

Coastway Bancorp, Inc.
Form 10-K
March 12, 2018

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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, 2017

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
(State or other jurisdiction of
incorporation or organization)

46-4149994
(I.R.S. Employer
Identification Number)

One Coastway Blvd. Warwick, Rhode Island
(Address of Principal Executive Offices)

02886
(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
(Title of each class)

The NASDAQ Stock Market, LLC
(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

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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 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 (§ 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 NO

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.

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

Larger accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company) Emerging growth company

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

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

As of June 30, 2017, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was \$76.7 million.

As of March 1, 2018, there were issued and outstanding 4,386,351 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.

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; (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;

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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, 2017, Coastway Bancorp, Inc. had total consolidated assets of \$738.9 million, total consolidated deposits of \$477.0 million, and total consolidated stockholders' equity of \$71.3 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, greater Rhode Island and nearby communities in the states of Connecticut and Massachusetts.

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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 4.4% for the entire state, 4.6% for Providence County and 3.9% for Kent County as compared to the national rate of 4.1% as of December 2017. The median household income for 2012-2016 in Rhode Island was \$58,000, in Providence County it was \$51,000 and in Kent County it was \$66,000, as compared to the national median of \$55,000.

According to the latest U.S. Census estimates, Rhode Island reported a population of 1.1 million as of July 1, 2017, 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 0.6% increase in population from April 1, 2010 to July 1, 2017, and the Providence metropolitan statistical area also recorded a 0.1% increase in population. Providence County, the location of seven of our branch offices, had a population of 634,000 as of July 1, 2016 and recorded an increase in population of 1.1% from April 1, 2010 to July 1, 2016. Kent County, the location of two of our branch offices, reported a population of 165,000 as of July 1, 2016 and recorded a slight population decrease of 0.9% over the same time period. The United States as a whole recorded an increase of 4.7% in total population from April 1, 2010 to July 1, 2016 and an increase of 5.5% in total population from April 15, 2010 to July 1, 2017.

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, 2017 (the latest date for which information is available), our deposit market share was 1.59% for the State of Rhode Island, with 1.17% of total deposits in Providence County, Rhode Island and 6.93% in Kent County, Rhode Island respectively, making us the 8th largest out of 17 financial institutions in Providence County and the 6th largest out of 12 financial institutions in Kent County. We have been one of the top five SBA lenders in the State of Rhode Island in terms of dollars lent and number of loans originated for the last ten years.

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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 2017 and 2016, we purchased individual loans totaling \$43.8 million and \$17.6 million at a cost of \$44.4 million and \$17.8 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 2017 and 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 \$11.1 million, \$23.2 million, \$19.0 million, \$11.0 million, and \$8.6 million at December 31, 2017, 2016, 2015, 2014 and 2013, respectively.

	At December 31,					
	2017		2016		2015	
	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)						
Residential real estate mortgage loans:						
One- to four-family	\$ 312,095	50.92%	\$ 243,385	46.46%	\$ 208,777	44.84%
Home equity loans & lines of credit	71,844	11.72	76,175	14.54	76,881	16.51
Commercial real estate loans	156,024	25.46	138,946	26.52	125,782	27.02
Commercial business loans	17,158	2.80	13,308	2.54	8,918	1.92
SBA loans	41,020	6.69	39,948	7.63	39,217	8.42
Commercial construction loans	13,552	2.21	10,946	2.09	4,729	1.02
Consumer loans	1,229	0.20	1,165	0.22	1,252	0.27
Total loans	612,922	100.00%	523,873	100.00%	465,556	100.00%
Other items:						
Net deferred loan costs	4,591		3,835		3,661	
Allowance for loan losses	(2,920)		(2,493)		(2,194)	
Total loans, net	\$ 614,593		\$ 525,215		\$ 467,023	

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	At December 31,			
	2014		2013	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Residential real estate mortgage loans:				
One- to four-family	\$ 134,084	34.99%	\$ 98,180	29.92%
Home equity loans & lines of credit	79,771	20.82	83,334	25.39
Commercial real estate loans	108,025	28.19	91,609	27.91
Commercial business loans	7,698	2.01	8,301	2.53
SBA loans	44,032	11.49	38,004	11.58
Commercial construction loans	8,181	2.14	7,099	2.16
Consumer loans	1,372	0.36	1,672	0.51
Total loans	383,163	100.00%	328,199	100.00%
Other items:				
Net deferred loan costs	2,688		2,033	
Allowance for loan losses	(1,942)		(1,656)	
Total loans, net	\$ 383,909		\$ 328,576	

Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2017. 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		Home Equity Loans and Lines of Credit		Commercial Real Estate		Commercial Business	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
2018	\$ 30	5.07%	\$ 4,909	4.55%	\$ 4,822	5.09%	\$ 3,952	5.21%
2019			6,138	4.60	1,478	5.01	549	4.44
2020			5,432	4.68	7,252	4.72	1,038	3.88
2021 to 2022	3	9.90	12,952	4.37	20,162	4.73	3,401	3.88
2023 to 2027	1,544	4.26	40,695	4.03	98,485	4.56	3,979	4.44
2028 to 2032	9,303	3.76	1,676	5.18	8,374	4.76	623	4.50
2033 and beyond	301,215	4.13	42	5.87	15,451	4.46	3,616	4.31
Total	\$ 312,095	4.12%	\$ 71,844	4.25%	\$ 156,024	4.61%	\$ 17,158	4.45%

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Due During the Years Ending December 31,	SBA		Commercial Construction		Consumer		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
(Dollars in thousands)								
2018	\$ 5,236	6.09%	\$ 13,552	4.82%	\$ 836	6.64%	\$ 33,337	5.11%
2019	1,877	5.87			55	7.79	10,097	4.90
2020	632	5.17			102	8.20	14,456	4.69
2021 to 2022	3,427	5.14			120	5.44	40,065	4.58
2023 to 2027	9,402	5.15			51	4.75	154,156	4.45
2028 to 2032	6,932	4.82			23	7.99	26,931	4.45
2033 and beyond	13,514	4.96			42	4.75	333,880	4.18
Total	\$ 41,020	5.18%	\$ 13,552	4.82%	\$ 1,229	6.59%	\$ 612,922	4.36%

The following table sets forth our fixed- and adjustable-rate loans at December 31, 2017 that are due after December 31, 2018.

	Due After December 31, 2018		
	Fixed	Adjustable	Total
	(In thousands)		
Residential real estate mortgage loans:			
One- to four-family	\$ 262,840	\$ 49,225	\$ 312,065
Home equity loans and lines of credit	9,765	57,171	66,936
Commercial real estate loans	19,021	132,181	151,202
Commercial business loans	5,105	8,100	13,205
SBA loans	2,198	33,593	35,791
Commercial construction loans			
Consumer loans	393		393
Total loans	\$ 299,322	\$ 280,270	\$ 579,592

One- to Four-Family Residential Real Estate Lending. At December 31, 2017, we had \$312.1 million of loans secured by one- to four-family residential real estate, representing 50.9% of our total loan portfolio. In addition, at December 31, 2017, we had \$11.1 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, 2017, 83.6% of our one- to four-family residential real estate loans were fixed-rate loans, and 16.4% of such loans were adjustable-rate loans. At December 31, 2017 and 2016, \$96.8 million and \$67.5 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, VA, 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, 2017 was generally \$424,100 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, 2017 and 2016, proceeds from the sale of one- to four-family residential real estate loans held for sale were \$228.3 million and \$219.0 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

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30 year terms and maximum loan-to-value ratios of 95%. At December 31, 2017, we had \$236.4 million in jumbo loans, which represented 75.8% of our one- to four-family residential real estate loans. Our average loan size for jumbo loans was \$603,000 at December 31, 2017. 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 97%. 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 \$47.3 million and \$37.0 million at December 31, 2017 and 2016, respectively or 15.1% and 14.8% of one- to four-family mortgage loans, and have an average loan-to-value ratio of 85% at December 31, 2017 and 2016. Of the \$47.3 million in residential loans with a greater than 80% LTV ratio at December 31, 2017, \$32.0 million or 66.4% are jumbo loans. During the year ended December 31, 2017, we originated \$18.6 million of one- to four-family loans with a greater than 80% loan-to-value ratio with no PMI at an average loan-to-value ratio of 89%. During the year ended December 31, 2016, we originated \$9.7 million of one- to four-family 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, 2017 included \$1.3 million, or 2.7% 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 until five to seven 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, 2017, we had \$2.1 million in stated income loans, or 0.7% of our one- to four-family residential real estate loan portfolio, of which \$347,000 was non-performing loans and \$525,000 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 38.0% of the \$2.1 million in stated income loans were made to borrowers who had existing commercial relationships and financial information on file with us.

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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 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 \$7.0 million. At December 31, 2017, we had \$156.0 million in commercial real estate loans, representing 25.5% 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, 2017, we had \$66.7 million of non-owner occupied commercial real estate loans, with an average loan size of \$429,000.

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, 2017, we had \$16.5 million in SBA 504 loans, or 10.6% of our commercial real estate loans.

At December 31, 2017, the average loan size of our outstanding commercial real estate loans was \$416,000, and the largest of such loans was a \$5.7 million loan which is primarily secured by five properties located in Providence, Rhode Island, three of which are multi-family and are non-owner occupied. This loan was performing in accordance with its original terms at December 31, 2017. The Bank's total relationship of commercial real estate loans with this borrower was \$7.8 million at December 31, 2017.

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

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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, 2017, we had \$71.8 million, or 11.7% of our total loan portfolio in home equity loans and lines of credit. Home equity lines of credit totaled \$62.0 million at December 31, 2017. At that date we also had \$58.3 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, 2017, \$39.6 million of our home equity loans and lines of credit were in a junior lien position, with an average loan size of \$39,000. 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, 2017, we had \$41.0 million of SBA loans, representing 6.7% 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.

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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, 2017, 2016, 2015, 2014 and 2013, we originated \$6.9 million, \$9.7 million, \$6.7 million, \$12.9 million and \$5.8 million, respectively of loans under the 7(a) program. 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 2017, 2016 and 2014. Our largest SBA loan at December 31, 2017 had a balance of \$4.5 million, is secured by a hotel in Danvers, Massachusetts and has a 32% guarantee by the SBA for \$1.4 million. The loan is performing in accordance with its terms at December 31, 2017.

Commercial Business Lending. At December 31, 2017, we had \$17.2 million of commercial business loans and lines of credit, representing 2.8% 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, 2017, the average loan size of our outstanding commercial business loans and lines of credit was \$181,000, and the largest outstanding commercial loan relationship balance was a \$3.6 million loan secured by business assets of a shipyard. This loan was performing in accordance with its original terms at December 31, 2017.

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, 2017, we had \$13.6 million, or 2.2% 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 are initially priced on an adjustable-rate basis tied to the prime rate and upon conversion to a permanent loan, rates and terms are 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

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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, 2017, the unadvanced portion of total construction loans totaled \$7.4 million. At December 31, 2017, our largest construction loan relationship had a balance of \$3.0 million to construct 28 industrial/commercial condominiums in East Greenwich, 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, 2017, our consumer loan portfolio totaled \$1.2 million, or 0.2% of our total loan portfolio. At this date, \$224,000 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

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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 2017 and 2016. For the years ended December 31, 2017 and 2016, proceeds from the sale of residential one- to four-family real estate loans were \$228.3 million and \$219.0 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, 2017, we had eight loans totaling \$13.1 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.

We purchased \$43.8 million, \$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 \$44.4 million, \$17.8 million, \$57.4 million and \$12.1 million during the years ended December 31, 2017, 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, Senior 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

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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.

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.

	30 - 59 Days		60 - 89 Days		Loans Delinquent For 90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
At December 31, 2017:								
Residential real estate mortgage loans:								
One- to four-family	20	\$ 4,337	1	\$ 237	4	\$ 531	25	\$ 5,105
Home equity loans and lines of credit	11	611	3	100	4	132	18	843
Commercial real estate loans	7	1,404	1	376	1	254	9	2,034
Commercial business loans			1	32			1	32
SBA loans	13	1,079	3	179	4	281	20	1,539
Commercial construction loans								
Consumer loans	1	11					1	11
Total	52	\$ 7,442	9	\$ 924	13	\$ 1,198	74	\$ 9,564
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

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At December 31, 2014:							
Residential real estate mortgage loans:							
One- to four-family	\$	3	\$	580	9	\$	2,438
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

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At December 31, 2017, of the \$1.5 million of delinquent SBA loans, guaranteed portions amounted to \$1.1 million. Commercial real estate loans 30-59 days totaled \$1.4 million at December 31, 2017, of which the largest loan totaling \$759,000 became current subsequent to year end.

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 \$83,000 to \$4.7 million, but improved to 0.77% of total loans, at December 31, 2017 from \$4.7 million, or 0.89% of total loans, at December 31, 2016. The increase in non-performing loans was due to a \$506,000 increase in non-performing SBA loans to \$524,000 at December 31, 2017, of which guaranteed portions amounted to \$276,000. Partially offsetting the increase in SBA non-performing loans, was a \$277,000 decrease in non-performing one- to four-family residential real estate loans, and a \$162,000 decrease in non-performing home equity loans and lines. The improvement in the non-performing loan to total loan ratio was principally due to loan growth in 2017. Non-performing loans increased \$413,000 to \$4.7 million at December 31, 2016 from \$4.2 million at December 31, 2015 due to a \$594,000 increase in non-performing one- to four-family residential loans and a \$269,000 increase in home equity loans and lines, partially offset by a \$449,000 decrease in non-performing SBA loans.

Non-performing one- to four-family residential real estate loans totaled \$3.4 million at December 31, 2017 and consisted of 13 loans of which the largest was \$735,000. Non-performing home equity loans and lines of credit totaled \$573,000 at December 31, 2017, 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, 2017.

Loans on non-accrual status at the date of modification are initially classified as non-accrual troubled debt restructurings. At December 31, 2017, we had \$2.8 million in non-accruing troubled debt restructurings ("TDRs"). At December 31, 2016, we had \$2.6 million in non-accruing 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, 2017, 2016 and 2015, we had \$5.4 million, \$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 collateral for this loan was foreclosed upon during the year ended December 31, 2017 and is now

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included in foreclosed real estate which is the primary reason for the decrease in accruing TDRs for the year ended December 31, 2017. As of December 31, 2017, six loans totaling \$4.8 million that were modified as troubled debt restructurings within the previous twelve months defaulted after their restructure, \$4.0 million of which was transferred to foreclosed real estate.

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,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Nonaccrual loans:					
Residential real estate mortgage loans:					
One- to four-family	\$ 1,571	\$ 1,629	\$ 193	\$ 1,642	\$ 1,913
Home equity loans and lines of credit	86	316	329	277	134
Commercial real estate loans		130	130		
Commercial business loans					
SBA loans	274	18	467	144	868
Commercial construction loans					
Consumer loans					3
Total nonaccrual loans	1,931	2,093	1,119	2,063	2,918
Non-accruing troubled debt restructured loans:					
Residential real estate mortgage loans:					
One- to four-family	1,814	2,033	2,875	4,229	2,877
Home equity loans and lines of credit	487	419	137	92	24
Commercial real estate loans	254	108	109		
Commercial business loans					
SBA loans	250			60	640
Commercial construction loans					
Consumer loans					
Total non-accruing troubled debt restructured loans	2,805	2,560	3,121	4,381	3,541
Total nonperforming loans	4,736	4,653	4,240	6,444	6,459
Foreclosed real estate:					
One- to four-family			463	1,035	1,580
Home equity loans and lines of credit					
Commercial real estate loans	4,223				
Commercial business loans					
SBA loans		422	247	250	
Commercial construction loans					
Consumer loans					
Total foreclosed real estate	4,223	422	710	1,285	1,580
Total nonperforming assets	\$ 8,959	\$ 5,075	\$ 4,950	\$ 7,729	\$ 8,039
Total accruing troubled debt restructured loans	\$ 5,405	\$ 8,316	\$ 3,465	\$ 2,850	\$ 3,112
Ratios:					
Nonperforming loans to total loans	0.77%	0.89%	0.91%	1.68%	1.97%
Nonperforming assets to total assets	1.21%	0.79%	0.88%	1.66%	1.86%

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On February 20, 2018, the Bank entered into a Purchase & Sale Agreement to sell the \$4.2 million in foreclosed real estate for \$4.4 million noted above. The sale is expected to close in the second quarter of 2018. 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, 2017 and 2016. For the years ended December 31, 2017 and 2016, gross interest income which would have been recorded had the non-performing loans been current in accordance with their original terms amounted to \$182,000 and \$203,000, respectively. The amount that was included in interest income on such loans totaled \$179,000 and \$135,000 for the years ended December 31, 2017 and 2016, 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, 2017, one loan totaling \$4.0 million was transferred into foreclosed real estate and is comprised of real estate securing a former commercial loan located in Newport, Rhode Island. On February 20, 2018, the Bank entered into a Purchase & Sale Agreement to sell the foreclosed real estate for \$4.4 million. The sale is expected to close in the second quarter of 2018. 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.

Other Loans of Concern. There were no other loans at December 31, 2017 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

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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 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,		
	2017	2016	2015
	(In thousands)		
Special mention	\$ 76	\$ 2,004	\$ 1,325
Substandard	5,632	5,800	3,664
Doubtful			
Loss			
Total classified and special mention loans	\$ 5,708	\$ 7,804	\$ 4,989

Classified and special mention loans at December 31, 2017 decreased \$2.1 million from December 31, 2016. Special mention loans decreased \$1.9 million from December 31, 2016. Five loans totaling \$829,000 were upgraded to pass rated loans that were previously classified as "special mention", two loans totaling \$115,000 were paid off, and two loans totaling \$864,000 were downgraded to "substandard" during 2017. One loan totaling \$76,000 was downgraded to "special mention" in 2017. "Substandard" loans decreased \$162,000 from December 31, 2016 due to the transfer of one commercial real estate loan totaling \$4.0 million to foreclosed real estate, and the payoff of two commercial real estate loans totaling \$692,000, partially offset by the downgrade of three performing loans to one borrower totaling \$3.1 million primarily due to operating losses; the downgrade of three loans totaling \$761,000 to one borrower due to closure of the related business; the downgrade of \$864,000 of loans from "special mention" to "substandard", and the downgrade of one other loan

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totaling \$250,000. The commercial real estate loan totaling \$4.0 million that was transferred to foreclosed real estate in September 2017, had been downgraded to "substandard" during the year ended December 31, 2016 based upon tax liens and a modification of the loan's maturity date. 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. At December 31, 2017 and 2016, special mention and substandard loans included \$2.0 million and \$2.5 million of SBA loans, of which \$1.2 million and \$1.8 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 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.

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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.

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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,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Balance at beginning of year	\$ 2,493	\$ 2,194	\$ 1,942	\$ 1,656	\$ 1,569
Charge-offs:					
Residential real estate mortgage loans:					
One- to four-family	(6)	(95)	(139)	(112)	(94)
Home equity loans and lines of credit	(22)	(78)	(128)	(129)	(424)
Commercial real estate loans					
Commercial business loans					
SBA loans	(13)	(42)	(27)	(34)	(33)
Commercial construction loans					
Consumer loans		(1)	(6)	(3)	(15)
Total charge-offs	(41)	(216)	(300)	(278)	(566)
Recoveries:					
Residential real estate mortgage loans:					
One- to four-family	6	5	11	82	15
Home equity loans and lines of credit	4	11	16	24	12
Commercial real estate loans					
Commercial business loans					
SBA loans	6	9	16	5	43
Commercial construction loans					
Consumer loans	17	15	13	21	16
Total recoveries	33	40	56	132	86
Net (charge-offs) recoveries	(8)	(176)	(244)	(146)	(480)
Provision for loan losses	435	475	496	432	567
Balance at end of year	\$ 2,920	\$ 2,493	\$ 2,194	\$ 1,942	\$ 1,656

Ratios:

Net charge-offs to average loans outstanding	0.00%	0.03%	0.06%	0.04%	0.15%
Allowance for loan losses to nonperforming loans at end of year	61.66%	53.58%	51.75%	30.14%	25.64%
Allowance for loan losses to total loans at end of year	0.48%	0.48%	0.47%	0.51%	0.50%

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

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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,				
	2017		2016	
	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	\$ 1,257	50.92%	\$ 1,009	46.46%
Home equity loans and lines of credit	489	11.72	541	14.54
Commercial real estate loans	776	25.46	596	26.52
Commercial business loans	83	2.80	60	2.54
SBA loans	239	6.69	228	7.63
Commercial construction loans	70	2.21	51	2.09
Consumer loans	6	0.20	8	0.22
Total allowance	\$ 2,920	100.00%	\$ 2,493	100.00%

At December 31,				
	2015		2014	
	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	\$ 863	44.84%	\$ 654	34.99%
Home equity loans and lines of credit	525	16.51	584	20.82
Commercial real estate loans	503	27.02	400	28.19
Commercial business loans	39	1.92	28	2.01
SBA loans	234	8.42	236	11.49
Commercial construction loans	21	1.02	30	2.14
Consumer loans	9	0.27	10	0.36
Total allowance	\$ 2,194	100.00%	\$ 1,942	100.00%

At December 31, 2013		
	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	\$ 462	29.92%
Home equity loans and lines of credit	605	25.39

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Commercial real estate loans	321	27.91
Commercial business loans	29	2.53
SBA loans	197	11.58
Commercial construction loans	24	2.16
Consumer loans	18	0.51
Total allowance	\$ 1,656	100.00%

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At December 31, 2017 and 2016, our allowance for loan losses represented 0.48% and 0.48% of total loans and 61.66% and 53.58% of non-performing loans. At December 31, 2015, our allowance for loan losses represented 0.47% of total loans 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 \$8,000, \$176,000, \$244,000, \$146,000, and \$480,000 in net loan charge-offs during the years ended December 31, 2017, 2016, 2015, 2014, and 2013, 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.

At December 31, 2017, 2016 and 2015, 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

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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, 2017, we had \$39.2 million in certificates of deposit at a weighted average interest rate of 1.62% obtained through a national on-line service ("national market"), representing 8.2% of total deposits. 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, 2017, our core deposits, which are deposits other than certificates of deposit, were \$313.6 million, representing 65.8% 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.

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,							
	2017				2016			
	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	\$ 107,280	\$ 116,888	24.51%	%	97,563	\$ 106,962	23.91%	%
Money market accounts	75,184	85,575	17.94	0.54	69,475	70,462	15.75	0.43
Savings accounts and interest-bearing checking	106,541	109,664	22.99	0.09	100,545	105,675	23.63	0.09
Club accounts	1,483	1,509	0.32	0.10	1,474	1,331	0.30	0.10
Total transaction accounts	290,488	313,636	65.76	0.18	269,057	284,430	63.59	0.14
Certificates of deposit	164,916	163,320	34.24	1.61	119,321	162,884	36.41	1.49
Total deposits	\$ 455,404	\$ 476,956	100.00%	0.67	\$ 388,378	\$ 447,314	100.00%	0.63

	At or For the Year Ended December 31, 2015			
	Average Balance	Balance	Percent of Balance	Weighted Average Rate
(Dollars in thousands)				
Non-interest-bearing demand deposit accounts	\$ 81,364	\$ 95,960	25.69%	%
Money market accounts	67,485	69,036	18.48	0.42
Savings accounts and interest-bearing checking	93,098	98,133	26.28	0.09
Club accounts	1,538	1,352	0.36	0.10
Total transaction accounts	243,485	264,481	70.81	0.14
Certificates of deposit	113,204	109,038	29.19	1.41
Total deposits	\$ 356,689	\$ 373,519	100.00%	0.51

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The following table sets forth the amount and maturities of certificates of deposit.

	At December 31, 2017					Total	Percentage of Total Certificate Accounts
	Less Than One Year	Over One Year to Two Years	Over Two Years to Three Years	Over Three Years			
	(Dollars in thousands)						
Interest Rate:							
Less than 0.50%	\$ 15,474	\$ 395	\$ 81	\$	\$ 15,950	9.77%	
0.51% - 1.00%	9,593	4,035	962	2	14,592	8.93	
1.01% - 2.00%	35,758	12,281	5,412	9,942	63,393	38.82	
2.01% - 3.00%	847	178	10,510	57,850	69,385	42.48	
Total	\$ 61,672	\$ 16,889	\$ 16,965	\$ 67,794	\$ 163,320	100.00%	

As of December 31, 2017, the aggregate amount of our outstanding certificates of deposit in amounts greater than or equal to \$100,000 was \$95.9 million. The following table sets forth the maturity of these certificates as of December 31, 2017.

At December 31, 2017	
(In thousands)	
Three months or less	\$ 5,629
Over three months through six months	3,686
Over six months through one year	31,673
Over one year	54,882
Total	\$ 95,870

The following table sets forth the certificates of deposit in Coastway Community Bank classified by interest rate as of the dates indicated.

