2016 | At December 31, 2015 |
|---|---|---|
| | (In thousands, except share data) | |
| Assets | | |
| Due from banks, non-interest-bearing | $48 | $43 |
| Due from banks, interest-bearing | 19,647 | 17,163 |
| Cash and cash equivalents | 19,695 | 17,206 |
| Investment in interest-earning time deposits | 6,146 | 6,136 |
| Investment securities available for sale | 6,502 | 3,005 |
| Loans held for sale | 5,625 | 5,064 |
| Loans receivable, net of allowance for loan losses (2016 $1,424; 2015 | 154,342 | 143,305 |

| | | |
|---|---|---|
| $1,313) | | |
| Accrued interest receivable | 1,098 | 983 |
| Investment in Federal Home Loan Bank stock, at cost | 633 | 618 |
| Bank-owned life insurance | 3,682 | 3,638 |
| Premises and equipment, net | 1,764 | 1,834 |
| Other real estate owned, net | 1,446 | 1,410 |
| Prepaid expenses and other assets | 1,327 | 969 |
| Total Assets | $ 202,260 | $ 184,168 |
| | | |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Deposits: | | |
| Non-interest bearing | $ 3,385 | $ 2,407 |
| Interest-bearing | 163,042 | 146,822 |
| Total deposits | 166,427 | 149,229 |
| Federal Home Loan Bank short-term borrowings | 6,000 | 6,000 |
| Federal Home Loan | 7,500 | 7,500 |

| | | |
|---|---|---|
| Bank long-term borrowings | | |
| Accrued interest payable | 125 | 123 |
| Advances from borrowers for taxes and insurance | 1,701 | 1,859 |
| Accrued expenses and other liabilities | 564 | 421 |
| Total Liabilities | 182,407 | 165,132 |
| Stockholders' Equity | | |
| Preferred stock – $0.01 par value, 1,000,000 shares authorized; none issued or outstanding | | - |
| Common stock – $0.01 par value; 9,000,000 shares authorized; 2,777,250 issued; 1,873,133 and 1,841,475 outstanding | 28 | 28 |

| | | |
|---|---|---|
| at June 30, 2016 and December 31, 2015, respectively | | |
| Additional paid-in capital | 14,103 | 14,013 |
| Treasury stock, at cost: 2016 904,117 shares; 2015 935,775 shares | (4,699 ) | (4,859 ) |
| Unallocated common stock held by: | | |
| Employee Stock Ownership Plan (ESOP) | (353 ) | (387 ) |
| Recognition & Retention Plan Trust (RRP) | (48 ) | (70 ) |
| Accumulated other comprehensive income (loss) | 1 | (12 ) |
| Retained earnings | 10,821 | 10,323 |
| Total Stockholders' Equity | 19,853 | 19,036 |
| | $ 202,260 | $ 184,168 |

Total
Liabilities
and
Stockholders'
Equity

See accompanying notes to the unaudited consolidated financial statements.
1

Quaint Oak Bancorp, Inc.

Consolidated Statements of Income (Unaudited)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (In thousands, except for share data) | | | |
| Interest Income | | | | |
| Interest on loans | $2,195 | $2,083 | $4,284 | $4,011 |
| Interest and dividends on short-term investments and investment securities | 75 | 47 | 148 | 109 |
| Total Interest Income | 2,270 | 2,130 | 4,432 | 4,120 |
| Interest Expense | | | | |
| Interest on deposits | 589 | 481 | 1,136 | 937 |
| Interest on Federal Home Loan Bank borrowings | 33 | 24 | 66 | 43 |
| Total Interest Expense | 622 | 505 | 1,202 | 980 |
| Net Interest Income | 1,648 | 1,625 | 3,230 | 3,140 |
| Provision for Loan Losses | 66 | 121 | 111 | 209 |
| Net Interest Income after Provision for Loan Losses | 1,582 | 1,504 | 3,119 | 2,931 |
| Non-Interest Income | | | | |
| Mortgage banking and title abstract fees | 147 | 116 | 280 | 220 |
| Other fees and services charges | 34 | 49 | 52 | 71 |
| Income from bank-owned life insurance | 22 | 22 | 44 | 43 |
| Net gain on the sale of residential mortgage loans | 504 | 376 | 758 | 636 |
| Gain on sale of SBA loans | - | - | 57 | 7 |
| Gain (loss) on sale of other real estate owned | - | (2) | 1 | (2) |
| Other | 14 | 11 | 23 | 16 |
| Total Non-Interest Income | 721 | 572 | 1,215 | 991 |
| Non-Interest Expense | | | | |
| Salaries and employee benefits | 1,115 | 998 | 2,189 | 2,038 |
| Directors' fees and expenses | 51 | 52 | 107 | 104 |
| Occupancy and equipment | 159 | 137 | 312 | 286 |
| Professional fees | 106 | 95 | 197 | 172 |
| FDIC deposit insurance assessment | 36 | 30 | 68 | 58 |
| Other real estate owned expense | 26 | (5) | 92 | 3 |
| Advertising | 30 | 31 | 61 | 62 |
| Other | 139 | 138 | 267 | 253 |
| Total Non-Interest Expense | 1,662 | 1,476 | 3,293 | 2,976 |
| Income before Income Taxes | 641 | 600 | 1,041 | 946 |
| Income Taxes | 239 | 226 | 400 | 363 |

| | | | | |
|---|---|---|---|---|
| Net Income | $402 | $374 | $641 | $583 |
| | | | | |
| Earnings per share - basic | $0.23 | $0.22 | $0.36 | $0.34 |
| Average shares outstanding - basic | 1,775,829 | 1,714,582 | 1,765,078 | 1,709,114 |
| Earnings per share - diluted | $0.21 | $0.20 | $0.33 | $0.32 |
| Average shares outstanding - diluted | 1,938,627 | 1,869,558 | 1,930,675 | 1,861,090 |

See accompanying notes to the unaudited consolidated financial statements.

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (In thousands) | | | |
| Net Income | $402 | $374 | $641 | $583 |
| Other Comprehensive Income (Loss): | | | | |
| Unrealized gains (losses) on investment securities available-for-sale | (7) | (11) | 20 | (7) |
| Income tax effect | 2 | 4 | (7) | 3 |
| Other comprehensive income (loss) | (5) | (7) | 13 | (4) |
| Total Comprehensive Income | $397 | $367 | $654 | $579 |

See accompanying notes to the unaudited consolidated financial statements.

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

For the Six Months Ended June 30, 2016

| | Common Stock Number of Shares Outstanding | Common Stock Amount | Additional Paid-in Capital | Treasury Stock | Unallocated Common Stock Held by Benefit Plans | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| | (In thousands, except share data) | | | | | | | |
| BALANCE – DECEMBER 31, 2015 | 1,841,475 | $ 28 | $ 14,013 | $ (4,859 ) | $ (457 ) | $ (12 ) | $ 10,323 | $ 19,036 |
| Common stock allocated by ESOP | | | 52 | | 34 | | | 86 |
| Treasury stock purchased | (497 ) | | | (6 ) | | | | (6 ) |
| Reissuance of treasury stock under 401(k) Plan | 4,241 | | 28 | 22 | | | | 50 |
| Reissuance of treasury stock under stock incentive plan | 5,396 | | (28 ) | 28 | | | | - |
| Reissuance of treasury stock for exercised stock options | 22,518 | | (4 ) | 116 | | | | 112 |
| Stock based compensation expense | | | 64 | | | | | 64 |
| Release of 4,864 vested RRP shares | | | (22 ) | | 22 | | | - |
| Cash dividends declared ($0.078 per share) | | | | | | | (143 ) | (143 ) |
| Net income | | | | | | | 641 | 641 |
| Other comprehensive income, net | | | | | | 13 | | 13 |
| BALANCE – June 30, 2016 | 1,873,133 | $ 28 | $ 14,103 | $ (4,699 ) | $ (401 ) | $ 1 | $ 10,821 | $ 19,853 |

See accompanying notes to the unaudited consolidated financial statements.

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

| | For the Six Months Ended June 30, 2016 | 2015 |
|---|---|---|
| | (In Thousands) | |
| Cash Flows from Operating Activities | | |
| Net income | $641 | $583 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Provision for loan losses | 111 | 209 |
| Write-down of OREO properties | 73 | - |
| Depreciation expense | 96 | 85 |
| Net amortization of securities premiums | 9 | - |
| Accretion of deferred loan fees and costs, net | (156) | (175) |
| Stock-based compensation expense | 150 | 138 |
| Net gain on the sale of loans | (758) | (636) |
| Gain on the sale of SBA loans | (57) | (7) |
| Net (gain) loss on sale of other real estate owned | (1) | 2 |
| Increase in the cash surrender value of bank-owned life insurance | (44) | (43) |
| Changes in assets and liabilities which provided (used) cash: | | |
| Loans held for sale-originations | (30,142) | (23,160) |
| Loans held for sale-proceeds | 30,339 | 21,020 |
| Accrued interest receivable | (115) | (105) |
| Prepaid expenses and other assets | (365) | (275) |
| Accrued interest payable | 2 | 4 |
| Accrued expenses and other liabilities | 143 | (53) |
| Net Cash Used in Operating Activities | (74) | (2,413) |
| Cash Flows from Investing Activities | | |
| Net (increase) decrease in investment in interest-earning time deposits | (10) | 776 |
| Purchase of investment securities available for sale | (3,895) | (27) |
| Principle repayments of investment securities available for sale | 409 | - |
| Net increase in loans receivable | (10,935) | (18,418) |
| Net increase in investment in Federal Home Loan Bank stock | (15) | (91) |
| Proceeds from the sale of other real estate owned | 67 | 106 |
| Capitalized expenditures on other real estate owned | (175) | (60) |
| Purchase of premises and equipment | (26) | (175) |
| Net Cash Used in Investing Activities | (14,580) | (17,889) |
| Cash Flows from Financing Activities | | |
| Net increase in demand deposits and savings accounts | 3,180 | 473 |
| Net increase in certificate accounts | 14,018 | 9,138 |
| Proceeds from Federal Home Loan Bank short-term borrowings | - | 1,000 |
| Proceeds from Federal Home Loan Bank long-term borrowings | - | 1,000 |
| Dividends paid | (143) | (118) |
| Purchase of treasury stock | (6) | (10) |
| Proceeds from the reissuance of treasury stock | 50 | 33 |
| Proceeds from the exercise of stock options | 112 | - |
| Decrease in advances from borrowers for taxes and insurance | (68) | (104) |
| Net Cash Provided by Financing Activities | 17,143 | 11,412 |

| | | |
|---|---|---|
| Net Increase (Decrease) in Cash and Cash Equivalents | 2,489 | (8,890 ) |
| Cash and Cash Equivalents – Beginning of Year | 17,206 | 13,937 |
| Cash and Cash Equivalents – End of Year | $19,695 | $5,047 |
| Cash payments for interest | $1,200 | $976 |
| Cash payments for income taxes | $365 | $475 |
| Transfer of loans to other real estate owned | $- | $445 |

See accompanying notes to the unaudited consolidated financial statements.

