Coastway Bancorp, Inc.
Form 10-K
March 16, 2017

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Item 8. Financial Statements and Supplementary Data

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United States
SECURITIES AND EXCHANGE COMMISSION

100 F Street NE
Washington, D.C. 20549

FORM 10-K

ý **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the Fiscal Year Ended December 31, 2016

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to
Commission File No. 001-36263

Coastway Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**46-4149994**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
One Coastway Blvd. Warwick, Rhode Island	**02886**
(Address of Principal Executive Offices)	(Zip Code)

(401) 330-1600
(Registrant's telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, $0.01 par value	**The NASDAQ Stock Market, LLC**
(Title of each class)	(Name of each exchange on which registered)

Securities Registered Pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO ý

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 twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. YES ý NO o

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ý NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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. (Check one):

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

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

As of June 30, 2016, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was $53.4 million.

As of March 1, 2017, there were issued and outstanding 4,408,341 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the Registrant's Annual Meeting of Stockholders (Part III).

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PART I

Item 1. Business

EXPLANATORY NOTE

Coastway Bancorp, Inc., a Maryland corporation (the "Company"), was formed to serve as the stock holding company for Coastway Community Bank (the "Bank") as part of its conversion from the mutual to the stock form of ownership. Prior to January 14, 2014, the Bank was 100% owned by Coastway Bancorp, LLC (the "LLC") and the LLC was 100% owned by Coastway Bancorp, MHC (the "MHC"). Accordingly, financial and other information of the MHC, the Company's predecessor is included in this annual report for 2013. The MHC was formed in February, 2013. For periods prior to 2013, the financial and other information of the Bank is included in this annual report.

Forward Looking Statements

This annual report contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements concerning plans, objectives, future events or performance and assumptions and other statements that are other than statements of historical fact. Forward-looking statements may be identified by reference to a future period or periods or by use of forward-looking terminology such as "anticipates," "believes," "expects," "intends," "may," "plans," "pursue," "views" and similar terms or expressions. Various statements contained in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," including, but not limited to, statements related to management's views on the banking environment and the economy, competition and market expansion opportunities, the interest rate environment, credit risk and the level of future non-performing assets and charge-offs, potential asset and deposit growth, future non-interest expenditures and non-interest income growth, and borrowing capacity are forward-looking statements. The Company wishes to caution readers that such forward-looking statements reflect numerous assumptions and involve a number of risks and uncertainties that may adversely affect the Company's future results. The following important factors, among others, could cause the Company's results for subsequent periods to differ materially from those expressed in any forward-looking statement made herein: (i) changes in interest rates and changes in the duration of interest-earning assets and interest-bearing liabilities could negatively impact net interest income; (ii) changes in the business cycle and downturns in the local, regional or national economies, including deterioration in the local real estate market, could negatively impact credit and/or asset quality and result in credit losses and increases in the Company's allowance for loan losses and/or reduce valuations of foreclosed properties and real estate held for sale; (iii) changes in consumer spending could negatively impact the Company's credit quality and financial results; (iv) increasing competition from larger regional and out-of-state banking organizations as well as non-bank providers of various financial services could adversely affect the Company's competitive position within its market area and reduce demand for the Company's products and services; (v) deterioration of securities markets could adversely affect the value or credit quality of the Company's assets and the availability of funding sources necessary to meet the Company's liquidity needs; (vi) changes in technology could adversely impact the Company's operations and increase technology-related expenditures; (vii) increases in employee compensation and benefit expenses could adversely affect the Company's financial results; (viii) changes in laws and regulations that apply to the Company's business and operations, including without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Jumpstart Our Business Startups Act (the "JOBS Act") and the additional regulations that will be forthcoming as a result thereof, could adversely affect the Company's business environment, operations and financial results; (ix) changes in accounting standards, policies and practices, as may be adopted or established by the regulatory agencies, the Financial Accounting Standards Board (the "FASB") or the Public Company Accounting Oversight Board ("PCAOB") could negatively impact the Company's financial results; (x) our ability to enter new markets successfully and capitalize on growth opportunities;

(xi) future regulatory compliance costs, including any increase caused by new regulations imposed by the Consumer Finance Protection Bureau; and (xii) some or all of the risks and uncertainties described in "Risk Factors" contained in Item 1A could be realized, which could have a material adverse effect on the Company's business, financial condition and results of operation. Therefore, the Company cautions readers not to place undue reliance on any such forward-looking information and statements.

Coastway Bancorp, Inc.

Coastway Bancorp, Inc. is a Maryland corporation and owns 100% of the common stock of Coastway Community Bank. On January 14, 2014, the Company completed its initial public offering of common stock in connection with the mutual-to-stock conversion of Coastway Bancorp, MHC, selling 4,827,125 shares of common stock at $10.00 per share (contributing $300,000 in cash and 122,054 shares of common stock to Coastway Cares Charitable Foundation II) and raising $48.3 million of gross proceeds. Since the completion of the initial public offering, the Company has not engaged in any significant business activity other than owning the common stock of and having deposits in the Bank. At December 31, 2016, Coastway Bancorp, Inc. had total consolidated assets of $644.2 million, total consolidated deposits of $447.3 million, and total consolidated stockholders' equity of $68.6 million. Our executive offices are located at One Coastway Blvd, Warwick, Rhode Island 02886. Our telephone number at this address is (401) 330-1600.

Coastway Community Bank

Coastway Community Bank is a Rhode Island chartered savings bank headquartered in Warwick, Rhode Island. Coastway Community Bank was originally organized in 1920 as the Telephone Workers Credit Union, a Rhode Island credit union, and later we changed our name to Coastway Credit Union. In 2000, Coastway Credit Union merged with Ocean State Community Credit Union, also located in Rhode Island. In 2009, in order to give us greater business lending authority, Coastway Credit Union converted to a Rhode Island chartered mutual savings bank and changed its name to Coastway Community Bank. In 2013, we reorganized into the mutual holding company structure by forming Coastway Bancorp, MHC, a Rhode Island chartered mutual holding company which was eliminated in January, 2014 when we completed our initial public offering.

We provide financial services to individuals, families and businesses throughout Rhode Island from our nine banking offices located in Providence County and Kent County, Rhode Island. Our principal business consists of attracting retail deposits from the general public in our market area and investing those deposits, together with funds generated from operations and borrowings, in one- to four-family residential real estate loans, home equity loans and lines of credit, commercial real estate loans, U.S. Small Business Administration ("SBA") loans and, to a lesser extent, commercial business loans, commercial construction loans and consumer loans. We sell in the secondary market the majority of the fixed-rate conforming one- to four-family residential real estate loans that we originate, and depending on market conditions, we may also sell the guaranteed portions of SBA loans that we originate. We offer a variety of deposit accounts to consumers and small businesses, including certificate of deposit accounts, savings accounts, demand deposit accounts, money market accounts and club accounts. We utilize national market certificates of deposit and advances from the Federal Home Loan Bank of Boston both to fund loan growth and for additional liquidity. We also offer online and mobile banking services. Our website address is www.coastway.com. Information on our website is not incorporated into this annual report and should not be considered part of this annual report.

Market Area

We conduct our operations from our main office and nine full-service banking offices in Rhode Island. Our primary deposit market includes the areas surrounding our banking offices in Providence and Kent Counties, Rhode Island. Our primary lending market includes Providence and Kent Counties,

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greater Rhode Island and nearby communities in the states of Connecticut and Massachusetts. However, we occasionally make loans secured by properties located outside of our primary lending market, usually to borrowers with whom we have an existing relationship and who have a presence within our primary market.