Interest Rate:	At December 31,		
	2017	2016	2015
	(In thousands)		
Less than 0.50%	\$ 15,950	\$ 20,196	\$ 28,032
0.51% - 1.00%	14,592	15,453	17,107
1.01% - 2.00%	63,393	76,998	35,235
2.01% - 3.00%	69,385	50,237	28,664
Total	\$ 163,320	\$ 162,884	\$ 109,038

Borrowed Funds. We may obtain advances from the Federal Home Loan Bank of Boston upon the security of our capital stock in the Federal Home Loan Bank of Boston and certain of our mortgage loans. Such advances may be made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. To the extent such borrowings have different terms to re-pricing than our deposits, they can change our interest rate risk profile. At December 31, 2017, we had \$181.7 million in outstanding advances from the Federal Home Loan Bank of Boston. Borrowed funds at December 31, 2017 were comprised of \$179.9 million in short-term advances at a weighted average rate of 1.49% and one long-term advance of \$1.8 million which matures in September 2021 at no cost as the advance was made under the FHLB's Jobs for New England Program. At December 31, 2017, based on available collateral and our ownership of Federal Home Loan Bank of

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Boston stock, we had access to additional Federal Home Loan Bank of Boston advances of up to \$60.8 million.

The following table sets forth information concerning balances and interest rates on our borrowings at the date and for the years indicated.

	At or For the Years ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Federal Home Loan Bank of Boston Advances:			
Balance at end of year	\$ 181,675	\$ 121,250	\$ 115,500
Average balance during year	134,433	135,523	68,472
Maximum outstanding at any month end	181,675	166,050	115,500
Weighted average interest rate at end of year	1.48%	0.74%	0.44%
Average interest rate during year	1.13%	0.50%	0.28%
Subsidiary and Other Activities			

Following completion of the conversion, Coastway Community Bank became the wholly owned subsidiary of Coastway Bancorp, Inc. Coastway Community Bank has no subsidiaries. Coastway Community Bank offers various lines of insurance, including commercial, property and casualty through a joint venture with an insurance agency.

Personnel

As of December 31, 2017, we had 148 employees, all of which were full-time employees. Our employees are not represented by any collective bargaining group. Management believes that we have a good working relationship with our employees.

SUPERVISION AND REGULATION

General

Coastway Community Bank is a Rhode Island-chartered stock savings bank that became the wholly-owned subsidiary of Coastway Bancorp, Inc., a Maryland corporation following completion of the mutual to stock conversion. Coastway Community Bank's deposits are insured up to applicable limits by the FDIC. Coastway Community Bank is subject to extensive regulation by the Rhode Island Department of Business Regulation, as its chartering agency, and by the FDIC, its primary federal regulator and deposit insurer. Coastway Community Bank is required to file reports with, and is periodically examined by, the FDIC and the Rhode Island Department of Business Regulation concerning its activities and financial condition and must obtain regulatory approvals prior to entering into certain transactions, including, but not limited to, mergers with or acquisitions of other financial institutions. As a registered bank holding company, Coastway Bancorp, Inc. is regulated by the Federal Reserve Board.

The regulatory and supervisory structure establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of depositors and the deposit insurance fund, rather than for the protection of stockholders and creditors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies concerning the establishment of deposit insurance assessment fees, classification of assets and establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the Rhode Island legislature, the Rhode Island Department of Business Regulation, the FDIC, the

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Federal Reserve Board or the United States Congress, could have a material adverse impact on the financial condition and results of operations of Coastway Bancorp, Inc. and Coastway Community Bank. As is further described below, the Dodd-Frank Act has significantly changed the bank regulatory structure and may affect the lending, investment and general operating activities of depository institutions and their holding companies.

Set forth below is a summary of certain material statutory and regulatory requirements applicable to Coastway Bancorp, Inc. and Coastway Community Bank. The summary is not intended to be a complete description of such statutes and regulations and their effects on Coastway Bancorp, Inc. and Coastway Community Bank.

The Dodd-Frank Act

The Dodd-Frank Act significantly changed bank regulation and has affected the lending, investment, trading and operating activities of depository institutions and their holding companies. The Dodd-Frank Act also created a new Consumer Financial Protection Bureau with extensive powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau also has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks and savings institutions with \$10 billion or less in assets, such as Coastway Community Bank, will continue to be examined by their applicable federal bank regulators. The Dodd-Frank Act required the Consumer Financial Protection Bureau to issue regulations requiring lenders to make a reasonable good faith determination as to a prospective borrower's ability to repay a residential mortgage loan. The final "Ability to Repay" rules, which were effective beginning January 2014, established a "qualified mortgage" safe harbor for loans whose terms and features are deemed to make the loan less risky. In addition, on October 3, 2015, the new TILA-RESPA Integrated Disclosure (TRID) rules for mortgage closings took effect for new loan applications. In 2017, the Consumer Financial Protection Bureau amended the TILA-RESPA rule with an effective date of October 1, 2018.

The Dodd-Frank Act broadened the base for FDIC assessments for deposit insurance, permanently increased the maximum amount of deposit insurance to \$250,000 per depositor. The legislation also, among other things, requires originators of certain securitized loans to retain a portion of the credit risk, stipulates regulatory rate-setting for certain debit card interchange fees, repealed restrictions on the payment of interest on commercial demand deposits and contains a number of reforms related to mortgage originations. The Dodd-Frank Act increased the ability of stockholders to influence boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments. However, as an "emerging growth company" under the JOBS Act, we are exempt from the stockholder vote requirement until one year after we cease to be an "emerging growth company." The legislation also directed the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to company executives, regardless of whether the company is publicly traded or not. The Dodd-Frank Act also gave state attorneys general the ability to enforce applicable federal consumer protection laws.

Rhode Island Banking Laws and Supervision

General. As a Rhode Island-chartered stock savings bank, Coastway Community Bank is subject to supervision, regulation and examination by the Rhode Island Department of Business Regulation and to various Rhode Island statutes and regulations that govern, among other things, investment powers, lending and deposit-taking activities, borrowings, maintenance of surplus and reserve accounts, distribution of earnings and payment of dividends. In addition, a Rhode Island-chartered savings bank may exercise any power authorized for federal savings banks or national banks. The approval of the

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Rhode Island Department of Business Regulation is required for a Rhode Island-chartered bank to establish or relocate branches, merge with other financial institutions, issue stock and undertake certain other activities.

Loans to One Borrower Limitations. Rhode Island banking law grants broad lending authority. However, with certain limited exceptions, total obligations to one borrower may not exceed 15 percent of the total of the bank's unimpaired capital as defined under Rhode Island law.

Investment Activities. In general, Rhode Island-chartered savings banks may invest in any bonds, obligations or real or personal property as it may deem prudent, subject to any restrictions or limitations imposed by Rhode Island law.

Regulatory Enforcement Authority. Any Rhode Island savings bank that does not operate in accordance with the regulations, policies and directives of the Rhode Island Department of Business Regulation may be subject to sanctions for non-compliance, including revocation of its charter. The Rhode Island Department of Business Regulation may, under certain circumstances, suspend or remove officers or directors who have violated the law, conducted the bank's business in an unsafe or unsound manner or contrary to the depositors interests or been negligent in the performance of their duties. Upon finding that a bank has engaged in an unfair or deceptive act or practice, the Rhode Island Department of Business Regulation may issue an order to cease and desist and impose a fine on the bank concerned. The Director also has authority to take possession of a bank and appoint a liquidating agent under certain conditions such as an unsafe and unsound condition to transact business, the conduct of business in an unsafe or unauthorized manner of impaired capital.

Federal Regulations

Capital Requirements. Federal regulations require FDIC-insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8%, and a 4% Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019. At December 31, 2017, the minimum capital standards inclusive of the capital conservation buffer are: total capital of 8.625%, Tier I capital of 6.625% and common equity Tier I of 5.125%. For 2018, the capital conservation buffer is 1.875% of risk-weighted assets.

For purposes of the regulatory capital requirements, common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions such as Coastway Community Bank,

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that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one to four-family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In assessing an institution's capital adequacy, the FDIC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary.

At December 31, 2017, Coastway Community Bank was classified as well-capitalized.

Standards for Safety and Soundness. As required by statute, the federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement safety and soundness standards. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit system, credit underwriting, loan documentation, interest rate exposure, asset growth, asset quality, earnings, compensation, fees and benefits and, more recently, safeguarding customer information. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard.

Business and Investment Activities. Under federal law, all state-chartered FDIC-insured banks, including savings banks, have been limited in their activities as principal and in their equity investments to the type and the amount authorized for national banks, notwithstanding state law. Federal law permits exceptions to these limitations. For example, certain state-chartered savings banks may, with FDIC approval, continue to exercise state authority to invest in common or preferred stocks listed on a national securities exchange and in the shares of an investment company registered under the Investment Company Act of 1940, as amended. The maximum permissible investment is the lesser of 100.0% of Tier 1 capital or the maximum amount permitted by Rhode Island law.

The FDIC is also authorized to permit state banks to engage in state authorized activities or investments not permissible for national banks (other than non-subsidary equity investments) if they meet all applicable capital requirements and it is determined that such activities or investments do not pose a significant risk to the FDIC insurance fund. The FDIC has adopted regulations governing the procedures for institutions seeking approval to engage in such activities or investments. The Gramm-Leach-Bliley Act of 1999 specified that a state bank may control a subsidiary that engages in activities as principal that would only be permitted for a national bank to conduct in a "financial subsidiary," if a bank meets specified conditions and deducts its investment in the subsidiary for regulatory capital purposes.

Prompt Corrective Regulatory Action. Federal law requires, among other things, that federal bank regulatory authorities take "prompt corrective action" with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

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The applicable FDIC regulations were amended to incorporate the previously mentioned increased regulatory capital standards that were effective January 1, 2015. Under the amended regulations, an institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

"Undercapitalized" banks must adhere to growth, capital distribution (including dividend) and other limitations and are required to submit a capital restoration plan. A bank's compliance with such a plan must be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5% of the institution's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an "undercapitalized" bank fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" banks must comply with one or more of a number of additional measures, including, but not limited to, a required sale of sufficient voting stock to become adequately capitalized, a requirement to reduce total assets, cessation of taking deposits from correspondent banks, the dismissal of directors or officers and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. "Critically undercapitalized" institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

Transactions with Related Parties. Transactions between a bank (and, generally, its subsidiaries) and its related parties or affiliates are limited by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company and any companies which are controlled by such parent holding company are affiliates of the bank. Generally, Sections 23A and 23B of the Federal Reserve Act limit the extent to which the bank or its subsidiaries may engage in "covered transactions" with any one affiliate to 10% of such institution's capital stock and surplus and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such institution's capital stock and surplus. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar transactions. In addition, loans or other extensions of credit by the institution to the affiliate are required to be collateralized in accordance with specified requirements. The law also requires that affiliate transactions be on terms and conditions that are substantially the same, or at least as favorable to the institution, as those provided to non-affiliates.

Coastway Community Bank's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions generally require that extensions of credit to insiders:

be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated

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persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and

not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Coastway Community Bank's capital.

In addition, extensions of credit in excess of certain limits must be approved by Coastway Community Bank's board of directors. Extensions of credit to executive officers are subject to additional limits based on the type of extension involved.

Enforcement. The FDIC has extensive enforcement authority over insured state savings banks, including Coastway Community Bank. That enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices. The FDIC also has authority under federal law to appoint a conservator or receiver for an insured bank under certain circumstances. The FDIC is required, with certain exceptions, to appoint a receiver or conservator for an insured state non-member bank if that bank was "critically undercapitalized" on average during the calendar quarter beginning 270 days after the date on which the institution became "critically undercapitalized."

Federal Insurance of Deposit Accounts. The Dodd-Frank Act permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of \$10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC and the FDIC has exercised that discretion by establishing a long-term fund ratio of 2%.

Under the FDIC's risk-based assessment system, insured institutions were assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other risk factors. Rates are based on each institution's risk category and certain specified risk adjustments. Stronger institutions pay lower rates while riskier institutions pay higher rates. Assessments were based on an institution's average consolidated total assets minus average tangible equity, with the assessment rate schedule ranging from 2.5 to 45 basis points.

Effective July 1, 2016, the FDIC adopted changes that eliminated the risk categories. Assessments for most institutions are now based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years. In conjunction with the Deposit Insurance Fund reserve ratio achieving 1.5% the assessment range (inclusive of possible adjustments) was reduced for most banks and savings associations to 1.5 basis points to 30 basis points.

In addition to the FDIC assessments, the Financing Corporation ("FICO") is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO began to mature in 2017 and will continue to mature through 2019. For the quarter ended December 31, 2017, the annualized Financing Corporation assessment was equal to 0.54 of a basis point of total average assets less average tangible capital.

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of Coastway Community Bank. Management cannot predict what assessment rates will be in the future.

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Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

Community Reinvestment Act. Under the Community Reinvestment Act ("CRA"), a bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA does require the FDIC, in connection with its examination of a bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution, including applications to establish or acquire branches and merger with other depository institutions. The CRA requires the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. Coastway Community Bank's latest FDIC CRA rating, dated 2017, was "outstanding."

Federal Reserve System. The Federal Reserve Board regulations require savings institutions to maintain non-interest-earning reserves against their transaction accounts (primarily negotiable order of withdrawal (NOW) and regular checking accounts). The regulations generally provide that reserves be maintained against aggregate transaction accounts as follows as of January 1, 2018: a 3% reserve ratio is assessed on net transaction accounts up to and including \$115.1 million; a 10% reserve ratio is applied above \$115.1 million. The first \$15.5 million of otherwise reservable balances are exempted from the reserve requirements. The amounts are adjusted annually. Coastway Community Bank complies with the foregoing requirements.

Federal Home Loan Bank System. Coastway Community Bank is a member of the Federal Home Loan Bank System, which consists of twelve regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the Federal Home Loan Bank of Boston, Coastway Community Bank is required to acquire and hold a specified amount of shares of capital stock in the Federal Home Loan Bank of Boston. As of December 31, 2017, Coastway Community Bank was in compliance with this requirement.

Other Regulations

Interest and other charges collected or contracted for by Coastway Community Bank are subject to state usury laws and federal laws concerning interest rates. Coastway Community Bank's operations are also subject to federal laws applicable to credit transactions, such as the:

Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;

Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one- to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;

Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

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Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;

Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;

Truth in Savings Act governing disclosures of terms and conditions regarding interest and fees when giving out information on or opening a new savings account; and

Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of Coastway Community Bank also are subject to the:

Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;

Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;

USA PATRIOT Act, which requires savings banks operating to, among other things, establish broadened anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and

Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

Holding Company Regulation

Coastway Bancorp, Inc., as a bank holding company is subject to examination, regulation, and periodic reporting under the Bank Holding Company Act of 1956, as amended, as administered by the Federal Reserve Board. Coastway Bancorp, Inc. is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval would be required for Coastway Bancorp, Inc. to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if it would, directly or indirectly, own or control more than 5% of any class of voting shares of the bank or bank holding company.

A bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board

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to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the Federal Reserve Board has determined by regulation to be closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing securities brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property under certain conditions; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings association.

The Gramm-Leach-Bliley Act of 1999 authorizes a bank holding company that meets specified conditions, including depository institutions subsidiaries that are "well capitalized" and "well managed," to opt to become a "financial holding company." A "financial holding company" may engage in a broader array of financial activities than permitted a typical bank holding company. Such activities can include insurance underwriting and investment banking. Coastway Bancorp, Inc. has elected "financial holding company" status.

In December 2014, legislation was passed by Congress that required the Federal Reserve to revise its "Small Bank Holding Company Policy Statement" to exempt bank and savings and loan holding companies of less than \$1.0 billion of consolidated assets from the consolidated capital requirements, provided that such companies meet certain other conditions such as not engaging in significant nonbanking activities. The Federal Reserve maintains authority to apply the consolidated capital requirements to any bank of savings and loan holding company as warranted for supervisory purposes. On April 9, 2015, the Board of Governors of the Federal Reserve System issued the Final Rule to implement Public Law 113-250 enacted on December 18, 2014 that updates the Small Bank Holding Company Policy Statement ("Policy Statement"), which became effective in May 2015. Pursuant to the Policy Statement, capital rules and reporting requirements will not apply to the small bank holding companies (defined as less than \$1.0 billion in assets) which meet the following criteria: (1) not engaged in significant non-bank activities; (2) no significant off-balance sheet activities conducted through a non-bank subsidiary, and (3) no material amount of SEC registered debt or equity securities outstanding (other than trust preferred). The Bank will still be subject to the capital rules and reporting requirements, though the Company will be exempt.

A bank holding company is generally required to give the Federal Reserve Board prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. The Federal Reserve Board has adopted an exception to that approval requirement for well-capitalized bank holding companies that meet certain other conditions.

The Federal Reserve Board has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve Board's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. The Federal Reserve Board's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by using available resources to provide capital funds during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. The Dodd-Frank Act codified the source of strength policy and requires the promulgation of implementing regulations. Under the prompt corrective action laws, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These

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regulatory policies could affect the ability of Coastway Bancorp, Inc. to pay dividends or otherwise engage in capital distributions.

The Federal Deposit Insurance Act makes depository institutions liable to the FDIC for losses suffered or anticipated by the insurance fund in connection with the default of a commonly controlled depository institution or any assistance provided by the FDIC to such an institution in danger of default. That law would have potential applicability if Coastway Bancorp, Inc. ever held as a separate subsidiary a depository institution in addition to Coastway Community Bank.

Coastway Bancorp, Inc. and Coastway Community Bank will be affected by the monetary and fiscal policies of various agencies of the United States Government, including the Federal Reserve System. In view of changing conditions in the national economy and in the money markets, it is impossible for management to accurately predict future changes in monetary policy or the effect of such changes on the business or financial condition of Coastway Bancorp, Inc. or Coastway Community Bank.

Coastway Bancorp, Inc.'s status as a registered bank holding company under the Bank Holding Company Act will not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

Rhode Island Holding Company Regulation. Coastway Bancorp, Inc. is subject to the regulation and supervision of the Rhode Island Department of Business Regulation. It is subject to periodic examination by the department.

Federal Securities Laws

Our common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. We are subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of shares of the Company's common stock issued in the stock offering does not cover the resale of those shares. Shares of common stock purchased by persons who are not our affiliates may be resold without registration. Shares purchased by our affiliates are subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If we meet the current public information requirements of Rule 144 under the Securities Act of 1933, each affiliate of ours that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of our outstanding shares, or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, we may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

Emerging Growth Company Status

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act made numerous changes to the federal securities laws to facilitate access to capital markets. Under the JOBS Act, a company with total annual gross revenues of less than \$1.0 billion during its most recently completed fiscal year qualifies as an "emerging growth company." We qualify as an "emerging growth company" and believe that we will continue to qualify as an "emerging growth company" for five years from the completion of the stock offering, or January 14, 2019, or until the earliest of (a) the last day of the first fiscal year in which our annual gross revenues exceed \$1.0 billion, (b) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (c) the

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date on which we have issued more than \$1.0 billion in non-convertible debt during the preceding three-year period.

As an "emerging growth company," we have elected to use the transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards. As of December 31, 2017, there is not a significant difference in the presentation of our financial statements as compared to other public companies as a result of this transition guidance.

Subject to certain conditions set forth in the JOBS Act as an "emerging growth company", we may not be required to, among other things, (i) provide an auditor's attestation report on our system of internal controls over financial reporting, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Act, (iii) hold non-binding stockholder votes regarding annual executive compensation or executive compensation payable in connection with a merger or similar corporate transaction, (iv) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis), and (v) disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the chief executive officer's compensation to median employee compensation. These exemptions will apply for a period of five years following the completion of our initial public offering or until we are no longer an "emerging growth company," whichever is earlier.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the board of directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting. We prepared policies, procedures and systems designed to ensure compliance with these regulations.

Federal Taxation

General. Coastway Bancorp, Inc. and Coastway Community Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize material federal income tax matters and is not a comprehensive description of the tax rules applicable to Coastway Bancorp, Inc. and Coastway Community Bank.

Method of Accounting. For federal income tax purposes, Coastway Community Bank currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31st for filing its consolidated federal income tax returns.

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Minimum Tax. The Internal Revenue Code of 1986, as amended, imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, referred to as "alternative minimum taxable income." The alternative minimum tax is payable to the extent alternative minimum taxable income is in excess of an exemption amount. Net operating losses can, in general, offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax ("AMT") may be used as credits against regular tax liabilities in future years. At December 31, 2017, Coastway Community Bank had no alternative minimum tax credit carryforward. Under the Tax Cuts and Jobs Act, which was signed into law on December 31, 2017, AMT will no longer be imposed, commencing in 2018.

Corporate Dividends. We may exclude from our income 100% of dividends received from Coastway Community Bank as a member of the same affiliated group of corporations.

Audit of Tax Returns. Our federal and state tax returns are not currently under audit, and our federal and state tax returns have not been audited during the past five years. We are no longer subject to examination by federal and state taxing authorities for years prior to the year ended December 31, 2014.

State Taxation

Coastway Bancorp, Inc., and Coastway Community Bank are subject to Rhode Island's corporate income tax, which is imposed at a flat rate of 9% on apportioned "adjusted gross income." "Adjusted gross income," for purposes of the Rhode Island corporate income tax, begins with taxable income as defined by Section 44-11 of the Rhode Island Code, and thus, incorporates federal tax law to the extent that it affects the computation of taxable income. Federal taxable income is then adjusted by several modifications pursuant to Rhode Island tax regulation.

As a Maryland business corporation, Coastway Bancorp, Inc. is required to file an annual report with and pay franchise taxes to the state of Maryland. Coastway Bancorp, Inc. is also subject to an income based tax in the Commonwealth of Massachusetts.

Item 1A. Risk Factors

Our commercial real estate, commercial business loans and commercial construction loans generally carry greater credit risk than loans secured by owner occupied one- to four-family real estate, and these risks will increase if we succeed in our plan to increase these types of loans.

At December 31, 2017, \$173.2 million, or 28.3%, of our loan portfolio consisted of commercial real estate and commercial business loans. Given their larger balances and the complexity of the underlying collateral, commercial real estate and commercial business loans generally expose a lender to greater credit risk than loans secured by owner occupied one- to four-family real estate. Also, many of our borrowers have more than one of these types of loans outstanding. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential real estate loan. These loans also have greater credit risk than residential real estate for the following reasons:

commercial real estate loans repayment is generally dependent on income being generated in amounts sufficient to cover operating expenses and debt service.

commercial business loans repayment is generally dependent upon the successful operation of the borrower's business.

Commercial construction loans repayment is generally dependent on the estimate of value of the property at completion of construction. Upon completion of construction, these loans generally convert to permanent loans.

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If loans that are collateralized by real estate or other business assets become troubled and the value of the collateral has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that we anticipated at the time we originated the loan, which could cause us to increase our provision for loan losses which would in turn adversely affect our operating results and financial condition.

Furthermore, a key component of our strategy is to continue to increase our origination of commercial real estate and commercial business loans to diversify our loan portfolio and increase our yields. The proposed increase in these types of loans significantly increases our exposure to the risks inherent in these types of loans.

We have a high concentration of loans secured by real estate in our market area. Difficult economic conditions, both generally and in our market area, could adversely affect our financial condition and results of operations.

At December 31, 2017, \$357.5 million, or 58.3% of our total loan portfolio, consisted of loans secured by real estate in the state of Rhode Island and \$117.8 million, or 19.2% of our total loan portfolio, consisted of real estate loans in the Commonwealth of Massachusetts. We have relatively few loans outside of our market area, and, as a result, we have a greater risk of loan defaults and losses in the event of weakness and/or a economic downturn in our market area, as adverse economic conditions may have a negative effect on the ability of our borrowers to make timely payments of their loans.

A deterioration in economic conditions or a recession in the market areas we serve could result in the following consequences, any of which could have a material adverse effect on our business, financial condition and results of operations:

loan delinquencies, problem assets and foreclosures may increase;

weak economic conditions may limit the demand for loans by creditworthy borrowers, limiting our capacity to leverage our retail deposits and maintain our net interest income;

the value of the collateral for our loans may decline;

demand for our deposits and services may decline; and

the amount of our low-cost or non-interest-bearing deposits may decrease.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings and capital could decrease.

We are exposed to the risk that our borrowers may default on their obligations. A borrower's default on its obligations under one or more loans may result in lost principal and interest income and increased operating expenses as a result of the allocation of management time and resources to the collection and work-out of the loan. In certain situations, where collection efforts are unsuccessful or acceptable work-out arrangements cannot be reached, we may have to charge-off the loan in whole or in part. In such situations, we may acquire real estate or other assets, if any, that secure the loan through foreclosure or other similar available remedies, and the amount owed under the defaulted loan may exceed the value of the assets acquired.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate other factors including, among other things, current economic conditions. If our assumptions are incorrect, or if delinquencies do not continue to improve or non-accrual and non-performing loans increase, our allowance for loan

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losses may not be sufficient to cover losses inherent in our loan portfolio, which would require additions to our allowance, which could materially decrease our net income.

In addition, bank regulators periodically review our allowance for loan losses and, based on their judgments and information available to them at the time of their review, may require us to increase our allowance for loan losses or recognize further loan charge-offs. An increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may result in a decrease of our net income and, possibly, our capital position, which may have a material adverse effect on our financial condition and results of operations.