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

Note 1 – Financial Statement Presentation and Significant Accounting Policies

Basis of Financial Presentation. The consolidated financial statements include the accounts of Quaint Oak Bancorp, Inc. (the "Company") and its wholly-owned subsidiary, Quaint Oak Bank (the "Bank") along with its wholly-owned subsidiaries. At June 30, 2016, 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 was inactive as of June 30, 2016. All significant intercompany balances and transactions have been eliminated.

On August 1, 2016, Quaint Oak Insurance Agency, LLC began operations by acquiring the renewal rights to the book of business produced and serviced by Signature Insurance Services, LLC, an independent insurance agency located in New Britain, Pennsylvania, that provides a broad range of personal and commercial insurance coverage solutions.

The 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 regional 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, savings accounts and money market 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, 2015 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 2015 Annual Report on Form 10-K. The results of operations for the six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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

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

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

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

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

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

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

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

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

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

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 as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass. In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

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

Federal Home Loan Bank Stock. Federal law requires a member institution of the Federal Home Loan Bank (FHLB) system to hold restricted stock of its district Federal Home Loan Bank according to a predetermined formula. FHLB stock is carried at cost and evaluated for impairment. When evaluating FHLB stock for impairment, its value is determined based on the ultimate recoverability of the par value of the stock. We evaluate our holdings of FHLB stock for impairment each reporting period. No impairment charges were recognized on FHLB stock during the three or six months ended June 30, 2016 and 2015.

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

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

Note 1 – Financial Statement Presentation and Significant Accounting Policies (Continued)
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. The Company has one one-to-four family residential non-owner occupied loan and one multi-family loan for which foreclosure proceedings are in process at June 30, 2016. The total recorded investment is $387,000.
Share-Based Compensation. Compensation expense for share-based compensation awards is based on the grant date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award.
At June 30, 2016, the Company has three share-based plans: the 2008 Recognition and Retention Plan ("RRP"), the 2008 Stock Option Plan, and the 2013 Stock Incentive Plan. Awards under these plans were made in May 2008 and 2013. These plans are more fully described in Note 10.
The Company also has an employee stock ownership plan ("ESOP"). This plan is more fully described in Note 10. As ESOP shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the average market price of the shares over the period earned.
Comprehensive Income (Loss). Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated balance sheet and along with net income, are components of comprehensive income.
Earnings per Share. Amounts reported in earnings per share reflect earnings available to common stockholders' for the period divided by the weighted average number of shares of common stock outstanding during the period, exclusive of 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 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.

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

Note 1 – Financial Statement Presentation and Significant Accounting Policies (Continued)
In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606). The amendments in this Update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is evaluating the effect of adopting this new accounting Update.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (g) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (h) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease id defined as one in which: (a) the lease term is 12 months or less, and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

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

Note 1 – Financial Statement Presentation and Significant Accounting Policies (Continued)
In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606). The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services (that are an output of the entity's ordinary activities) in exchange for consideration. The amendments in this Update do not change the core principle of the guidance in Topic 606; they simply clarify the implementation guidance on principal versus agent considerations. The amendments in this Update are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The amendments in this Update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements of Update 2014-09. ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718). The amendments in this Update affect all entities that issue share-based payment awards to their employees. The standards in this Update provide simplification for several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as with equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. In addition to those simplifications, the amendments eliminate the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), Share-Based Payment. This should not result in a change in practice because the guidance that is being superseded was never effective. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any entity in any interim or annual period. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.
In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606). The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services in exchange for consideration. The amendments in this Update do not change the core principle for revenue recognition in Topic 606. Instead, the amendments provide (1) more detailed guidance in a few areas and (2) additional implementation guidance and examples based on feedback the FASB received from its stakeholders. The amendments are expected to reduce the degree of judgment necessary to comply with Topic 606, which the FASB expects will reduce the potential for diversity arising in practice and reduce the cost and complexity of applying the guidance. The amendments in this Update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

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

Note 1 – Financial Statement Presentation and Significant Accounting Policies (Continued)
In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606), which among other things clarifies the objective of the collectability criterion in Topic 606, as well as certain narrow aspects of Topic 606. The amendments in this Update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which changes the impairment model for most financial assets. This ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the ASU is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

Reclassifications. Certain items in the 2015 consolidated financial statements have been reclassified to conform to the presentation in the 2016 consolidated financial statements. Such reclassifications did not have a material impact on the presentation of the overall financial statements. The reclassifications had no effect on net income or stockholders' equity.

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

Note 2 – Stock Split

On August 13, 2015, the Company's Board of Directors declared a two-for-one stock split in the form of a 100% stock dividend effective for shareholders of record on August 24, 2015 that was distributed on September 8, 2015. All per share amounts in this report have been restated to reflect this stock split. An amount equal to the par value of the additional common shares issued pursuant to the stock split was reflected as a transfer from additional paid-in capital to common stock on the consolidated financial statements as of the year ended December 31, 2015.

Note 3 – Earnings Per Share

Earnings per share ("EPS") consists of two separate components, basic EPS and diluted EPS. Basic EPS is computed based on the weighted average number of shares of common stock outstanding for each period presented. Diluted EPS is calculated based on the weighted average number of shares of common stock outstanding plus dilutive common stock equivalents ("CSEs"). CSEs consist of shares that are assumed to have been purchased with the proceeds from the exercise of stock options, as well as unvested restricted stock (RRP) shares. Common stock equivalents which are considered antidilutive are not included for the purposes of this calculation. For the three months and six months ended June 30, 2016 and 2015, all unvested restricted stock program awards and outstanding stock options representing shares were dilutive.

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net Income | $402,000 | $374,000 | $641,000 | $583,000 |
| | | | | |
| Weighted average shares outstanding – basic | 1,775,829 | 1,714,582 | 1,765,078 | 1,709,114 |
| Effect of dilutive common stock equivalents | 162,798 | 154,976 | 165,597 | 151,976 |
| Adjusted weighted average shares outstanding – diluted | 1,938,627 | 1,869,558 | 1,930,675 | 1,861,090 |
| | | | | |
| Basic earnings per share | $0.23 | $0.22 | $0.36 | $0.34 |
| Diluted earnings per share | $0.21 | $0.20 | $0.33 | $0.32 |

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

Note 4 – Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (loss) by component, net of tax, for the three months and the six months ended June 30, 2016 and 2015 (in thousands):

| | Unrealized Gains (Losses) on Investment Securities Available for Sale (1) | | | |
|---|---|---|---|---|
| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Balance at the beginning of the period | $6 | $(33) | $(12) | $(36) |
| Other comprehensive income (loss) before classifications | (5) | (7) | 13 | (4) |
| Amount reclassified from accumulated other comprehensive income (loss) | - | - | - | - |
| Total other comprehensive income (loss) | 5 | (7) | 13 | (4) |
| Balance at the end of the period | $1 | $(40) | $1 | $(40) |

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

There were no amounts reclassified out of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2016 and 2015.

Note 5 – Investment in Interest-Earning Time Deposits

The investment in interest-earning time deposits as of June 30, 2016 and December 31, 2015, by contractual maturity, are shown below:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| | (In Thousands) | |
| Due in one year or less | $4,368 | $ 3,585 |
| Due after one year through five years | 1,778 | 2,551 |
| | $6,146 | $ 6,136 |

Note 6 – Investment Securities Available for Sale

The amortized cost, gross unrealized gains and losses, and fair value of investment securities available for sale at June 30, 2016 and December 31, 2015 are summarized below (in thousands):

| | June 30, 2016 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available for Sale: | | | | |
| Mortgage-backed securities: | | | | |

| | | | | |
|---|---|---|---|---|
| Governmental National Mortgage Association securities | $3,230 | $ 2 | $ - | $3,232 |
| Federal Home Loan Mortgage Corporation securities | 2,017 | 3 | - | 2,020 |
| Federal National Mortgage Association securities | 893 | - | (2) | 891 |
| Total mortgage-backed securities | 6,140 | 5 | (2) | 6,143 |
| Federal Home Loan Mortgage Corporation Medium Term Note Step | 360 | - | (1) | 359 |
| Total available-for-sale-securities | $6,500 | $ 5 | $ (3) | $6,502 |

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

Note 6 – Investment Securities Available for Sale (Continued)

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available for Sale: | | | | |
| Mortgage-backed securities: | | | | |
| Governmental National Mortgage Association securities | $2,003 | $ - | $ (13) | $1,990 |
| Federal Home Loan Mortgage Corporation securities | 1,020 | - | (5) | 1,015 |
| Total mortgage-backed securities | $3,023 | $ - | $ (18) | $3,005 |

The following table shows the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at June 30, 2016 and December 31, 2015 (in thousands):

| | June 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Less than Twelve Months | | Twelve Months or Greater | | Total | |
| | Number of Securities | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Federal National Mortgage Association mortgage-backed security | 1 | $891 | $ (2) | $ - | $ - | $891 | $ (2) |
| Federal Home Loan Mortgage Corporation Medium Term Note Step | 1 | 359 | (1) | - | - | 359 | (1) |
| | 2 | $1,250 | $ (3) | $ - | $ - | $1,250 | $ (3) |

| | December 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Less than Twelve Months | | Twelve Months or Greater | | Total | |
| | Number of Securities | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Governmental National Mortgage Association mortgage-backed securities | 2 | $1,990 | $ (13) | $ - | $ - | $1,990 | $ (13) |
| Federal Home Loan Mortgage Corporation mortgage-backed security | 1 | 1,015 | (5) | - | - | 1,015 | (5) |
| Total | 3 | $3,005 | $ (18) | $ - | $ - | $3,005 | $ (18) |

At June 30, 2016, there were two securities in an unrealized loss position that at such date had an aggregate depreciation of 0.24% from the Company's amortized cost basis. Management believes that the estimated fair value of the securities disclosed above is primarily dependent on the movement of market interest rates. Management evaluated the length of time and the extent to which the fair value has been less than cost and the financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer. The Company has the ability and intent to hold the securities until the anticipated recovery of fair value occurs. Management does not believe any individual unrealized loss as of June 30, 2016 represents an other-than-temporary impairment. There were no impairment charges recognized during the three and six months ended June 30, 2016 or 2015.