Rhode Island is a relatively well-developed state that has a wide range of industries. Rhode Island's historical economy was based on industries such as textiles, jewelry, silverware, metals/machinery and footwear/rubber products. The access to the Atlantic Ocean resulted in the establishment of military bases and other military-related industries and employment. Over time manufacturing and other labor intensive industries have declined in Rhode Island and have been replaced by a more service-oriented economy. In recent decades, health care, financial services, defense industry, tourism and gambling have become more important segments of the local economy. Notable firms headquartered in Rhode Island include CVS Pharmacy, Textron, Hasbro and Amica Insurance. Rhode Island is also a center of higher education, with Brown University, the University of Rhode Island, Johnson & Wales University and Bryant University. The U.S. Navy has had a significant presence in the Newport area, through the Naval Station at Newport and the Naval Undersea Warfare Center.

Unemployment has stabilized in Rhode Island with unemployment rates of 5.0% for the entire state, 4.8% for Providence County and 4.0% for Kent County as compared to the national rate of 4.7% as of December 2016. The median household income for 2011-2015 in Rhode Island was $57,000, in Providence County it was $50,000 and in Kent County it was $64,000, as compared to the national median of $53,000.

According to the latest U.S. Census estimates, Rhode Island reported a population of 1.1 million as of July 1, 2016, while the Providence metropolitan statistical area (which includes contiguous portions of Massachusetts and Connecticut), contained a total population of 1.6 million. Rhode Island recorded a 0.3% increase in population from April 1, 2010 to July 1, 2016, and the Providence metropolitan statistical area also recorded a 0.2% increase in population. Providence County, the location of seven of our branch offices, had a population of 633,000 as of July 1, 2015 and recorded an increase in population of 1.1% from April 1, 2010 to July 1, 2015. Kent County, the location of two of our branch offices, reported a population of 165,000 as of July 1, 2015 and recorded a slight population decrease of 0.8% over the same time period. The United States as a whole recorded an increase of 4.1% in total population from April 1, 2010 to July 1, 2015 and an increase of 4.7% in total population from April 15, 2010 to July 1, 2016.

Competition

We face significant competition within our market both in making loans and attracting deposits. Our market area has a high concentration of financial institutions, including large money center and regional banks, community banks and credit unions. Some of our competitors offer products and services that we currently do not offer, such as trust services and private banking. Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms, consumer finance companies and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies.

As of June 30, 2016 (the latest date for which information is available), our deposit market share was 1.36% for the State of Rhode Island, with 1.09% of total deposits in Providence County, Rhode Island and 5.54% in Kent County, Rhode Island respectively, making us the 8th largest out of 18 financial institutions in Providence County and the 7th largest out of 12 financial institutions in Kent County. We have been one of the top three SBA lenders in the State of Rhode Island in terms of dollars lent and number of loans originated for the last nine years.

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Lending Activities

Our principal lending activity is originating one- to four-family residential real estate loans, home equity loans and lines of credit, commercial real estate loans, SBA loans and, to a lesser extent, commercial business loans, commercial construction loans and consumer loans. We also sell in the secondary market the majority of the fixed-rate conforming one- to four-family residential real estate loans that we originate, generally on a servicing-released, limited or no recourse basis, while retaining jumbo fixed-rate and adjustable-rate one- to four-family residential real estate loans in order to manage the duration and time to re-pricing of our loan portfolio. During 2016 and 2015, we purchased individual loans totaling $17.6 million and $56.7 million at a cost of $17.8 million and $57.4 million, respectively, of one- to four-family residential real estate loans from third party originators, which the Bank underwrote in accordance with the Bank's lending policy prior to purchase. In recent years, we have increased and, subject to market conditions and our asset-liability analysis, expect to continue to increase commercial real estate and commercial business lending. Depending on market conditions, we may also sell the guaranteed portions of SBA loans that we originate. We sold $4.2 million of SBA loans for a gain on sale of $328,000 in 2015. There were no sales of SBA loans during 2016.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, by type of loan at the dates indicated, excluding the carrying value of loans held for sale of $23.2 million, $19.0 million, $11.0 million, $8.6 million, and $13.6 million at December 31, 2016, 2015, 2014, 2013 and 2012, respectively.

	At December 31,					
	2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Residential real estate mortgage loans:						
One- to four-family	$ 243,385	46.46%	$ 208,777	44.84%	$ 134,084	34.99%
Home equity loans & lines of credit	76,175	14.54	76,881	16.51	79,771	20.82
Commercial real estate loans	138,946	26.52	125,782	27.02	108,025	28.19
Commercial business loans	13,308	2.54	8,918	1.92	7,698	2.01
SBA loans	39,948	7.63	39,217	8.42	44,032	11.49
Commercial construction loans	10,946	2.09	4,729	1.02	8,181	2.14
Consumer loans	1,165	0.22	1,252	0.27	1,372	0.36
Total loans	523,873	100.00%	465,556	100.00%	383,163	100.00%
Other items:						
Net deferred loan costs	3,835		3,661		2,688	
Allowance for loan losses	(2,493)		(2,194)		(1,942)	
Total loans, net	$ 525,215		$ 467,023		$ 383,909	

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	At December 31,			
	2013		2012	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Residential real estate mortgage loans:				
One- to four-family	$ 98,180	29.92%	$ 78,633	26.50%
Home equity loans and lines of credit	83,334	25.39	83,154	28.03
Commercial real estate loans	91,609	27.91	81,754	27.56
Commercial business loans	8,301	2.53	7,899	2.66
SBA loans	38,004	11.58	39,628	13.36
Commercial construction loans	7,099	2.16	3,302	1.11
Consumer loans	1,672	0.51	2,320	0.78
Total loans	328,199	100.00%	296,690	100.00%
Other items:				
Net deferred loan costs	2,033		1,878	
Allowance for loan losses	(1,656)		(1,569)	
Total loans, net	$ 328,576		$ 296,999	

Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2016. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less. Maturities are based on the final contractual payment date and do not reflect the effect of prepayments, scheduled principal amortization and weighted average rates do not reflect scheduled re-pricings.

Due During the Years Ending December 31,	One- to Four-Family Amount	One- to Four-Family Weighted Average Rate	Home Equity Loans and Lines of Credit Amount	Home Equity Loans and Lines of Credit Weighted Average Rate	Commercial Real Estate Amount	Commercial Real Estate Weighted Average Rate	Commercial Business Amount	Commercial Business Weighted Average Rate
	(Dollars in thousands)							
2017	$	%	$ 4,345	4.28%	$ 10,694	4.59%	$ 2,561	4.43%
2018	164	5.36	6,850	3.80	2,568	4.53	1,247	4.56
2019	32	5.17	7,550	3.82	1,407	4.91	240	4.36
2020 to 2021			13,460	3.97	16,630	4.66	1,075	3.87
2022 to 2026	1,216	4.41	42,970	3.43	70,977	4.47	4,449	3.96
2027 to 2031	7,687	3.85	956	4.79	20,650	4.12		
2032 and beyond	234,286	4.10	44	5.48	16,020	4.39	3,736	4.31
Total	$ 243,385	4.09%	$ 76,175	3.66%	$ 138,946	4.45%	$ 13,308	4.20%

Due During the Years Ending December 31,	SBA Amount	SBA Weighted Average Rate	Commercial Construction Amount	Commercial Construction Weighted Average Rate	Consumer Amount	Consumer Weighted Average Rate	Total Amount	Total Weighted Average Rate

	(Dollars in thousands)							
2017	$ 4,564	5.62%	$ 10,946	4.66%	$ 837	6.58%	$ 33,947	4.75%
2018	1,459	5.02			55	8.40	12,343	4.22
2019	1,415	5.34			63	8.51	10,707	4.21
2020 to 2021	3,369	5.07			124	6.29	34,658	4.41
2022 to 2026	8,880	4.96			42	8.70	128,534	4.14
2027 to 2031	6,121	4.87			44	5.30	35,458	4.21
2032 and beyond	14,140	4.88					268,226	4.16
Total	$ 39,948	5.02%	$ 10,946	4.66%	$ 1,165	6.77%	$ 523,873	4.22%

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The following table sets forth our fixed- and adjustable-rate loans at December 31, 2016 that are due after December 31, 2017.