Our nonconforming loan portfolio exposes us to increased credit risk.

A significant portion of our one- to four-family residential real estate loans are nonconforming to secondary market requirements, and are therefore not saleable to Fannie Mae, Freddie Mac, Federal Housing Administration ("FHA") or Rhode Island Housing. At December 31, 2017, \$236.4 million, or 75.8%, of our one- to four-family residential loan portfolio consisted of loans that were considered nonconforming because they exceeded the maximum balance allowable for sale (generally \$424,100 for single-family homes in our market area), or jumbo loans. At December 31, 2017, we had three jumbo loans totaling \$1.8 million that are considered impaired loans.

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 97%. 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 \$47.3 million and \$37.0 million at December 31, 2017 and 2016, respectively or 15.1% and 14.8% of one- to four-family mortgage loans, and have an average loan-to-value ratio of 85% at December 31, 2017 and 2016. Of the \$47.3 million in residential loans with a greater than 80% LTV ratio at December 31, 2017, \$32.0 million or 66.4% are jumbo loans. During the year ended December 31, 2017, we originated \$18.6 million of one- to four-family loans with a greater than 80% loan-to-value ratio with no PMI at an average loan-to-value ratio of 89%. During the year ended December 31, 2016, we originated \$9.7 million of one- to four-family 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, 2017 included \$1.3 million, or 2.7% of the loans with a greater than 80% LTV ratio and no PMI.

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, 2017, we had \$2.1 million in stated income loans, or 0.7% of our one- to four-family residential real estate loan portfolio, of which \$347,000 was non-performing loans and \$525,000 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 38.0% of the \$2.1 million in stated income loans were made to borrowers who had existing commercial relationships and financial information on file with us.

Jumbo one- to four-family residential loans have increased risk due to their potential for greater exposure to loss as a result of their larger balances, which cannot be sold to government sponsored enterprises. Loans greater than 80% LTV and no PMI have a greater exposure for losses due to a higher loan balance as compared to their collateral value that is not mitigated by private mortgage insurance. Stated income loans have increased risk due to the lack of income verification applied to such loans which could result in higher rates of default. If our nonconforming one- to four-family

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residential real estate loans do not perform, it will have an adverse effect on our financial condition and results of operations.

Our significant concentration of home equity loans and lines of credit exposes us to increased credit risk.

At December 31, 2017, \$71.8 million, or 11.7%, of our loan portfolio consisted of home equity loans and lines of credit, of which \$39.6 million are in a junior lien position, with an average loan size of \$39,000. Prior economic conditions resulted in declines in real estate values in our market areas from before the Great Recession. These declines in real estate values coupled with the possibility of future declines in real estate values, could cause some of our home equity loans and lines of credit to be inadequately collateralized, which could expose us to a greater risk of loss if we seek to recover on defaulted loans by foreclosing and selling the real estate collateral, or if another lender has priority over us, and we may be unsuccessful in recovering the remaining balance on defaulted loans after the senior liens are satisfied.

Future changes in interest rates could reduce our profits.

The majority of our assets and liabilities are monetary in nature. As a result, our earnings and growth are significantly affected by interest rates, which are subject to the influence of economic conditions generally, both domestic and foreign, to events in the capital markets and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve Board. Changes in interest rates can affect our net interest income as well as the value of our assets and liabilities. Net interest income is the difference between (i) interest income on interest-earning assets, such as loans, and (ii) interest expense on interest-bearing liabilities, such as deposits and borrowed funds. Changes in market interest rates, changes in the relationships between short-term and long-term market interest rates, or the yield curve, or changes in the relationships between different interest rate indices can affect the interest rates charged on interest-earning assets differently than the interest rates paid on interest-bearing liabilities.

Starting in 2015 and continuing into 2017, based on the growth in our residential one- to four-family loan portfolio coupled with the level of short-term borrowed funds, our interest-bearing liabilities may re-price more quickly than our interest-earning assets in an increasing interest rate environment. For the years ended December 31, 2017 and 2016, our net interest margin was 3.16% and 3.31%, respectively. Our net interest income was also impacted by the increase in short-term interest rates, while long-term rates and spreads have not increased to the same degree, causing our interest-bearing liabilities to reprice at a higher increment than our loans. Our asset/liability management committee utilizes a simulation model to provide an analysis of estimated changes in the net present value of equity in various interest rate scenarios. Increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable-rate loans. The Bank may be required to pay higher rates on deposits (including national market certificates of deposit) or other borrowed funds than the Bank is currently paying. Conversely, a reduction in interest rates can result in increased prepayments of loans, as borrowers refinance their debt in order to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans. In addition, we may not be able to lower our cost of funds as quickly as certain loans mature, re-price or are refinanced, which may cause a decline in our net interest margin.

Extension of the duration of interest-bearing liabilities could reduce our profits.

The majority of our borrowed funds mature over short term periods, generally overnight to two months. Interest rates on short-term borrowed funds are lower than long-term advances. Our interest expense has been favorably impacted by the lower funding costs of short-term borrowed funds.

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Increases in market interest rates or changes in the mix of short-term and long-term borrowed funds may increase our cost of funds, which may cause a decline in our net interest margin.

Similarly, the cost of our deposits is impacted by the level of non-maturity deposits and certificates of deposit. The interest rates paid on certificates of deposit are generally higher than non-maturity deposits. At December 31, 2017 and 2016, certificates of deposit totaled \$163.3 million, or 34.2% of deposits and \$162.9 million, or 36.4% of deposits respectively. At December 31, 2017 and 2016, certificates of deposit include \$39.2 million and \$44.4 million of national market certificates at a weighted average rate of 1.62% and 1.48%, respectively.

We increased our levels of national market certificates of deposit in anticipation of an increase in interest rates, to repay borrowed funds and bolster on-balance sheet liquidity. An increase in longer-term national market certificates of deposit as compared to utilizing short-term FHLB advances may increase our cost of funds, which may cause a decline in our net interest margin.

Increase in on-balance sheet liquidity could reduce our profits.

During the year ended December 31, 2017, we increased our on-balance sheet liquidity, with cash and cash equivalents and certificates of deposit totaling \$54.6 million, or 7.4% of consolidated assets from \$44.7 million or 6.9% of consolidated assets at December 31, 2016. Cash and cash equivalents generally earn less interest income than loans. The increase in on-balance sheet liquidity was funded through a combination of organic deposit growth, national market certificates of deposit as well as FHLB advances. Our cost of funds may exceed the yield earned on cash and cash equivalents, which may decrease our net interest income, net interest margin and net income.

Income from secondary mortgage market operations is volatile, and we may incur losses with respect to our secondary mortgage market operations that could negatively affect our earnings.

A key component of our strategy is to increase the extent to which we sell in the secondary market the longer term, conforming fixed-rate residential mortgage loans that we originate, earning non-interest income in the form of gains on sale. When interest rates rise, the demand for mortgage loans tends to fall and may reduce the number of loans we can originate for sale. Weak or deteriorating economic conditions also tend to reduce loan demand. Although we generally originate loans for sale on a "best efforts" basis, and we sell, and intend to continue selling, most loans in the secondary market with limited or no recourse, we are required, and will continue to be required, to give customary representations and warranties to the buyers relating to compliance with applicable law. If we breach those representations and warranties, the buyers will be able to require us to repurchase the loans and we may incur a loss on the repurchase.

The Bank utilizes both best efforts forward loan sale commitments and effective September 1, 2015, also began utilizing mandatory delivery forward loan sale commitments, and To Be Announced ("TBA") Securities, which are sold from approved counterparties to mitigate the risk of potential changes in the values of derivative loan commitments.

For TBAs, the Bank sells a security in the open market with a promise to deliver a pool of loans with an aggregate specified principal amount and quality to the investor at a specified point in the future. If the Bank fails to deliver the pool of loans, the Bank will repurchase the security at the market price on the date of repurchase, which could negatively impact our earnings.

Fair value changes in mortgage banking derivatives and commitments to sell fixed-rate residential mortgages subsequent to inception are estimated using anticipated market prices based on pricing indications provided from syndicate banks and consideration of pull-through and fallout rates derived from the Bank's internal data and adjusted using management judgment. Mortgage banking derivatives include the non-refundable costs of originating the loan based on the Bank's internal cost analysis that

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is not observable. Fluctuations in interest rates may impact estimated pull-through rates on mortgage originations, which in turn may affect the valuation of forward loan sale commitments, and could negatively affect our earnings.

If our foreclosed real estate decline in value, our earnings could be reduced.

We periodically may obtain updated valuations in the form of appraisals and broker price opinions during the holding period of the foreclosed asset. Our net book value, or NBV, is compared to the updated fair value of the foreclosed property less estimated selling costs (fair value). If property values decline, the fair value of our foreclosed real estate may not be sufficient to recover our carrying value in such assets, resulting in the need for additional write-downs. In addition, bank regulators periodically review our foreclosed real estate and may require us to recognize further write-downs. Any increase in write-downs may have a material adverse effect on our financial condition and results of operations.

Strong competition within our market areas may limit our growth and profitability.

Competition in the banking and financial services industry is intense. In our market area, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. The financial services industry could become even more competitive as a result of new legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. These competitors have fewer regulatory constraints and may have lower cost structures.

Some of our competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may choose to price loans and deposits more aggressively than we do, which could affect our ability to grow and remain profitable on a long-term basis. Our profitability depends upon our continued ability to successfully compete in our market area. If we must raise interest rates paid on deposits or lower interest rates charged on our loans, our net interest margin and profitability could be adversely affected.

We depend on our management team to implement our business strategy and we could be harmed by the loss of their services.

We are dependent upon the services of the members of our senior management team who direct our strategy and operations. We have benefited from consistency within our senior management team, with our top five executives averaging over 13 years of service with Coastway Community Bank and more than a combined 181 years of financial institution experience. Members of our senior management team, or lending specialists who possess expertise in our markets and maintain key business relationships, could be difficult to replace. Our loss of these persons, or our inability to hire additional qualified personnel, could impact our ability to implement our business strategy and could have a material adverse effect on our results of operations and our ability to compete in our markets.

We may be adversely affected by recent changes in U.S. tax laws and regulations.

Changes in tax laws contained in the Tax Cuts and Jobs Act, which was enacted in December 2017, include a number of provisions that will have an impact on the banking industry, borrowers and the market for single-family residential real estate. Included in this legislation is a reduction of the

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corporate income tax rate from 34% to 21%. In addition, other changes include (i) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (ii) the elimination of interest deductions for home equity loans, (iii) a limitation on the deductibility of business interest expense and (iv) a limitation on the deductibility of property taxes and state and local income taxes. These recent changes in the tax laws may have an adverse effect on the market for, and valuation of, residential properties, and on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. In addition, these recent changes may also have a disproportionate effect on taxpayers in states with high residential home prices and high state and local taxes, such as Rhode Island and Massachusetts. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in our loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations.

Financial reform legislation will result in new laws and regulations that are expected to increase our costs of operations.

The Dodd-Frank Act, among other things, has changed and will continue to change the bank regulatory framework. The legislation will also result in new regulations affecting the lending, funding, trading and investment activities of banks and bank holding companies. An independent Consumer Financial Protection Bureau has assumed the consumer protection responsibilities of the various federal banking agencies and has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as Coastway Community Bank, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. Banks and savings institutions with \$10.0 billion or less in assets will continue to be examined by their applicable bank regulators. The new legislation also gives state attorneys general the ability to enforce applicable federal consumer protection laws. The Dodd-Frank Act also requires the federal banking agencies to promulgate rules requiring mortgage lenders to retain a portion of the credit risk related to securitized loans. Bank regulatory agencies also have been responding aggressively to concerns and adverse trends identified in examinations. These measures are likely to increase our costs of doing business and increase our costs related to regulatory compliance, and may have a significant adverse effect on our lending activities, financial performance and operating flexibility.

We have become subject to more stringent capital requirements, which may adversely impact our return on equity, require us to raise additional capital, or constrain us from paying dividends or repurchasing shares.

In July 2013, the FDIC approved a new rule that substantially amends the regulatory risk-based capital rules applicable to Coastway Community Bank. The final rule implements the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act.

The final rule includes new minimum risk-based capital and leverage ratios, which became effective for Coastway Community Bank on January 1, 2015, and refines the definition of what constitutes "capital" for purposes of calculating these ratios. The new minimum capital requirements are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also establishes a "capital conservation buffer" of 2.5%, and will result in the following minimum ratios inclusive of the capital conservation buffer upon full implementation in January 2019: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 to risk-based assets capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement began to be phased in in January 2016 at 0.625% of risk-weighted assets and increases each year until fully implemented in January 2019. In 2018, the capital conservation buffer requirement will be 1.875% of risk-weighted assets. An institution will be subject to

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limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

The application of more stringent capital requirements for Coastway Community Bank could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions constraining us from paying dividends or repurchasing shares if we were to be unable to comply with such requirements.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision, and examination by the Federal Reserve Board, the Rhode Island Department of Business Regulation and the FDIC. Such regulators govern the activities in which we may engage, primarily for the protection of depositors. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of a financial institution, the classification of assets by a financial institution, and the adequacy of a financial institution's allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, could have a material impact on us and our operations. Because our business is highly regulated, the laws, rules and applicable regulations are subject to regular modification and change. Laws, rules and regulations may be adopted in the future that could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects. See "Supervision and Regulation" for a discussion of the regulations to which we are subject.

Changes in accounting standards could affect reported earnings.

The accounting standard setters, including the Financial Accounting Standards Board ("FASB"), the Securities and Exchange Commission and other regulatory bodies, periodically change the financial accounting and reporting guidance that governs the preparation of our consolidated financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply new or revised guidance retroactively.

In June 2016, the FASB issued a standard, *Financial Instruments Credit Losses*, that will significantly change how banks measure and recognize credit impairment for many financial assets from an incurred loss methodology to a current expected loss model. The current expected credit loss model will require banks to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets that are in the scope of the standard. We are currently evaluating the impact of adoption of this standard, including different methodologies that may be employed to estimate credit losses, such as loss rate methods, component loss methods, and qualitative factors, as well as additional data gathering that will be needed to adopt the standard. The standard will add new disclosures related to factors that influenced management's estimate, including current expected credit losses, the changes in those factors, and reasons for the changes as well as the method applied to revert to historical credit loss experience.

We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.

We are a community bank, and our reputation is one of the most valuable components of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our current market and contiguous areas. As such, we strive to

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conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers, or otherwise, our business and operating results may be adversely affected.

Risks associated with system failures, interruptions, or breaches of security could negatively affect our earnings.

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches, but such events may still occur or may not be adequately addressed if they do occur. In addition, any compromise of our systems could deter customers from using our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security.

In addition, we outsource a majority of our data processing to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any system failures, interruption, or breach of security could damage our reputation and result in a loss of customers and business, could subject us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

There may be a limited trading market in our common stock, which would hinder your ability to sell our common stock and may lower the market price of the stock.

Our common stock is listed on the Nasdaq Capital Market under the symbol "CWAY." The development of an active trading market depends on the existence of willing buyers and sellers, the presence of which is not within our control, or that of any market maker. The number of active buyers and sellers of the shares of common stock at any particular time may be limited. Under such circumstances, you could have difficulty selling your shares of common stock on short notice, and, therefore, you should not view the shares of common stock as a short-term investment. In addition, our public "float," which is the total number of our outstanding shares less the shares held by our employee stock ownership plan, the charitable foundation and our directors and executive officers, is likely to be quite limited. As a result, it is unlikely that an active trading market for the common stock will develop or that, if it develops, it will continue. Purchasers of our common stock should have long-term investment intent and should recognize that there will be a limited trading market in the common stock. This may make it difficult to sell the common stock and may have an adverse impact on the price at which the common stock can be sold.

We are an emerging growth company within the meaning of the Securities Act, and if we decide to take advantage of certain exemptions from various reporting requirements applicable to emerging growth companies, our common stock could be less attractive to investors.

We are an "emerging growth company," as defined in Section 2(a) of the Securities Act of 1933, as amended, as modified by the JOBS Act. We are eligible to take advantage of certain exemptions from

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various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, reduced disclosure about our executive compensation and omission of compensation discussion and analysis, and an exemption from the requirement of holding a non-binding advisory vote on executive compensation. In addition, we will not be subject to certain requirements of Section 404 of the Sarbanes-Oxley Act of 2002, including the additional level of review of our internal control over financial reporting as may occur when outside auditors attest as to our internal control over financial reporting. As a result, our stockholders may not have access to certain information they may deem important.

We could remain an "emerging growth company" for up to five years following completion of our initial public offering, or until the earliest of (a) the last day of the first fiscal year in which our annual gross revenues exceed \$1.0 billion, (b) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (c) the date on which we have issued more than \$1.0 billion in non-convertible debt during the preceding three-year period. Taking advantage of any of these exemptions may adversely affect the value and trading price of our common stock.

Item 1B. Unresolved Staff Comments

None

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Item 2. Properties

As of December 31, 2017, the net book value of our properties, including land of \$8.6 million was \$29.2 million. The net book value of our furniture, fixtures and equipment at December 31, 2017 was \$2.6 million. The following is a list of our offices:

Location	Leased or Owned	Year Acquired or Leased	Building Square Footage	Net Book Value of Real Property (In thousands)
Corporate Headquarters: (including land)				
One Coastway Blvd(1) Warwick, RI 02886	Owned	2014	46,000	\$ 10,865
Full Service Branches: (including land)				
180 Washington Street Providence, RI 02903	Owned	2011	7,000	3,710
Warwick 2089 Warwick Avenue Warwick, RI 02889	Owned	1954	4,628	1,525
Women & Infants Hospital(2) 101 Dudley Street Providence, RI 02905	Leased	1986	1,000	69
Lincoln(3) 618 George Washington Highway Lincoln, RI 02865	Owned	2013	3,800	1,301
Cranston East 1155 Reservoir Avenue Cranston, RI 02920	Owned	2000	4,810	2,112
Cowesett 3830 Post Road Warwick, RI 02886	Owned	2002	2,771	1,237
East Providence 2830 Pawtucket Avenue East Providence, RI 02915	Owned	2005	3,476	2,003
East Greenwich 5750 Past Road East Greenwich, RI 02818	Owned	2012	3,500	4,162
Cranston West 200 Comstock Parkway Cranston, RI 02920	Owned	2013	3,800	2,260
Loan Offices:				
Admiral's Gate Office Tower(4) 221 Third Street Newport, RI 02840	Leased	2015	357	
361 Main Street(5) Wakefield, RI 02879	Leased	2016	2,200	

- (1) The Bank entered into two agreements in 2017 to lease out 8,650 square feet of the corporate headquarters for 63 months.
- (2) The lease expires on June 30, 2021.
- (3) The Bank owns the branch building and leases the land. The land lease term expires in 2018 and has four renewal options for five year periods each.
- (4) The lease expires in October, 2018.
- (5) The lease expires on February 28, 2019.

Table of Contents**Item 3. Legal Proceedings**

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions as of December 31, 2017 is not expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II**Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities**

Our shares of common stock are traded on the NASDAQ Capital Market under the symbol "CWAY". The approximate number of holders of record of Coastway Bancorp, Inc.'s common stock as of March 1, 2018 was 419. Certain shares of Coastway Bancorp, Inc. are held in "nominee" or "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

	Price Per Share 2017		Price Per Share 2016	
	High	Low	High	Low
Fourth quarter	\$ 21.65	\$ 19.75	\$ 15.65	\$ 13.15
Third quarter	20.80	19.55	13.82	12.35
Second quarter	20.75	17.45	12.87	12.10
First quarter	17.70	15.70	13.40	12.25

Coastway Bancorp, Inc. has never paid a cash dividend. The Board of Directors has the authority to declare cash dividends on shares of common stock, subject to statutory and regulatory requirements. In determining whether and in what amount to pay a cash dividend, the Board takes into account a number of factors, including capital requirements, our consolidated financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. No assurances can be given that cash dividends will ever be paid or that, if paid, will not be reduced.

The available sources of funds for the payment of a cash dividend in the future are interest and principal payments with respect to Coastway Bancorp, Inc.'s loan to the Employee Stock Ownership Plan, and dividends from Coastway Community Bank.

Under the applicable rules, Coastway Community Bank is not permitted to make a capital distribution if, after making such distribution, it would be undercapitalized. For information concerning additional federal laws and regulations regarding the ability of Coastway Community Bank to make capital distributions, including the payment of dividends to Coastway Bancorp, see "Item 1 Business Taxation Federal Taxation" and "Item 1 Business Supervision and Regulation."

Unlike Coastway Community Bank, the Company is not restricted by banking regulations on the payment of dividends to its shareholders. However, the Federal Reserve Board has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve Board's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Federal Reserve Board guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that

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period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of Coastway Bancorp, Inc. to pay dividends or otherwise engage in capital distributions.

At December 31, 2017, the following compensation plan under which equity securities of Coastway Bancorp, Inc. were authorized for issuance other than the Employee Stock Ownership Plan is the 2015 Equity Incentive Plan, whereby 91,225 options and 39,045 restricted shares were granted in February, 2016. In February 2017, the Compensation Committee approved an award of 26,155 of stock options and 11,228 restricted stock shares as part of the 2015 Equity Incentive Plan. The exercise price of the stock options is \$16.40.

Plan	Number of securities to be issued upon exercise of outstanding options and rights	Weighted average exercise price	Number of securities remaining available for issuance under plan
Equity compensation plans approved by stockholders	110,338	\$ 13.29	535,290
Equity compensation plans not approved by stockholders			
Total	110,338	\$ 13.29	535,290

In November, 2016, the Company announced that the Board of Directors has adopted its third stock repurchase program. Under the repurchase program, the Company may repurchase up to 223,331 shares of its common stock, or approximately 5% of its outstanding shares. The repurchase program permits shares to be repurchased in open market or private transactions, through block trades, and pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. Repurchases will be made at management's discretion at prices management considers to be attractive and in the best interests of both the Company and its stockholders, subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital, and the Company's financial performance. Open market purchases will be conducted in accordance with the limitations set forth in Rule 10b-18 of the Securities and Exchange Commission and other applicable legal requirements. During the years ended December 31, 2017 and 2016, 19,200 shares and 102,583 shares, respectively were repurchased under this third stock repurchase program, with 101,548 shares remaining available to be repurchased. There were no shares repurchased during the three months ended December 31, 2017.

The repurchase program may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. These factors may also affect the timing and amount of share repurchases. The repurchase program does not obligate the Company to purchase any particular number of shares.

Item 6. Selected Financial Data

The following tables set forth selected consolidated historical financial and other data of Coastway Bancorp, Inc. and subsidiaries at or for the years ended December 31, 2017, 2016, 2015 and 2014. Selected historical financial and other data at or for the year ended December 31, 2013 are for Coastway Bancorp, MHC. The following information is only a summary, and should be read in conjunction with the business and financial information contained elsewhere in this annual report. The information at and for the years ended December 31, 2017 and 2016 is derived in part from, and should be read together with, the audited consolidated financial statements and notes thereto of

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Coastway Bancorp, Inc. and subsidiaries beginning at page 66 of this annual report. The information at and for the years ended December 31, 2015, 2014 and 2013 is derived in part from audited financial statements that are not included in this annual report.