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

Note 7 - Loans Receivable, Net and Allowance for Loan Losses

The composition of net loans receivable is as follows:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| | (In Thousands) | |
| Real estate loans: | | |
| One-to-four family residential: | | |
| Owner occupied | $5,749 | $5,777 |
| Non-owner occupied | 52,140 | 51,036 |
| Total one-to-four family residential | 57,889 | 56,813 |
| | | |
| Multi-family (five or more) residential | 11,991 | 12,402 |
| Commercial real estate | 59,143 | 47,550 |
| Commercial lines of credit | 2,032 | 2,215 |
| Construction | 15,270 | 16,100 |
| Home equity loans | 5,840 | 7,409 |
| Total real estate loans | 152,165 | 142,489 |
| | | |
| Commercial business | 4,178 | 2,576 |
| Other consumer | 31 | 71 |
| Total Loans | 156,374 | 145,136 |
| | | |
| Deferred loan fees and costs | (608 ) | (518 ) |
| Allowance for loan losses | (1,424 ) | (1,313 ) |
| | | |
| Net Loans | $154,342 | $143,305 |

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of June 30, 2016 and December 31, 2015 (in thousands):

| | June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Total |
| One-to-four family residential owner occupied | $5,749 | $ - | $ - | $ - | $5,749 |
| One-to-four family residential non-owner occupied | 51,019 | 106 | 1,015 | - | 52,140 |
| Multi-family residential | 11,991 | - | - | - | 11,991 |
| Commercial real estate and lines of credit | 59,733 | 118 | 1,324 | - | 61,175 |
| Construction | 13,433 | - | 1,837 | - | 15,270 |
| Home equity | 5,840 | - | - | - | 5,840 |
| Commercial business | 4,178 | - | - | - | 4,178 |
| Other consumer | 31 | - | - | - | 31 |
| | $151,974 | $ 224 | $ 4,176 | $ - | $156,374 |

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

Note 7 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Total |
| One-to-four family residential owner occupied | $5,777 | $ - | $ - | $ - | $5,777 |
| One-to-four family residential non-owner occupied | 49,457 | 331 | 1,248 | - | 51,036 |
| Multi-family residential | 12,402 | - | - | - | 12,402 |
| Commercial real estate and lines of credit | 48,185 | 262 | 1,318 | - | 49,765 |
| Construction | 14,621 | - | 1,479 | - | 16,100 |
| Home equity | 7,409 | - | - | - | 7,409 |
| Commercial business | 2,576 | - | - | - | 2,576 |
| Other consumer | 71 | - | - | - | 71 |
| | $140,498 | $ 593 | $ 4,045 | $ - | $145,136 |

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of June 30, 2016 as well as the average recorded investment and related interest income for the period then ended (in thousands):

| | June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: | | | | | |
| One-to-four family residential owner occupied | $- | $ - | $ - | $ - | $ - |
| One-to-four family residential non-owner occupied | 1,121 | 1,127 | - | 1,188 | 15 |
| Multi-family residential | - | - | - | - | - |
| Commercial real estate and lines of credit | 262 | 262 | - | 262 | - |
| Construction | - | - | - | - | - |
| Home equity | 51 | 51 | - | 83 | 3 |
| Commercial business | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| With an allowance recorded: | | | | | |
| One-to-four family residential owner occupied | $- | $ - | $ - | $ - | $ - |
| One-to-four family residential non-owner occupied | 197 | 197 | 31 | 197 | 8 |
| Multi-family residential | - | - | - | - | - |
| Commercial real estate and lines of credit | 133 | 133 | 11 | 133 | 5 |
| Construction | - | - | - | - | - |
| Home equity | - | - | - | - | - |
| Commercial business | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| Total: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| One-to-four family residential owner occupied | $- | $ - | $ - | $ - | $ - |
| One-to-four family residential non-owner occupied | 1,318 | 1,324 | 31 | 1,385 | 23 |
| Multi-family residential | - | - | - | - | - |
| Commercial real estate and lines of credit | 395 | 395 | 11 | 395 | 5 |
| Construction | - | - | - | - | - |
| Home equity | 51 | 51 | - | 83 | 3 |
| Commercial business | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| Total | $1,764 | $ 1,770 | $ 42 | $ 1,863 | $ 31 |

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

Note 7 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2015 as well as the average recorded investment and related interest income for the year then ended (in thousands):

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | 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 | $ - | $ - | $ - | $ 828 | $ 15 |
| One-to-four family residential non-owner occupied | 653 | 659 | - | 1,464 | 62 |
| Multi-family residential | - | - | - | 66 | 5 |
| Commercial real estate and lines of credit | - | - | - | 1,085 | 77 |
| Construction | - | - | - | - | - |
| Home equity | 84 | 84 | - | 87 | 7 |
| Commercial business | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| With an allowance recorded: | | | | | |
| One-to-four family residential owner occupied | $ - | $ - | $ - | $ - | $ - |
| One-to-four family residential non-owner occupied | 321 | 321 | 33 | 556 | 22 |
| Multi-family residential | - | - | - | - | - |
| Commercial real estate and lines of credit | 133 | 133 | 7 | 332 | 9 |
| Construction | - | - | - | - | - |
| Home equity | - | - | - | 45 | 4 |
| Commercial business | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| Total: | | | | | |
| One-to-four family residential owner occupied | $ - | $ - | $ - | $ 828 | $ 15 |
| One-to-four family residential non-owner occupied | 974 | 980 | 33 | 2,020 | 84 |
| Multi-family residential | - | - | - | 66 | 5 |
| Commercial real estate and lines of credit | 133 | 133 | 7 | 1,417 | 86 |
| Construction | - | - | - | - | - |
| Home equity | 84 | 84 | - | 132 | 11 |
| Commercial business | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| Total | $ 1,191 | $ 1,197 | $ 40 | $ 4,463 | $ 201 |

The loan portfolio also includes certain loans that have been modified in a troubled debt restructuring, where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from loss mitigation activities and could include reductions in the interest rate, payment extensions, forbearance, or other actions. At June 30, 2016, the Company had eight loans totaling $741,000 that were identified as troubled debt restructurings. All eight of these loans were performing in accordance with their modified terms. At December 31, 2015, the Company had nine loans totaling $781,000 that were identified as troubled debt restructurings. If a TDR is placed on non-accrual it is not reverted back to accruing status until the borrower makes timely payments as contracted for at least six months and future collection under the revised terms is probable.

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

Note 7 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

The following tables present the Company's TDR loans as of June 30, 2016 and December 31, 2015 (dollar amounts in thousands):

| | June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Number of Contracts | Recorded Investment | Non-Accrual | Accruing | Related Allowance |
| One-to-four family residential owner occupied | - | $ - | $ - | $ - | $ - |
| One-to-four family residential non-owner occupied | 5 | 557 | - | 557 | 28 |
| Multi-family residential | - | - | - | - | - |
| Commercial real estate and lines of credit | 1 | 133 | - | 133 | 11 |
| Construction | - | - | - | - | - |
| Home equity | 2 | 51 | - | 51 | - |
| Commercial business | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| Total | 8 | $ 741 | $ - | $ 741 | $ 39 |

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Number of Contracts | Recorded Investment | Non-Accrual | Accruing | Related Allowance |
| One-to-four family residential owner occupied | - | $ - | $ - | $ - | $ - |
| One-to-four family residential non-owner occupied | 5 | 564 | - | 564 | 25 |
| Multi-family residential | - | - | - | - | - |
| Commercial real estate and lines of credit | 1 | 133 | - | 133 | 7 |
| Construction | - | - | - | - | - |
| Home equity | 3 | 84 | - | 84 | - |
| Commercial business | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| Total | 9 | $ 781 | $ - | $ 781 | $ 32 |

The contractual aging of the TDRs in the table above as of June 30, 2016 and December 31, 2015 is as follows (in thousands):

| | June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Accruing 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 | 557 | | - | | - | | - | 557 |
| Multi-family residential | - | | - | | - | | - | - |
| Commercial real estate and lines of credit | 133 | | - | | - | | - | 133 |
| Construction | - | | - | | - | | - | - |
| Home equity | 51 | | - | | - | | - | 51 |
| Commercial business | - | | - | | - | | - | - |
| Other consumer | - | | - | | - | | - | - |
| Total | $741 | $ | - | $ | - | $ | - | $741 |

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

Note 7 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Accruing 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 | 564 | - | - | - | 564 |
| Multi-family residential | - | - | - | - | - |
| Commercial real estate and lines of credit | 133 | - | - | - | 133 |
| Construction | - | - | - | - | - |
| Home equity | 84 | - | - | - | 84 |
| Commercial business | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| Total | $781 | $ - | $ - | $ - | $781 |

During the three and six months ended June 30, 2016 there were no new loans identified as TDRs and one loan previously identified as a TDR was paid-off in the second quarter of 2016.

Any reserve for an impaired TDR loan is based upon the present value of the future expected cash flows discounted at the loan's original effective rate or upon the fair value of the collateral less costs to sell, if the loan is deemed collateral dependent. At June 30, 2016 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.  The Company did not have any troubled debt restructurings default within the six months ended June 30, 2016.