	Due After December 31, 2017		
	Fixed	Adjustable	Total
	(In thousands)		
Residential real estate mortgage loans:			
One- to four-family	$ 207,665	$ 35,720	$ 243,385
Home equity loans and lines of credit	10,259	61,571	71,830
Commercial real estate loans	17,576	110,676	128,252
Commercial business loans	3,961	6,786	10,747
SBA loans	1,981	33,403	35,384
Commercial construction loans			
Consumer loans	328		328
Total loans	$ 241,770	$ 248,156	$ 489,926

One- to Four-Family Residential Real Estate Lending. At December 31, 2016, we had $243.4 million of loans secured by one- to four-family residential real estate, representing 46.5% of our total loan portfolio. In addition, at December 31, 2016, we had $23.2 million of residential mortgages held for sale at fair value. We primarily originate fixed-rate one- to four-family residential real estate loans, but depending on market conditions and borrower preferences, we also offer adjustable-rate loans. At December 31, 2016, 85.3% of our one- to four-family residential real estate loans were fixed-rate loans, and 14.7% of such loans were adjustable-rate loans. At December 31, 2016 and 2015, $67.5 million and $64.1 million of one-to four-family residential real estate loans were purchased from third parties, respectively, which are located in New England, primarily in Massachusetts.

Our fixed-rate one- to four-family residential real estate loans typically have terms of 10 to 30 years and are generally underwritten according to Fannie Mae, Freddie Mac, FHA or Rhode Island Housing guidelines and when the loan balance meets such guidelines, we refer to loans that conform to such guidelines as "conforming loans." We generally originate both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency, which as of December 31, 2016 was generally $417,000 for single-family homes in our market area. We typically sell servicing-released the majority of our fixed-rate conforming loans. During the years ended December 31, 2016 and 2015, proceeds from the sale of one- to four-family residential real estate loans held for sale were $219.0 million and $166.1 million, respectively. We also originate loans above the lending limit for conforming loans, which are referred to as "jumbo loans" that we retain in our portfolio. Jumbo loans that we originate typically have 15 to 30 year terms and maximum loan-to-value ratios of 95%. At December 31, 2016, we had $178.5 million in jumbo loans, which represented 73.4% of our one- to four-family residential real estate loans, of which $61.1 million of individual residential one- to four-family real estate loans were purchased from third party originators, secured by real estate in New England. Our average loan size for jumbo loans was $601,000 at December 31, 2016. At December 31, 2015, we had $145.4 million in jumbo loans, which represented 69.7% of our one- to four-family residential real estate loans, of which $57.9 million of individual residential one- to four-family real estate loans were purchased from third party originators, secured by real estate in New England. We also offer FHA, USDA and VA loans, all of which we originate for sale on a servicing-released, non-recourse basis in accordance with FHA, USDA and VA guidelines. Virtually all of our one- to four-family originated residential real estate loans are secured by properties located in our market area.

We generally limit the loan-to-value ("LTV") ratios of our mortgage loans without private mortgage insurance to 80% of the sales price or appraised value, whichever is lower. Loans where the borrower obtains private mortgage insurance ("PMI") may be made with loan-to-value ratios up to

95%. From time to time we may originate mortgage loans with loan-to-value ratios greater than 80% with no private mortgage insurance. Such loans totaled $37.0 million at December 31, 2016, or 14.8% of one- to four-family mortgage loans and have an average loan-to-value ratio of 85%, of which $34.0 million, or 64.8% are jumbo loans. During the year ended December 31, 2016, we originated $9.7 million of loans with a greater than 80% loan-to-value ratio with no PMI at an average loan-to-value ratio of 87%. The Bank considers the incremental credit risk on these loans as compared to the remaining residential mortgage portfolio as a component of its concentration qualitative reserve factor. Impaired loans at December 31, 2016 included $1.2 million, or 3.3% of the loans with a greater than 80% LTV ratio and no PMI.

Our adjustable-rate one- to four-family residential real estate loans carry terms to maturity ranging from 10 to 30 years and generally have fixed rates for initial terms of five years, although we also offer terms of one, two, three, seven or ten years, and adjust annually thereafter at a margin, which in recent years has been tied to a margin above the LIBOR rate. The maximum amount by which the interest rate may be increased or decreased is generally 5% for the first adjustment period and 2% per adjustment period thereafter, with a lifetime interest rate cap of generally 5% over the initial interest rate of the loan. We typically hold in portfolio our adjustable-rate one- to four-family residential real estate loans.

Although adjustable-rate mortgage loans may reduce to an extent our vulnerability to changes in market interest rates because they periodically re-price, as interest rates increase the required payments due from the borrower also increase (subject to rate caps), increasing the potential for default by the borrower. At the same time, the ability of the borrower to repay the loan and the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustments of the contractual interest rate are also limited by our maximum periodic and lifetime rate adjustments. Moreover, the interest rates on most of our adjustable-rate loans do not adjust for up to five years after origination. As a result, the effectiveness of adjustable-rate mortgage loans in compensating for changes in general interest rates may be limited during periods of rapidly rising interest rates.

We offer on a limited basis one- to four-family residential real estate loans secured by non-owner occupied properties, which are generally originated for sale.

From 2000 until early 2006, we originated loans to borrowers who provided limited or no documentation of income, known as stated income loans. A stated income loan is a loan where the borrower's income source is not subject to verification through the application process. At December 31, 2016, we had $2.4 million in stated income loans, or 1.0% of our one- to four-family residential real estate loan portfolio, of which $247,000 was non-performing loans and $669,000 were accruing troubled debt restructured loans. Subsequent to 2006, we have not and we have no intention of originating stated income loans again in the future. Approximately 44.8% of the $2.4 million in stated income loans were made to borrowers who had existing commercial relationships and financial information on file with us.

We do not offer "interest only" mortgage loans on permanent one- to four-family residential real estate loans (where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as "Option ARM" loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan. We do not have a "subprime lending" program for one- to four-family residential real estate loans (*i.e.*, loans that generally target borrowers with weakened credit histories).

All residential mortgage loans that we originate include "due-on-sale" clauses, which give us the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid. All borrowers are required to obtain title insurance for the benefit of Coastway Community

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Bank. We also require homeowner's insurance and fire and casualty insurance and, where circumstances warrant, flood insurance on properties securing real estate loans.

Commercial Real Estate Lending. Consistent with our strategy to diversify our loan portfolio and increase our yield, we are focused on increasing our origination of commercial real estate loans, with a target loan size of $250,000 to $5.0 million. At December 31, 2016, we had $138.9 million in commercial real estate loans, representing 26.5% of our total loan portfolio.

