Sunnyside Bancorp, Inc.
Form 10-Q
August 11, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2017

OR

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

For the transition period from _______________ to _______________

Commission File No. 000-55005

Sunnyside Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**46-3001280**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

56 Main Street, Irvington, New York 10533
(Address of Principal Executive Offices) Zip Code

(914) 591-8000

(Registrant's telephone number)

N/A

(Former name or former address, if changed since last report)

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

YES [X] NO [ ]

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

YES [X] NO [ ]

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.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [X]
(Do not check if smaller reporting company)	Emerging growth company [X]

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 [X]

As of August 9, 2017, 793,500 shares of the Registrant’s common stock, par value $0.01 per share, were issued and outstanding.

Sunnyside Bancorp, Inc.

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Part I. – Financial Information

Item 1. Financial Statements

SUNNYSIDE BANCORP, INC AND SUBSIDIARY

Condensed CONSOLIDATED Statements of Financial Condition

	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$2,319,498	$2,923,442
Securities held to maturity, net; approximate fair value of $671,000 (June 30, 2017) and $4,011,000 (December 31, 2016)	659,756	3,954,549
Securities available for sale	32,078,780	29,331,278
Loans receivable, net	47,124,985	48,045,062
Premises and equipment, net	1,273,255	1,335,654
Federal Home Loan Bank of New York and other stock, at cost	275,920	335,020
Accrued interest receivable	486,691	443,062
Cash surrender value of life insurance	2,227,472	2,197,348
Deferred income taxes	1,061,059	1,270,575
Other assets	400,033	438,478
Total assets	$87,907,449	$90,274,468
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$73,088,372	$74,287,596
Federal Home Loan Bank advances	2,000,000	3,000,000
Advances from borrowers for taxes and insurance	470,493	684,468
Other liabilities	763,302	1,070,811
Total liabilities	76,322,167	79,042,875
Commitments and contingencies	-	-
Stockholders' equity:		
Serial preferred stock; par value $.01, 1,000,000 shares authorized, no shares issued	-	-
Common stock; par value $.01, 30,000,000 shares authorized and 793,500 shares issued	7,935	7,935
Additional paid-in capital	7,013,294	6,998,363

Unallocated common stock held by the Employee Stock Ownership Plan	(455,500)	(466,606)
Retained earnings	6,275,442	6,237,637
Accumulated other comprehensive loss	(1,255,889)	(1,545,736)
Total stockholders’ equity	11,585,282	11,231,593
Total liabilities and stockholders’ equity	$87,907,449	$90,274,468

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

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Sunnyside BANCORP, INC AND SUBSIDIARY

Condensed CONSOLIDATED Statements of Operations

	Three Months Ended June 30,	
	2017	2016
Interest and dividend income:		
Loans	$516,214	$545,663
Investment securities	14,403	50,677
Mortgage-backed securities	133,033	146,578
Federal funds sold and other earning assets	5,313	5,071
Total interest and dividend income	668,963	747,989
Interest Expense:		
Deposits	53,937	82,771
Borrowings	7,085	6,562
Total interest expense	61,022	89,333
Net interest income	607,941	658,656
Provision for loan losses	2,881	-
Net interest income after provision for loan losses	605,060	658,656
Non-interest income:		
Fees and service charges	27,134	30,186
Net gain on sale of securities	34,373	20,567
Net gain on sale of loans	32,311	-
Income on bank owned life insurance	14,983	13,867
Total non-interest income	108,801	64,620
Non-interest expense:		
Compensation and benefits	352,718	370,283
Occupancy and equipment, net	76,915	81,403
Data processing service fees	73,149	82,069
Professional fees	104,259	104,967
Federal deposit insurance premiums	6,285	17,984
Advertising and promotion	10,882	13,948
Other	52,169	64,524
Total non-interest expense	676,377	735,178

Income (loss) before income taxes	37,484	(11,902)
Income tax expense (benefit)	9,397	(8,487)
Net income (loss)	$28,087	$(3,415)
Basic and diluted income (loss) per share	$0.04	$(0.01)
Weighted average shares outstanding, basic and diluted	747,764	745,543