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

Note 7 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

Following is a summary, by loan portfolio class, of changes in the allowance for loan losses for the three and six months ended June 30, 2016 and recorded investment in loans receivable as of June 30, 2016 (in thousands):

| | June 30, 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | Commercial Business and Other Consumer | Unallocated | Total |
| For the Three Months Ended June 30, 2016 | | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | |
| Beginning balance | $51 | $ 512 | $ 56 | $ 425 | $ 149 | $52 | $ 32 | $ 81 | $1,358 |
| Charge-offs | - | - | - | - | - | - | - | - | - |
| Recoveries | - | - | - | - | - | - | - | - | - |
| Provision | (5) | 13 | 10 | 59 | (34) | (1) | 5 | 19 | 66 |
| Ending balance | $46 | $ 525 | $ 66 | $ 484 | $ 115 | $51 | $ 37 | $ 100 | $1,424 |
| For the Six Months Ended June 30, 2016 | | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | |
| Beginning balance | $55 | $ 486 | $ 81 | $ 389 | $ 153 | $50 | $ 18 | $ 81 | $1,313 |
| Charge-offs | - | - | - | - | - | - | - | - | - |
| Recoveries | - | - | - | - | - | - | - | - | - |
| Provision | (9) | 39 | (15) | 95 | (38) | 1 | 19 | 19 | 111 |
| Ending balance | $46 | $ 525 | $ 66 | $ 484 | $ 115 | $51 | $ 37 | $ 100 | $1,424 |
| Ending balance evaluated for impairment: | | | | | | | | | |
| Individually | $- | $ 31 | $ - | $ 11 | $ - | $- | $ - | $ - | $42 |
| Collectively | $46 | $ 494 | $ 66 | $ 473 | $ 115 | $51 | $ 37 | $ 100 | $1,382 |
| Loans receivable: | | | | | | | | | |
| Ending balance: | $5,749 | $ 52,140 | $ 11,991 | $ 61,175 | $ 15,270 | $5,840 | $ 4,209 | $ - | $156,374 |
| Ending balance evaluated for impairment: | | | | | | | | | |
| Individually | $- | $ 1,318 | $ - | $ 395 | $ - | $51 | $ - | $ - | $1,764 |
| Collectively | $5,749 | $ 50,822 | $ 11,991 | $ 60,780 | $ 15,270 | $5,789 | $ 4,209 | $ - | $154,610 |

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

Note 7 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

Following is a summary, by loan portfolio class, of changes in the allowance for loan losses for the three and six months ended June 30, 2015 (in thousands):

| | June 30, 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | Commercial Business and Other Consumer | Unallocated | Total |
| For the Three Months Ended June 30, 2015 | | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | |
| Beginning balance | $64 | $412 | $ 63 | $ 353 | $ 160 | $ 44 | $ 15 | $ 74 | $1,185 |
| Charge-offs | - | (30) | - | - | - | - | - | - | (30) |
| Recoveries | - | - | - | - | - | - | - | - | - |
| Provision | (4) | (13) | 2 | 59 | 43 | 29 | 8 | (3) | 121 |
| Ending balance | $60 | $369 | $ 65 | $ 412 | $ 203 | $ 73 | $ 23 | $ 71 | $1,276 |
| For the Six Months Ended June 30, 2015 | | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | |
| Beginning balance | $75 | $418 | $ 60 | $ 324 | $ 122 | $ 46 | $ 7 | $ 96 | 1,148 |
| Charge-offs | - | (81) | - | - | - | - | - | - | (81) |
| Recoveries | - | - | - | - | - | - | - | - | - |
| Provision | (15) | 32 | 5 | 88 | 81 | 27 | 16 | (25) | 209 |
| Ending balance | $60 | $369 | $ 65 | $ 412 | $ 203 | $ 73 | $ 23 | $ 71 | $1,276 |
| Ending balance evaluated for impairment: | | | | | | | | | |
| Individually | $- | $13 | $ - | $ 29 | $ - | $ 34 | $ - | $ - | $76 |
| Collectively | $60 | $356 | $ 65 | $ 383 | $ 203 | $ 39 | $ 23 | $ 71 | $1,200 |

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

Note 7 - 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, 2015 and recorded investment in loans receivable as of December 31, 2015 (in thousands):

| | December 31, 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | Commercial Business and Other Consumer | Unallocated | Total |
| Allowance for loan losses: | | | | | | | | | |
| Beginning balance | $75 | $418 | $60 | $324 | $122 | $46 | $7 | $96 | $1,148 |
| Charge-offs | - | (110) | - | (21) | - | (45) | - | - | (176) |
| Recoveries | - | - | - | 21 | - | - | - | - | 21 |
| Provision | (20) | 178 | 21 | 65 | 31 | 49 | 11 | (15) | 320 |
| Ending balance | $55 | $486 | $81 | $389 | $153 | $50 | $18 | $81 | $1,313 |
| Ending balance evaluated for impairment | | | | | | | | | |
| Individually | $- | $33 | $- | $7 | $- | $- | $- | $- | $40 |
| Collectively | $55 | $453 | $81 | $382 | $153 | $50 | $18 | $81 | $1,273 |
| Loans receivable: | | | | | | | | | |
| Ending balance | $5,777 | $51,036 | $12,402 | $49,765 | $16,100 | $7,409 | $2,647 | $- | $145,136 |
| Ending balance evaluated for impairment | | | | | | | | | |
| Individually | $- | $974 | $- | $133 | $- | $84 | $- | $- | $1,191 |
| Collectively | $5,777 | $50,062 | $12,402 | $49,632 | $16,100 | $7,325 | $2,647 | $- | $143,945 |

The Bank allocated increased allowance for loan loss provisions to the commercial real estate and lines of credit, the 1-4 family residential non-owner occupied, and the commercial business loans portfolio classes for the three and six months ended June 30, 2016, due to increased balances in these portfolio classes. The Bank allocated decreased allowance for loan loss provisions to the construction loan portfolio class for the three and six months ended June 30, 2016, due to decreased activity in this portfolio class. The Bank allocated increased allowance for loan loss provisions to the 1-4 family residential non-owner occupied class for the six months ended June 30, 2015, due to increased charge-off activity in this portfolio class. The Bank allocated increased allowance for loan loss provisions to the commercial real estate and lines of credit and construction portfolio classes for the three and six months ended June 30, 2015, due to increased balances in these portfolio classes.

The following table presents nonaccrual loans by classes of the loan portfolio as of June 30, 2016 and December 31, 2015 (in thousands):

| June 30, 2016 | December 31, 2015 |
|---|---|

| | | |
|---|---|---|
| One-to-four family residential owner occupied | $- | $ - |
| One-to-four family residential non-owner occupied | 661 | 186 |
| Multi-family residential | - | - |
| Commercial real estate and lines of credit | 262 | - |
| Construction | - | - |
| Home equity | - | - |
| Commercial business | - | - |
| Other consumer | - | - |
| | $923 | $ 186 |

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

Note 7 - 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 $1.5 million and $852,000 at June 30, 2016 and December 31, 2015, respectively. For the delinquent loans in our portfolio, we have considered our ability to collect the past due interest, as well as the principal balance of the loan, in order to determine whether specific loans should be placed on non-accrual status. In cases where our evaluations have determined that the principal and interest balances are collectible, we have continued to accrue interest.

For the three and six months ended June 30, 2016 and 2015 there was no interest income recognized on non-accrual loans on a cash basis. Interest income foregone on non-accrual loans was approximately $56,000 and $49,000 for the six months ended June 30, 2016 and 2015, respectively.

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of June 30, 2016 and December 31, 2015 (in thousands):

| | June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $312 | $171 | $483 | $5,266 | $ 5,749 | $ 171 |
| One-to-four family residential non-owner occupied | 493 | 974 | 1,467 | 50,673 | 52,140 | 313 |
| Multi-family residential | - | - | - | 11,991 | 11,991 | - |
| Commercial real estate and lines of credit | 648 | 364 | 1,012 | 60,163 | 61,175 | 102 |
| Construction | 508 | - | 508 | 14,762 | 15,270 | - |
| Home equity | 272 | - | 272 | 5,568 | 5,840 | - |
| Commercial business | - | - | - | 4,178 | 4,178 | - |
| Other consumer | - | - | - | 31 | 31 | - |
| | $2,233 | $1,509 | $3,742 | $152,632 | $ 156,374 | $ 586 |

| | December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $253 | $ - | $253 | $5,524 | $ 5,777 | $ - |
| One-to-four family residential non-owner occupied | 1,227 | 590 | 1,817 | 49,219 | 51,036 | 404 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Multi-family residential | - | - | - | 12,402 | 12,402 | - |
| Commercial real estate and lines of credit | 894 | 262 | 1,156 | 48,609 | 49,765 | 262 |
| Construction | 558 | - | 558 | 15,542 | 16,100 | - |
| Home equity | 55 | - | 55 | 7,354 | 7,409 | - |
| Commercial business | - | - | - | 2,576 | 2,576 | - |
| Other consumer | - | - | - | 71 | 71 | - |
| | $2,987 | $ 852 | $3,839 | $141,297 | $ 145,136 | $ 666 |

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

Note 8 – Deposits

Deposits consist of the following classifications (in thousands):

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Non-interest bearing checking accounts | $3,385 | $2,407 |
| Passbook accounts | 1,273 | 1,185 |
| Savings accounts | 2,189 | 3,275 |
| Money market accounts | 29,771 | 26,571 |
| Certificates of deposit | 129,809 | 115,791 |
| Total deposits | $166,427 | $149,229 |

Note 9 – Borrowings

Federal Home Loan Bank advances consist of the following at June 30, 2016 and December 31, 2015 (in thousands):

| | June 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Amount | Weighted Interest Rate | Amount | Weighted Interest Rate |
| Short-term borrowings | $6,000 | 0.59 % | $6,000 | 0.45 % |
| Fixed rate borrowings maturing: | | | | |
| 2016 | $1,000 | 0.88 % | $1,000 | 0.88 % |
| 2017 | 2,500 | 1.15 | 2,500 | 1.15 |
| 2018 | 3,000 | 1.46 | 3,000 | 1.46 |
| 2019 | 1,000 | 2.02 | 1,000 | 2.02 |
| Total FHLB long-term debt | $7,500 | 1.35 % | $7,500 | 1.35 % |

Note 10 – 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 222,180 shares of the Company's then outstanding common stock in the open market at an average price of $4.68 (split-adjusted) 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.