Our commercial real estate loans generally have initial terms of five to ten years and amortization terms of 15 to 20 years, with a balloon payment at the end of the initial term, and may be fixed-rate or adjustable-rate. Our adjustable-rate commercial real estate loans are generally tied to a margin above the five year Federal Home Loan Bank of Boston rate. The maximum loan-to-value ratio of our commercial real estate loans is generally 75% (80% for multi-family) of the lower of cost or appraised value of the property securing the loan. Our commercial real estate loans are typically secured by medical, retail, industrial, warehouse, service, or other commercial properties. We originate a limited number of multi-family loans generally secured by apartment buildings. At December 31, 2016, we had $50.8 million of non-owner occupied commercial real estate loans, with an average loan size of $431,000.

Coastway Community Bank is also qualified to make SBA loans. Loans are originated generally under the 7(a) (SBA Advantage Loan Program) and 504 (SBA Grow Loan Program). See "SBA Loans" below for a discussion of the 7(a) program. The SBA 504 program is an economic development program which finances the expansion of small businesses. We generally originate SBA 504 loans for commercial real estate in which we generally provide 50% of the projected costs on a long-term basis (initially up to 90% may be provided, pending repayment from SBA-backed debentures), secured by a first lien on the real property as collateral. At December 31, 2016, we had $20.4 million in SBA 504 loans, or 14.7% of our commercial real estate loans.

At December 31, 2016, the average loan size of our outstanding commercial real estate loans was $402,000, and the largest of such loans was a $4.7 million loan which is primarily secured by a retail shopping plaza and land in Kingstown, Rhode Island and is non-owner occupied. This loan was performing in accordance with its original terms at December 31, 2016.

We consider a number of factors in originating commercial real estate loans. We evaluate the qualifications and financial condition of the borrower, including project-level and global cash flows, credit history, and management expertise, as well as the value and condition of the property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with us and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt service coverage ratio (the ratio of net operating income to debt service). We generally require a debt service ratio of at least 1.20x. The collateral securing commercial real estate loans of $250,000 or more are appraised by outside independent appraisers.

Personal guarantees are generally obtained from the principals of commercial real estate loans. We require property and casualty insurance and flood insurance if the property is determined to be in a flood zone area.

Commercial real estate loans entail greater credit risks compared to one- to four-family residential real estate loans because they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the property, as repayment of the loan generally is dependent, in large part, on sufficient income from the property to cover operating

expenses and debt service. Changes in economic conditions that are not in the control of the borrower or lender could affect the value of the collateral for the loan or the future cash flow of the property. Additionally, any decline in real estate values may be more pronounced for commercial real estate than residential properties.

Home Equity Loans and Lines of Credit. In addition to traditional one- to four-family residential mortgage loans, we offer home equity loans and lines of credit that are secured by the borrower's primary or secondary residence. At December 31, 2016, we had $76.2 million, or 14.5% of our total loan portfolio in home equity loans and lines of credit. Home equity lines of credit totaled $65.9 million at December 31, 2016. At that date we also had $53.3 million of unused commitments related to home equity lines of credit.

Home equity loans and lines of credit are generally underwritten using the same criteria that we use to underwrite one- to four-family residential mortgage loans. Home equity loans and lines of credit may be underwritten with a loan-to-value ratio of up to 80% when combined with the principal balance of the existing first mortgage loan. Our home equity loans are primarily originated with fixed rates of interest with terms of up to 15 years. Our home equity lines of credit are originated with adjustable-rates based on the prime rate of interest plus an applicable margin and require interest paid monthly. Home equity loans and lines of credit are generally available in amounts of between $5,000 and $2.0 million.

Home equity loans and lines of credit secured by junior mortgages have greater risk than one- to four-family residential mortgage loans secured by first mortgages. At December 31, 2016, $41.4 million of our home equity loans and lines of credit were in a junior lien position, with an average loan size of $40,000. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure, after repayment of the senior mortgages, if applicable. When customers default on their loans, we attempt to foreclose on the property and resell the property as soon as possible to minimize foreclosure and carrying costs. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from those customers. Particularly with respect to our home equity loans and lines of credit, decreases in real estate values could adversely affect our ability to fully recover the loan balance in the event of a default.

SBA Loans. We also offer commercial business and commercial real estate loans utilizing the SBA's 7(a) (SBA Advantage Loan Program). At December 31, 2016, we had $39.9 million of SBA loans, representing 7.6% of our total loan portfolio. Under this SBA program, we generally originate and fund loans that currently qualify for guarantees on up to 85% of principal and accrued interest up to a maximum SBA guarantee of $3.75 million per borrower and related entities. We are a preferred lending provider and accordingly can determine SBA eligibility for a loan without prior SBA approval. We do not treat the SBA guarantee as a substitute for a borrower meeting reasonable credit standards. SBA guarantees are generally sought on loans that exhibit minimum capital levels, a short time in business, lower collateral coverage or maximum loan terms beyond our normal underwriting criteria. During the years ended December 31, 2016, 2015, 2014 and 2013, we originated $9.7 million, $6.7 million, $12.9 million and $5.8 million, respectively of loans under the 7(a) program. Of the $9.7 million of 7(a) originations during 2016, $7.5 million was outstanding at December 31, 2016. In addition, the guaranteed portion of the credit can be sold in the secondary market, servicing retained, generating significant gain on sale and fee income opportunities. During the years ended December 31, 2015 and 2013, we sold $4.2 million and $2.5 million of loans under the 7(a) program, generating gains on sale of $328,000 and $159,000, respectively. We did not sell any SBA loans during 2016 and 2014. Our largest SBA loan at December 31, 2016 had a balance of $4.6 million, is secured by a hotel in Danvers, Massachusetts and has a 32% guarantee by the SBA for $1.5 million. The loan is performing in accordance with its terms at December 31, 2016.

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Commercial Business Lending. At December 31, 2016, we had $13.3 million of commercial business loans and lines of credit, representing 2.5% of our total loan portfolio. We originate commercial business loans and lines of credit secured by non-real estate business assets. These loans are generally originated to small businesses in our primary market area. Our commercial business loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture, and are primarily secured by business assets other than real estate, such as business equipment, inventory and accounts receivable. Our commercial business loans are generally term loans with terms of three to seven years and lines of credit with terms of one to two years, with a target loan size of $250,000 to $5.0 million. Our commercial business lines of credit are generally priced on an adjustable-rate basis tied to the prime rate. Term loans are generally priced at a spread over the comparable term Federal Home Loan Bank of Boston rate. We generally obtain personal guarantees with commercial business loans.

At December 31, 2016, the average loan size of our outstanding commercial business loans and lines of credit was $160,000, and the largest outstanding commercial loan relationship balance was a $4.2 million loan secured by business assets of a shipyard. This loan was performing in accordance with its original terms at December 31, 2016.

We typically originate commercial business loans on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business, the experience and stability of the borrower's management team, earnings projections and their underlying assumptions, and the value and marketability of any collateral securing the loan. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself and the general economic environment in our market area. Therefore, commercial business loans that we originate have greater credit risk than one- to four-family residential real estate loans. In addition, commercial business loans often result in larger outstanding balances to single borrowers, or related groups of borrowers, and also generally require substantially greater evaluation and oversight efforts.