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

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Sunnyside BANCORP, INC AND SUBSIDIARY

Condensed CONSOLIDATED Statements of Operations

	Six Months Ended June 30,	
	2017	2016
Interest and dividend income:		
Loans	$1,041,236	$1,007,187
Investment securities	38,749	120,750
Mortgage-backed securities	259,850	276,821
Federal funds sold and other earning assets	16,630	6,423
Total interest and dividend income	1,356,465	1,411,181
Interest expense:		
Deposits	109,683	168,230
Borrowings	12,518	10,775
Total interest expense	122,201	179,005
Net interest income	1,234,264	1,232,176
Provision for loan losses	5,566	-
Net interest income after provision for loan losses	1,228,698	1,232,176
Non-interest income:		
Fees and service charges	53,560	55,262
Net gain on sale of securities	34,373	109,669
Net gain on sale of loans	60,158	-
Income on bank owned life insurance	30,124	30,428
Total non-interest income	178,215	195,359
Non-interest expense:		
Compensation and benefits	716,105	731,678
Occupancy and equipment, net	158,087	165,401
Data processing service fees	148,904	158,740
Professional fees	206,109	186,106
Federal deposit insurance premiums	12,372	33,663
Advertising and promotion	22,607	23,579
Other	95,367	112,933
Total non-interest expense	1,359,551	1,412,100

Income before income taxes	47,362	15,435
Income tax expense (benefit)	9,557	(4,318)
Net income	$37,805	$19,753
Basic and diluted income per share	$0.05	$0.03
Weighted average shares outstanding, basic and diluted	747,488	745,265

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

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Sunnyside BANCORP, INC AND SUBSIDIARY

CONDENSED CONSOLIDATED Statements of Comprehensive Income

	Three Months Ended June 30,	
	2017	2016
Net income (loss)	$28,087	$(3,415)
Other comprehensive income, before tax:		
Defined benefit pension plans		
Amortization of loss included in net periodic plan cost	12,969	27,109
Unrealized gains on securities available for sale:		
Unrealized holding gains arising during the period	66,728	229,681
Reclassification adjustment for gains included in operations	-	(20,567)
Other comprehensive income, before tax	79,697	236,223
Income tax expense related to items of other comprehensive income	23,195	96,418
Other comprehensive income, net of tax	56,502	139,805
Comprehensive income	$84,589	$136,390

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

Sunnyside BANCORP, INC AND SUBSIDIARY

CONDENSED CONSOLIDATED Statements of Comprehensive Income

	Six Months Ended June 30,	
	2017	2016
Net income	$37,805	$19,753
Other comprehensive income, before tax:		
Defined benefit pension plans		
Amortization of loss included in net periodic plan cost	25,938	47,784
Unrealized gains on securities available for sale:		
Unrealized holding gains arising during the period	407,312	614,524
Reclassification adjustment for gains included in operations	-	(105,162)
Other comprehensive income, before tax	433,250	557,146
Income tax expense related to items of other comprehensive income	143,403	223,805
Other comprehensive income, net of tax	289,847	333,341
Comprehensive income	$327,652	$353,094

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

SUNNYSIDE BANCORP, INC AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Unallocated Common Stock Held by ESOP	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance at December 31, 2016	$ 7,935	$6,998,363	$ (466,606)	$6,237,637	$ (1,545,736)	$11,231,593
Net income for the six months ended June 30, 2017	-	-	-	37,805	-	37,805
ESOP shares allocated or committed to be released	-	3,906	11,106	-	-	15,012
Restricted stock awards earned	-	11,025	-	-	-	11,025
Other comprehensive income, net of tax	-	-	-	-	289,847	289,847
Balance at June 30, 2017	$ 7,935	$7,013,294	$ (455,500)	$6,275,442	$ (1,255,889)	$11,585,282