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

Note 10 – Stock Compensation Plans (Continued)

Employee Stock Ownership Plan (Continued)

Shares of the Company's common stock purchased by the ESOP are held in a suspense account and reported as unallocated common stock held by the ESOP in stockholders' equity until released for allocation to participants. As the debt is repaid, shares are released from collateral and are allocated to each eligible participant based on the ratio of each such participant's base compensation to the total base compensation of eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the average market value of the shares, and the shares become outstanding for earnings per share computations. During the three and six months ended June 30, 2016, the Company recognized $43,000 and $86,000 of ESOP expense, respectively. During the three and six months ended June 30, 2015, the Company recognized $37,000 and $73,000 of ESOP expense, respectively.

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 111,090 shares of the Company's stock in the open market at an average price of $4.68 (split adjusted) totaling $520,000. In May 2013, the shareholders of Quaint Oak Bancorp approved the adoption of the 2013 Stock Incentive Plan (the "Stock Incentive Plan"). The Stock Incentive Plan provides that no more than 48,750, or 25%, of the shares may be granted as restricted stock awards.

As of June 30, 2016, a total of 20,524 awards of restricted stock were unvested under the RRP and Stock Incentive Plan and up to 21,968 restricted stock awards were available for future grant under the Stock Incentive Plan and none under the RRP. The RRP and Stock Incentive Plan share awards have vesting periods from five to seven years.

A summary of the status of the shares under the RRP and Stock Incentive Plan as of June 30, 2016 and 2015 and changes during the six months ended June 30, 2016 and 2015 is as follows:

| | June 30, 2016 | | June 30, 2015 | |
|---|---|---|---|---|
| | 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 | 30,784 | $ 8.10 | 41,966 | $ 8.09 |
| Granted | - | - | - | - |
| Vested | (10,260) | 8.10 | (10,582) | 7.73 |
| Forfeited | - | - | - | - |
| Unvested at the end of the period | 20,524 | $ 8.10 | 31,384 | $ 8.21 |

Compensation expense on the restricted stock awards is recognized ratably over the five to seven year vesting period in an amount which is equal to the fair value of the common stock at the date of grant. During the three and six months ended June 30, 2016, approximately $21,000 and $42,000 in compensation expense was recognized, respectively. A tax benefit of approximately $7,000 and $14,000, respectively, was recognized during each of these periods. During the three and six months ended June 30, 2015, approximately $21,000 and $43,000 in compensation expense was recognized, respectively. A tax benefit of approximately $7,000 and $15,000, respectively, was recognized during each of these periods. As of June 30, 2016, approximately $157,000 in additional compensation expense will be recognized over the remaining service period of approximately 1.9 years.

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

Note 10 – Stock Compensation Plans (Continued)

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 277,726 shares of common stock with an exercise price no less than the fair market value on the date of the grant. The Stock Incentive Plan approved by shareholders in May 2013 covered a total of 195,000 shares, of which 48,750 may be restricted stock awards, for a balance of 146,250 stock options assuming all the restricted shares are awarded.

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

As of June 30, 2016, a total of 331,748 grants of stock options were outstanding under the Option Plan and Stock Incentive Plan and 56,276 stock options were available for future grant under the Stock Incentive Plan and none under the Option Plan. Options will become vested and exercisable over a five to seven year period and are generally exercisable for a period of ten years after the grant date.

A summary of option activity under the Company's Option Plan and Stock Incentive Plan of June 30, 2016 and 2015 and changes during the six months ended June 30, 2016 and 2015 is as follows:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) |
| Outstanding at the beginning of the year | 354,266 | $ 6.33 | 4.7 | 369,140 | $ 6.30 | 5.7 |
| Granted | - | - | - | - | - | - |
| Exercised | (22,518 ) | 5.00 | - | - | - | - |
| Forfeited | - | - | - | - | - | - |
| Outstanding at the end of the period | 331,748 | $ 6.42 | 4.2 | 369,140 | $ 6.30 | 5.0 |
| Exercisable at the end of the period | 270,148 | $ 6.04 | 1.9 | 276,740 | $ 5.69 | 2.9 |

During the three and six months ended June 30, 2016 and 2015, approximately $11,000 and $22,000 in compensation expense was recognized, respectively. A tax benefit of approximately $1,000 and $2,000, respectively, was recognized during each of these periods. As of June 30, 2016, approximately $85,000 in additional compensation expense will be recognized over the remaining service period of approximately 1.9 years.

Note 11 – Fair Value Measurements and Fair Values of Financial Instruments
Fair value estimates are based on quoted market prices, if available, quoted market prices of similar assets or liabilities, or the present value of expected future cash flows and other valuation techniques. These valuations are significantly affected by discount rates, cash flow assumptions, and risk assumptions used. Therefore, fair value

estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realizable in an immediate settlement of the instruments.

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

Note 11 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)
Fair value is determined at one point in time and is not representative of future value. These amounts do not reflect the total value of a going concern organization. Management does not have the intention to dispose of a significant portion of its assets and liabilities and therefore, the unrealized gains or losses should not be interpreted as a forecast of future earnings and cash flows.
The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing are as follows:
Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.
Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.
Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.
This hierarchy requires the use of observable market data when available.
The following is a discussion of assets and liabilities measured at fair value on a recurring basis and valuation techniques applied:
Investment Securities Available-For-Sale: The fair value of securities available for sale are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

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

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

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

Note 11 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)
The table below sets forth the financial assets and liabilities that were accounted for on a recurring and nonrecurring basis by level within the fair value hierarchy as of June 30, 2016 (in thousands):

| | June 30, 2016 Fair Value Measurements Using: | | | |
|---|---|---|---|---|
| | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
| Recurring fair value measurements | | | | |
| Investment securities available for sale | | | | |
| Governmental National Mortgage Association mortgage-backed securities | $3,232 | $ - | $ 3,232 | $ - |
| Federal Home Loan Mortgage Corporation mortgage-backed securities | 2,020 | - | 2,020 | - |
| Federal National Mortgage Association mortgage-backed securities | 891 | - | 891 | - |
| Federal Home Loan Mortgage Corporation Medium Term Note Step | 359 | - | 359 | - |
| Total investment securities available for sale | $6,502 | $ - | $ 6,502 | $ - |
| Total recurring fair value measurements | $6,502 | $ - | $ 6,502 | $ - |
| | | | | |
| Nonrecurring fair value measurements | | | | |
| Impaired loans | $1,722 | $ - | $ - | $ 1,722 |
| Other real estate owned | 1,446 | - | - | 1,446 |
| Total nonrecurring fair value measurements | $3,168 | $ - | $ - | $ 3,168 |

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, 2015 (in thousands):

| | December 31, 2015 Fair Value Measurements Using: | | | |
|---|---|---|---|---|
| | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
| Recurring fair value measurements | | | | |
| Investment securities available for sale | | | | |

| | | | | |
|---|---|---|---|---|
| Governmental National Mortgage Association mortgage-backed securities | $1,990 | $ - | $ 1,990 | $ - |
| Federal Home Loan Mortgage Corporation mortgage-backed securities | 1,015 | - | 1,015 | - |
| Total investment securities available for sale | $3,005 | $ - | $ 3,005 | $ - |
| Total recurring fair value measurements | $3,005 | $ - | $ 3,005 | $ - |
| | | | | |
| Nonrecurring fair value measurements | | | | |
| Impaired loans | $1,151 | $ - | $ - | $ 1,151 |
| Other real estate owned | 1,410 | - | - | 1,410 |
| Total nonrecurring fair value measurements | $2,561 | $ - | $ - | $ 2,561 |

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

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

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has used level 3 inputs to determine fair value as of June 30, 2016 and December 31, 2015 (in thousands):

| | June 30, 2016 Quantitative Information About Level 3 Fair Value Measurements | | | |
|---|---|---|---|---|
| | Total Fair Value | Valuation Techniques | Unobservable Input | Range (Weighted Average) |
| Impaired loans | $1,722 | Appraisal of collateral (1) | Appraisal adjustments (2) | 0%-25% (2 %) |
| Other real estate owned | $1,446 | Appraisal of collateral (1) | Appraisal adjustments (2) | 0%-29% (4 %) |

| | December 31, 2015 Quantitative Information About Level 3 Fair Value Measurements | | | |
|---|---|---|---|---|
| | Total Fair Value | Valuation Techniques | Unobservable Input | Range (Weighted Average) |
| Impaired loans | $1,151 | Appraisal of collateral (1) | Appraisal adjustments (2) | 0%-25% (3 %) |
| Other real estate owned | $1,410 | Appraisal of collateral (1) | Appraisal adjustments (2) | 0% -29% (5 %) |