Commercial Construction Loans. At December 31, 2016, we had $10.9 million, or 2.1% of our total loan portfolio, in commercial construction loans. Our commercial construction loans generally have initial terms of up to 12 months, during which the borrower pays interest only. Upon completion of construction, these loans convert to permanent loans. Our commercial construction loans have rates and terms comparable to commercial real estate loans that we originate. The maximum loan-to-value of our commercial construction loans is generally 80% of the lesser of the appraised value of the completed property or the contract price for the land plus the value of the improvements, and ranges from 50% to 80% depending on the collateral and the purpose of the improvements upon completion of construction. Commercial construction loans are generally underwritten pursuant to the same guidelines used for originating permanent commercial real estate loans. Before making a commitment to fund a construction loan, Coastway Community Bank requires detailed cost estimates to complete the project and an appraisal of the property by an independent licensed appraiser. Coastway Community Bank also reviews and inspects each property before disbursement of funds during the term of the construction loan. Loan proceeds are disbursed after inspection based on the percentage of completion method. All borrowers are required to obtain title insurance, property and casualty insurance, and, if the property is determined to be located in a flood zone area, flood insurance. At December 31, 2016, the unadvanced portion of total construction loans totaled $5.7 million. At December 31, 2016, our largest construction loan relationship had a balance of $4.3 million to construct a hotel which is in Middletown, Rhode Island and was performing in accordance with its original terms.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost is inaccurate, we may be required to advance additional funds beyond the amount

originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project is inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the construction loan upon the sale of the property. Construction loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated.

Consumer Lending. To a much lesser extent, we offer a variety of consumer loans to individuals who reside or work in our market area, including new and used automobile loans, boat loans, recreational vehicle loans and loans secured by certificates of deposit. At December 31, 2016, our consumer loan portfolio totaled $1.2 million, or 0.2% of our total loan portfolio. At this date, $164,000 of our consumer loans were unsecured.

Consumer loans generally have shorter terms to maturity, which reduces our exposure to changes in interest rates. In addition, management believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

Consumer and other loans generally have greater risk compared to longer-term loans secured by improved, owner-occupied real estate, particularly consumer loans that are secured by rapidly depreciable assets, such as automobiles. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. As a result, consumer loan collections are primarily dependent on the borrower's continuing financial stability and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

Originations, Sales and Purchases of Loans

Most of our loan originations are generated by our loan personnel operating at our corporate headquarters and banking office locations, including loan offices. All loans we originate are underwritten pursuant to our policies and procedures. While we originate both fixed-rate and adjustable-rate loans, our ability to generate each type of loan depends upon relative borrower demand and the pricing levels as set in the local marketplace by competing banks, thrifts, credit unions, and mortgage banking companies. Our volume of real estate loan originations is influenced significantly by market interest rates, and, accordingly, the volume of our real estate loan originations can vary from period to period.

Consistent with our interest rate risk strategy, in the low interest rate environment that has existed in recent years, we have sold on a servicing-released basis a majority of the fixed-rate conforming one- to four-family residential mortgage loans that we have originated. In addition, based upon market conditions, we may sell the guaranteed portion of the SBA 7(a) loans in the secondary market. We consider our balance sheet as well as market conditions on an ongoing basis in making decisions as to whether to hold loans we originate for investment or to sell such loans to investors, choosing the strategy that is most advantageous to us from a profitability and risk management standpoint. We sold $4.2 million in SBA loans for the year ended December 31, 2015. We did not sell any SBA loans during 2014. For the years ended December 31, 2016 and 2015, proceeds from the sale of residential one- to four-family real estate loans were $219.0 million and $166.1 million, respectively.

From time to time, we may purchase loan participations secured by properties and/or assets within and outside of our primary lending market area in which we are not the lead lender. In these circumstances, we follow our customary loan underwriting and approval policies. At December 31, 2016, we had 11 loans totaling $15.8 million in which we were not the lead lender and which are performing in accordance with their original terms. We also have participated out portions of loans that exceeded our loans-to-one borrower legal lending limit and for risk diversification.

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We purchased $17.6 million, $56.7 million and $11.9 million of individual one- to four-family residential loans from third party originators at a purchase price of $17.8 million, $57.4 million and $12.1 million during the years ended December 31, 2016, 2015 and 2014, respectively.

Loan Approval Procedures and Authority

Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures approved by our board of directors. The loan approval process is intended to assess the borrower's ability to repay the loan and the value of the collateral that will secure the loan. To assess the borrower's ability to repay, our policies provide for the review of the borrower's employment and credit history and information on the historical and projected income and expenses of the borrower. We will also evaluate a guarantor when a guarantee is provided as part of the loan.

Coastway Community Bank's policies and loan approval limits are established by our board of directors. Residential real estate and secured consumer loans of up to $250,000 may be approved by senior officers at branch locations and up to $1.0 million must be approved by our Chief Executive Officer, Chief Retail Officer or Senior Vice President, Branch Banking Manager. Residential real estate and secured consumer loans exceeding $1.0 million must be approved by our Credit Committee, consisting of our Chief Executive Officer, Chief Retail Officer, Chief Operating Officer, Chief Credit Officer, Chief Financial Officer and Chief Business Lending Officer. All commercial real estate loans and commercial business loans require two approvals. Commercial real estate and commercial business loans up to $250,000 may be approved by the Business Lending Manager, up to $500,000 must be approved by either the Chief Business Lending Officer or the Chief Retail Officer, up to $1.0 million must be approved by the Chief Executive Officer and up to 80% of our legal lending limit rounded to the nearest quarter million must be approved by the Credit Committee. Any loan that exceeds the internal lending limit must be approved by the board of directors.

Delinquencies and Non-Performing Assets

Delinquency Procedures. When a borrower fails to make a required monthly payment on a residential real estate loan, we attempt to contact the borrower to determine the reason for nonpayment and to discuss future payments. Our policies provide that a late notice be sent when a loan is 31 days past due. Once the loan is 45 days past due, a Notice of Default and Mortgagee's Right to Foreclosure is sent to the borrower explaining that Coastway Community Bank will initiate foreclosure proceedings on the loan in 45 days or take any legal action necessary to satisfy the obligation if payment is not received. If the loan is reinstated, foreclosure proceedings will be discontinued and the borrower will be permitted to continue to make payments. In certain instances, we may modify the loan or grant a limited exemption from loan payments to allow the borrower to reorganize his or her financial affairs. Loan modifications are evaluated to determine if they should be classified as troubled debt restructurings if concessions are granted due to borrower financial difficulty. We attempt to work with borrowers to establish a repayment schedule that will cure the delinquency.

Delinquent commercial real estate and commercial business loans are initially handled by the loan officer responsible for the origination of the loan in conjunction with the Commercial Collections Department immediately upon such loan becoming ten days past due. Our collections department works with the loan officer to ensure that the necessary steps are taken to collect on delinquent loans, including the mailing of delinquency notices. A senior lending officer or the Collections Department Manager takes over any delinquent loan once the loan is 30 days past due and handles any additional collection procedures, including letters from our attorneys. If we cannot reach an acceptable workout of a delinquent commercial real estate or commercial business loan between 30 and 60 days following the due date of the first missed payment, we generally initiate foreclosure or repossession proceedings on any collateral securing the loan.

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When we acquire real estate as a result of foreclosure or by deed in lieu of foreclosure, the real estate is classified as foreclosed real estate until it is sold. The real estate is recorded at estimated fair value at the date of acquisition less estimated costs to sell, and any write-down resulting from the acquisition is charged to the allowance for loan losses. Any gains on transfer to foreclosed real estate at fair value are first recorded as a recovery of previous charge-offs and any remaining amount would be recorded in income. Estimated fair value is based on a new appraisal which is obtained as soon as practicable, typically after the foreclosure process is completed. Subsequent decreases in the value of the property are charged to operations. After acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development and improvement of the property, however, are capitalized to the extent of estimated fair value less estimated costs to sell.