	At December 31,				
	2017	2016	2015	2014	2013
	(In thousands)				
Selected Financial Condition Data:					
Total assets	\$ 738,905	\$ 644,191	\$ 565,137	\$ 465,826	\$ 432,678
Cash and cash equivalents	54,569	44,658	18,322	14,582	51,519
Loans, net	614,593	525,215	467,023	383,909	328,576
Loans held for sale	11,077	23,157	18,952	10,995	8,648
Federal Home Loan Bank stock	8,299	6,184	5,283	3,207	2,694
Deposits	476,956	447,314	373,519	343,544	329,916
Borrowed funds	181,675	121,250	115,500	47,800	28,000
Total stockholders' equity	71,345	68,572	70,922	70,504	27,839

	For the Years Ended December 31,				
	2017	2016	2015	2014	2013
	(In thousands)				
Selected Operating Data:					
Interest income	\$ 24,189	\$ 21,225	\$ 17,827	\$ 15,592	\$ 13,957
Interest expense	4,474	2,786	2,227	2,396	2,630
Net interest income	19,715	18,439	15,600	13,196	11,327
Provision for loan losses	435	475	496	432	567
Net interest income after provision for loan losses	19,280	17,964	15,104	12,764	10,760
Non-interest income	7,538	7,945	6,592	5,907	6,776
Non-interest expense	21,747	20,139	18,915	20,166	17,127
Income (loss) before income taxes	5,071	5,770	2,781	(1,495)	409
Income tax expense (benefit)	2,479	2,281	1,153	(530)	187
Net income (loss)	\$ 2,592	\$ 3,489	\$ 1,628	\$ (965)	222
Basic earnings per share	\$ 0.65	\$ 0.82	\$ 0.36	N/A	N/A
Diluted earnings per share	\$ 0.64	\$ 0.82	\$ 0.36	N/A	N/A

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	At or For the Years Ended December 31,				
	2017	2016	2015	2014	2013
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return (loss) on assets (ratio of net income (loss) to average total assets)	0.39%	0.58%	0.32%	(0.22)%	0.06%
Return (loss) on equity (ratio of net income (loss) to average equity)	3.72%	5.04%	2.31%	(1.40)%	0.81%
Interest rate spread(1)	2.95%	3.16%	3.25%	3.16%	3.18%
Net interest margin(2)	3.16%	3.31%	3.41%	3.38%	3.35%
Efficiency ratio(3)	79.80%	76.33%	85.23%	105.56%	94.61%
Non-interest expense to average total assets	3.26%	3.36%	3.77%	4.67%	4.61%
Average interest-earning assets to average interest-bearing liabilities	129.31%	130.64%	132.90%	134.61%	121.67%
Average equity to average total assets	10.44%	11.56%	14.05%	15.93%	7.37%
Asset Quality Ratios:					
Nonperforming assets to total assets	1.21%	0.79%	0.88%	1.66%	1.86%
Nonperforming loans to total loans	0.77%	0.89%	0.91%	1.68%	1.97%
Net charge-offs to average loans outstanding	0.00%	0.03%	0.06%	0.04%	0.15%
Allowance for loan losses to nonperforming loans	61.66%	53.58%	51.75%	30.14%	25.64%
Allowance for loan losses to total loans	0.48%	0.48%	0.47%	0.51%	0.50%
Capital Ratios:					
Equity to total assets at end of year	9.66%	10.6%	12.5%	15.1%	6.4%
Total capital to risk-weighted assets(4)	13.1%	13.4%	13.0%	15.3%	9.8%
Tier 1 capital to risk-weighted assets(4)	12.5%	12.8%	12.5%	14.7%	9.3%
Common equity Tier 1(4)	12.5%	12.8%	12.5%	N/A	N/A
Tier 1 capital to adjusted assets(4)	8.6%	9.0%	10.1%	11.6%	7.2%
Other Data:					
Number of full service branches	9	9	9	9	9
Full time equivalent employees	148	144	133	135	143

(1) Represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the year.

(2) Represents net interest income as a percent of average interest-earning assets for the year.

(3) Represents non-interest expense divided by the sum of net interest income and non-interest income. Our efficiency ratio for 2015 includes the impact of \$581,000 of impairment of real estate properties included in real estate held for sale. Our efficiency ratio for 2014 includes the impact of the impairment losses of \$1.1 million related to the impairment of real estate properties that were classified as held for sale, as well as the \$1.5 million contribution to Coastway Cares Charitable Foundation II. Our efficiency ratio for 2013 includes the impact of impairment losses of \$482,000 related to the impairment of two real estate properties that were classified as held for sale.

(4) Represents capital ratios of Coastway Community Bank.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section is intended to help investors understand the financial performance of Coastway Bancorp, Inc. and its subsidiary through a discussion of the factors affecting our financial condition at December 31, 2017 and 2016 and our results of operations for the years ended December 31, 2017 and 2016. This section should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements that appear beginning on page 66 of this annual report.

Overview

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, 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.

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets and the interest we pay on our interest-bearing liabilities. Our results of operations also are affected by our provision for loan losses, non-interest income and non-interest expense. Non-interest income currently consists of customer service fees, gains on sales of loans and other mortgage banking income, net, bank-owned life insurance ("BOLI) income, and other income. Non-interest expense currently consists of expenses related to salary and employee benefits, occupancy and equipment, data processing, deposit servicing, professional fees, federal deposit insurance assessments, advertising, foreclosed real estate, and other general and administrative expenses.

Net income was \$2.6 million for the year ended December 31, 2017, a decrease of \$897,000, or 25.7%, from net income of \$3.5 million for the year ended December 31, 2016. Net income decreased primarily due to \$412,000 of additional income tax expense recorded in December 2017 to reduce the net deferred tax asset based on the newly enacted federal tax rate of 21%, which decreased from 34%, a reduction of \$407,000 in non-interest income due to a decrease of \$668,000 in net gains on sales of loans and other mortgage banking income, and an increase of \$1.6 million in non-interest expenses based on an increase in salary and employee benefits expense of \$1.4 million. Salary and employee benefits expenses were impacted by general merit increases, an increase in full-time equivalent employees ("FTEs"), an increase of supplemental executive retirement expense of \$197,000, an increase of \$138,000 in employee health insurance, as well as \$253,000 of termination benefits recorded related to three FTEs who departed during the fourth quarter of 2017. Partially offsetting the decreases in net income, net interest income increased \$1.3 million, or 6.9%, to \$19.7 million for the year ended December 31, 2017 from \$18.4 million for the year ended December 31, 2016, due to a \$10.8 million increase in net interest-earning assets and a decrease in the provision for loan losses of \$40,000.

Business Strategy

We intend to operate as a well-capitalized and profitable community bank dedicated to providing exceptional personal service to our individual and business customers. We believe that we have a competitive advantage in the markets we serve because of our knowledge of the local marketplace and our long-standing history of providing superior, relationship-based customer service. Our core business strategies are discussed below.

Continue to Originate and Sell Certain Residential Real Estate Loans. Residential mortgage lending has historically comprised a significant portion of our operations. We recognize that the origination of one-to four-family residential real estate loans is essential to maintaining customer relations and our

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status as a community-oriented bank. During the year ended December 31, 2017, we originated \$212.0 million in one- to four-family residential real estate loans held for sale and recorded proceeds from sale of \$228.3 million of such loans for gains on sale of \$4.3 million, and during the year ended December 31, 2016, we originated \$219.1 million in one- to four-family residential real estate loans held for sale and recorded proceeds from sale of \$219.0 million of such loans for gains on sale of \$4.1 million. Offsetting the increase in gain on sale of mortgage loans, a loss in the fair value of mortgage derivatives, commitments to sell and loans held for sale of \$682,000 was recorded during the year ended December 31, 2017, while an increase of \$143,000 was recorded during the year ended December 31, 2016 as a component of net gain on sale of loans and other mortgage banking income. We intend to continue to sell in the secondary market the majority of the long-term conforming fixed-rate one- to four-family residential real estate loans that we originate to increase non-interest income and manage the overall duration of our loan portfolio. To the extent available, we intend to continue to develop an appropriately sized portfolio of jumbo and shorter term adjustable-rate one- to four-family residential real estate loans to increase interest income. During the years ended December 31, 2017 and 2016, we also purchased \$44.4 million and \$17.8 million, respectively, of individual one- to four-family residential loans from third party originators, which the Bank re-underwrites in accordance with the Bank's lending policy prior to purchase. At December 31, 2017, we had \$236.4 million in jumbo loans, which represented 75.8% of our one- to four-family residential real estate loan portfolio.

Increase Commercial Real Estate and Commercial Business Lending. In order to increase the yield on our loan portfolio and reduce the term to re-pricing, following our conversion from a credit union to a bank, we began to increase our commercial real estate and commercial business loan portfolios while maintaining what we believe are conservative underwriting standards. We focus our commercial lending to small businesses located in our market area, targeting owner occupied businesses such as professional service providers. Our commercial real estate and commercial business loan portfolios have grown from \$91.6 million and \$8.3 million, respectively, at December 31, 2013 to \$156.0 million and \$17.2 million, respectively, at December 31, 2017. The additional capital raised in the offering has increased our commercial lending capacity by enabling us to originate more loans as well as loans with larger balances that we intend to retain in our portfolio.

Maintain Disciplined Underwriting. We emphasize a disciplined credit culture based on intimate market knowledge, close ties to our customers, sound underwriting standards and experienced loan officers. We are committed to actively monitoring and managing all segments of our loan portfolio in an effort to proactively identify and mitigate credit risks within the portfolio. At December 31, 2017, non-performing assets totaled \$9.0 million, which represented 1.21% of total assets, of which \$4.7 million are non-performing loans. Residential one- to four- family loans totaled \$3.4 million of the \$4.7 million in non-performing loans. At December 31, 2017, there is one non-performing commercial real estate loan totaling \$254,000 and no non-performing commercial business loans. Foreclosed real estate amounted to \$4.2 million at December 31, 2017 and consisted of one real estate property which had secured a former commercial loan.

Increase our Share of Lower-Cost Deposits. We remain committed to generating lower-cost stable core deposits. We attract and retain transaction accounts by offering competitive products and rates and excellent customer service. Our core deposits (consisting of demand deposit accounts, savings accounts, money market accounts and club accounts) increased \$109.1 million to \$313.6 million at December 31, 2017 from \$204.5 million at December 31, 2013. At December 31, 2017, core deposits comprised 65.8% of our total deposits. At December 31, 2017, non-interest-bearing deposits totaled \$116.9 million, or 24.5% of our total deposits.

Focus on Relationship Banking. We believe that our competitive strengths are personalized superior customer service, extensive knowledge of our local markets, high visibility community activities

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and technology-driven financial products such as internet banking. We believe that we can leverage these strengths to attract and retain customers who are seeking personalized, best-in-class customer service that are not being served by the large money center and regional banks in our market area. We also believe that we can capitalize on commercial deposit and personal banking relationships derived from an increase in commercial real estate and commercial business lending.

Critical Accounting Policies

Certain of our accounting policies are important to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy and changes in the financial condition of borrowers. Our significant accounting policies are discussed in detail in Note 1 of the Notes to Consolidated Financial Statements included in this annual report.

The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we have elected to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards. As of December 31, 2017, there is not a significant difference in the presentation of our financial statements as compared to other public companies as a result of this transition guidance.

Allowance for Loan Losses. The allowance for loan losses is the estimated amount considered necessary to cover probable incurred losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses that is charged to income. We make significant estimates and therefore, have identified the allowance as a critical accounting policy. The methodology for determining the allowance for loan losses is considered a critical accounting estimate by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses. Among the material assumptions required to establish the allowance are: loss exposure at default, the amount and timing of future cash flows on impaired loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these assumptions are susceptible to significant change.

The allowance for loan losses has been determined in accordance with U.S. generally accepted accounting principles, under which we are required to maintain an allowance for probable losses at the balance sheet date. We are responsible for the timely and periodic determination of the amount of the allowance required. We believe that our allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identified.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans determined to be impaired. Loans on non-accrual status and/or loans whose terms have been modified to be troubled debt restructurings are classified as impaired loans. Loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest in accordance with the contractual terms of the loan agreement. Impairment is measured by either the present value of

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expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for selling costs, or the loan fair value.

The general component is determined by segregating the remaining loans, including those loans not meeting the definition of an impaired loan, by type of loan. We utilize a ten-year historical loss experience period to capture loss trends from both positive and negative times in the economic cycle, and adjust the loss history for qualitative factors, including level/trends in delinquencies, consideration of more recent charge-off trends (i.e. last three-year period), general economic conditions, weighted average risk weightings, loan concentrations, management's assessment of internal factors and management's assessment of external factors such as interest rates, real estate markets and local and national economic factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. For our one- to four-family residential real estate and home equity portfolios, the credit quality of the individual borrower may be impacted by the overall health of the economy, including unemployment rates and housing prices. For commercial and SBA loans, the underlying cash flows generated by the properties and/or businesses may be adversely impacted by a downturn in the economy. Actual loan losses may be significantly more than the allowance for loan losses established, which could have a material negative effect on our financial results.

On a monthly basis, our Credit Committee reviews the current status of various loans. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. This process includes a review of delinquent, nonaccrual and classified loans. A shortfall in collateral value less estimated selling costs when compared to the loan amount outstanding for a collateral dependent loan results in a recommendation of a specific allowance and/or charge-off if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair value of the collateral is based on the most current appraised value available.

Based on the composition of our loan portfolio and the economy, the primary risks that may impact the allowance for loan losses are increases in interest rates, a decline in the general economy, further increases in the already elevated level of unemployment in Rhode Island, and a decline in real estate market values in Rhode Island. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions. As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance. The assumptions supporting such appraisals are reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Although we use the best information available to establish the allowance for loan losses, future adjustments may be necessary if economic or other conditions differ substantially from the assumptions used in making our evaluation. In addition, bank regulators, as an integral part of their examination process, periodically review the allowance for loan losses and may require adjustments to the allowance based on their judgments about information available to them at the time of their examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance which would adversely affect earnings.

Deferred Tax Assets. We use the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered

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or settled. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion of the deferred tax asset will not be realized. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments may require us to make projections of future taxable income and/or to carryback to taxable income in prior years. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. Further, a reduction in the statutory income tax rate would require a charge to income tax expense in the year the reduced income tax rate becomes effective. The Tax Cuts and Jobs Act (the "Tax Act") was signed into law in December 2017 which reduced the corporate federal statutory tax rate from 34% to 21%. U.S. GAAP requires the impact of the Tax Act to be accounted for in the period of enactment. As such, the Corporation was required to write down the value of its net deferred tax assets as of December 31, 2017 to reflect the reduction in the corporate tax rate for future periods.

Mortgage Banking. Commitments to fund certain mortgage loans (interest rate locks) to be sold in the secondary market and forward loan commitments for the future delivery of mortgage loans to third party investors, including TBA Securities and mandatory forward commitments, are considered derivatives. These mortgage banking related derivatives are not designated in hedge relationships and are accounted for at fair value, with changes in fair value recorded in net gain on sales of loans and other mortgage banking income on the income statement.

Best efforts commitments are accounted for at fair value, with changes in fair value recorded in net gain on sales of loans and other mortgage banking income on the income statement, as management has elected fair value accounting for these commitments. With a best efforts contract, the Bank commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes.

Interest rate lock commitments are considered derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Bank enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market.

Outstanding derivative loan commitments expose the Bank to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases.

The Bank generally utilizes best efforts forward loan sale commitments and effective September 1, 2015, also commenced utilizing mandatory delivery forward loan sale commitments and TBA securities, which are sold from approved counterparties to mitigate the risk of potential changes in the values of derivative loan commitments.

For TBAs, the Bank sells a security in the open market with a promise to deliver a pool of loans with an aggregate specified principal amount and quality to the investor at a specified point in the future. If the Bank fails to deliver the pool of loans, the Bank will repurchase the security at the market price on the date of repurchase.

With a mandatory delivery contract, the Bank commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor. Under mandatory delivery contracts, the Bank incurs a penalty if the Bank fails to originate the loan and deliver it to the investor. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (e.g., on the same day the lender commits to lend funds to a potential borrower).

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Fair value changes in mortgage banking derivatives and commitments to sell fixed-rate residential mortgages subsequent to inception are estimated using anticipated market prices based on pricing indications provided from syndicate banks and consideration of pull-through and fallout rates derived from the Bank's internal data and adjusted using management judgment. Mortgage banking derivatives include the non-refundable costs of originating the loan based on the Bank's internal cost analysis that is not observable. Fluctuations in interest rates may impact estimated pull-through rates on mortgage originations, which in turn may affect the valuation of forward loan sale commitments, and could negatively affect our earnings.

Comparison of Financial Condition at December 31, 2017 and December 31, 2016

Assets. Our total assets increased \$94.7 million, or 14.7%, to \$738.9 million at December 31, 2017 from \$644.2 million at December 31, 2016 primarily due to an increase of \$89.0 million in total loans, an increase of \$9.9 million in cash and cash equivalents and an increase of \$3.8 million in foreclosed real estate, partially offset by a decline in loans held for sale of \$12.1 million. Total loans (excluding loans held for sale) increased \$89.0 million, or 17.0%, to \$612.9 million at December 31, 2017 from \$523.9 million at December 31, 2016. The increase in total loans was primarily due to an increase of \$68.7 million, or 28.2%, in residential one- to four-family real estate loans which increased to \$312.1 million at December 31, 2017 from \$243.4 million at December 31, 2016. We increased our jumbo one- to four-family residential loans held in portfolio both from internal originations as well as \$44.4 million of individual loans purchased from third party originators in 2017. Commercial real estate loans increased \$17.1 million, or 12.3%, to \$156.0 million at December 31, 2017 as compared to \$138.9 million at December 31, 2016. Loans held for sale decreased \$12.1 million as loan sales outpaced loans originated for sale.

Cash and cash equivalents increased to \$54.6 million at December 31, 2017 as compared to \$44.7 million at December 31, 2016, primarily due to a deposit inflow at month end. Foreclosed real estate increased \$3.8 million due to the foreclosure of one property located in Newport, Rhode Island.

Deposits. Our primary source of funds is retail deposits held by individuals and businesses within our market area. Deposits increased \$29.6 million, or 6.6%, to \$477.0 million at December 31, 2017 from \$447.3 million at December 31, 2016, primarily as a result of an increase in the balance of non-interest bearing demand deposit accounts of \$9.9 million, or 9.3%, an increase of \$4.0 million in the balance of savings and interest bearing demand deposit accounts, or 3.8%, and an increase of \$15.1 million in the balance of money market accounts, or 21.5%. The increase in money market accounts was due to a money market special promotion which commenced in the fourth quarter of 2017. In addition, the balance of certificates of deposit increased \$436,000, or 0.3% to \$163.3 million at December 31, 2017. Certificates of deposit increased \$5.6 million due to organic growth through deposit promotions, partially offset by \$5.2 million of maturities of certificates of deposit obtained through a nationwide on-line service ("national market").

Borrowed Funds. We utilize borrowings from the Federal Home Loan Bank of Boston ("FHLBB") as an alternate funding source. Borrowed funds at December 31, 2017 totaled \$181.7 million as compared to \$121.3 million at December 31, 2016, an increase of \$60.4 million, or 49.8%. Borrowed funds at December 31, 2017 were comprised of \$179.9 million in short-term advances at a weighted average rate of 1.49% as compared to overnight advances of \$119.5 million at a weighted average rate of 0.74% at December 31, 2016, which increased in order to fund loan growth. The weighted average rate of short-term borrowings increased commensurate with the three interest rate increases by the Federal Reserve Board. Long-term FHLBB advances at December 31, 2017 and 2016 amounted to \$1.8 million and were borrowed at no cost under the FHLBB's Jobs for New England program, and mature in 2021.

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Total Stockholders' Equity. Total stockholders' equity increased \$2.8 million to \$71.3 million at December 31, 2017 from \$68.3 million at December 31, 2016. The increase in stockholders' equity was due to net income of \$2.6 million, the impact of the \$305,000 increase in compensation and benefits expense related to the ESOP, and stock-based compensation of \$144,000, net of common stock repurchased of \$333,000 in 2017. Accumulated other comprehensive loss increased \$65,000 in 2017 as a result of net of income tax gains pertaining to our defined benefit plan.

Comparison of Operating Results for the Year Ended December 31, 2017 and December 31, 2016

General. Net income was \$2.6 million for the year ended December 31, 2017, a decrease of \$897,000, or 25.7%, from net income of \$3.5 million for the year ended December 31, 2016. Net income decreased primarily due to \$412,000 of additional income tax expense recorded in December 2017 to reduce the net deferred tax asset based on the newly enacted federal tax rate of 21%, which decreased from 34%, a reduction of \$407,000 in non-interest income due to a decrease of \$668,000 in net gains on sales of loans and other mortgage banking income, and an increase of \$1.6 million in non-interest expenses based on an increase in salary and employee benefits expense of \$1.4 million. Salary and employee benefits expenses were impacted by general merit increases, an increase in full-time equivalent employees ("FTEs"), an increase of supplemental executive retirement expense of \$197,000, an increase of \$138,000 in employee health insurance, as well as \$253,000 of termination benefits recorded related to three FTEs who departed during the fourth quarter of 2017. Partially offsetting the decreases in net income, net interest income increased \$1.3 million, or 6.9%, to \$19.7 million for the year ended December 31, 2017 from \$18.4 million for the year ended December 31, 2016, due to a \$10.8 million increase in net interest-earning assets and a decrease in the provision for loan losses of \$40,000.

Interest Income. Interest income increased \$3.0 million, or 14.0%, to \$24.2 million for the year ended December 31, 2017 from \$21.2 million for the year ended December 31, 2016. The increase reflected an increase in the average balance of interest-earning assets of \$67.0 million to \$624.0 million for the year ended December 31, 2017 as compared to \$557.0 million for the year ended December 31, 2016, coupled with an increase in the average yield on interest-earning assets to 3.88% for the year ended December 31, 2017 as compared to 3.81% for the year ended December 31, 2016. The majority of our interest income was derived from interest and fees on loans.

Interest and fees on loans increased \$2.6 million, or 12.6%, to \$23.5 million for the year ended December 31, 2017 from \$20.9 million for the year ended December 31, 2016. Interest and fees on loans increased due to an increase in the average balance of loans and loans held for sale of \$49.7 million to \$576.1 million for the year ended December 31, 2017 as compared to \$526.5 million for the year ended December 31, 2016, as well as an increase in the average yield on loans, which increased to 4.08% for the year ended December 31, 2017 as compared to 3.97% for the year ended December 31, 2016. The increase in our average balance of loans was principally due to the growth in our residential one- to four-family real estate loan portfolio, reflecting the low interest rate environment that existed for residential mortgage loans during the year ended December 31, 2017 and one- to four-family residential loans purchased from third party originators, as well as growth in our commercial real estate loan portfolio. The 11 basis points increase in the average yield on loans was primarily the result of the increase in interest rates.

Interest Expense. Interest expense was \$4.5 million for year ended December 31, 2017 as compared to \$2.8 million for the year ended December 31, 2016, an increase of \$1.7 million or 60.6%. Interest expense on deposits increased \$841,000 to \$2.9 million in 2017 as a result of an increase in the average balance of interest-bearing deposits of \$57.3 million in 2017, coupled with an increase in the average cost of deposits of 12 basis points during the year ended December 31, 2017 as compared to the year ended December 31, 2016. The average balance of certificate of deposit accounts increased \$45.6 million to \$164.9 million for the year ended December 31, 2017 as compared to \$119.3 million

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for the year ended December 31, 2016, which increased interest expense by \$702,000. The average balance of certificates of deposit primarily increased due to the increase of the national market certificates of deposit which were raised in the fourth quarter of 2016. The average cost of certificates of deposit increased nine basis points from 1.44% for the year ended December 31, 2016 to 1.53% for the year ended December 31, 2017 as a result of increased rates paid on certificates of deposits due to the increased interest rate environment and related competitor rates, which increased interest expense by \$92,000.

Interest expense on core deposits increased \$47,000 from \$389,000 for the year ended December 31, 2016 to \$436,000 for the year ended December 31, 2017. The average balance of money market accounts increased \$5.7 million during the year ended December 31, 2017 to \$75.2 million, as a result of a special promotion in the fourth quarter of 2017 which caused an increase of \$27,000 in interest expense. The average cost of money market accounts increased two basis points from 0.42% in 2016 to 0.44% in 2017, which increased interest expense by \$12,000. The average balance of savings and interest bearing demand deposit accounts increased \$6.0 million from \$100.5 million for the year ended December 31, 2016 to \$106.5 million for the year ended December 31, 2017.

Interest expense on borrowed funds increased \$847,000, or 125.3%, to \$1.5 million for the year ended December 31, 2017 from \$676,000 for the year ended December 31, 2016. The increase was principally due to an increase in the average cost of borrowings which increased from 0.50% for the year ended December 31, 2016 to 1.13% for the year ended December 31, 2017 partially offset by a decrease in the average balance of borrowed funds of \$1.1 million during the year ended December 31, 2017 as compared to the year-ended December 31, 2016. The increase in the average cost of borrowings was impacted by the increase in short-term market interest rates which we expect to also increase the cost of borrowings in 2018 as evidenced by the Federal Reserve's increase in short-term interest rates in December 2017.

Net Interest Income. Net interest income increased \$1.3 million, or 6.9%, to \$19.7 million for the year ended December 31, 2017 from \$18.4 million for the year ended December 31, 2016. This increase was due to a \$10.8 million increase in average net interest-earning assets to \$141.4 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016. Our interest rate spread decreased 21 basis points to 2.95% for the year ended December 31, 2017 as compared to 3.16% for the prior year. Our net interest margin decreased 15 basis points to 3.16% in 2017 from 3.31% in 2016.

Provision for loan losses. A provision for loan losses of \$435,000 was recorded to the allowance for loan losses during the year ended December 31, 2017, a decrease of \$40,000 or 8.4% as compared to a provision of \$475,000 for the year ended December 31, 2016. Our provision for loan losses is based on our assessment of loss history, current asset quality and economic trends. During the year ended December 31, 2017, a provision of \$248,000 was recorded related to the residential one- to four-family loan portfolio based primarily on loan growth of \$68.7 million as compared to a provision of \$236,000 for the year ended December 31, 2016. Net charge-offs on the residential one- to four-family loan portfolio totaled \$90,000 for 2016 as compared to no net charge-offs for the year ended December 31, 2017. A credit provision of \$34,000 was recorded related to the home equity loan portfolio during the year ended December 31, 2017 as compared to a provision of \$83,000 for the year ended December 31, 2016, primarily due to a decline of \$4.3 million in the home equity portfolio coupled with a decline of \$25,000 in specific reserves. The home equity provision for loan losses of \$83,000 during the year ended December 31, 2016 was impacted by net charge-offs of \$67,000. A provision for loan losses of \$180,000 was recorded related to the commercial real estate portfolio during the year ended December 31, 2017 principally due to loan growth of \$17.1 million as well as an increase in the general reserve in consideration of rising interest rates as compared to a provision of \$93,000 during the year ended December 31, 2016 which was also primarily due to loan growth of \$13.2 million.