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

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

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

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

The estimated fair values of the Company's financial instruments were as follows at June 30, 2016 and December 31, 2015 (in thousands):

| | | | Fair Value Measurements at June 30, 2016 | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value Estimate | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
| Financial Assets | | | | | |
| Cash and cash equivalents | $19,695 | $19,695 | $19,695 | $ - | $ - |
| Investment in interest-earning time deposits | 6,146 | 6,202 | - | - | 6,202 |
| Investment securities available for sale | 6,502 | 6,502 | - | 6,502 | - |
| Loans held for sale | 5,625 | 5,870 | - | 5,870 | - |
| Loans receivable, net | 154,342 | 156,040 | - | - | 156,040 |
| Accrued interest receivable | 1,098 | 1,098 | 1,098 | - | - |
| Investment in FHLB stock | 633 | 633 | 633 | - | - |
| Bank-owned life insurance | 3,682 | 3,682 | 3,682 | - | - |
| | | | | | |
| Financial Liabilities | | | | | |
| Deposits | 166,427 | 168,627 | 36,618 | - | 132,009 |
| FHLB short-term borrowings | 6,000 | 6,000 | 6,000 | - | - |
| FHLB long-term borrowings | 7,500 | 7,559 | - | - | 7,559 |
| Accrued interest payable | 125 | 125 | 125 | - | - |

| | | | Fair Value Measurements at December 31, 2015 | | |
|---|---|---|---|---|---|
| | 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 | $17,206 | $17,206 | $17,206 | $ - | $ - |
| Investment in interest-earning time deposits | 6,136 | 6,206 | - | - | 6,206 |
| Investment securities available for sale | 3,005 | 3,005 | - | 3,005 | - |
| Loans held for sale | 5,064 | 5,244 | - | 5,244 | - |
| Loans receivable, net | 143,305 | 145,134 | - | - | 145,134 |
| Accrued interest receivable | 983 | 983 | 983 | - | - |
| Investment in FHLB stock | 618 | 618 | 618 | - | - |
| Bank-owned life insurance | 3,638 | 3,638 | 3,638 | - | - |
| | | | | | |
| Financial Liabilities | | | | | |
| Deposits | 149,229 | 150,644 | 33,438 | - | 117,206 |
| FHLB short-term borrowings | 6,000 | 6,000 | 6,000 | - | - |
| FHLB long-term borrowings | 7,500 | 7,479 | - | - | 7,479 |
| Accrued interest payable | 123 | 123 | 123 | - | - |

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

Note 11 – 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 sheets for cash and short-term instruments approximate those assets' fair values.
Interest-Earning Time Deposits. Fair values for interest-earning time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits. The Company generally purchases amounts below the insured limit, limiting the amount of credit risk on these time deposits.
Loans Held for Sale. Fair values of loans held for sale are based on commitments on hand from investors at prevailing market rates.
Loans Receivable, Net. The fair values of loans are estimated using discounted cash flow methodology. The discount rates take into account interest rates currently being offered to customers for loans with similar terms, the credit risk associated with the loan and market factors, including liquidity. The valuation of the loan portfolio reflects discounts that the Company believes are consistent with transactions occurring in the market place for both performing and distressed loan types. The carrying value that fair value is compared to is net of the allowance for loan losses and other associated premiums and discounts. Due to the significant judgment involved in evaluating credit quality, loans are classified with Level 3 of the fair value hierarchy.
Accrued Interest Receivable. The carrying amount of accrued interest receivable approximates its fair value.
Investment in Federal Home Loan Bank Stock. The carrying amount of restricted investment in Federal Home Loan Bank stock approximates fair value, and considers the limited marketability of such securities.
Bank-Owned Life Insurance. The carrying amount of the investment in bank-owned life insurance approximates its cash surrender value under the insurance policies.
Deposits. The carrying amount is considered a reasonable estimate of fair value for demand savings deposit accounts. The fair value of fixed maturity certificates of deposit is estimated by a discounted cash flow method using the rates currently offered for deposits of similar maturities.
Federal Home Loan Bank Borrowings. Fair values of FHLB borrowings are estimated based on rates currently available to the Company for similar terms and remaining maturities.
Accrued Interest Payable. The carrying amount of accrued interest payable approximates its fair value.
Off-Balance Sheet Financial Instruments. Off-balance sheet financial instruments consist of commitments to extend credit. Fair values for commitments to extend credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the present credit standing of the counterparties. The estimated fair value of the commitments to extend credit are insignificant and therefore are not presented in the above table.

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

### Forward-Looking Statements Are Subject to Change

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

### General

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

At June 30, 2016 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 was inactive as of June 30, 2016.

On August 1, 2016, Quaint Oak Insurance Agency, LLC began operations by acquiring the renewal rights to the book of business produced and serviced by Signature Insurance Services, LLC, an independent insurance agency located in New Britain, Pennsylvania, that provides a broad range of personal and commercial insurance coverage solutions. The aggregate purchase price was $1.0 million which will be designated as an intangible asset.

### 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.

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

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

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

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

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

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

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

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

Comparison of Financial Condition at June 30, 2016 and December 31, 2015

General. The Company's total assets at June 30, 2016 were $202.3 million, an increase of $18.1 million, or 9.8%, from $184.2 million at December 31, 2015. This growth in total assets was primarily due to an $11.0 million, or 7.7%, increase in loans receivable, net, a $3.5 million, or 116.4% increase in investment securities available for sale, and a $2.5 million, or 14.5% increase in cash and cash equivalents.

Cash and Cash Equivalents. Cash and cash equivalents increased $2.5 million, or 14.5%, from $17.2 million at December 31, 2015 to $19.7 million at June 30, 2016 as excess deposits, not used to fund loans or investment securities available for sale, were invested in overnight funds with the Federal Reserve Bank.

Investment Securities Available for Sale. Investment securities available for sale increased $3.5 million, or 116.4%, from $3.0 million at December 31, 2015 to $6.5 million at June 30, 2016, as the Company purchased $3.9 million of GNMA, FNMA and FHLMC mortgage-backed securities and a Federal Home Loan Mortgage Corporation Medium Term Note Step with excess liquidity.

Loans Held for Sale. Loans held for sale increased $561,000, or 11.1%, from $5.1 million at December 31, 2015 to $5.6 million at June 30, 2016 as the Bank's mortgage banking subsidiary, Quaint Oak Mortgage, LLC, originated $30.1 million of one-to-four family residential loans during the six months ended June 30, 2016 and sold $29.6 million of loans in the secondary market during this same period.

Loans Receivable, Net. Loans receivable, net, increased $11.0 million, or 7.7%, to $154.3 million at June 30, 2016 from $143.3 million December 31, 2015. This increase was funded primarily from deposits and excess liquidity in cash and cash equivalents. Increases within the portfolio occurred in the commercial real estate loan category which increased $11.6 million, or 24.4%, commercial business loans which increased $1.6 million, or 62.2%, and one-to-four family residential non-owner occupied loans which increased $1.1 million, or 2.2%. These increases were partially offset by decreases of $1.6 million, or 21.2% in home equity loans, $830,000, or 5.2%, in construction loans, $411,000, or 3.3%, in multi-family residential loans, $183,000, or 8.3%, in commercial lines of credit, and $28,000, or 0.5%, in one-to-four family residential owner occupied loans. The Company continues its strategy of diversifying its loan portfolio with higher yielding and shorter-term loan products and selling substantially all of its newly originated one-to-four family owner-occupied loans into the secondary market.

Other Real Estate Owned, Net. Other real estate owned (OREO), net, amounted to $1.4 million at June 30, 2016, consisting of six properties. This compares to seven properties totaling $1.4 million at December 31, 2015. For the six months ended June 30, 2016, $175,000 of capital improvements were made to the properties, four of the properties incurred write-downs totaling $73,000, and one property with a carrying value of $67,000 was sold and the Company is in the process of marketing the other properties for sale. Non-performing assets amounted to $2.9 million, or 1.46% of total assets at June 30, 2016 compared to $2.3 million, or 1.23% of total assets at December 31, 2015.

Deposits. Total deposits increased $17.2 million, or 11.5%, to $166.4 million at June 30, 2016 from $149.2 million at December 31, 2015. This increase in deposits was primarily attributable to increases of $14.0 million, or 12.1% in certificates of deposit, $3.2 million, or 12.0% in money market accounts, and $978,000, or 40.6% in non-interest bearing check accounts, partially offset by a $1.1 million, or 33.2% decrease in savings accounts.

Federal Home Loan Bank Advances. Federal Home Loan Bank short-term borrowings totaled $6.0 million at both June 30, 2016 and December 31, 2015. During the quarter ended June 30, 2016, a $1.0 million short-term fixed rate borrowing was replaced with $1.0 million of overnight borrowings. Federal Home Loan Bank long-term borrowings totaled $7.5 million at both June 30, 2016 and December 31, 2015.

Stockholders' Equity. Total stockholders' equity increased $817,000, or 4.3%, to $19.9 million at June 30, 2016 from $19.0 million at December 31, 2015. Contributing to the increase was net income for the six months ended June 30, 2016 of $641,000, the reissuance of treasury stock for exercised stock options of $112,000, common stock earned by participants in the employee stock ownership plan of $86,000, amortization of stock awards and options under our stock compensation plans of $64,000, the reissuance of treasury stock under the Bank's 401(k) Plan of $50,000, and a decrease in other comprehensive loss of $13,000. These increases were partially offset by dividends paid of $143,000 and the purchase of 497 shares of the Company's stock as part of the Company's stock repurchase program for an aggregate purchase price of $6,000.

Comparison of Operating Results for the Three Months Ended June 30, 2016 and 2015

General. Net income amounted to $402,000 for the three months ended June 30, 2016, an increase of $28,000, or 7.5%, compared to net income of $374,000 for three months ended June 30, 2015. The increase in net income on a comparative quarterly basis was primarily the result of increases in non-interest income of $149,000 and net interest income of $23,000 and a decrease in the provision for loan losses of $55,000, partially offset by an increase in non-interest expense of $186,000 and an increase in the provision for income taxes of $13,000.

Net Interest Income. Net interest income increased $23,000, or 1.4%, to $1.65 million for the three months ended June 30, 2016 from $1.63 million for the three months ended June 30, 2015. The increasewas driven by a $140,000, or 6.6% increase in interest income, partially offset by a $117,000, or 23.2% increase in interest expense.

Interest Income. Interest income increased $140,000, or 6.6%, to $2.3 million for the three months ended June 30, 2016 from $2.1 million for the three months ended June 30, 2015. The increase in interest income was primarily due to a $13.7 million increase in average loans receivable, net, including loans held for sale, which increased from an average balance of $142.4 million for the three months ended June 30, 2015 to an average balance of $156.1 million for the three months ended June 30, 2016, and had the effect of increasing interest income $200,000. Partially offsetting this increase was a 22 basis point decline in the average yield on loans receivable, net, including loans held for sale, from 5.85% for the three months ended June 30, 2015 to 5.63% for the three months ended June 30, 2016, which had the effect of decreasing interest income by $88,000. Also contributing to the increase in interest income for the three months ended June 30, 2016 was a $13.7 million increase in average funds due from banks, interest-bearing, which increased from an average balance of $3.8 million for the three months ended June 30, 2015 to an average balance of $17.5 million for the three months ended June 30, 2016, and had the effect of increasing interest income $11,000. In addition, the average yield on funds due from banks, interest-bearing, increased 14 basis points from 0.32% for the three months ended June 30, 2015 to 0.46% for the three months ended June 30, 2016, which had the effect of increasing interest income by $7,000.