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Delinquent Loans. The following table sets forth certain information with respect to our loan portfolio delinquencies by type and amount at the dates indicated.

	Loans Delinquent For							
	30 - 59 Days		60 - 89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)							
At December 31, 2016:								
Residential real estate mortgage loans:								
One- to four-family	4	$ 625	3	$ 587	5	$ 738	12	$ 1,950
Home equity loans and lines of credit	3	109	8	547	5	491	16	1,147
Commercial real estate loans					1	130	1	130
Commercial business loans								
SBA loans			1	148	1	18	2	166
Commercial construction loans								
Consumer loans	1	2					1	2
Total	8	$ 736	12	$ 1,282	12	$ 1,377	32	$ 3,395
At December 31, 2015:								
Residential real estate mortgage loans:								
One- to four-family	2	$ 1,156	3	$ 642	3	$ 370	8	$ 2,168
Home equity loans and lines of credit	11	1,250	3	239	1	30	15	1,519
Commercial real estate loans					2	239	2	239
Commercial business loans								
SBA loans					2	467	2	467
Commercial construction loans								
Consumer loans	5	123					5	123
Total	18	$ 2,529	6	$ 881	8	$ 1,106	32	$ 4,516
At December 31, 2014:								
Residential real estate mortgage loans:								
One- to four-family		$	3	$ 580	9	$ 2,438	12	$ 3,018
Home equity loans and lines of credit	7	301	3	8	4	153	14	462
Commercial real estate loans								
Commercial business loans			1	84			1	84
SBA loans			1	20	6	189	7	209
Commercial construction loans								
Consumer loans			1	8			1	8
Total	7	$ 301	9	$ 700	19	$ 2,780	35	$ 3,781
At December 31, 2013:								

Residential real estate mortgage loans:											
One- to four-family	4	$	925	6	$	1,573	6	$	1,035	16	$ 3,533
Home equity loans and lines of credit	7		294				4		53	11	347
Commercial real estate loans											
Commercial business loans											
SBA loans	5		1,131	2		81	8		977	15	2,189
Commercial construction loans											
Consumer loans	2		19							2	19
Total	18	$	2,369	8	$	1,654	18	$	2,065	44	$ 6,088

At December 31, 2012:											
Residential real estate mortgage loans:											
One- to four-family	11	$	1,721	3	$	717	7	$	2,652	21	$ 5,090
Home equity loans and lines of credit	3		25	4		83	6		640	13	748
Commercial real estate loans											
Commercial business loans											
SBA loans	3		361				8		494	11	855
Commercial construction loans											
Consumer loans	5		42							5	42
Total	22	$	2,149	7	$	800	21	$	3,786	50	$ 6,735

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Non-Performing Loans. We generally cease accruing interest on our loans when contractual payments of principal or interest have become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status after becoming 90 days or more past due if it 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 is reversed. Interest received on nonaccrual loans generally is applied against principal or interest and is recognized on a cash basis. Generally, loans are restored to accrual status when the obligation is brought current, 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.

Non-performing loans, increased $413,000 to $4.7 million, but improved to 0.89% of total loans, at December 31, 2016 from $4.2 million, or 0.91% of total loans, at December 31, 2015. The increase in non-performing loans was due to a $594,000 increase in non-performing one- to four-family residential real estate loans, partially offset by a $449,000 decrease in non-performing SBA loans. The improvement in the non-performing loan to total loan ratio was principally due to a combination of loan growth in 2016 and improved payment performance. Non-performing loans decreased to $5.0 million at December 31, 2015 from $7.7 million at December 31, 2014, primarily due to a $2.8 million decrease in non-performing one- to four-family residential real estate.

Non-performing one- to four-family residential real estate loans totaled $3.7 million at December 31, 2016 and consisted of 11 loans of which the largest was $748,000. Non-performing home equity loans and lines of credit totaled $735,000 at December 31, 2016, and consisted of 10 loans of which the largest was $267,000.

Troubled Debt Restructurings. Loans are classified as restructured when certain modifications are made to the loan terms and concessions are granted to the borrowers due to financial difficulty experienced by those borrowers. The modification of the terms of such loans were one of the following: a reduction of the stated interest rate of the loan for some period of time, an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk, or an extension of time to make payments with the delinquent payments added to the principal of the loan. No additional loan commitments were outstanding to our troubled debt restructured borrowers at December 31, 2016.

Loans on non-accrual status at the date of modification are initially classified as non-accrual troubled debt restructurings. At December 31, 2016, we had $2.6 million in non-accruing troubled debt restructurings ("TDRs"). Our policy provides that troubled debt restructured loans are returned to accrual status after a period of satisfactory and reasonable payment performance under the terms of the restructuring and continued payment is reasonably assured. Satisfactory payment performance is generally no less than six consecutive months of timely payments. At December 31, 2016 and 2015, we had $8.3 million and $3.5 million in accruing troubled debt restructurings, respectively. The $4.9 million increase in accruing TDRs during the year ended December 31, 2016 was primarily due to a $4.0 million commercial real estate loan which was moved to accruing troubled debt restructured status based on extensions of the loan maturity date as the borrower was experiencing financial difficulty. The loan is well secured based on its most recent appraisal and a 2017 purchase and sale agreement, and is current at December 31, 2016. The $615,000 increase in accruing TDRs during 2015 was primarily due to one residential one- to four-family loan with a balance of $563,000 which had been modified and on non-accrual status was brought current and performed over six months, and returned to an accruing loan. As of December 31, 2016, three loans totaling $565,000 that were modified as troubled debt restructurings within the previous twelve months defaulted after their restructure.

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Nonperforming Assets. The table below sets forth the amounts and categories of our nonperforming assets at the dates indicated. For the dates presented, there were no loans delinquent 90 days or more and still accruing.

	At December 31,				
	2016	**2015**	**2014**	**2013**	**2012**
	(Dollars in thousands)				
Nonaccrual loans:					
Residential real estate mortgage loans:					
One- to four-family	$ 1,629	$ 193	$ 1,642	$ 1,913	$ 2,305
Home equity loans and lines of credit	316	329	277	134	779
Commercial real estate loans	130	130			
Commercial business loans					
SBA loans	18	467	144	868	569
Commercial construction loans					
Consumer loans				3	
Total nonaccrual loans	2,093	1,119	2,063	2,918	3,653
Non-accruing troubled debt restructured loans:					
Residential real estate mortgage loans:					
One- to four-family	2,033	2,875	4,229	2,877	3,468
Home equity loans and lines of credit	419	137	92	24	25
Commercial real estate loans	108	109			
Commercial business loans					
SBA loans			60	640	502
Commercial construction loans					
Consumer loans					13
Total non-accruing troubled debt restructured loans	2,560	3,121	4,381	3,541	4,008
Total nonperforming loans	4,653	4,240	6,444	6,459	7,661
Foreclosed real estate:					
One- to four-family		463	1,035	1,580	2,502
Home equity loans and lines of credit					92
Commercial real estate loans					
Commercial business loans					
SBA loans	422	247	250		
Commercial construction loans					
Consumer loans					
Total foreclosed real estate	422	710	1,285	1,580	2,594
Total nonperforming assets	$ 5,075	$ 4,950	$ 7,729	$ 8,039	$ 10,255
Total accruing troubled debt restructured loans	$ 8,316	$ 3,465	$ 2,850	$ 3,112	$ 2,177
Ratios:					
Nonperforming loans to total loans	0.89%	0.91%	1.68%	1.97%	2.58%
Nonperforming assets to total assets	0.79%	0.88%	1.66%	1.86%	2.89%

In addition to the non-performing assets above, the Bank had two properties classified as real estate held for sale with a carrying value of $3.3 million and $3.8 million at December 31, 2015 and 2014, respectively, both of which were under Purchase & Sale Agreements at December 31, 2015. The sale of the two real estate held for sale properties closed during the first quarter of 2016. There is no real estate held for sale at December 31, 2016. For the years ended December 31, 2016 and 2015, gross interest income which would have been recorded had the non-performing loans been current in

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accordance with their original terms amounted to $203,000 and $190,000, respectively. The amount that was included in interest income on such loans totaled $135,000 and $123,000 for the years ended December 31, 2016 and 2015, respectively.