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Non-Interest income. Non-interest income decreased \$407,000 or 5.1%, to \$7.5 million for the year ended December 31, 2017 from \$7.9 million for the year ended December 31, 2016. The \$407,000 decrease in non-interest income was due to a decrease of \$668,000 in net gains on sales of loans and other mortgage banking income primarily due to a loss in the fair value of mortgage derivatives, commitments to sell and loans held for sale of \$682,000 recorded during the year ended December 31, 2017, while an increase of \$143,000 was recorded during the year ended December 31, 2016 as a component of net gains on sales of loans and other mortgage banking income.

Gains on sales of residential mortgage loans were \$4.3 million and \$4.1 million for the years ended December 31, 2017 and 2016, respectively. Proceeds from residential mortgage loans sold during the year ended December 31, 2017 amounted to \$228.3 million as compared to \$219.0 million during the year ended December 31, 2016.

Customer service fees increased \$195,000, or 5.9%, to \$3.5 million for the year ended December 31, 2017 from \$3.3 million for the year ended December 31, 2016 primarily due to an \$110,000 increase in Visa fees and a \$69,000 increase in ATM service charges.

Non-Interest expenses. Non-interest expenses increased \$1.6 million, or 8.0%, to \$21.7 million for the year ended December 31, 2017 from \$20.1 million for the year ended December 31, 2016. Salary and employee benefits expense increased \$1.4 million, or 12.7%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016 due to general merit increases, an increase in FTEs, an increase of supplemental executive retirement expense of \$197,000, an increase of \$138,000 in employee health insurance, an increase of \$99,000 in ESOP expense due to an appreciation in our average stock price, an increase of \$55,000 in stock based compensation due to our second grant of stock options and restricted stock in February 2017, a \$67,000 increase in compensation cost related to the nonqualified deferred compensation supplemental retirement plan, as well as \$253,000 of termination benefits recorded related to three FTEs who departed during the fourth quarter of 2017. FTEs increased from 144 at December 31, 2016 to 148 FTEs at December 31, 2017.

Occupancy expense increased \$119,000, or 3.8% from \$3.1 million for the year ended December 31, 2016 to \$3.2 million for the year ended December 31, 2017, primarily due to an increase in depreciation expense. Data processing expenses increased \$157,000, or 8.9%, to \$1.9 million for the year ended December 31, 2017 from \$1.8 million for the year ended December 31, 2016 primarily due to increased software, network and home banking expenses. Deposit servicing expenses decreased \$86,000 to \$903,000 for the year ended December 31, 2017 from \$989,000 for the prior year primarily due to decreased debit card expenses. Professional fees increased \$83,000 to \$836,000 for the year ended December 31, 2017 due to an increase of \$74,000 in legal fees.

FDIC insurance assessment decreased \$12,000 in 2017 due to a decrease in the premiums assessed during 2017, partially offset by an increase in average net assets. Foreclosed real estate expenses decreased \$49,000 to \$72,000 for the year ended December 31, 2017 from \$121,000 for the prior year primarily due to a \$61,000 decrease in write-downs partially offset by higher expenses resulting from the increase in foreclosed real estate.

Income tax expense. Income tax expense totaled \$2.5 million for the year ended December 31, 2017 as compared to an income tax expense of \$2.3 million for the year ended December 31, 2016. The increase in income tax expense was primarily due to the impact of \$412,000 of additional income tax expense recorded in December 2017 to reduce the net deferred tax asset based on the newly enacted federal tax rate of 21%, which decreased from 34%, partially offset by a decline in pre-tax income of \$699,000 in 2017 as compared to 2016. The effective income tax rate was 48.9% for the year ended December 31, 2017 as compared to 39.5% for the year ended December 31, 2016.

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Average Balance Sheets

The following table sets forth average balance sheets, average yields and costs, and certain other information for the years indicated. No tax-equivalent yield adjustments were made, as we had no non-taxable interest-earning assets during the years presented. All average balances are daily average balances. Nonaccrual loans were included in the computation of average balances, but have been reflected in the tables as loans carrying a zero yield. The yields set forth below include the effect of deferred loan fees, discounts and premiums that are amortized or accreted to interest income or interest expense.

	For the Years Ended December 31,								
	2017			2016			2015		
	Average Outstanding Balance	Interest Yield/Rate	Average Outstanding Balance	Interest Yield/Rate	Average Outstanding Balance	Interest Yield/Rate	Average Outstanding Balance	Interest Yield/Rate	
	(Dollars in thousands)								
Assets:									
Loans and loans held for sale(4)	\$ 576,146	\$ 23,510	4.08%	\$ 526,458	\$ 20,886	3.97%	\$ 434,073	\$ 17,640	4.06%
Cash and cash equivalents	41,304	400	0.97	23,975	122	0.51	13,802	148	1.07
Federal Home Loan Bank of Boston stock	6,556	279	4.26	6,542	217	3.32	9,040	39	0.43
Total interest-earning assets	624,006	24,189	3.88	556,975	21,225	3.81	456,915	17,827	3.90
Non-interest-earning assets	42,819			41,676			44,506		
Total assets	\$ 666,825			\$ 598,651			\$ 501,421		
Liabilities and Stockholders' equity:									
Money market accounts	\$ 75,184	330	0.44	\$ 69,475	291	0.42	\$ 67,485	283	0.42
Savings & interest-bearing demand accts	106,541	105	0.10	100,545	97	0.10	93,098	89	0.10
Club accounts	1,483	1	0.07	1,474	1	0.07	1,538	2	0.13
Certificates of deposit	164,916	2,515	1.53	119,321	1,721	1.44	113,204	1,664	1.47
Total interest-bearing deposits	348,124	2,951	0.85	290,815	2,110	0.73	275,325	2,038	0.74
Borrowed funds	134,433	1,523	1.13	135,523	676	0.50	68,472	189	0.28
Total interest-bearing liabilities	482,557	4,474	0.93	426,338	2,786	0.65	343,797	2,227	0.65
Non-interest-bearing deposits	107,280			97,563			81,364		
Other liabilities	7,348			5,541			5,790		
Total liabilities	597,185			529,442			430,951		
Stockholders' equity	69,640			69,209			70,470		
Total liabilities and Stockholders' equity	\$ 666,825			\$ 598,651			\$ 501,421		
Net interest income		\$ 19,715			\$ 18,439			\$ 15,600	
Net interest rate spread(1)			2.95%			3.16%			3.25%
Net interest-earning assets(2)	\$ 141,449			\$ 130,637			\$ 113,118		

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Net interest margin(3)	3.16%	3.31%	3.41%
Average interest-earning assets to interest-bearing liabilities	129.31%	130.64%	132.90%

- (1) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate of interest-bearing liabilities.
- (2) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
- (3) Net interest margin represents net interest income divided by average total interest-earning assets.
- (4) Interest income on loans includes amortization of loan costs of \$1.0 million, \$1.1 million, and \$818,000 for the years ended December 31, 2017, 2016, and 2015, respectively.

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for the major categories of our interest-earning assets and interest-bearing liabilities for the years indicated. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to (i) changes attributable to changes in volume (i.e., changes in average balances multiplied by the prior-year average rate) and (ii) changes attributable to rate (i.e., changes in average

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rate multiplied by prior-year average balances). For purposes of this table, changes attributable to both rate and volume which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	Year Ended December 31, 2017 vs. 2016			Years Ended December 31, 2016 vs. 2015		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
(Dollars in thousands)						
Interest-earning assets:						
Loans and loans held for sale	\$ 2,052	\$ 572	\$ 2,624	\$ 3,674	\$ (428)	\$ 3,246
Cash and cash equivalents	124	154	278	76	(102)	(26)
Federal Home Loan Bank of Boston stock		62	62	(14)	192	178
Total interest-earning assets	2,176	788	2,964	3,736	(338)	3,398
Interest-bearing liabilities:						
Money market accounts	27	12	39	8		8
Savings accounts	6	2	8	7	1	8
Club accounts					(1)	(1)
Certificates of deposit	702	92	794	89	(32)	57
Borrowed funds	(5)	852	847	267	220	487
Total interest-bearing liabilities	730	958	1,688	371	188	559
Change in net interest income	\$ 1,446	\$ (170)	\$ 1,276	\$ 3,365	\$ (526)	\$ 2,839

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations. Our primary sources of funds consist of deposit inflows, loan repayments, advances from the Federal Home Loan Bank of Boston, principal repayments and loan sales. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. Our Asset/Liability Committee, under the direction of our Chief Financial Officer, is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of December 31, 2017.

We regularly monitor and adjust our investments in liquid assets based upon our assessment of:

- (i) expected loan demand;
- (ii) expected deposit flows and borrowing maturities;
- (iii) yields available on interest-earning deposits; and
- (iv) the objectives of our asset/liability management program.

Excess liquid assets are invested generally in interest-earning deposits and are also used to pay off short-term borrowings.

Our most liquid assets are cash and cash equivalents. The level of these assets is dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2017, cash and cash equivalents totaled \$54.6 million.

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Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included in our Consolidated Financial Statements.

At December 31, 2017, we had \$38.3 million in commitments to originate loans, \$14.0 million of which will be sold. In addition to commitments to originate loans, we had \$87.2 million in unused lines of credit and unadvanced funds to borrowers. Certificates of deposit due within one year of December 31, 2017 totaled \$61.7 million, or 12.9%, of total deposits. If these deposits do not remain with us, we may be required to seek other sources of funds, including utilizing additional Federal Home Loan Bank of Boston advances and selling the guaranteed portions of SBA loans of \$20.7 million at December 31, 2017. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowed funds than we currently pay on the certificates of deposit due on or before December 31, 2018. We believe, however, based on historical experience and current market interest rates, that we will retain, upon maturity, a large portion of our certificates of deposit with maturities of one year or less as of December 31, 2017.

Our primary investing activity is originating loans. During the years ended December 31, 2017 and 2016, loan originations net of principal repayments totaled \$50.4 million and \$42.6 million of loans, respectively. During the years ended December 31, 2017 and 2016, we purchased individual loans from third party originators of \$44.4 million and \$17.8 million, respectively.

Financing activities consist primarily of activity in deposit accounts and Federal Home Loan Bank of Boston advances. We experienced a net increase in deposits of \$29.6 million and \$73.8 million for the years ended December 31, 2017 and 2016, respectively. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors. The 2016 increase in deposits included \$44.4 million of national market certificates of deposit.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Boston ("FHLBB") that provide an additional source of funds. Federal Home Loan Bank of Boston advances increased by \$60.4 million to \$181.7 million at December 31, 2017, from \$121.3 million at December 31, 2016. We had the capacity to borrow an additional \$60.8 million from the FHLBB at December 31, 2017. We also have the ability to borrow with the Federal Reserve discount window. At December 31, 2017, we had \$17.6 million in capacity based on collateral pledged to the Federal Reserve discount window, but had no outstanding borrowings as of that date.

Coastway Community Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2017, Coastway Community Bank was considered "well capitalized" under regulatory guidelines.

Commitments, Contractual Obligations and Off-Balance Sheet Arrangements

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our potential future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. In addition, we enter into commitments to sell mortgage loans. For additional information, see Note 11 of the Notes to our Consolidated Financial Statements.

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Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. GAAP, 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 as well as commitments to sell loans. For information about our loan commitments and unused lines of credit, see Note 11 of the Notes to our Consolidated Financial Statements beginning on page 101 of this annual report.

We have not engaged in any other off-balance-sheet transactions in the normal course of our lending activities.

Recent Accounting Pronouncements

For a discussion of the impact of recent accounting pronouncements, see Note 1 of the Notes to our Consolidated Financial Statements beginning on page 74 of this annual report.

Impact of Inflation and Changing Prices

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not required for smaller reporting companies.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Coastway Bancorp, Inc. and Subsidiary:
Warwick, Rhode Island

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Coastway Bancorp, Inc. and Subsidiary as of December 31, 2017 and 2016, and the related consolidated statements of net income, comprehensive income, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2017 and related notes (collectively referred to as "consolidated financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Coastway Bancorp, Inc. and Subsidiary as of December 31, 2017 and 2016, and the results of its operations and their cash flows for each of the two years ended December 31, 2017, in conformity with accounting principles accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. Federal Securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting in accordance with the standards of the PCAOB. Accordingly, we express no such opinion in accordance with the standards of the PCAOB.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ CROWE HORWATH LLP

We have served as the Company's auditor since 2015.

Livingston, New Jersey
March 12, 2018

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Consolidated Balance Sheets as of December 31, 2017 and 2016**

	2017 (in thousands except share and per share amounts)	2016
Assets		
Cash and due from banks	\$ 3,258	\$ 2,946
Interest-earning deposits	51,311	41,712
Total cash and cash equivalents	54,569	44,658
Federal Home Loan Bank stock, at cost	8,299	6,184
Loans, net of allowance for loan losses of \$2,920 and \$2,493, respectively	614,593	525,215
Loans held for sale, at fair value	11,077	23,157
Premises and equipment, net	31,849	31,426
Accrued interest receivable	1,962	1,598
Foreclosed real estate	4,223	422
Bank-owned life insurance	4,585	4,452
Net deferred tax asset	1,047	925
Other assets	6,701	6,154
	\$ 738,905	\$ 644,191
Liabilities and Stockholders' Equity		
Deposits:		
Interest-bearing	\$ 360,068	\$ 340,352
Non-interest-bearing	116,888	106,962
Total deposits	476,956	447,314
Borrowed funds	181,675	121,250
Accrued expenses and other liabilities	8,929	7,055
Total liabilities	667,560	575,619
Commitments and contingencies (Notes 6 and 11)		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 20,000,000 shares authorized, none issued or outstanding		
Common stock, \$0.01 par value; 50,000,000 shares authorized; 4,389,045 and 4,403,096 issued and outstanding at December 31, 2017 and 2016	44	44
Additional paid-in capital	40,065	40,107
Retained earnings	34,834	32,186
Unearned compensation Employee Stock Ownership Plan (ESOP)	(3,327)	(3,485)
Accumulated other comprehensive loss	(271)	(280)
Total stockholders' equity	71,345	68,572
	\$ 738,905	\$ 644,191

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Consolidated Statements of Net Income for the Years Ended December 31, 2017 and 2016**

	2017	2016
	(In thousands, except per share amounts)	
Interest income:		
Interest and fees on loans	\$ 23,510	\$ 20,886
Other interest income	679	339
Total interest income	24,189	21,225
Interest expense:		
Interest on deposits	2,951	2,110
Interest on borrowed funds	1,523	676
Total interest expense	4,474	2,786
Net interest income	19,715	18,439
Provision for loan losses	435	475
Net interest income, after provision for loan losses	19,280	17,964
Non-interest income:		
Customer service fees	3,479	3,284
Net gains on sales of loans and other mortgage banking income	3,671	4,339
Bank-owned life insurance income	133	126
Other income	255	196
Total non-interest income	7,538	7,945
Non-interest expenses:		
Salary and employee benefits	12,326	10,934
Occupancy and equipment	3,211	3,092
Data processing	1,921	1,764
Deposit servicing	903	989
Professional fees	836	753
FDIC insurance assessment	338	350
Advertising	312	314
Foreclosed real estate	72	121
Other general and administrative	1,828	1,822
Total non-interest expenses	21,747	20,139
Income before income taxes	5,071	5,770
Income tax expense	2,479	2,281
Net income	\$ 2,592	\$ 3,489
Weighted average common shares outstanding basic	4,013	4,241
Weighted average common shares outstanding diluted	4,039	4,245
Per share information:		

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Basic earnings per common share	\$	0.65	\$	0.82
Diluted earnings per common share	\$	0.64	\$	0.82

The accompanying notes are an integral part of these consolidated financial statements.

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Coastway Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017 and 2016

	2017	2016
	(In thousands)	
Net income	\$ 2,592	\$ 3,489
Other comprehensive (loss) income:		
Defined benefit pension plan:		
Losses (gains) arising during the year	27	(61)
Actuarial gain amortized through salary and employee expense	63	51
Tax effect	(25)	4
Net-of-tax amount	65	(6)
Total comprehensive income	\$ 2,657	\$ 3,483

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2017 and 2016**

	Common Stock		Additional	Retained	Unearned	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Compensation	Other	Stockholders'
			Capital		ESOP	Comprehensive	Equity
						Loss	
Balance at December 31, 2015	4,822,279	\$ 48	\$ 46,094	\$ 28,697	\$ (3,643)	\$ (274)	\$ 70,922
Net income and comprehensive income				3,489		(6)	3,483
Common stock repurchased	(458,228)	(4)	(6,161)				(6,165)
Restricted stock granted	39,045						
Stock-based compensation			126				126
ESOP shares allocated (15,837 shares)			48		158		206
Balance at December 31, 2016	4,403,096	44	40,107	32,186	(3,485)	(280)	68,572
Net income and comprehensive income				2,592		65	2,657
Reclassification for the Tax Cuts and Jobs Act				56		(56)	
Common stock repurchased	(19,200)		(333)				(333)
Stock-based compensation, net of awards surrendered	5,149		144				144
ESOP shares allocated (15,837 shares)			147		158		305
Balance at December 31, 2017	4,389,045	\$ 44	\$ 40,065	\$ 34,834	\$ (3,327)	\$ (271)	\$ 71,345

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Consolidated Statements of Cash Flows for the Years Ended December 31, 2017 and 2016**

	2017	2016
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 2,592	\$ 3,489
Adjustments to reconcile net income to net cash		
Provided by (used in) operating activities:		
Provision for loan losses	435	475
Loans originated for sale	(211,976)	(219,069)
Loans sold	228,347	218,991
Gain on sale of mortgage loans, net	(4,291)	(4,127)
Amortization of deferred loan costs	1,008	1,076
Loss on foreclosed real estate	1	96
Income from Bank-owned life insurance	(133)	(126)
Loss on real estate held for sale		11
Depreciation and amortization expense	1,448	1,326
Deferred income tax (benefit) expense	(147)	(106)
ESOP expense	305	206
Stock-based compensation	196	126
Net change in:		
Accrued interest receivable	(364)	(184)
Other, net	1,193	3,201
Net cash provided by (used in) operating activities	18,614	5,385
Cash flows from investing activities:		
Purchase of and increase in certificates of deposit		(25)
Maturities of certificates of deposit		6,099
Proceeds from redemption of FHLB stock	838	1,576
Purchase of FHLB stock	(2,953)	(2,477)
Loan originations net of principal payments	(50,404)	(42,569)
Purchases of loans from third party originators	(44,416)	(17,807)
Proceeds from sale of real estate held for sale		3,294
Proceeds from sale of foreclosed real estate, net	421	825
Purchases of premises and equipment, net	(1,871)	(1,345)
Net cash used in investing activities	(98,385)	(52,429)
Cash flows from financing activities:		
Net increase in deposits	29,642	73,795
Net change in short-term borrowed funds	60,425	4,000
Increase in long-term borrowed funds		1,750
Restricted stock forfeited for tax withholdings	(52)	
Repurchase of common stock	(333)	(6,165)
Net cash provided by financing activities	89,682	73,380

The accompanying notes are an integral part of these consolidated financial statements.

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Coastway Bancorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016	
	(In thousands)		
Net increase in cash and cash equivalents	\$ 9,911	\$ 26,336	
Cash and cash equivalents at beginning of period	44,658	18,322	
Cash and cash equivalents at end of period	\$ 54,569	\$ 44,658	
Supplemental cash flow information:			
Interest paid on deposits	\$ 2,951	\$ 2,110	
Interest paid on borrowed funds	1,445	660	
Income taxes paid	2,946	2,500	
Supplemental non-cash transactions:			
Loans transferred to foreclosed real estate	\$ 3,999	\$ 633	

The accompanying notes are an integral part of these consolidated financial statements.

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Coastway Bancorp, Inc. and Subsidiary
Notes to Consolidated Financial Statements
Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Basis of Presentation

Coastway Bancorp, Inc., a Maryland chartered stock corporation ("Company" or "Corporation"), was formed to serve as the holding company for Coastway Community Bank. Coastway Community Bank (the "Bank") provides a variety of financial services to individuals and small businesses throughout Rhode Island. Its primary deposit products are savings, demand, money market and term certificate accounts and its primary lending products are residential and commercial mortgage and business loans.

The consolidated financial statements at and for the years ended December 31, 2017 and 2016 include the accounts of the Corporation and the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

Initial Public Offering ("IPO")

On January 14, 2014, Coastway Bancorp, Inc. became the parent holding company for Coastway Community Bank concurrent with its initial public offering. The total number of shares of common stock outstanding upon completion of the IPO was 4,949,179 shares.

As part of the IPO, Coastway Bancorp, Inc. established a liquidation account in an amount equal to the net worth as of the date of the latest consolidated balance sheet appearing in the final prospectus distributed in connection with the IPO, or \$27.5 million. The liquidation account will be maintained for the benefit of eligible account holders and supplemental eligible account holders who maintain their accounts at Coastway Community Bank after the IPO. The liquidation account will be reduced annually to the extent that such account holders have reduced their qualifying deposits as of each fiscal year end. Subsequent increases will not restore an account holder's interest in the liquidation account. In the event of a complete liquidation of the Corporation or the Bank, each eligible account holder will be entitled to receive balances for accounts then held.

Subsequent to the IPO, the Corporation may not declare or pay dividends on, and may not repurchase, any of its shares of common stock if the effect thereof would cause stockholders' equity to be reduced below the liquidation account balance, applicable regulatory capital maintenance requirements, or if such declaration, payment or repurchase would otherwise violate regulatory requirements.

Use of Estimates

To prepare consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets and the valuation of loans held for sale, mortgage-banking derivatives and commitments to sell fixed-rate residential mortgages.

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassification

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation. Reclassifications had no effect on prior year net income or stockholders' equity.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks and interest-earning deposits. Interest-earning deposits are carried at cost which approximates fair value and mature either daily or on demand.

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank ("FHLB") system, is required to maintain an investment in capital stock of the FHLB. Based on the redemption provisions of the FHLB, the stock has no quoted market value, is carried at cost, and is classified as a restricted security. At its discretion, the FHLB may declare cash or stock dividends on the stock which are reported as income. The Bank reviews this investment for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. During the years ended December 31, 2017 and 2016, no impairment has been recognized.

Loans

The Bank's lending activities are conducted principally in Rhode Island. Loans purchased from third party originators are generally collateralized by properties in New England, primarily in Massachusetts. The Bank grants one-to-four family residential loans as well as commercial business, commercial real estate and consumer loans. Most loans granted by the Bank are collateralized by real estate. The ability and willingness of the one-to-four family residential and consumer borrowers to honor their repayment commitments is generally dependent on the level of economic activity within the borrowers' geographic area and real estate values. The ability and willingness of commercial loan borrowers to repay their loan commitments is generally dependent on the state of the real estate economic sector in the borrowers' geographic area and the general economy.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Individually purchased one- to four-family loans are generally purchased at a premium, which is amortized into income as an adjustment of the related loan yield using the interest method.

For loan disclosures and the allowance for loan losses estimate, the Bank's loan portfolio includes residential 1-4 family real estate, home equity loans and lines of credit, commercial real estate, commercial business, commercial construction, Small Business Administration ("SBA") and consumer segments.

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accrual of interest on loans is discontinued at the time the loan is 90 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued, but not collected for loans that are placed on nonaccrual or charged off, is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. For impaired loans that are deemed collateral dependent, the recorded balance of the loan is reduced by a charge-off to bring the loan balance to the fair value of the collateral net of estimated selling costs.

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general and specific components, as further described below.

General component of the allowance for loan losses

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by loan segments. Management uses a ten year historical loss period to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; charge off trends in the past three years; weighted average risk weightings; loan concentrations; management's assessment of internal factors; and management's assessment of external factors such as interest rates, real estate markets and local and national economic factors. There were no changes in the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during the year ended December 31, 2017.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

One-to-four family residential real estate and home equity Loans in these segments are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The Bank generally has first liens on one-to-four family residential real estate loans and first or second liens on property securing home equity loans and lines of credit. Home equity loans and lines of credit may be underwritten with a loan to value ratio up to 80%. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in these segments.

Commercial Commercial loan segments include commercial real estate, commercial and industrial loans for businesses and construction financing for business/properties located principally in Rhode Island. 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

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the cash flows of the business. Commercial construction generally represent loans to finance construction of retail and office space. Commercial real estate loans also include loans made under the SBA 504 program which is an economic development program which finances the expansion of small businesses. The Bank generally provides 50% of the projected costs, and the loan is secured by a first lien on the commercial property. The SBA does not provide a guarantee on loans made under the SBA 504 program. 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.