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

Sunnyside BANCORP, INC AND SUBSIDIARY

Condensed cONSOLIDATED StatementS of Cash Flows

	Six Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Net income	$37,805	$19,753
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation expense	67,711	74,017
Amortization of premiums and accretion of discounts, net	117,556	105,491
Amortization of deferred loan fees and costs, net	26,275	7,084
Net gain on sales of securities	(34,373)	(109,669)
Net gain on sales of loans	(60,158)	-
Provision for loan losses	5,566	-
Increase in accrued interest receivable	(43,629)	(104,121)
Increase in cash surrender value of life insurance	(30,124)	(30,428)
Amortization of stock compensation plans	26,037	24,228
Net decrease (increase) in other assets	104,558	(116,465)
Net decrease in other liabilities	(281,571)	(88,794)
Net cash used in operating activities	(64,347)	(218,904)
Cash flows from investing activities:		
Purchases of securities available for sale	(10,592,764)	(21,276,286)
Repayments and maturities of securities held to maturity	237,189	141,767
Repayments and maturities of securities available for sale	8,135,772	2,266,983
Proceeds from sales/calls of securities held to maturity	3,091,223	221,569
Proceeds from sales/calls of securities available for sale	-	15,704,011
Loans purchased	(3,077,172)	(3,297,749)
Proceeds from sales of loans	942,366	-
Loan originations, net of principal repayments	3,083,200	400,944
Purchases of bank premises and equipment	(5,312)	(14,415)
Redemption (purchase) of FHLB stock	59,100	(234,400)
Net cash provided by (used in) investing activities	1,873,602	(6,087,576)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(1,199,224)	201,679
Net decrease in advances from borrowers for taxes and insurance	(213,975)	(164,953)
Net (decrease) increase in short term borrowings	(1,000,000)	5,300,000
Purchase of stock for restricted stock awards	-	(122,325)
Net cash (used in) provided by financing activities	(2,413,199)	5,214,401

Net decrease in cash and cash equivalents	(603,944)	(1,092,079)
Cash and cash equivalents at beginning of period	2,923,442	3,326,660
Cash and cash equivalents at end of period	$2,319,498	$2,234,581
Supplemental Information:		
Cash paid for:		
Interest	$121,720	$181,774
Income taxes (refunds received), net	$-	$13,973

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

Sunnyside BANCORP, INC AND SUBSIDIARY

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Notes to Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a description of the more significant policies used in the presentation of the accompanying consolidated financial statements of Sunnyside Bancorp, Inc. and Subsidiary, (collectively, the “Company”).

Principles of Consolidation

The consolidated financial statements are comprised of the accounts of Sunnyside Bancorp. Inc., and its wholly-owned subsidiary, Sunnyside Federal Savings and Loan Association of Irvington (“Sunnyside Federal” or the “Association”). All significant intercompany accounts and transactions have been eliminated in consolidation.

Business

Sunnyside Federal is a community-oriented savings institution whose primary business is accepting deposits from customers within its market area (Westchester County, New York) and investing those funds in mortgage loans secured by one-to-four family residences and in mortgage-backed and other securities. To a lesser extent, funds are invested in multi-family and commercial mortgage loans, commercial loans, and consumer loans. Customer deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation. As a federally-chartered savings association, Sunnyside Federal’s primary regulator is the Office of the Controller of the Currency (the “OCC”).

Basis of Financial Statement Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with instructions for Form 10-Q, and in accordance with accounting principles generally accepted in the United States

of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. However, such information presented reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of the Company's management, necessary for a fair statement of results for the interim period.

The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the year ended December 31, 2017, or any other future interim period. The unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2016 included in the Company's annual report on Form 10-K.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all cash and amounts due from depository institutions and interest-bearing deposits in other depository institutions with original maturities of three months or less to be cash equivalents.

Investment and Mortgage-Backed Securities

Securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Securities classified as available-for-sale securities are reported at fair value, with unrealized holding gains or losses reported in a separate component of retained earnings. As of June 30, 2017 and December 31, 2016, the Company had no securities classified as held for trading.

The Company conducts a periodic review and evaluation of the securities portfolio to determine if a decline in the fair value of any security below its cost basis is other-than-temporary. The evaluation of other-than-temporary impairment considers the duration and severity of the impairment, the Company's intent and ability to hold the securities and assessments of the reason for the decline in value and the likelihood of a near-term recovery. If such a decline is deemed other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged to income as a component of non-interest expense.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment and Mortgage-Backed Securities (cont'd)

Premiums and discounts on securities are amortized by use of the level-yield method, over the life of the individual securities. Gain or loss on sales of securities is based upon the specific identification method.