Foreclosed Real Estate. When we acquire real estate as a result of foreclosure or by deed in lieu of foreclosure, the real estate is classified as foreclosed real estate until it is sold. The real estate is recorded at estimated fair value at the date of acquisition less estimated costs to sell, and any write-down resulting from the acquisition is charged to the allowance for loan losses. Any gains on transfer to foreclosed real estate at fair value are first recorded as a recovery of previous charge-offs and any remaining amount would be recorded in income. Estimated fair value is based on a new appraisal which is obtained as soon as practicable, typically after the foreclosure process is completed. Subsequent decreases in the value of the property are charged to operations. After acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development and improvement of the property, however, are capitalized to the extent of estimated fair value less estimated costs to sell. During the year ended December 31, 2016, two loans totaling $633,000, secured by commercial real estate that had been collateral for SBA loans were transferred into foreclosed real estate. During the year ended December 31, 2015, three loans totaling $725,000 secured by residential one- to four-family real estate were transferred into foreclosed real estate and one SBA loan totaling $74,000 was transferred into foreclosed real estate. We had $422,000 in foreclosed real estate at December 31, 2016, consisting of one commercial building which had been part of the collateral for an SBA loan.

Other Loans of Concern. There were no other loans at December 31, 2016 that are not already disclosed where there is information about possible credit problems of borrowers that caused management to have serious doubts about the ability of the borrowers to comply with present loan repayment terms and that may result in disclosure of such loans in the future.

Classified Assets. Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by the FDIC to be of lesser quality, as "substandard," "doubtful" or "loss." An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as "special mention" by our management.

When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances in an amount deemed prudent by management to cover probable losses. General allowances represent loss allowances which have been established to cover probable losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as "loss," it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the regulatory authorities, which may require the establishment of additional general or specific loss allowances.

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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

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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 classified as 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.

In accordance with our loan policy, we regularly review the problem loans in our portfolio to determine whether any loans require classification in accordance with applicable regulations. Loans are listed on the "watch list" initially because of emerging financial weaknesses even though the loan is currently performing as agreed, or delinquency status, or if the loan possesses weaknesses although currently performing. If a loan deteriorates in asset quality, the classification is changed to "special mention," "substandard," "doubtful" or "loss" depending on the circumstances and the evaluation. Generally, loans 90 days or more past due are placed on nonaccrual status and classified "substandard." All other loans that are not considered to be classified assets or classified as special mention are considered to be classified as "pass". Management reviews the status of each impaired loan on our watch list on a quarterly basis. Management evaluates classified assets that are not impaired as a component of its general allowance to cover estimated probable losses.

On the basis of this review of our loans, we had classified or held as special mention the following loans as of the dates indicated:

	At December 31,		
	2016	2015	2014
	(In thousands)		
Special mention	$ 2,004	$ 1,325	$ 2,151
Substandard	5,800	3,664	4,046
Doubtful			
Loss			
Total classified and special mention loans	$ 7,804	$ 4,989	$ 6,197

Classified and special mention loans at December 31, 2016 increased $2.8 million from December 31, 2015. One commercial real estate loan totaling $4.0 million was downgraded to "substandard" during the year ended December 31, 2016 based upon tax liens and a modification of the loan's maturity date. The loan is well secured based on the most recent appraisal of the real estate collateral securing the loan as well as a 2017 purchase and sale agreement. Two substandard commercial real estate loans totaling $1.0 million were upgraded from "substandard" based on improvement in credit quality during the year ended December 31, 2016. Two commercial real estate loans totaling $717,000 and two SBA loans totaling $487,000 were downgraded from "pass" to special mention during the year ended December 31, 2016. One SBA loan totaling $99,000 was downgraded to "doubtful" based on closure of the business, for which all the net carrying value is guaranteed by the SBA. Classified and special mention loans at December 31, 2015 decreased $1.2 million from December 31, 2014. The improvement was largely due to a decrease of $858,000 in classified and special mention SBA loans. At December 31, 2016 and 2015, special mention and substandard loans included $2.5 million and $3.2 million of SBA loans, of which $1.8 million and $2.4 million, respectively, was guaranteed by the SBA.

Allowance for Loan Losses

Analysis and Determination of the Allowance for Loan Losses. Our allowance for loan losses is the amount considered necessary to reflect probable incurred losses in our loan portfolio. We evaluate the

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need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of two key elements: (1) specific allowances for identified impaired loans; and (2) a general valuation allowance on the remainder of the loan portfolio. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

We identify loans that may need to be charged off as a loss by reviewing all delinquent loans, classified loans, and other loans about which management may have concerns about collectability. For individually reviewed loans, the borrower's inability to make payments under the terms of the loan as well as the shortfall in collateral value could result in our charging off the loan or the portion of the loan that was impaired.

Among other factors, we consider current general economic conditions, including current housing price depreciation, in determining the appropriateness of the allowance for loan losses for our residential and home equity real estate portfolios. We use evidence obtained from our own loan portfolio, including loss history, as well as published housing data on our local markets from third party sources we believe to be reliable as a basis for assumptions about the impact of housing depreciation. For SBA loans and for commercial real estate loans, the underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Non-real estate commercial loans are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. Commercial construction generally represent loans to finance construction of retail and office space. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment. Management monitors the cash flows of these loans.

Substantially all of our loans are secured by collateral. Loans 90 days past due and other classified loans are evaluated for impairment and specific allowances are established. Typically for a nonperforming impaired real estate loan, the value of the underlying collateral is estimated using an independent appraisal, adjusted for property specific conditions and other factors, and related specific reserves are adjusted on a quarterly basis. If a nonperforming impaired real estate loan is in the process of foreclosure and/or there are serious doubts about further collectability of principal or interest, and there is uncertainty about the value of the underlying collateral, we will order a new independent appraisal. Any shortfall would result in immediately charging off the portion of the loan that was impaired.

Specific Allowances for Identified Problem Loans. We evaluate the need for a specific allowance when loans are determined to be impaired. Specific reserves are measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral less estimated selling expenses or the fair value of the loan. Factors in identifying a specific problem loan include: (1) the strength of the customer's personal or business cash flows; (2) the availability of other sources of repayment; (3) the amount due or past due; (4) the type and value of collateral; (5) the strength of our collateral position; (6) the estimated cost to sell the collateral; and (7) the borrower's effort to cure the delinquency. In addition, for loans secured by real estate, we consider the extent of any past due and unpaid property taxes applicable to the property serving as collateral on the mortgage.

General Valuation Allowance on the Remainder of the Loan Portfolio. We establish a general allowance for loans that are not classified as impaired to recognize the incurred losses inherent with lending activities, but which, unlike specific allowances, has not been allocated to particular problem assets. This general valuation allowance is determined by segregating the loans by loan category (segments) and assigning allowance percentages based on our historical loss experience, and qualitative

factors. These qualitative factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting our primary market area, delinquency and 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 re-evaluated quarterly to ensure their relevance in the current and overall economic environment and in relation to trends in the loan portfolio.