SBA Loans in this segment include commercial loans underwritten using SBA guidelines for the SBA's 7(a) program and include both guaranteed and unguaranteed loans. Under the SBA 7(a) Program, loans may qualify for guarantees up to 85% of principal and accrued interest up to a maximum SBA guarantee of \$3.75 million per borrower and related entities. The Bank does 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 the Bank's normal underwriting criteria. For a number of SBA loans, the Bank has sold portions of certain loans and retains the unguaranteed portion while continuing to service the entire loan. The guaranteed portion of SBA loans in the Bank's portfolio is not allocated a general reserve because the Bank has not experienced losses on such loans and management expects the guarantees will be effective, if necessary. Guaranteed portions of SBA loans totaled \$26.7 million and \$25.9 million at December 31, 2017 and 2016, respectively.

Consumer This segment includes unsecured and vehicle loans and repayment is dependent on the credit quality of the individual borrower. Economic trends determined by unemployment rates and other key economic indications are closely correlated to the credit quality of these loans.

Specific component of the allowance for loan losses

The specific component relates to loans that are classified as impaired. Commercial and SBA loans are evaluated for impairment on a loan-by-loan basis. Impairment is measured 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 is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and performing residential real estate loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring agreement.

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 original 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 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.

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank periodically may agree to modify the contractual terms of loans, such as a reduction in interest rate of the loan for some period of time, an extension of the maturity date or an extension of time to make payments with the delinquent payments added to the end of the loan term. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are initially classified as impaired. Loans on non-accrual status at the date of modification are initially classified as non-accrual troubled debt restructurings. TDRs may be returned to accrual status after a period of satisfactory payment performance per the terms of the restructuring, generally six months of current payments.

Loans Held for Sale

One- to four-family residential mortgage loans originated and intended for sale in the secondary market are carried at fair value. The fair value includes the servicing value of the loans as management sells all loans held for sale servicing released. Gains and losses on loans held for sale are recorded in non-interest income as net gains on sale of loans and other mortgage banking income in the income statement.

Derivatives

Commitments to fund certain mortgage loans (interest rate locks) to be sold in the secondary market and forward loan commitments for the future delivery of mortgage loans to third party investors, including To Be Announced securities ("TBAs") and mandatory forward commitments, are accounted for as free-standing derivatives. These mortgage banking related derivatives are not designated in hedge relationships and are accounted for at fair value, with changes in fair value recorded in net gains on sales of loans and other mortgage banking income on the income statement.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Foreclosed Real Estate

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less cost to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations, changes in the valuation allowance, gains or losses on sales and any direct write-downs are included in foreclosed real estate expenses in the Consolidated Statements of Net Income.

Bank-owned Life Insurance

Bank-owned life insurance policies on certain key executives are reflected in the Consolidated Balance Sheets at the amount that can be realized under the insurance contracts, which is the cash

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

surrender value adjusted for other charges or other amounts due that are probable at settlement. Changes in cash surrender value are reflected in non-interest income in the Consolidated Statements of Net Income and are not subject to income taxes.

Defined Benefit Plan

The compensation cost of an employee's pension benefit is recognized on the projected unit credit method over the employee's approximate service period. The aggregate cost method is utilized for funding purposes.

The Bank accounts for its defined benefit pension plan using an actuarial model that allocates pension costs over the service period of employees in the plan. The Bank accounts for the over-funded or under-funded status of its defined benefit plan as an asset or liability in its balance sheet and recognizes changes in the funded status in the year in which the changes occur through other comprehensive income/loss.

Deferred Compensation Supplemental Executive Retirement Plan

The Bank maintains a non-qualified deferred compensation supplemental executive retirement plan ("DCSERP") with a senior executive. The DCSERP allows the executive to invest all or a portion of the deferred compensation in Corporation stock, provided that such stock will only be settled in Corporation stock. A Rabbi Trust holds the assets invested on behalf of the DCSERP. The Bank is required to make annual contributions of \$72,000 each January thereafter until January, 2023, so long as the executive remains employed by the Bank. Upon separation from service on or after age 67, the Bank shall pay the DCSERP benefit in 10 approximately equal annual installments starting on the first business day of January after separation from service. If the executive dies before all installments have been paid, the balance shall be paid in a cash lump sum to his beneficiary, other than Corporation stock, which shall be paid in Corporation stock. If the executive separates from service before age 67 for reasons other than death, disability or cause, he shall be paid the vested portion of his DCSERP benefit in a lump sum no later than the first day of the second month after such separation from service. As of December 31, 2017, the executive was 85% vested in the SERP benefit. An additional 5% of his DCSERP benefit becomes vested as of each December 31 until it is 100% vested on December 31, 2020. If the executive employment is terminated for cause, he will forfeit all benefits under the SERP. To fund this plan, the Bank holds investment assets which are included in other assets at fair value with changes in fair value recorded through earnings. The plan has the right to provide the Board of Directors of the Bank with investment directions for these investments. All earnings or losses on investments are the sole responsibility of the participant. The investments informally fund the DCSERP liability but remain assets of the Bank and are subject to the claims of general creditors of the Bank.

Supplemental Retirement Agreements

The Bank has entered into supplemental retirement agreements ("SERP") with seven executive and senior officers, which provide for payments upon attaining the retirement age specified in the agreements, generally 65-67. The present value of these future payments is accrued over the remaining service term. Supplemental retirement benefits generally vest as they are accrued; however a

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

termination of employment subsequent to a change in control will result in the vesting of all benefits that would have accrued to the officer's normal retirement date.

Other Retirement Plans

Employee 401(K) expense represents the amount of matching contributions. Supplemental retirement expense allocates benefits over the remaining service term.

Employee Stock Ownership Plan

The cost of shares issued to the ESOP, but not yet allocated to participants, is shown as a reduction of stockholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts.

Stock-based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on the straight-line basis over the requisite service period for the entire award.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability 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 basis of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance is established against deferred tax assets when, based upon the available evidence including historical and projected taxable income, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company does not have any uncertain tax positions at December 31, 2017 and 2016 which require accrual or disclosure. The Company records interest and penalties as part of income tax expense, if applicable.

Earnings Per Common Share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income (loss) that would result from the assumed issuance. Unallocated ESOP shares are not deemed outstanding for the earnings per share calculation.

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income/Loss

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the stockholders' equity section of the consolidated balance sheets, such items, along with net income/loss, are components of comprehensive income/loss. The Bank measures the pension plan assets and pension obligations on an annual basis and recognizes in the consolidated financial statements an asset or liability for the plan's funded status.

Dividends

The Company and the Bank are regulated enterprises and their abilities to pay dividends are subject to regulatory review and restrictions. Certain regulatory and statutory restrictions exist regarding dividends, loans, and advances from the Bank to the Company. The FDIC and the Federal Reserve have the authority to use their enforcement powers to prohibit dividend payments if, in their opinion, the payment of dividends would constitute an unsafe or unsound practice.

Segments and Significant Group Concentrations of Credit Risk

Management evaluates the Bank's performance and allocates resources based on a single segment concept. Accordingly, there are no separately identified operating segments for which discrete financial information is available. The Bank does not derive revenues from or have assets located in foreign countries, nor does it derive revenue from any single customer that represents 10% or more of the Bank's total revenues.

A significant portion of the Company's loan portfolio is concentrated among borrowers with collateral in Rhode Island and Massachusetts. The ability of residential real estate mortgage borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the market area and real estate values. The ability of commercial borrowers to honor their repayment commitments is dependent on the general economy as well as the health of the real estate economic sector in the Bank's market area.

Transfers of Financial Assets

Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets.

During the normal course of business, the Bank may transfer a portion of a financial asset, for example, a participation loan or the government guaranteed portion of a loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

As an "emerging growth company," as defined in Title 1 of the Jumpstart Our Business Startups (JOBS) Act, the Corporation has elected to use the extended transition period to delay adoption of new or reissued accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, the consolidated financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The objective of this amendment is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. This update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are in the scope of other standards. In August 2015, the FASB issued ASU 2015-14 to defer for one year the effective date of the new revenue standard. The requirements are effective for annual periods and interim periods within fiscal years beginning after December 15, 2018. During 2016, the FASB issued further implementation guidance regarding revenue recognition. This additional guidance included clarification on certain principal versus agent considerations within the implementation of the guidance as well as clarification related to identifying performance obligations and licensing, assessing collectability, presenting sales taxes, measuring noncash consideration, and certain transition matters. The Corporation's largest sources of income is net interest income on financial assets and liabilities and net gain on sales of loans and other mortgage banking income, which are explicitly excluded from the scope of this ASU. The Corporation does not expect the adoption of this guidance will have a significant impact on the Corporation's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (Subtopic 825-10), which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU requires equity instruments (except those accounted for under the equity method of accounting or that result in consolidations of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure an equity investment that does not have a readily determinable fair value at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions. The ASU also requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. For public business entities, the standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, including emerging growth companies, the standard is effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal periods after December 15, 2019. We do not expect a significant impact upon adoption on January 1, 2019; however it will impact the fair value disclosures in footnote 17.

In February 2016, the FASB issued ASU 2016-02, which will require organizations that lease assets referred to as "lessees" to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize right to use assets and lease liabilities for leases with lease terms of more than 12 months. However, unlike current Generally Accepted Accounting Principles (GAAP) which requires only

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

capital leases to be recognized on the balance sheet the new ASU will require both types of leases to be recognized on the balance sheet.

The accounting by organizations that own the assets leased by the lessee also known as lessor accounting will remain largely unchanged from current GAAP. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model. The ASU on leases will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other organizations, including emerging growth companies, the ASU on leases will take effect for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. We are currently evaluating the impact of adoption of this standard, including identifying contracts that are, or contain, leases, as the lease identification guidance in the new standard is different than the current standard.

On March 30, 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-09, which is intended to improve the accounting for employee share-based payments. The ASU affects all organizations that issue share-based payment awards to their employees. The ASU, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, simplifies several aspects of the accounting for share-based payment award transactions, including:

The income tax consequences

Classification of awards as either equity or liabilities, and

Classification on the statement of cash flows.

For public companies, the amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For private companies and emerging growth companies, 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 organization in any interim or annual period. The Corporation early adopted the standard as of January 1, 2017, and the impact of adoption was not material. The standard adds volatility in the effective tax rate.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments Credit Losses*, that will significantly change how banks measure and recognize credit impairment for many financial assets from an incurred loss methodology to a current expected credit loss model. The current expected credit loss model will require companies to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets that are in the scope of the standard. The FASB also made targeted amendments to the current impairment model for available-for-sale debt securities. The ASU is effective for public business entities that are SEC filers, for annual and interim periods in fiscal years beginning after December 15, 2019, and for other companies, including emerging growth companies, for interim and annual periods in fiscal years beginning after December 15, 2020. All entities may early adopt the standard for annual and interim periods in fiscal years after December 15, 2018. The standard will be effective for the Corporation on January 1, 2020. We are currently evaluating the impact of adoption of this standard, including different methodologies that may be employed to estimate credit losses, such as loss rate methods, component loss methods, and qualitative

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

factors, as well as additional data gathering that will be needed to adopt the standard. The standard will add new disclosures related to factors that influenced management's estimate, including current expected credit losses, the changes in those factors, and reasons for the changes as well as the method applied to revert to historical credit loss experience.

ASU 2017-07, Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost which in March 2017, the FASB issued amended existing guidance to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendments require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit costs are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments allow only the service cost component to be eligible for capitalization. The amendments are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those periods. For emerging growth companies, the amendments are effective for annual periods after December 15, 2018, including interim periods within those periods, which will be effective for the Corporation for the year ended December 31, 2019, including the interim periods in 2019. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The amendments should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the statement of net income and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The amendments allow a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. The amendment requires disclosure that the practical expedient was used. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

In February 2018, the FASB issued ASU 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows a reclassification from Accumulated Other Comprehensive Income to Retained Earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The Corporation early adopted the standard as of December 31, 2017, which resulted in a reclassification of \$56,000 between Accumulated Other Comprehensive Income and Retained Earnings in the Statement of Changes in Stockholders' Equity.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain average cash balances on hand or with the Federal Reserve Bank. At December 31, 2017 and 2016, the reserve balance amounted to \$2.5 million and \$1.9 million, respectively.

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****3. LOANS**

A summary of the balances of loans follows:

	December 31,	
	2017	2016
	(In thousands)	
Residential real estate mortgage loans:		
1 - 4 family	\$ 312,095	\$ 243,385
Home equity loans and lines of credit	71,844	76,175
Total residential real estate mortgage loans	383,939	319,560
Commercial:		
Commercial real estate	156,024	138,946
Commercial business	17,158	13,308
Commercial construction	13,552	10,946
SBA	41,020	39,948
Total commercial loans	227,754	203,148
Consumer	1,229	1,165
Total loans	612,922	523,873
Allowance for loan losses	(2,920)	(2,493)
Net deferred loan costs	4,591	3,835
Loans, net	\$ 614,593	\$ 525,215

Guaranteed portions of SBA loans total \$26.7 million and \$25.9 million at December 31, 2017 and 2016, respectively.

Residential 1-4 family loans of \$312.1 million and \$243.4 million at December 31, 2017 and 2016 included purchased loans totaling \$96.8 million and \$67.5 million, respectively. Loans totaling \$43.8 million and \$17.6 million were individually purchased during the years ended December 31, 2017 and 2016 from third parties at a cost of \$44.4 million and \$17.8 million.

Activity in the allowance for loan losses and allocation of the allowance to loan segments follows:

	Year Ended December 31, 2017								
	Residential		Commercial						
	1 - 4 Family	Home Equity	Real Estate	Commercial Business	Commercial Construction	SBA	Consumer	Total	
	(In thousands)								
Allowance for loan losses:									
Beginning balance	\$ 1,009	\$ 541	\$ 596	\$ 60	\$ 51	\$ 228	\$ 8	\$ 2,493	
Provisions (credit) for loan losses	248	(34)	180	23	19	18	(19)	435	
Loans charged-off	(6)	(22)				(13)		(41)	

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Recoveries	6	4	6	17	33
Ending balance	\$ 1,257	\$ 489	\$ 776	\$ 83	70 \$ 239 \$ 6 \$ 2,920

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****3. LOANS (Continued)**

	December 31, 2017								Total
	Residential 1 - 4 Family	Home Equity	Commercial Real Estate	Commercial Business	Commercial Construction	SBA	Consumer		
	(In thousands)								
Allowance for impaired loans	\$ 6	\$ 6	\$	\$	\$	\$ 8	\$ 2	\$ 22	
Allowance for non-impaired loans	1,251	483	776	83	70	231	4	2,898	
Total allowance for loan losses	\$ 1,257	\$ 489	\$ 776	\$ 83	\$ 70	\$ 239	\$ 6	\$ 2,920	
Impaired loans	\$ 5,125	\$ 1,845	\$ 476	\$	\$	\$ 2,640	\$ 55	\$ 10,141	
Non-impaired loans	306,970	69,999	155,548	17,158	13,552	38,380	1,174	602,781	
Total loans	\$ 312,095	\$ 71,844	\$ 156,024	\$ 17,158	\$ 13,552	\$ 41,020	\$ 1,229	\$ 612,922	

	Year Ended December 31, 2016								Total
	Residential 1 - 4 Family	Home Equity	Commercial Real Estate	Commercial Business	Commercial Construction	SBA	Consumer		
	(In thousands)								
Allowance for loan losses:									
Beginning balance	\$ 863	\$ 525	\$ 503	\$ 39	\$ 21	\$ 234	\$ 9	\$ 2,194	
Provisions (credit) for loan losses	236	83	93	21	30	27	(15)	475	
Loans charged-off	(95)	(78)				(42)	(1)	(216)	
Recoveries	5	11				9	15	40	
Ending balance	\$ 1,009	\$ 541	\$ 596	\$ 60	\$ 51	\$ 228	\$ 8	\$ 2,493	

The allowance allocated by segment is as follows:

	December 31, 2016								Total
	Residential 1 - 4 Family	Home Equity	Commercial Real Estate	Commercial Business	Commercial Construction	SBA	Consumer		
	(In thousands)								
	\$ 19	\$ 31	\$	\$	\$	\$	\$ 3	\$ 53	

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Allowance for impaired loans									
Allowance for non-impaired loans	990	510	596	60	51	228	5	2,440	
Total allowance for loan losses	\$ 1,009	\$ 541	\$ 596	\$ 60	\$ 51	\$ 228	\$ 8	\$ 2,493	
Impaired loans	\$ 5,628	\$ 1,349	\$ 4,487	\$	\$	\$ 1,493	\$ 13	\$ 12,970	
Non-impaired loans	237,757	74,826	134,459	13,308	10,946	38,455	1,152	510,903	
Total loans	\$ 243,385	\$ 76,175	\$ 138,946	\$ 13,308	\$ 10,946	\$ 39,948	\$ 1,165	\$ 523,873	

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****3. LOANS (Continued)**

The following is a summary of past due and non-accrual loans at December 31, 2017 and 2016:

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or more Past Due	Total Past Due	Past Due 90 Days or More and Still Accruing	Loans on Non-accrual
(In thousands)						
<i>December 31, 2017</i>						
Residential real estate:						
Residential 1 - 4 family	\$ 4,337	\$ 237	\$ 531	\$ 5,105		\$ 3,385
Home equity loans and lines of credit	611	100	132	843		573
Commercial real estate	1,404	376	254	2,034		254
Commercial business		32		32		
Commercial construction						
SBA	1,079	179	281	1,539		524
Consumer	11			11		
Total	\$ 7,442	\$ 924	\$ 1,198	\$ 9,564		\$ 4,736
<i>December 31, 2016</i>						
Residential real estate:						
Residential 1 - 4 family	\$ 625	\$ 587	\$ 738	\$ 1,950		\$ 3,662
Home equity loans and lines of credit	109	547	491	1,147		735
Commercial real estate			130	130		238
Commercial business						
Commercial construction						
SBA		148	18	166		18
Consumer	2			2		
Total	\$ 736	\$ 1,282	\$ 1,377	\$ 3,395		\$ 4,653

At December 31, 2017, of the \$1.5 million of delinquent SBA loans, guaranteed portions amounted to \$1.1 million.

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

3. LOANS (Continued)

The following is information pertaining to impaired loans:

	December 31, 2017			December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
(Dollars in thousands)						
Impaired loans without a valuation allowance:						
Residential real estate:						
Residential 1 - 4 family	\$ 4,810	\$ 5,068	\$	\$ 5,493	\$ 5,843	\$
Home equity loans and lines of credit	1,807	1,849		1,131	1,151	
Commercial real estate	475	475		4,487	4,487	
SBA	2,492	2,511		1,493	1,511	
Consumer	43	43				
Total	\$ 9,627	\$ 9,946	\$	\$ 12,604	\$ 12,992	\$
Impaired loans with a valuation allowance:						
Residential real estate:						
Residential 1 - 4 family	\$ 314	\$ 314	\$ 6	\$ 135	\$ 135	\$ 19
Home equity loans and lines of credit	39	39	6	218	218	31
SBA	149	149	8			
Consumer	12	12	2	13	13	3
Total	\$ 514	\$ 514	\$ 22	\$ 366	\$ 366	\$ 53

	Year ended December 31, 2017			Year ended December 31, 2016		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
(Dollars in thousands)						
Residential real estate:						
Residential 1 - 4 family	\$ 5,093	\$ 231	\$ 157	\$ 5,197	\$ 229	\$ 140
Home equity loans and lines of credit	1,824	98	29	1,250	52	23
Commercial real estate	3,323	18	4	1,662	14	2
SBA	1,961	107	10	2,025	117	1

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Consumer		36				13							
Total		\$	12,237	\$	454	\$	200	\$	10,147	\$	412	\$	166

No additional funds are committed to be advanced in connection with impaired loans at December 31, 2017 and 2016. Of the \$2.6 million and \$1.5 million of impaired SBA loans at

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****3. LOANS (Continued)**

December 31, 2017 and 2016, respectively, guaranteed portions amounted to \$1.9 million and \$1.2 million, respectively.

The following is a summary of troubled debt restructurings for the years ended December 31, 2017 and 2016:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(In thousands)			
<i>Year Ended December 31, 2017</i>			
Residential 1 - 4 family	1	\$ 161	\$ 161
Home equity and lines of credit	7	918	918
Commercial real estate	1	254	254
SBA	4	985	985
Consumer	1	43	43
<i>Year Ended December 31, 2016</i>			
Residential 1 - 4 family	2	\$ 349	\$ 349
Home equity and lines of credit	5	351	351
Commercial real estate	2	4,108	4,108
SBA	1	50	50

The troubled debt restructurings described above had a \$3,000 impact and a \$19,000 impact to the allowance for loan losses for the years ended December 31, 2017 and 2016, respectively and resulted in no charge-offs for the years ended December 31, 2017 and 2016.

Troubled debt restructurings totaled \$8.2 million and \$10.9 million of which \$5.4 million and \$8.3 million are on accrual at December 31, 2017 and 2016. TDRs of \$366,000 had specific reserves of \$53,000 at December 31, 2016 and TDRs of \$514,000 had specific reserves of \$22,000 at December 31, 2017.

The terms for loan modifications are determined on a loan-by-loan basis. In connection with troubled debt restructurings, terms may be modified to fit the ability of the borrower to repay in line with their current financial status, which may include a temporary reduction in the interest rate to market rate or below, a change in the terms to grant principal or interest deferments, or movement of past due amounts to the back-end of the loan or refinancing. All deferred payments will be collected at the time of final repayment. For qualifying loans the Bank will permit multiple modifications to a loan if the borrower performs under the modified terms. During the year ended December 31, 2017, the Bank modified eight loans totaling \$1.3 million that were performing troubled debt restructured loans at the time of modification. During the year ended December 31, 2016, the Bank modified four loans totaling \$4.1 million that were performing troubled debt restructured loans at the time of modification. These loans are included in the table above and are reported as impaired loans at December 31, 2017 and 2016. Management performs a discounted cash flow calculation to determine the amount of the impairment reserve required on each of the troubled debt restructurings and must exercise judgment to determine the amounts and timing of cash flows. Any impairment reserve required is recorded through

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****3. LOANS (Continued)**

the provision for loan losses. TDRs are reported as non-accrual loans unless the loan qualified for accruing status at the time of the restructure, or the loan has performed according to the new contractual terms for at least six months.

The following is a summary of troubled debt restructurings that defaulted in the first twelve months after restructure during the years ended December 31, 2017 and 2016:

	Number of Contracts	Recorded Investment
		(In thousands)
<i>Year Ended December 31, 2017</i>		
Residential 1 - 4 family	2	\$ 231
Home equity	1	73
Commercial Real Estate	1	3,993
SBA	2	504

Year Ended December 31, 2016

Residential 1 - 4 family	1	\$ 300
Home equity	2	265

The troubled debt restructurings above have specific reserves of \$3,000 and \$2,000 at December 31, 2017 and 2016, respectively and resulted in no charge-offs during the years ended December 31, 2017 and 2016, respectively. One troubled debt restructured loan subsequently defaulted with 12 months included above was transferred to foreclosed real estate during the year ended December 31, 2017 at a fair value of \$4.2 million.

Credit Quality Information

Commercial and SBA loans are risk rated based on key factors such as management ability, financial condition, debt repayment ability, collateral, industry conditions and loan structure.

Risk Rating 6 Special Mention: these loans have potential weaknesses and require management's close attention. If these weaknesses are not addressed, they may weaken the prospects for repayment at a future date. Special mention assets do not expose the institution to sufficient risk to warrant a classified rating.

Risk Rating 7 Substandard: loans in this category are inadequately protected by the current financial condition and repayment ability of the borrower or pledged collateral, if any. These assets have a well-defined weakness(es) that jeopardizes the repayment of the debt in full, and are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Risk Rating 8 Doubtful: loans have all the weaknesses of those classified substandard. In addition, it is highly unlikely that a doubtful asset can be collected or liquidated in full. The possibility of loss is extremely high. However, because of certain important and reasonably specific pending factors, which may work to strengthen the asset, its classification as a loss is deferred until the asset's status can be better determined.

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****3. LOANS (Continued)**

Risk Rating 9 Loss: loans classified as loss are considered uncollectible and of such little value that they are no longer considered bankable. This classification does not mean that the asset has no recovery or salvage value. However, it is not practical or desirable to defer writing off the asset even though partial recovery may occur in the future.

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be pass-rated loans.

On an annual basis, or more often if needed, the Bank formally reviews the ratings on commercial and SBA loans for loans over \$250,000. On an annual basis, the Bank engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process. Credit quality for residential real estate mortgage and consumer loans is determined by monitoring loan payment history and on-going communications with borrowers, and are not risk graded.

The following table presents the Bank's commercial loans by risk rating.