Interest Expense. Interest expense increased $117,000, or 23.2%, to $622,000 for the three months ended June 30, 2016 from $505,000 for the three months ended June 30, 2015. The increase in interest expense was primarily attributable to a $27.7 million increase in average interest-bearing liabilities, which increased from an average balance of $142.8 million for the three months ended June 30, 2015 to an average balance of $170.5 million for the three months ended June 30, 2016, and had the effect of increasing interest expense $99,000. This increase in average interest-bearing liabilities was primarily attributable to the $22.8 million increase in average certificate of deposit accounts which increased from an average balance of $102.6 million for the three months ended June 30, 2015 to an average balance of $125.4 million for the three months ended June 30, 2016, and had the effect of increasing interest expense $97,000. Also contributing to this increase was a five basis point increase in the average rate on interest-bearing liabilities, from 1.41% for the three months ended June 30, 2015 to 1.46% for the three months ended

June 30, 2016, which had the effect of increasing interest expense by $10,000.

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

| | Three Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | | | 2015 | | | |
| | Average Balance | Interest | Average Yield/ Rate | | Average Balance | Interest | Average Yield/ Rate | |
| | (Dollars in thousands) | | | | | | | |
| Interest-earning assets: | | | | | | | | |
| Due from banks, interest-bearing | $17,470 | $20 | 0.46 | % | $3,794 | $3 | 0.32 | % |
| Investment in interest-earning time deposits | 6,146 | 25 | 1.63 | | 6,466 | 24 | 1.48 | |
| Investment securities available for sale | 5,842 | 23 | 1.57 | | 1,727 | 13 | 3.01 | |
| Loans receivable, net (1) (2) (3) | 156,056 | 2,195 | 5.63 | | 142,384 | 2,083 | 5.85 | |
| Investment in FHLB stock | 643 | 7 | 4.35 | | 591 | 7 | 4.74 | |
| Total interest-earning assets | 186,157 | 2,270 | 4.88 | % | 154,962 | 2,130 | 5.50 | % |
| Non-interest-earning assets | 8,821 | | | | 8,076 | | | |
| Total assets | $194,978 | | | | $163,038 | | | |
| Interest-bearing liabilities: | | | | | | | | |
| Passbook accounts | $1,326 | $1 | 0.30 | % | $1,300 | $1 | 0.31 | % |
| Savings accounts | 2,460 | 1 | 0.16 | | 3,113 | 2 | 0.26 | |
| Money market accounts | 27,793 | 55 | 0.79 | | 22,939 | 42 | 0.73 | |
| Certificate of deposit accounts | 125,403 | 532 | 1.70 | | 102,576 | 436 | 1.70 | |
| Total deposits | 156,982 | 589 | 1.50 | | 129,928 | 481 | 1.48 | |
| FHLB short-term borrowings | 6,000 | 8 | 0.53 | | 7,000 | 5 | 0.29 | |
| FHLB long-term borrowings | 7,511 | 25 | 1.33 | | 5,907 | 19 | 1.29 | |
| Total interest-bearing liabilities | 170,493 | 622 | 1.46 | % | 142,835 | 505 | 1.41 | % |
| Non-interest-bearing liabilities | 4,904 | | | | 2,256 | | | |
| Total liabilities | 175,397 | | | | 145,091 | | | |
| Stockholders' Equity | 19,581 | | | | 17,947 | | | |
| Total liabilities and Stockholders' Equity | $194,978 | | | | $163,038 | | | |
| Net interest-earning assets | $15,664 | | | | $12,127 | | | |
| Net interest income; average interest rate spread | | $1,648 | 3.42 | % | | $1,625 | 4.09 | % |
| Net interest margin (4) | | | 3.54 | % | | | 4.19 | % |
| Average interest-earning assets to average interest-bearing liabilities | | | 109.19 | % | | | 108.49 | % |

(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 $120,000 and an average yield of 4.02% for the three months ended June 30, 2016 and an aggregate average balance of $163,000 and an average yield of 4.07% for the three months ended June 30, 2015. The tax-exempt income from such loans has not been calculated on a tax equivalent basis.
(4) Equals net interest income divided by average interest-earning assets.

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Provision for Loan Losses. The Company's provision for loan losses decreased $55,000, or 45.5%, from $121,000 for the three months ended June 30, 2015 to $66,000 for the three months ended June 30, 2016, based on an evaluation of the allowance relative to such factors as volume of the loan portfolio, concentrations of credit risk, prevailing economic conditions, prior loan loss experience and amount of non-performing loans at June 30, 2016.

Non-performing loans amounted to $1.5 million, or 0.98% of net loans receivable at June 30, 2016, consisting of thirteen loans, seven of which are on non-accrual status and six of which are 90 days or more past due and accruing interest. Comparably, non-performing loans amounted to $852,000, or 0.59% of net loans receivable at December 31, 2015, consisting of nine loans, three of which were on non-accrual status and six of which were 90 days or more past due and accruing interest. The non-performing loans at June 30, 2016 include ten one-to-four family non-owner occupied residential loans, two commercial real estate loans, and one one-to-four family owner occupied residential loan, and all are generally well-collateralized or adequately reserved for. During the quarter ended June 30, 2016, no new loans were placed on non-accrual status and one loan previously on non-accrual status was paid-off. The allowance for loan losses as a percent of total loans receivable was 0.91% at both June 30, 2016 and December 31, 2015.

Other real estate owned (OREO), net, amounted to $1.4 million at June 30, 2016, consisting of six properties. This compares to seven properties totaling $1.4 million at December 31, 2015. Non-performing assets amounted to $2.9 million, or 1.43% of total assets at June 30, 2016 compared to $2.3 million, or 1.23% of total assets at December 31, 2015.

Non-Interest Income. Non-interest income increased $149,000, or 26.0%, for the three months ended June 30, 2016 over the comparable period in 2015 primarily due to a $128,000 increase in net gain on the sale of residential mortgage loans, a $31,000 increase in fee income generated by the Bank's mortgage banking and title abstract subsidiaries, a $3,000 increase in other income, and a $2,000 decrease in the loss on the sale of other real estate owned. These increases were partially offset by a $15,000 decrease in other fees and services charges.

Non-Interest Expense. Non-interest expense increased $186,000, or 12.6%, from $1.5 million for the three months ended June 30, 2015 to $1.7 million for the three months ended June 30, 2016. Salaries and employee benefits expense accounted for $117,000 of the change as this expense increased 11.7%, from $998,000 for the three months ended June 30, 2015 to $1.1 million for the three months ended June 30, 2016 due primarily to increased staff as the Company continues to expand its mortgage banking and lending operations. Other real estate owned (OREO) expense accounted for $31,000 of the change as this expense increased 620.0%, from a negative balance of $5,000 for the three months ended June 30, 2015 to $26,000 for the three months ended June 30, 2016, due primarily to a $20,000 write-down of an other real estate owned (OREO) property in the second quarter of 2016. Also contributing to the period over period increase was a $22,000 increase in occupancy and equipment expense, an $11,000 increase in professional fees, a $6,000 increase in FDIC insurance assessment, and a $1,000 increase in other expense. Offsetting these increases was a $1,000 decrease in directors' fees and expenses and a $1,000 decrease in advertising expense.

Provision for Income Tax. The provision for income tax increased $13,000, or 5.8%, from $226,000 for the three months ended June 30, 2015 to $239,000 for the three months ended June 30, 2016 due primarily to the increase in pre-tax income as our effective tax rate remained relatively consistent at 37.3% for the 2016 period compared to 37.7% for the comparable period in 2015.

Comparison of Operating Results for the Six Months Ended June 30, 2016 and 2015

General. Net income amounted to $641,000 for the six months ended June 30, 2016, an increase of $58,000, or 9.9%, compared to net income of $583,000 for six months ended June 30, 2015. The increase in net income was primarily the result of increases in non-interest income of $224,000 and net interest income of $90,000 and a decrease in the provision for loan losses of $98,000, offset by increases in non-interest expense of $317,000 and the provision for income taxes of $37,000.

Net Interest Income. Net interest income increased $90,000, or 2.9%, to $3.2 million for the six months ended June 30, 2016 from $3.1 million for the six months ended June 30, 2015 due primarily to a$312,000, or 7.6% increase in interest income, partially offset by a $222,000, or 22.7% increase in interest expense.

Interest Income. Interest income increased $312,000, or 7.6%, to $4.4 million for the six months ended June 30, 2016 from $4.1 million for the six months ended June 30, 2015. The increase in interest income was primarily due to a $16.0 million increase in average loans receivable, net, including loans held for sale, which increased from an average balance of $136.2 million for the six months ended June 30, 2015 to an average balance of $152.2 million for the six months ended June 30, 2016, and had the effect of increasing interest income $472,000. Partially offsetting this increase was a 26 basis point decline in the average yield on loans receivable, net, including loans held for sale, from 5.89% for the six months ended June 30, 2015 to 5.63% for the six months ended June 30, 2016, which had the effect of decreasing interest income by $199,000. Also contributing to the increase in interest income for the six months ended June 30, 2016 was a $10.2 million increase in average funds due from banks, interest-bearing, which increased from an average balance of $7.4 million for the six months ended June 30, 2015 to an average balance of $17.6 million for the six months ended June 30, 2016, and had the effect of increasing interest income $12,000. In addition, the average yield on funds due from banks, interest-bearing, increased 26 basis points from 0.24% for the six months ended June 30, 2015 to 0.50% for the six months ended June 30, 2016, which had the effect of increasing interest income by $24,000.