Allowance for Loan Losses. The following table sets forth activity in our allowance for loan losses for the years indicated.

	At or For the Years Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Balance at beginning of year	$ 2,194	$ 1,942	$ 1,656	$ 1,569	$ 1,424
Charge-offs:					
Residential real estate mortgage loans:					
One- to four-family	(95)	(139)	(112)	(94)	(154)
Home equity loans and lines of credit	(78)	(128)	(129)	(424)	(707)
Commercial real estate loans					
Commercial business loans					
SBA loans	(42)	(27)	(34)	(33)	(117)
Commercial construction loans					
Consumer loans	(1)	(6)	(3)	(15)	(58)
Total charge-offs	(216)	(300)	(278)	(566)	(1,036)
Recoveries:					
Residential real estate mortgage loans:					
One- to four-family	5	11	82	15	9
Home equity loans and lines of credit	11	16	24	12	8
Commercial real estate loans					
Commercial business loans					
SBA loans	9	16	5	43	39
Commercial construction loans					
Consumer loans	15	13	21	16	16
Total recoveries	40	56	132	86	72
Net (charge-offs) recoveries	(176)	(244)	(146)	(480)	(964)
Provision for loan losses	475	496	432	567	1,109
Balance at end of year	$ 2,493	$ 2,194	$ 1,942	$ 1,656	$ 1,569
Ratios:					
Net charge-offs to average loans outstanding	0.03%	0.06%	0.04%	0.15%	0.35%
Allowance for loan losses to nonperforming loans at end of year	53.58%	51.75%	30.14%	25.64%	20.48%
Allowance for loan losses to total loans at end of year	0.48%	0.47%	0.51%	0.50%	0.53%

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Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category, the total loan balances by category, and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,			
	2016		2015	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
Residential real estate mortgage loans:				
One- to four-family	$ 1,009	46.46%	$ 863	44.84%
Home equity loans and lines of credit	541	14.54	525	16.51
Commercial real estate loans	596	26.52	503	27.02
Commercial business loans	60	2.54	39	1.92
SBA loans	228	7.63	234	8.42
Commercial construction loans	51	2.09	21	1.02
Consumer loans	8	0.22	9	0.27
Total allowance	$ 2,493	100.00%	$ 2,194	100.00%

	At December 31,			
	2014		2013	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
Residential real estate mortgage loans:				
One- to four-family	$ 654	34.99%	$ 462	29.92%
Home equity loans and lines of credit	584	20.82	605	25.39
Commercial real estate loans	400	28.19	321	27.91
Commercial business loans	28	2.01	29	2.53
SBA loans	236	11.49	197	11.58
Commercial construction loans	30	2.14	24	2.16
Consumer loans	10	0.36	18	0.51
Total allowance	$ 1,942	100.00%	$ 1,656	100.00%

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	At December 31, 2012	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)	
Residential real estate mortgage loans:		
One- to four-family	$ 393	26.50%
Home equity loans and lines of credit	674	28.03
Commercial real estate loans	261	27.56
Commercial business loans	25	2.66
SBA loans	185	13.36
Commercial construction loans	11	1.11
Consumer loans	20	0.78
Total allowance	$ 1,569	100.00%

At December 31, 2016 and 2015, our allowance for loan losses represented 0.48% and 0.47% of total loans and 53.58% and 51.75% of non-performing loans. At December 31, 2014, our allowance for loan losses represented 0.51% of total loans and 30.14% of non-performing loans. At December 31, 2013, our allowance for loan losses represented 0.50% of total loans and 25.64% of non-performing loans, and at December 31, 2012, our allowance for loan losses represented 0.53% of total loans and 20.48% of non-performing loans. There were $176,000, $244,000, $146,000, $480,000 and $1.0 million in net loan charge-offs during the years ended December 31, 2016, 2015, 2014, 2013 and 2012, respectively.

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Because future events affecting borrowers and collateral cannot be predicted with certainty, the existing allowance for loan losses may not be adequate and management may determine that increases in the allowance are necessary if the quality of any portion of our loan portfolio deteriorates as a result. Furthermore, as an integral part of its examination process, the FDIC and/or the Rhode Island Department of Business Regulation periodically review our allowance for loan losses. The FDIC and/or the Rhode Island Department of Business Regulation may require that we increase our allowance based on its judgments of information available to it at the time of its examination. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

Investment Activities

General. Our board of directors is responsible for adopting our investment policy. The investment policy is reviewed annually by management and any changes to the policy are recommended to and subject to the approval of the board of directors. Our investment policy provides us with the ability to invest in short-term investments, which may include overnight federal funds, reverse repurchase agreements, banker's acceptances and/or U.S. government or federal agency securities, and longer-term investments, which we will consider investing in, including term federal funds, federal agency securities and certificates of deposit. Authority to make investments under the approved investment policy guidelines is delegated to our President and Chief Executive Officer and our Chief Financial Officer. All investment transactions are reviewed at regularly scheduled monthly meetings of the board of directors.

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At December 31, 2016, 2015 and 2014, we invested certain net proceeds from the stock conversion in bank money market accounts, interest-earning checking accounts, and certificates of deposit. At December 31, 2013 and 2012, we had no investment securities other than our required investment in Federal Home Loan Bank of Boston stock. We may possibly invest in other investments permitted by our investment policy in the future.

Sources of Funds

General. Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also use borrowings, primarily Federal Home Loan Bank of Boston advances, to supplement cash flow needs, lengthen the maturities of liabilities for interest rate risk purposes and to manage the cost of funds. In addition, we receive funds from scheduled loan payments, loan prepayments, retained earnings and income on earning assets. While scheduled loan payments and income on interest-earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

Deposits. Our deposits are generated primarily from residents within our primary market area. We offer a selection of deposit accounts, including non-interest-bearing demand accounts, money market accounts, savings accounts, club accounts and certificates of deposit. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate. We have not in the past used, and currently do not hold, any brokered deposits. At December 31, 2016, we have $44.4 million in certificates of deposit at a weighted average interest rate of 1.48% obtained through a national on-line service ("national market"), representing 9.9% of total deposits. We had no national market certificates of deposit at December 31, 2015. We utilized national market certificates of deposit in order to bolster on-balance sheet liquidity, to repay borrowed funds and to extend the duration of interest-bearing liabilities in anticipation of increasing interest rates. At December 31, 2016, our core deposits, which are deposits other than certificates of deposit, were $284.4 million, representing 63.6% of total deposits.

Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market rates, liquidity requirements, rates paid by competitors and growth goals. The flow of deposits is influenced significantly by general economic conditions, changes in interest rates and competition. The variety of deposit accounts that we offer allows us to be competitive in generating deposits and to respond with flexibility to changes in our customers' demands. Our ability to gather deposits is impacted by the competitive market in which we operate, which includes numerous financial institutions of varying sizes offering a wide range of products. We believe that deposits are a stable source of funds, but our ability to attract and maintain deposits at favorable rates will be affected by market conditions, including competition and prevailing interest rates.

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The following tables set forth the distribution of total deposit accounts, by account type, at or for the dates indicated.

	At or For the Year Ended December 31,							
	2016				2015			
	Average Balance	Balance	Percent of Balance	Weighted Average Rate	Average Balance	Balance	Percent of Balance	Weighted Average Rate
	(Dollars in thousands)							
Non-interest-bearing demand deposit accounts	$ 97,563	$ 106,962	23.91%					