	December 31, 2017				
	Commercial Real Estate	Commercial Business	Commercial Construction	SBA	Total
(In thousands)					
Pass	\$ 152,296	\$ 17,158	\$ 13,552	\$ 39,040	\$ 222,046
Loans rated 6				76	76
Loans rated 7	3,728			1,904	5,632
Loans rated 8					
	\$ 156,024	\$ 17,158	\$ 13,552	\$ 41,020	\$ 227,754

	December 31, 2016				
	Commercial Real Estate	Commercial Business	Commercial Construction	SBA	Total
(In thousands)					
Pass	\$ 133,660	\$ 13,308	\$ 10,946	\$ 37,430	\$ 195,344
Loans rated 6	667			1,337	2,004
Loans rated 7	4,619			1,181	5,800
Loans rated 8					
	\$ 138,946	\$ 13,308	\$ 10,946	\$ 39,948	\$ 203,148

4. LOAN SERVICING

The Bank has transferred a portion of its originated commercial and SBA loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Bank's accompanying consolidated balance sheets. The Bank and participating

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lenders share ratably in cash flows and any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Bank continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments (net of servicing fees)

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****4. LOAN SERVICING (Continued)**

to participating lenders and disburses required escrow funds to relevant parties. At December 31, 2017 and 2016, the Bank was servicing commercial loans for participants aggregating \$3.9 million and \$3.0 million, respectively. At December 31, 2017 and 2016, the Bank was servicing SBA loans for participants aggregating \$8.9 million and \$12.3 million, respectively. There were no sales of SBA loans in 2017 and 2016.

5. FORECLOSED REAL ESTATE

At December 31, 2017 and 2016, the balance of foreclosed real estate was \$4.2 million and \$422,000, respectively. Foreclosed real estate at December 31, 2017 was comprised of \$4.2 million of real estate securing a former commercial loan, which was transferred into foreclosed real estate during the year ended December 31, 2017. On February 20, 2018, the Bank entered into a Purchase & Sale Agreement to sell the property for \$4.4 million.

6. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation and amortization of premises and equipment follows:

	December 31,	
	2017	2016
	(In thousands)	
Land	\$ 8,654	\$ 8,654
Buildings and improvements	25,899	24,660
Furniture, fixtures and equipment	6,204	6,582
Leasehold improvements	208	208
	40,965	40,104
Less accumulated depreciation and amortization	(9,116)	(8,678)
	\$ 31,849	\$ 31,426

Depreciation and amortization expense amounted to \$1.4 million and \$1.3 million for the years ended December 31, 2017 and 2016, respectively.

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****6. PREMISES AND EQUIPMENT (Continued)**

The Bank leases certain facilities and equipment under long-term noncancelable lease commitments. Pursuant to terms of the lease agreements in effect at December 31, 2017, future minimum lease commitments are as follows (in thousands):

2018	\$ 213
2019	16
2020	13
2021	7
2022	
Thereafter	
	\$ 249

Rent expense amounted to \$213,000 and \$205,000 for the years ended December 31, 2017 and 2016, respectively. In May 2017, the Bank entered into two agreements to lease out 8,650 square feet of the corporate headquarters for 63 months, with two additional renewal options of two years each. The schedule of minimum rental payments to be received under such leases as of December 31 are as follows (in thousands):

2018	\$ 182
2019	182
2020	182
2021	182
2022	182
Thereafter	15
	\$ 925

7. DEPOSITS

A summary of deposit balances, by type, is as follows:

	December 31,	
	2017	2016
	(In thousands)	
Non-interest-bearing demand deposit accounts	\$ 116,888	\$ 106,962
Savings accounts and interest-bearing DDA	109,664	105,675
Money market accounts	85,575	70,462
Club accounts	1,509	1,331
Total non-certificate accounts	313,636	284,430
Term certificates \$250,000 or greater	30,982	28,984
Term certificates less than \$250,000	132,338	133,900

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Total certificate accounts	163,320	162,884
Total deposits	\$ 476,956	\$ 447,314

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****7. DEPOSITS (Continued)**

A summary of certificate accounts by maturity is as follows:

Maturing Periods	December 31, 2017		December 31, 2016	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
(Dollars in thousands)				
Within 1 year	\$ 61,672	1.15%	\$ 53,030	1.04%
Within 2 years	16,889	1.32	37,617	1.32
Within 3 years	16,965	1.76	8,252	1.36
Within 4 years	47,422	2.06	16,232	1.80
Within 5 years	20,372	2.09	47,753	2.06
	\$ 163,320	1.61%	\$ 162,884	1.50%

8. BORROWED FUNDS

FHLB advances with an original maturity of less than three months amounted to \$179.9 million and \$119.5 million at December 31, 2017 and 2016, respectively, at a weighted average rate of 1.49% and 0.74%, respectively.

Long-term FHLB advances as of December 31, 2017 and 2016 consist of one non-amortizing advance of \$1.75 million maturing September 20, 2021 with 0% stated interest rate. The long-term advance was made under the FHLB's Jobs for New England Program.

At December 31, 2017 and 2016, the Bank has a \$6 million available line of credit with the FHLB. There were no amounts outstanding on this line of credit at December 31, 2017 or 2016. All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as 75% of the carrying value of first mortgage loans on owner-occupied residential property, 40% of the carrying value of certain qualifying commercial real estate loans, and 49% of the carrying value of home equity lines of credit.

At December 31, 2017 and 2016, the Bank has an agreement with the Federal Reserve Bank of Boston for borrowings at the discount window. The terms of this agreement call for the pledging of certain loans as security for any and all obligations of the Bank under this agreement. At December 31, 2017 and 2016, there were no borrowings under this agreement. The Bank had \$17.6 million of capacity based on collateral pledged to the Federal Reserve Bank of Boston at December 31, 2017.

9. EMPLOYEE BENEFITS***Defined Benefit Plan***

The Bank has a noncontributory, defined benefit pension plan (the "Plan") that, prior to its curtailment, covered substantially all qualified full-time employees. In March 1993, the Bank's Board of Directors approved an amendment to the Plan, which froze employee pension benefits at the benefit amounts earned by employees as of April 15, 1993. The benefits were based upon years of service and the employees' compensation during the last five years of employment prior to the Plan's curtailment.

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****9. EMPLOYEE BENEFITS (Continued)**

Information pertaining to the activity in the Plan is as follows:

	Years ended December 31,	
	2017	2016
	(In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,606	\$ 1,610
Interest cost	66	69
Actuarial (gain) loss	98	21
Benefits paid	(66)	(94)
Projected benefit obligation at end of year	1,704	1,606
Change in plan assets:		
Fair value of plan assets at beginning of year	1,420	1,433
Actual return on plan assets	220	61
Employer contribution	8	20
Benefits paid	(66)	(94)
Fair value of plan assets at end of year	1,582	1,420
Unfunded status at end of year	\$ 122	\$ 186
Accumulated benefit obligation at end of year	\$ 1,704	\$ 1,606

At December 31, 2017 and 2016, the discount rate used to determine the benefit obligation was 3.60% and 4.15%, respectively.

The components of net periodic pension cost are as follows:

	Years Ended December 31,	
	2017	2016
	(In thousands)	
Interest cost	\$ 66	\$ 69
Expected return on plan assets	(98)	(99)
Amortization of actuarial loss	63	51
Settlement cost		
	\$ 31	\$ 21

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An actuarial loss of \$54,000, included in accumulated other comprehensive loss at December 31, 2017, is expected to be recognized as a component of net periodic pension cost for the year ending December 31, 2018.

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****9. EMPLOYEE BENEFITS (Continued)**

The assumptions used to determine net periodic pension cost are as follows:

	Years Ended December 31,	
	2017	2016
Discount rate	4.15%	4.34%
Expected return on plan assets	7.00%	7.00%

In general, the Bank has selected their assumptions with respect to the expected long-term rate of return based on prevailing yields on high quality fixed income investments increased by a premium for equity return expectations.

Accumulated other comprehensive loss represents the actuarial loss that will be amortized through salary and employee benefits expense, and amounted to \$377,000 and \$466,000, at December 31, 2017 and 2016, respectively. The related tax benefits of the actuarial loss as of December 31, 2017 and 2016 were \$105,000 and \$186,000, respectively.

The plan assets are all measured at fair value in Level 1 because the values are based on quoted market prices in an active exchange market. The fair values of major categories of pension plan assets are summarized below:

	December 31,	
	2017	2016
	(In thousands)	
Equity securities:		
Domestic mutual funds	\$ 666	\$ 664
Fixed income	444	438
International mutual funds	308	231
International exchange traded funds	76	56
Cash and cash equivalents	88	31
	\$ 1,582	\$ 1,420

The Bank expects to contribute \$8,000 to the plan during the year ending December 31, 2018.

Estimated future benefit payments are expected to be paid follows:

Years Ending December 31,	Amount
	(In thousands)
2018	227
2019	61
2020	73
2021	82
2022	89
Thereafter	556

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

9. EMPLOYEE BENEFITS (Continued)

Deferred Compensation Supplemental Executive Retirement Plan

The assets related to this DC SERP Plan are \$1.4 million and \$1.1 million at December 31, 2017 and 2016, respectively. The liability for the benefit obligation is reported in accrued expenses and other liabilities in the amount of \$1.4 million and \$1.1 million at December 31, 2017 and 2016, respectively. Additionally, the Rabbi Trust holds 8,900 shares of Corporation stock at December 31, 2017 and 2016 which is accounted for at its cost basis of \$100,000, which is offset in stockholders' equity by the benefit obligation of \$100,000. Rabbi Trust shares are considered outstanding shares for both basic and diluted earnings per share. Compensation expense related to this plan was \$262,000 and \$195,000 for the years ended December 31, 2017 and 2016, respectively.

The assets related to the Plan are all considered to be level I trading securities and consist of mutual fund and fixed income securities.

401(k) Plan

The Bank has a defined contribution 401(k) Salary Deferral Plan (the "Plan") covering substantially all qualified employees. Under the provisions of the Plan, each qualified employee may contribute up to 15% of total compensation. The Bank matches 100% of up to 5% of the employee's contribution. In addition, the Bank may contribute for each qualified employee an amount equal to 5% of gross compensation less amounts allocated to the ESOP as a discretionary contribution. The Bank's contribution to the Plan was \$599,000 and \$559,000 for the years ended December 31, 2017 and 2016, respectively.

Incentive Compensation

On January 28, 2016, the Company and the Bank formally adopted an Annual Incentive Plan ("AIP"), effective January 1, 2016. Participants in the AIP are recommended by the CEO and approved by the Compensation Committee of the Board of Directors. Awards will be allocated based on specific performance goals, and unless the Compensation Committee deems otherwise, awards will not be paid, regardless of performance, if positive net income is not achieved. However, the Compensation Committee will have the ability to make discretionary bonuses to key performers if the AIP does not activate. Salary and benefits expense for the year ended December 31, 2017 and 2016 includes \$262,000 and \$280,000 related to the AIP and \$28,000 and \$35,000 related to discretionary bonuses for other employees.

Supplemental Retirement Agreements

SERP expense totaled \$964,000 and \$767,000 for the years ended December 31, 2017 and 2016, respectively. The weighted average discount rate used to determine the SERP cost for the year ended December 31, 2017 was 3.31%. At December 31, 2017 and 2016, the accrued liability related to the SERP was \$2.9 million and \$1.9 million, respectively.

Employee Stock Ownership Plan

The Corporation maintains an Employee Stock Ownership Plan ("ESOP") to provide eligible employees the opportunity to own Corporation stock. This plan is a tax-qualified retirement plan for

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****9. EMPLOYEE BENEFITS (Continued)**

the benefit of all Corporation employees. Contributions are allocated to eligible participants on the basis of compensation, subject to federal tax limits.

The Corporation granted a loan to the ESOP for the purchase of shares of the Corporation's common stock at the Conversion date. As of December 31, 2017, the ESOP holds 393,004 shares, or 9% of the common stock outstanding on that date. The loan obtained by the ESOP from the Corporation to purchase common stock is payable annually over 25 years at the prime rate, as published in The Wall Street Journal, which is 3.75% per annum for the loan payment paid during the year ended December 31, 2017. The loan is secured by the shares purchased, which are held in a suspense account for allocation among participants as the loan is repaid. Cash dividends if paid in the future on unallocated shares will be used to repay the outstanding debt of the ESOP then due. If the amount of dividends exceeds the outstanding debt of the ESOP, then, in the sole discretion of the Corporation, cash dividends may be allocated to active participants on a non-discriminatory basis, or be deemed to be general earnings of the ESOP. Shares used as collateral to secure the loan are released and available for allocation to eligible employees as the principal and interest on the loan is paid.

Shares held by the ESOP include the following:

	December 31, 2017
Allocated	63,349
Distributions/sales	(2,930)
Committed to be allocated	
Unallocated	332,585
	393,004

The fair value of unallocated shares was approximately \$7.1 million at December 31, 2017. Total compensation expense recognized in connection with the ESOP for the years ended December 31, 2017 and 2016 was \$305,000 and \$206,000, respectively.

Executive Change in Control Severance Plan

The Bank maintains an Executive Change in Control Severance Plan ("Severance Plan") with certain officers. The participants in the Severance Plan will be paid two times the participants' base salaries plus their highest bonus and applicable commissions in the two calendar years immediately prior to termination, upon a change in control, if the participant is not offered a comparable employment position in a similar geographic location.

Termination Benefits

During the fourth quarter of 2017, the Corporation offered termination benefits of \$253,000 to certain employees who were involuntarily terminated. The expense related to the termination benefits were recorded as a component of salaries and employee benefits expense in accordance with FASB Accounting Standards Codification ASC Topic 420 *Exit or Disposal Cost Obligations*. The affected employees are not required to render any additional services to receive termination benefits. The benefits are being paid weekly over varying periods up to 52 weeks. At December 31, 2017, of the \$253,000 of termination expense recorded, \$240,000 remains unpaid.

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

10. OTHER STOCK-BASED COMPENSATION

Equity Incentive Plan

On May 21, 2015, the Coastway Bancorp, Inc. stockholders approved the 2015 Equity Incentive Plan ("EIP"). Types of awards permitted by the EIP include stock options, restricted stock awards, restricted stock units, and performance awards. The number of shares available for issuance under the EIP was 692,885 at December 31, 2015. Stock options under the EIP will generally expire after ten years after the date of grant. Unless otherwise determined by the Compensation Committee, awards under the EIP (other than Performance Awards) shall be granted with a vesting rate not exceeding twenty percent per year, with the first installment vesting no earlier than one year after the date of grant. Upon an termination following a change in control, all stock options, restricted stock awards and units will become fully vested and performance awards will be deemed earned.

In February 2016, the Compensation Committee of the Board of Directors authorized the grant of 91,225 options at a strike price of \$12.41 and 39,045 shares of restricted stock to directors and certain key senior executives. The options and the restricted stock both vest over a five year period. The \$12.41 fair value of the restricted stock is based on the closing price of the Company's common stock on the date of the grant. The holders of restricted stock participate fully in rewards of stock ownership of the Company, including voting and dividend rights when vested. The grant-date fair value of stock options of \$2.59 was estimated using the Black-Scholes Option-Pricing Model.

In February 2017, the Compensation Committee of the Board of Directors authorized the grant of 26,155 options at a strike price of \$16.40 and 11,228 shares of restricted stock to directors and certain key senior executives. The options and the restricted stock both vest over a five year period. The \$16.40 fair value of the restricted stock is based on the closing price of the Company's common stock on the date of the grant. The holders of restricted stock participate fully in rewards of stock ownership of the Company, including voting, and dividend rights when vested. The grant-date fair value of stock options of \$4.11 was estimated using the Black-Scholes Option-Pricing Model.

Restricted stock expense for the year ended December 31, 2017 and 2016 was \$130,000 and \$85,000 respectively. At December 31, 2017 there was \$413,000 which was expected to be recognized over 3.5 years of unrecognized salary and employee benefits cost related to restricted stock. Executive officers returned 2,683 shares of vested restricted stock in February 2017 for tax withholding purposes with a fair value of \$44,000. An executive who retired, forfeited 3,016 shares of restricted stock at December 31, 2017, and had 380 vested shares returned for tax withholding purposes, with a fair value of \$8,000. Executive officers returned 2,694 shares of vested restricted stock in February 2018 for tax withholding purposes with a fair value of \$59,000.

Stock option expense for the year ended December 31, 2017 and 2016 was \$66,000 and \$41,000 respectively. At December 31, 2017 there was \$215,000 which was expected to be recognized over 3.5 years of unrecognized salary and employee benefits cost related to stock options.

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

10. OTHER STOCK-BASED COMPENSATION (Continued)

The fair value of options granted was determined using the following weighted-average assumptions as of grant date.

	2017	2016
Risk-free interest rate	2.25%	1.56%
Expected term	8 years	8 years
Expected stock price volatility	15.04%	13.52%
Dividend yield	0.00%	0.00%

A summary of the stock option activity in the EIP plan follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of 2016		\$		\$
Granted	91,225	12.41	10	
Exercised				
Forfeited or expired				
Outstanding at end of 2016	91,225	12.41	9.1	295,569
Granted	26,155	16.40	10	
Exercised				
Forfeited or expired	(7,042)	13.44		
Outstanding at end of 2017	110,338	\$ 13.29	8.3	\$ 322,761
Fully vested and expected to vest	110,338	\$ 13.29		\$ 322,761
Exercisable	13,038	\$ 12.41		\$ 33,789

A summary of changes in nonvested restricted stock for the year follows:

Nonvested Shares	Shares	Weighted- Average Grant-Date Fair Value
Nonvested at January 1, 2016		\$
Granted	39,045	12.41
Vested		
Forfeited		
Nonvested at December 31, 2016	39,045	12.41
Granted	11,228	16.40
Vested	(8,762)	(12.41)
Forfeited	(3,016)	(13.45)
Nonvested at December 31, 2017	38,495	\$ 13.49

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****11. OFF-BALANCE SHEET ACTIVITIES AND MORTGAGE BANKING**

In the normal course of business, there are outstanding commitments and contingencies which are not reflected in the accompanying consolidated financial statements.

Loan Commitments

The Bank is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit which include commercial and home equity lines of credit that involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Bank's exposure to credit loss is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2017	2016
	(In thousands)	
Commitments to originate loans for portfolio	\$ 24,390	\$ 18,461
Commitments to originate loans to be sold	13,959	24,161
Commitments to purchase loans from third parties	8,986	4,236
Unfunded commitments under home equity lines of credit	58,282	53,342
Unfunded commitments under commercial lines of credit	16,478	14,730
Unfunded commitments under SBA lines of credit	4,829	4,106
Unfunded commitments under overdraft lines of credit	183	180
Unadvanced funds on construction loans	7,426	5,735

The commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines-of-credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based upon management's credit evaluation of the counterparty. Collateral held generally consists of real estate.

Loans Sold with Recourse Obligations

The Bank sells certain loans on a servicing-released basis to investors pursuant to contracts which include limited recourse provisions whereby the Bank would be required to repurchase loans and/or refund premiums in the event a borrower defaults or prepays generally on any of the first four payments due. At December 31, 2017 and 2016, the premiums received on loans sold that were subject to refund provisions amounted to \$1.9 million at both periods. The contracts also include repurchase obligation provisions for fraud or misrepresentation. No loans were repurchased in 2017 and 2016, and the Bank refunded \$31,000 and \$37,000 in premiums in 2017 and 2016, respectively. No liability has been recorded in the consolidated financial statements related to these recourse obligations.

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****11. OFF-BALANCE SHEET ACTIVITIES AND MORTGAGE BANKING (Continued)*****Mortgage Banking***

At December 31, 2017, the Bank had \$14.0 million of interest rate lock commitments to borrowers and loans held for sale of \$11.1 million with \$22.5 million of forward commitments for the future delivery of residential mortgage loans. Included in the forward commitments total are open TBAs with a notional amount of \$9.5 million, mandatory delivery contracts with a notional amount of \$3.4 million, and best efforts contracts with a notional amount of \$9.6 million. The Bank has \$5.0 million of closed hedge instruments that are not settled at December 31, 2017.

At December 31, 2016, the Bank had \$24.3 million of interest rate lock commitments to borrowers and loans held for sale of \$23.2 million with \$41.9 million of forward commitments for the future delivery of residential mortgage loans. Included in the forward commitments total are open TBAs with a notional amount of \$15.3 million, mandatory delivery contracts with a notional amount of \$7.4 million, and best efforts contracts with a notional amount of \$19.3 million. The Bank has \$8.5 million of closed hedge instruments that are not settled at December 31, 2016.

The following table presents the fair values of derivative instruments and forward loan sale commitments in the consolidated balance sheets:

	Assets		Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(In thousands)				
<i>December 31, 2017</i>				
Derivative loan commitments:				
Commitments hedged with best efforts	Other assets	\$ 32	N/A	\$
Commitments hedged with TBA	Other assets	179	N/A	
Total derivative commitments		211	N/A	
Forward loan sale commitments				
Best efforts contracts hedging:				
Commitments	Other assets	7	N/A	
Loans held for sale	Other assets	18	N/A	
Total best efforts contracts		25		
Mandatory delivery contracts	Other assets	10	N/A	
TBA securities	N/A		Other liabilities	20
Total forward loan sale commitments		35		20
Total derivative loan and forward loan sale commitments		\$ 246		\$ 20

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

11. OFF-BALANCE SHEET ACTIVITIES AND MORTGAGE BANKING (Continued)

	Assets		Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(In thousands)				
<i>December 31, 2016</i>				
Derivative loan commitments:				
Commitments hedged with best efforts	Other assets	\$ 255	N/A	\$
Commitments hedged with TBA	Other assets	311	N/A	
Total derivative commitments		566	N/A	
Forward loan sale commitments:				
Best efforts contracts hedging:				
Commitments	N/A		Other liabilities	125
Loans held for sale	Other assets	77	N/A	
Total best efforts contracts		77		125
Mandatory delivery contracts	N/A		Other liabilities	37
TBA securities	N/A		Other liabilities	57
Total forward loan sale commitments		77		219
Total derivative loan and forward loan sale commitments		\$ 643		\$ 219

Interest Rate Risk Management Derivative Instruments not Designated as Hedging Instruments

The following table presents information pertaining to the gains and losses on Bank's derivative instruments and forward commitments to sell loans not designated as hedging instruments:

	Location of Gain/(Loss)	Years Ended December 31,	
		2017	2016
(In thousands)			
Derivative loan commitments best efforts	Net gain on sales of loans and other mortgage banking income	\$ (223)	\$ 93
Derivative loan commitments TBA	Net gain on sales of loans and other mortgage banking income	(132)	256
Best efforts contracts	Net gain on sales of loans and other mortgage banking income	73	127
Mandatory delivery contracts	Net gain on sales of loans and other mortgage banking income	47	(40)

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TBA securities	Net gain on sales of loans and other mortgage banking income	37	(52)
Total		\$ (198)	\$ 384

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****11. OFF-BALANCE SHEET ACTIVITIES AND MORTGAGE BANKING (Continued)***Executive Employment Agreement*

The Bank has entered into an Executive Employment Agreement with its President which automatically renews annually unless otherwise determined by the Board of Directors, and provides for, among other things, an annual base salary, participation in any and all employee benefit plans, and guaranteed employment. The agreement provides for continued payment of base salary and continued benefits for five years following termination of employment without cause or a change of control event. However, such employment may be terminated for cause, as defined, without incurring any continuing obligation.

Legal and Other Loss Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Bank's consolidated financial statements at December 31, 2017 and 2016.

12. LOANS TO RELATED PARTIES

Information pertaining to loans to directors, executive officers and their associates is as follows:

	Years Ended December 31,	
	2017	2016
	(In thousands)	
Balance at beginning of year	\$ 1,395	\$ 1,082
Principal additions	645	780
Principal payments	(796)	(467)
Balance at end of year	\$ 1,244	\$ 1,395

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****13. INCOME TAXES**

Allocation of income taxes between current and deferred portions is as follows:

	Years Ended December 31,	
	2017	2016
	(In thousands)	
Current tax expense:		
Federal	\$ 2,034	\$ 1,804
State	592	583
	2,626	2,387
Deferred tax (benefit) expense:		
Federal	(35)	31
State	(112)	(137)
	(147)	(106)
Total income tax expense	\$ 2,479	\$ 2,281

The reasons for the differences between the statutory federal income tax expense and the actual tax expense are summarized as follows:

	Years Ended December 31,	
	2017	2016
	(In thousands)	
Statutory tax expense at 34%	\$ 1,724	\$ 1,962
Increase (decrease) resulting from:		
State taxes, net of federal tax benefit	317	294
Change in federal income tax rate	412	
Other, net	26	25
	\$ 2,479	\$ 2,281

The Tax Cuts and Tax Act (the "Tax Act") was signed into law in December 2017 which reduced the corporate federal statutory tax rate from 34% to 21%. U.S. GAAP requires the impact of the Tax Act to be accounted for in the period of enactment. As such, the Corporation was required to write down the value of its net deferred tax assets by \$412,000 as of December 31, 2017 to reflect the reduction in the corporate tax rate for future periods. On December 22, 2017, the U.S. Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 118 ("SAB 118") to address any uncertainty or diversity of views in practice in accounting for the income tax effects of the Tax Act in situations where a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete this accounting in the reporting period that includes the enactment date. SAB 118 allows for a measurement period, not to extend beyond one year from the Tax Act's enactment date, to complete the necessary accounting.