Interest Expense. Interest expense increased $222,000, or 22.7%, to $1.2 million for the six months ended June 30, 2016 from $980,000 for the six months ended June 30, 2015. The increase in interest expense was primarily attributable to a $26.7 million increase in average interest-bearing liabilities, which increased from an average balance of $139.4 million for the six months ended June 30, 2015 to an average balance of $166.1 million for the six months ended June 30, 2016, and had the effect of increasing interest expense $206,000. This increase in average interest-bearing liabilities was primarily attributable to the $21.2 million increase in average certificate of deposit accounts which increased from an average balance of $100.1 million for the six months ended June 30, 2015 to an average balance of $121.3 million for the six months ended June 30, 2016, and had the effect of increasing interest expense $181,000. Also contributing to this increase was a four basis point increase in the average rate on interest-bearing liabilities, from 1.41% for the six months ended June 30, 2015 to 1.45% for the six months ended June 30, 2016, which had the effect of increasing interest expense by $17,000.

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

| | Six Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | | | 2015 | | | |
| | Average Balance | Interest | Average Yield/ Rate | | Average Balance | Interest | Average Yield/ Rate | |
| | (Dollars in thousands) | | | | | | | |
| Interest-earning assets: | | | | | | | | |
| Due from banks, interest-bearing | $17,634 | $44 | 0.50 | % | $7,446 | $9 | 0.24 | % |
| Investment in interest-earning time deposits | 6,142 | 50 | 1.63 | | 6,562 | 48 | 1.46 | |
| Investment securities available for sale | 4,833 | 39 | 1.61 | | 1,719 | 27 | 3.14 | |
| Loans receivable, net (1) (2) (3) | 152,234 | 4,284 | 5.63 | | 136,212 | 4,011 | 5.89 | |
| Investment in FHLB stock | 630 | 15 | 4.76 | | 559 | 25 | 8.94 | |
| Total interest-earning assets | 181,473 | 4,432 | 4.88 | % | 152,498 | 4,120 | 5.40 | % |
| Non-interest-earning assets | 8,713 | | | | 7,051 | | | |
| Total assets | $190,186 | | | | $159,549 | | | |
| Interest-bearing liabilities: | | | | | | | | |
| Passbook accounts | $1,311 | $1 | 0.15 | % | $1,890 | $1 | 0.11 | % |
| Savings accounts | 2,706 | 3 | 0.22 | | 4,121 | 6 | 0.29 | |
| Money market accounts | 27,333 | 109 | 0.80 | | 21,161 | 79 | 0.75 | |
| Certificate of deposit accounts | 121,287 | 1,023 | 1.69 | | 100,056 | 851 | 1.70 | |
| Total deposits | 152,637 | 1,136 | 1.49 | | 127,228 | 937 | 1.47 | |
| FHLB short-term borrowings | 6,000 | 16 | 0.53 | | 7,000 | 11 | 0.31 | |
| FHLB long-term borrowings | 7,505 | 50 | 1.33 | | 5,207 | 32 | 1.23 | |
| Total interest-bearing liabilities | 166,142 | 1,202 | 1.45 | % | 139,435 | 980 | 1.41 | % |
| Non-interest-bearing liabilities | 4,661 | | | | 2,304 | | | |
| Total liabilities | 170,803 | | | | 141,739 | | | |
| Stockholders' Equity | 19,383 | | | | 17,810 | | | |
| Total liabilities and Stockholders' Equity | $190,186 | | | | $159,549 | | | |
| Net interest-earning assets | $15,331 | | | | $13,063 | | | |
| Net interest income; average interest rate spread | | $3,230 | 3.43 | % | | $3,140 | 3.99 | % |
| Net interest margin (4) | | | 3.56 | % | | | 4.12 | % |
| Average interest-earning assets to average interest-bearing liabilities | | | 109.23 | % | | | 109.37 | % |

(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 $124,000 and an average yield of 4.02% for the six months ended June 30, 2016 and an aggregate average balance of $167,000 and an average yield of 4.08% for the six months ended June 30, 2015. 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 decreased its provision for loan losses by $98,000, or 46.9% from $209,000 for the six months ended June 30, 2015 to $111,000 for the six months ended June 30, 2016. As was the case for the quarter, the decrease was based on an evaluation of the allowance relative to such factors as volume of the loan portfolio, concentrations of credit risk, prevailing economic conditions, prior loan loss experience and amount of non-performing loans.  See additional discussion under "Comparison of Operating Results for the Three Months Ended June 30, 2016 and 2015-Provision for Loan Losses."

Non-Interest Income. Non-interest income increased $224,000, or 22.6%, for the six months ended June 30, 2016 over the comparable period in 2015 primarily due to a $122,000 increase in net gain on the sales of residential mortgage loans, a $60,000 increase in fee income generated by the Bank's mortgage banking and title abstract subsidiaries, a $50,000 increase in the gain on the sale of SBA loans, a $7,000 increase in other income, a $3,000 gain on the sale of other real estate owned, and a $1,000 increase in income from bank-owned life insurance. These increases were partially offset by a $19,000 decrease in other fees and services charges.

Non-Interest Expense. Non-interest expense increased $317,000, or 10.7%, from $3.0 million for the six months ended June 30, 2015 to $3.3 million for the six months ended June 30, 2016. Salaries and employee benefits expense accounted for $151,000 of the change as this expense increased 7.4%, from $2.0 million for the six months ended June 30, 2015 to $2.2 million for the six months ended June 30, 2016 due primarily to increased staff as the Company continues to expand its mortgage banking and lending operations. Other real estate owned (OREO) expense accounted for $89,000 of the change as this expense increased from $3,000 for the six months ended June 30, 2015 to $92,000 for the six months ended June 30, 2016, due primarily to write-downs on four OREO properties totaling $73,000. Also contributing to the period over period increase was a $26,000 increase in occupancy and equipment expense, a $25,000 increase in professional fees, a $14,000 increase in other expense, a $10,000 increase in FDIC insurance assessment, and a $3,000 increase in directors' fees and expenses. Partially offsetting these increases was a $1,000 decrease in advertising expense.

Provision for Income Tax. The provision for income tax increased $37,000, or 10.2%, from $363,000 for the six months ended June 30, 2015 to $400,000 for the six months ended June 30, 2016 due primarily to the increase in pre-tax income as our effective tax rate remained consistent at 38.4% for both the 2016 and 2015 periods

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, amortization and prepayment of loans and to a lesser extent, loan sales and other funds provided from operations. While scheduled principal and interest payments on loans are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company sets the interest rates on its deposits to maintain a desired level of total deposits. In addition, the Company invests excess funds in short-term interest-earning assets that provide additional liquidity. At June 30, 2016, the Company's cash and cash equivalents amounted to $19.7 million. At such date, the Company also had $4.4 million invested in interest-earning time deposits maturing in one year or less.

The Company uses its liquidity to fund existing and future loan commitments, to fund deposit outflows, to invest in other interest-earning assets and to meet operating expenses. At June 30, 2016, Quaint Oak Bank had outstanding commitments to originate loans of $10.5 million and commitments under unused lines of credit of $13.7 million.

At June 30, 2016, certificates of deposit scheduled to mature in less than one year totaled $39.1 million. Based on prior experience, management believes that a significant portion of such deposits will remain with us, although there can be no assurance that this will be the case.

In addition to cash flow from loan payments and prepayments and deposits, the Company has significant borrowing capacity available to fund liquidity needs. If the Company requires funds beyond its ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Pittsburgh (FHLB), which provide an additional source of funds. As of June 30, 2016, we had $13.5 million of borrowings from the FHLB and had $89.4 million in borrowing capacity. Under terms of the collateral agreement with the FHLB of Pittsburgh, we pledge residential mortgage loans as well as Quaint Oak Bank's FHLB stock as collateral for such advances. In addition, as of June 30, 2016 Quaint Oak Bank had $973,000 million in borrowing capacity with the Federal Reserve Bank of Philadelphia. There were no borrowings under this facility at June 30, 2016.

Our stockholders' equity amounted to $19.9 million at June 30, 2016, an increase of $817,000, or 4.3% from $19.0 million at December 31, 2015. Contributing to the increase was net income for the six months ended June 30, 2016 of $641,000, the reissuance of treasury stock for exercised stock options of $112,000, common stock earned by participants in the employee stock ownership plan of $86,000, amortization of stock awards and options under our stock compensation plans of $64,000, the reissuance of treasury stock under the Bank's 401(k) Plan of $50,000, and a decrease in other comprehensive loss of $13,000. These increases were partially offset by dividends paid of $143,000 and the purchase of 497 shares of the Company's stock as part of the Company's stock repurchase program for an aggregate purchase price of $6,000. For further discussion of the stock compensation plans, see Note 10 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, common tier 1 capital, tier 1 risk-based and total risk-based capital ratios of at least 4.00%, 4.50%, 6.00%, and 8.00%, respectively. At June 30, 2016, Quaint Oak Bank exceeded each of its capital requirements with ratios of 9.47%, 13.83%, 13.83% and 14.92%, respectively. As a small savings and loan holding company eligible for exemption, the Company is not currently subject to any regulatory capital requirements.

Off-Balance Sheet Arrangements

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

Commitments. At June 30, 2016, we had unfunded commitments under lines of credit of $13.7 million and $10.5 million of commitments to originate loans. We had no commitments to advance additional amounts pursuant to outstanding lines of credit or undisbursed construction loans.

Impact of Inflation and Changing Prices

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

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

## ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of June 30, 2016. Based on their evaluation of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and regulations are operating in an effective manner.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the second fiscal quarter of fiscal 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Not applicable.

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

(a) Not applicable.

(b) Not applicable.

(c) Purchases of Equity Securities

The Company's repurchases of its common stock made during the quarter ended June 30, 2016 are set forth in the table below:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|---|---|---|---|---|
| April 1, 2016 – April 30, 2016 | - | $ - | - | 39,826 |
| May 1, 2016 – May 31, 2016 | 497 | 11.89 | 497 | 39,329 |
| June 1, 2016 – June 30, 2016 | - | - | - | 39,329 |
| Total | 497 | $ 11.89 | 497 | 39,329 |

Notes to this table:

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

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

SIGNATURES

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

Date: August 12, 2016 By: /s/Robert T. Strong
Robert T. Strong
President and Chief Executive Officer

Date: August 12, 2016 By: /s/John J. Augustine
John J. Augustine
Executive Vice President and Chief Financial Officer