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The Corporation recorded provisional amounts of deferred income taxes using reasonable estimates in three areas where the information necessary to determine the final deferred tax asset or

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****13. INCOME TAXES (Continued)**

liability was either not available, not prepared, or not sufficiently analyzed as of the report filing date: 1) the deferred tax liability for temporary differences between the tax and financial reporting bases of fixed assets is awaiting completion and implementation of software updates to process the calculations associated with the Tax Act's provisions allowing for 100% bonus depreciation on fixed assets placed in service after September 27, 2017; 2) the deferred tax asset for temporary differences associated with accrued compensation is awaiting final determinations of amounts that will be paid on or before March 15, 2018 and deducted on the 2017 income tax returns; and 3) the deferred tax liability for temporary differences associated with prepaid expenditures is awaiting system information needed to fully complete the analysis of qualified amounts.

No adjustments were made to deferred tax assets representing future deductions for accrued compensation that may be subject to new limitations under Internal Revenue Code Section 162(m) which, generally, limits the annual deduction for certain compensation paid to certain employees to \$1 million. As of the report filing date, there is uncertainty regarding how the newly-enacted rules in this area apply to existing contracts. Consequently, the Corporation is seeking further clarification of these matters before completing its analysis.

The Corporation will complete and record the income tax effects of these provisional items during the period the necessary information becomes available. This measurement period will not extend beyond December 22, 2018.

The tax effects of each item that give rise to deferred taxes are as follows:

	December 31,	
	2017	2016
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 816	\$ 994
Employee benefits	1,432	1,409
Non-accrual interest	52	61
Defined benefit pension plan	105	186
Charitable contribution carryforwards	52	318
Organization costs	78	122
Other, net	82	48
Total deferred tax assets	2,617	3,138
Deferred tax liabilities:		
Premises and equipment, net	(407)	(611)
Net deferred loan costs	(1,019)	(1,288)
Mortgage derivatives	(120)	(259)
Servicing assets	(24)	(55)
Total deferred tax liabilities	(1,570)	(2,213)
Deferred tax asset, net	\$ 1,047	\$ 925

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****13. INCOME TAXES (Continued)**

A summary of the change in deferred taxes is as follows:

	Years Ended December 31,	
	2017	2016
	(In thousands)	
Balance at beginning of year	\$ 925	\$ 815
Deferred tax (expense) benefit	559	106
Change in federal income tax rate	(412)	
Unrealized gain/loss pertaining to defined benefit pension plan	(25)	4
Balance at end of year	\$ 1,047	\$ 925

The Bank has a net deferred tax asset of \$52,000 relating to charitable contribution carry forwards that must be utilized by the income tax year ending December 31, 2019. Charitable contributions are generally limited to a ten percent of taxable income deduction. At December 31, 2017 and 2016, the Bank has no ASC 740-10 unrecognized tax benefits. The Bank does not expect the total amount of the unrecognized tax benefits to significantly increase within the next twelve months. The Bank's income tax returns are subject to review and examination by federal and state taxing authorities. The Bank is subject to U.S. federal income tax as well as income tax in various state taxing jurisdictions. The Bank is no longer subject to examination by federal and state taxing authorities for years prior to the year ended December 31, 2014.

14. EARNINGS PER COMMON SHARE

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Unallocated ESOP shares are not deemed outstanding for earnings per share calculations.

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****14. EARNINGS PER COMMON SHARE (Continued)**

The factors used in the earnings per share computation are as follows for the years ended December 31:

	2017	2016
	(in thousands)	
Net income applicable to common stock	\$ 2,592	\$ 3,489
Weighted average common shares outstanding	4,353	4,597
Less: Average unallocated ESOP shares	340	356
Weighted average number of common shares outstanding basic	4,013	4,241
Dilutive impact of stock options	15	
Dilutive impact of restricted stock	11	4
Weighted average number of common shares outstanding diluted	4,039	4,245
Earnings per share basic	\$ 0.65	\$ 0.82
Earnings per share diluted	\$ 0.64	\$ 0.82

The incremental shares of common stock totaling 445 and 5,702 shares pertaining to outstanding stock options were not considered in computing diluted earnings per share for the years ended December 31, 2017 and 2016, respectively because they were anti-dilutive.

15. STOCK REPURCHASE PROGRAMS

In January 30, 2015, the Corporation authorized a program to repurchase, from time to time and as market and business conditions warrant, up to 247,459 shares of the Corporation's common stock. During the year ended December 31, 2016 and 2015, 120,559 shares and 126,900 shares were repurchased at a cost of \$1.6 million and \$1.5 million, respectively. Shares repurchased of 71,659 during the year ended December 31, 2016 were repurchased from one stockholder at a price of \$13.00 per share. On May 19, 2016, the Corporation announced it had completed this first stock repurchase program.

In May, 2016, the Corporation authorized a program to repurchase, from time to time and as business conditions warrant, up to 235,086 shares of the Corporation's common stock. During the year ended December 31, 2016, 235,086 shares were repurchased for a cost of \$3.1 million. The 235,086 shares were repurchased from one stockholder at a price of \$13.00 per share. On June 14, 2016, the Corporation announced it had completed this second stock repurchase program.

In November, 2016, the Corporation authorized a program to repurchase, from time to time and as business conditions warrant, up to 223,331 shares of the Corporation's common stock. During the years ended December 31, 2017 and 2016, 19,200 and 102,583 shares,

respectively were repurchased under this third stock repurchase program, with 101,548 shares remaining available to be repurchased.

16. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

16. MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)

and possibly additional discretionary actions by regulators that, if undertaken, could have a direct adverse material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Federal regulations require FDIC-insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8%, and a 4% Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019. At December 31, 2017 and 2016, the capital conservation buffer is 1.25% and 0.625% of risk-weighted assets.

Management believes, as of December 31, 2017 and 2016, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2017, the most recent notification from the Federal Deposit Insurance Corporation ("FDIC") categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table.

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****16. MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)**

The Bank's actual and minimum required capital amounts at December 31, 2017 and 2016 are as follows:

(Dollars in thousands)	Actual		Minimum Capital for Capital Adequacy Purposes		Minimum Capital for Adequacy with Capital Buffer		Minimum Capital To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017								
Total Capital (to risk weighed assets)	\$ 63,574	13.082%	\$ 38,878	8.00%	\$ 44,953	9.25%	\$ 48,598	10.00%
Tier 1 Capital (to risk weighed assets)	60,654	12.481	29,159	6.00	35,234	7.25	38,878	8.00
Common Equity Tier 1 (to risk weighed assets)	60,654	12.481	21,869	4.50	27,944	5.75	31,589	6.50
Tier 1 Leverage Capital (to average assets)	60,654	8.557	28,351	4.00	28,351	N/A	35,439	6.00
December 31, 2016								
Total Capital (to risk weighed assets)	\$ 59,722	13.373%	\$ 35,728	8.00%	\$ 38,519	8.625%	\$ 44,660	10.000%
Tier 1 Capital (to risk weighed assets)	57,229	12.814	26,796	6.00	29,587	6.625	35,728	8.000
Common Equity Tier 1 (to risk weighed assets)	57,229	12.814	20,097	4.50	22,888	5.125	29,029	6.500
Tier 1 Leverage Capital (to average assets)	57,229	9.034	25,339	4.00	N/A	N/A	31,673	5.000

On April 9, 2015, the Board of Governors of the Federal Reserve System issued the Final Rule to implement Public law 113-250 enacted on December 18, 2014 that updates the Small Bank Holding Company Policy Statement ("Policy Statement"), which became effective in May 2015. Pursuant to the Policy Statement, capital rules and reporting requirements will not apply to the small bank holding companies (defined as less than \$1.0 billion in assets) which meet the following criteria: (1) not engaged in significant non-bank activities; (2) no significant off-balance sheet activities conducted through a non-bank subsidiary, and (3) no material amount of SEC registered debt or equity securities outstanding (other than trust preferred). The Bank is subject to the capital rules and reporting requirements, though the holding company is exempt.

17. FAIR VALUES OF ASSETS AND LIABILITIES**Fair Value Hierarchy**

The Bank groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value.

Level 1 Valuation is based on quoted prices in active markets for identical assets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

17. FAIR VALUES OF ASSETS AND LIABILITIES (Continued)

Level 2 Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

Level 3 Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets or liabilities include financial instruments whose value is determined using unobservable inputs to pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Transfers between levels, if any, are recognized at the end of a reporting period.

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various assets and liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of an asset or liability.

The following methods and assumptions were used by the Bank in estimating fair value disclosures:

Cash and cash equivalents The carrying amounts of cash and cash equivalents approximate fair values based on the short-term nature of the assets.

Federal Home Loan Bank stock The carrying value of Federal Home Loan Bank stock is deemed to approximate fair value, based on the redemption provisions of the Federal Home Loan Bank.

Loans, net For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Loans held for sale Fair values of loans held for sale are based on prevailing market rates for loans with similar characteristics.

Accrued interest receivable The carrying amounts of accrued interest receivable approximates fair value.

Deposits The fair values of deposits with no stated maturity, such as demand deposits, savings, club and money market accounts, are equal to the amount payable on demand at the reporting date. Fair values for term certificates are estimated using a discounted cash flow calculation that applies market interest rates currently being offered for deposits of similar remaining maturities.

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

17. FAIR VALUES OF ASSETS AND LIABILITIES (Continued)

Borrowed funds The fair values of the Bank's FHLB advances are estimated using discounted cash flow analyses based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

Accrued interest payable The carrying amounts of accrued interest payable approximates fair value.

Off-balance sheet credit-related instruments Fair values for off-balance-sheet, credit related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The estimates of fair value of financial instruments were based on information available at December 31, 2017 and 2016 and are not indicative of the fair value of those instruments as of the date of this report. These estimates do not include any premium or discount that could result from offering for sale at one time the Corporation's entire holdings of a particular instrument. The fair value of the Corporation's time deposit liabilities do not take into consideration the value of the Corporation's long-term relationships with depositors, which may have significant value.

Because no active market exists for a portion of the Corporation's financial instruments, fair value estimates were based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates were based on existing on- and off-balance sheet financial instruments without an attempt to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments, including premises and equipment, foreclosed real estate, and real estate held for sale.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

At December 31, 2017 and 2016, there are no assets or liabilities measured at fair value on a recurring basis other than loans held for sale, mortgage derivatives and forward commitments to sell loans. See Note 11.

Fair value changes in mortgage banking derivatives and commitments to sell fixed-rate residential mortgages subsequent to inception are estimated using anticipated market prices based on pricing indications provided from syndicate banks and consideration of pull-through and fallout rates derived from the Bank's internal data and adjusted using management judgment. The fair value of the mortgage banking derivatives and forward commitments to sell using best efforts contracts are considered to be Level 3 assets.

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****17. FAIR VALUES OF ASSETS AND LIABILITIES (Continued)**

The following table shows significant unobservable inputs used in the recurring fair value measurements of Level 3 assets and liabilities:

Measurements	Asset (Liability) Fair Value (In thousands)	Valuation Technique	Unobservable Inputs	Range
<i>December 31, 2017</i>				
Derivative loan commitments	\$ 211	Investor pricing	Pull-through rate	74.2% - 100%
Forward loan sale commitments:				
Best efforts contracts hedging commitments	7	Investor pricing	Pull-through rate	82.5% - 100%
Best efforts contracts hedging loans held for sale	18	Investor pricing	Pull-through rate	82.5% - 100%
<i>December 31, 2016</i>				
Derivative loan commitments	\$ 566	Investor pricing	Pull-through rate	75.1% - 100%
Forward loan sale commitments:				
Best efforts contracts hedging commitments	(125)	Investor pricing	Pull-through rate	82.5% - 100%
Best efforts contracts hedging loans held for sale	77	Investor pricing	Pull-through rate	82.5% - 100%

The table below presents (in thousands), for the years ended December 31, 2017 and 2016, the changes in Level 3 assets and liabilities, consisting of derivative loan and forward sale commitments, that are measured on a recurring basis. There were no transfers between levels during the periods presented.

	2017	2016
Balance at beginning of year	518	42
Gains (loss) arising during the period	(3)	7
Gains (loss) on new commitments during the period	236	518
Reclassifications of realized gains on settled commitments	(515)	(49)
Balance at end of year	\$ 236	\$ 518

Assets Measured at Fair Value on a Non-recurring Basis

The Bank may also be required, from time to time, to measure certain other assets at fair value on a non-recurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine each

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****17. FAIR VALUES OF ASSETS AND LIABILITIES (Continued)**

adjustment and the carrying value of the related individual assets as of December 31, 2017 and 2016. The losses represent the amount of write-downs during the year on assets held at year end.

	December 31, 2017			Year Ended December 31, 2017
	Level 1	Level 2	Level 3	Total Losses
	(In thousands)			
Foreclosed real estate	\$	\$	\$ 4,223	\$ 1
Impaired loans			178	16
	\$	\$	\$ 4,401	\$ 17

	December 31, 2016			Year Ended December 31, 2016
	Level 1	Level 2	Level 3	Total Losses
	(In thousands)			
Foreclosed real estate	\$	\$	\$ 422	\$
Impaired loans			558	116
	\$	\$	\$ 980	\$ 116

Losses applicable to impaired loans are estimated using the appraised value of the underlying collateral, discounted as necessary due to management's estimates of changes in market conditions, less selling costs. The loss is not recorded directly as an adjustment to current earnings or comprehensive income, but rather as a component in determining the overall adequacy of the allowance for loan losses. Adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for loan losses. Impaired loans of \$178,000, net of specific reserves of \$3,000, resulted in a provision of \$16,000 for December 31, 2017, and impaired loans of \$558,000, net of specific reserves of \$23,000, resulted in a provision of \$116,000 for 2016.

Certain properties in foreclosed real estate and real estate held for sale were adjusted to fair value based on appraisals that utilize prices in observed transactions involving similar assets or estimated sales price less costs to sell. If necessary, these appraised values were adjusted by management to recognize unobservable inputs for specific characteristics of the properties. Losses during the year represent amounts charged off to the allowance for loan losses upon transfer from loans and subsequent write-downs charged to earnings.

There are no liabilities measured at fair value on a non-recurring basis at December 31, 2017 or 2016.

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****17. FAIR VALUES OF ASSETS AND LIABILITIES (Continued)**

The following table shows significant unobservable inputs used in the non-recurring fair value measurements of Level 3 assets:

Measurements	Fair Value (In thousands)	Valuation Technique	Unobservable Inputs	Range
<i>December 31, 2017</i>				
Foreclosed real estate	\$ 4,223	Discounted appraisals	Collateral discounts	10 - 43%
Impaired loans	178	Discounted appraisals	Collateral discounts	5 - 30%
<i>December 31, 2016</i>				
Foreclosed real estate	\$ 422	Discounted appraisals	Collateral discounts	5 - 30%
Impaired loans	558	Discounted appraisals	Collateral discounts	5 - 30%

As of December 31, 2017 and 2016, the aggregate fair value, contractual balance and gain or loss on loans held for sale, at fair value was as follows:

	2017	2016
	(in thousands)	
Aggregate fair value	\$ 11,077	\$ 23,157
Contractual balance	10,767	22,714
Gain	310	443

The total amount of gains and losses from changes in fair value included in earnings for the year ended December 31, 2017 and 2016 for loans held for sale were \$(24,000) and \$(241,000).

The following tables present the carrying amount, estimated fair value and placement in the fair value hierarchy of the Bank's financial instruments as of December 31, 2017 and 2016. The tables exclude derivatives.

December 31, 2017

	Carrying Amount	Estimated Fair Value	Fair Value Measurements		
			Level 1	Level 2	Level 3
(In thousands)					
Financial assets:					
Cash and cash equivalents	\$ 54,569	\$ 54,569	\$ 54,569	\$	\$
Loans, net of allowance for loan losses	614,593	616,649			616,649
Loans held for sale	11,077	11,077		11,077	
FHLB stock	8,299	N/A	N/A	N/A	N/A
Accrued interest receivable	1,962	1,962			1,962
Financial liabilities:					
Non-certificate accounts	313,636	313,636	313,636		
Certificate accounts	163,320	163,252		163,252	
Borrowed funds	181,675	181,494		181,494	
Accrued interest payable	118	118		118	

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****17. FAIR VALUES OF ASSETS AND LIABILITIES (Continued)**

December 31, 2016

	Carrying Amount	Estimated Fair Value	Fair Value Measurements		
			Level 1	Level 2	Level 3
(In thousands)					
Financial assets:					
Cash and cash equivalents	\$ 44,658	\$ 44,658	\$ 44,658	\$	\$
Loans, net of allowance for loan losses	525,215	525,822			525,822
Loan held for sale	23,157	23,157		23,157	
FHLB stock	6,184	N/A	N/A	N/A	N/A
Accrued interest receivable	1,598	1,598			1,598
Financial liabilities:					
Non-certificate accounts	284,430	284,430	284,430		
Certificate accounts	162,884	163,145		163,145	
Borrowed funds	121,250	121,053		121,053	
Accrued interest payable	40	40		40	

18. PARENT COMPANY FINANCIAL STATEMENTS

Condensed financial information relative to the Parent Company's balance sheets at December 31, 2017 and 2016 and the related statements of net income and loss and cash flows for the year ended December 31, 2017 and 2016 are presented below. The statement of stockholders' equity is not presented below as the parent company's stockholders' equity is that of the consolidated company.

BALANCE SHEETS

	December 31 2017	December 31 2016
(in thousands)		
Assets		
Cash	\$ 7,268	\$ 7,632
Investments in subsidiaries	60,504	57,288
Note receivable from subsidiary	3,524	3,633
Other assets	83	29
Total assets	\$ 71,379	\$ 68,582
Liabilities and stockholders' equity		
Other liabilities	\$ 34	\$ 10
Stockholders' equity	71,345	68,572
Total liabilities and stockholders' equity	\$ 71,379	\$ 68,582

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Coastway Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2017 and 2016

18. PARENT COMPANY FINANCIAL STATEMENTS (Continued)

STATEMENTS OF NET INCOME (LOSS)

	Year-ended December 31 2017	Year-ended December 31 2016
	(in thousands)	
Income		
Interest income	\$ 172	\$ 205
Expenses		
Other expenses	268	208
Loss before income tax benefit and equity in undistributed income of subsidiaries	(96)	(3)
Income tax benefit	(37)	(1)
Loss of parent company	(59)	(2)
Equity in undistributed income of subsidiaries	2,651	3,491
Net income	\$ 2,592	\$ 3,489

Table of Contents**Coastway Bancorp, Inc. and Subsidiary****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2017 and 2016****18. PARENT COMPANY FINANCIAL STATEMENTS (Continued)****STATEMENTS OF CASH FLOWS**

	Year-ended December 31 2017	Year-ended December 31 2016
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 2,592	\$ 3,489
Adjustments to reconcile net loss to cash used in operating activities		
Change in other assets	(54)	(17)
Change in other liabilities	25	(16)
Equity in undistributed income of subsidiaries	(2,651)	(3,491)
Net cash provided by (used in) operating activities	(88)	(35)
Cash flows used in investing activities:		
Purchase of and increase in certificates of deposit		(25)
Maturities of certificates of deposit		6,099
Change in note receivable from subsidiary, net	109	108
Net cash provided by (used in) investing activities	109	6,182
Cash flows used in financing activities:		
Repurchase of common stock	(333)	(6,165)
Restricted stock forfeited for tax withholdings	(52)	
Net cash used in financing activities	(385)	(6,165)
Net decrease in cash and cash equivalents	(364)	(18)
Cash and cash equivalents at the beginning of the year	7,632	7,650
Cash and cash equivalents at the end of the year	\$ 7,268	\$ 7,632

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable

Item 9A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2017. Based on that evaluation, the Company's management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

(b) Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflects the transactions and disposition of the assets of the Company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013).

Based on our assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2017.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules

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of the Securities and Exchange Commission that permit the Company (emerging growth company) to provide only management's report in this annual report.

(c) Changes in internal controls

There were no significant changes made in our internal control over financial reporting during the Company's fourth quarter of the year ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not Applicable

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The "Proposal I Election of Directors" section of the Company's definitive proxy statement for the Company's 2018 Annual Meeting of Shareholders (the "2018 Proxy Statement") is incorporated herein by reference.

Item 11. Executive Compensation

The "Proposal I Election of Directors" section of the Company's 2018 Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The "Proposal I Election of Directors" section of the Company's 2018 Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The "Transactions with Certain Related Persons" section of the Company's 2018 Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The "Proposal II Ratification of Appointment of Independent Registered Public Accounting Firm" Section of the Company's 2018 Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) *Financial Statements*

The following are filed as a part of this report by means of incorporation by reference to Coastway Bancorp, Inc.'s 2017 Annual Report to Stockholders:

(A) Report of Independent Registered Public Accounting Firm

(B)

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Consolidated Balance Sheets at December 31, 2017 and 2016

(C)

Consolidated Statements of Net Income Years ended December 31, 2017 and 2016

(D)

Consolidated Statements of Comprehensive Income Years ended December 31, 2017 and 2016

(E)

Consolidated Statements of Cash Flows Years ended December 31, 2017 and 2016

(F)

Notes to Consolidated Financial Statements.

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- (a) (2) *Financial Statement Schedules*

None.

- (a) (3) *Exhibits*

- 3.1 Articles of Incorporation of Coastway Bancorp, Inc.(1)
- 3.2 Bylaws of Coastway Bancorp, Inc.(2)
- 3.3 Articles of Amendment to the Articles of Incorporation of Coastway Bancorp, Inc.(3)
- 4 Form of Common Stock Certificate of Coastway Bancorp, Inc.(4)
- 10.1 Employment Agreement between Coastway Community Bank and William A. White, and amendment(5)
- 10.2 Form of Coastway Community Bank Change in Control Severance Plan(6)
- 10.3 Supplemental Executive Retirement Plan for William A. White(7)
- 10.4 Supplemental Executive Retirement Plan for Certain Executives(8)
- 10.5 2015 Equity Incentive Plan(9)
- 10.6 Annual Incentive Plan(11)
- 21 Subsidiaries of Registrant(10)
- 23.1 Consent of Crowe Horwath LLP
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 31, 2017 and 2016, (ii) the Consolidated Statements of Income for the years ended December 31, 2017 and 2016, (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2017 and 2016, (iv) the Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016, and (v) the notes to the Consolidated Financial Statements

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- (1) Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 of Coastway Bancorp, Inc. (file no. 333-191120), originally filed with the Securities and Exchange Commission on September 12, 2013, as amended.
- (2) Incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 of Coastway Bancorp, Inc. (file no. 333-191120), originally filed with the Securities and Exchange Commission on September 12, 2013, as amended.
- (3) Incorporated by reference to Exhibit 3.3 to the Registration Statement on Form S-1 of Coastway Bancorp, Inc. (file no. 333-191120), originally filed with the Securities and Exchange Commission on September 12, 2013, as amended.

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- (4) Incorporated by reference to Exhibit 4 to the Registration Statement on Form S-1 of Coastway Bancorp, Inc. (file no. 333-191120), originally filed with the Securities and Exchange Commission on September 12, 2013, as amended.
- (5) Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1 of Coastway Bancorp, Inc. (file no. 333-191120), originally filed with the Securities and Exchange Commission on September 12, 2013, as amended.
- (6) Incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 of Coastway Bancorp, Inc. (file no. 333-191120), originally filed with the Securities and Exchange Commission on September 12, 2013, as amended.
- (7) Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, of Coastway Bancorp, Inc. (file no. 001-36263) originally filed with the Securities and Exchange Commission on April 29, 2015.
- (8) Incorporated by reference to Exhibit 10.4 to the Annual Report on Form 10-K of Coastway Bancorp, Inc. (file no. 001-36263), originally filed with the Securities and Exchange Commission on March 26, 2014.
- (9) Incorporated by reference to Appendix A of the 2015 Proxy Statement on Schedule 14A of Coastway Bancorp, Inc. (file no. 001-36263), originally filed with the Securities and Exchange Commission on April 9, 2015.
- (10) Incorporated by reference to Exhibit 21 to the Registration Statement on Form S-1 of Coastway Bancorp, Inc. (file no. 333-191120), originally filed with the Securities and Exchange Commission on September 12, 2013, as amended.
- (11) Incorporated by reference to Exhibit 10.6 to the Annual Report on Form 10-K of Coastway Bancorp, Inc. (file no. 001-36263), originally filed with the Securities and Exchange Commission on March 15, 2016.

Item 16. Form 10-K Summary

None.

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Signatures	Title	Date
<hr/> <i>/s/ DENNIS M. MURPHY</i> Dennis M. Murphy	Director	March 12, 2018
<hr/> <i>/s/ DEBRA M. PAUL</i> Debra M. Paul	Director	March 12, 2018
<hr/> <i>/s/ MALCOLM G. CHACE, JR.</i> Malcolm G. Chace, Jr.	Director	March 12, 2018
<hr/> <i>/s/ ANGELO P. LOPRESTI</i> Angelo P. Lopresti	Director	March 12, 2018