Loans Receivable

Loans receivable are stated at unpaid principal balances less the allowance for loan losses and net deferred loan fees.

Recognition of interest on the accrual method is generally discontinued when interest or principal payments are ninety days or more in arrears, or when other factors indicate that the collection of such amounts is doubtful. At that time, a loan is placed on a nonaccrual status, and all previously accrued and uncollected interest is reversed against interest income in the current period. Interest on such loans, if appropriate, is recognized as income when payments are received. A loan is returned to an accrual status when factors indicating doubtful collectibility no longer exist.

Allowance for Loan Losses

An allowance for loan losses is maintained at a level, to the best of management's knowledge, to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate. Management of the Company, in determining the provision for loan losses considers the risks inherent in its loan portfolio and changes in the nature and volume of its loan activities, along with the general economic and real estate market conditions. The Company utilizes a two tier approach: (1) identification of problem loans and establishment of specific loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of its loan portfolio. The Company maintains a loan review system which allows for a periodic review of its loan portfolio and the early identification of potential problem loans. Such system takes into consideration, among other things, delinquency status, size of loans, type of collateral and financial condition of the borrowers. Specific loan losses are established for identified loans based on a review of such information and appraisals of the underlying collateral. General loan losses are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, and management's judgment. Although management believes that adequate specific and general loan loss allowances are established, actual losses are dependent upon future events and, as such, further additions to the level of specific and general loan loss allowances may be necessary.

A loan evaluated for impairment is deemed to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. An insignificant payment delay, which is defined as up to ninety days by the Company, will not cause a loan to be classified as impaired. A loan is not impaired during a period of delay in payment if the Company expects to collect all amounts due, including interest accrued at the contractual interest rate for the period of delay. The amount of loan impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. All loans identified as impaired are evaluated independently. The Company does not aggregate such loans for evaluation purposes. Payments received on impaired loans are applied first to accrued interest receivable and then to principal.

Federal Home Loan Bank of New York stock

As a member of the Federal Home Loan Bank of New York ("FHLB"), the Company is required to acquire and hold shares of FHLB Class B stock. The holding requirement varies based on the Company's activities, primarily its outstanding borrowings, with the FHLB. The investment in FHLB stock is carried at cost. The Company conducts a periodic review and evaluation of its FHLB stock to determine if any impairment exists.

Premises and Equipment

Premises and equipment are comprised of land, building, and furniture, fixtures, and equipment, at cost, less accumulated depreciation. Depreciation charges are computed on the straight-line method over the following estimated useful lives:

Building and improvements	5 to 40 years
Furniture, fixtures and equipment	2 to 10 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Bank-Owned Life Insurance

Bank-owned life insurance ("BOLI") is accounted for in accordance with FASB guidance. The cash surrender value of BOLI is recorded on the statement of financial condition as an asset and the change in the cash surrender value is recorded as non-interest income. The amount by which any death benefits received exceeds a policy's cash surrender value is recorded in non-interest income at the time of receipt. A liability is also recorded on the statement of financial condition for postretirement death benefits provided by the split-dollar endorsement policy. A corresponding expense is recorded in non-interest expense for the accrual of benefits over the period during which employees provide services to earn the benefits.

Income Taxes

Federal and state income taxes have been provided on the basis of reported income. The amounts reflected on the tax return differ from these provisions due principally to temporary differences in the reporting of certain items for financial reporting and income tax reporting purposes. The tax effect of these temporary differences is accounted as deferred taxes applicable to future periods. Deferred income tax expense or benefit is determined by recognizing deferred tax assets and liabilities for the estimated 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 or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. The realization of deferred tax assets is assessed and a valuation allowance provided, when necessary, for that portion of the asset which is not likely to be realized.

Employee Benefits

Defined Benefit Plans:

The accounting guidance related to retirement benefits requires an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year; and (c) recognize, in comprehensive income, changes in the funded status of a defined benefit postretirement plan in the year

in which the changes occur. The accounting guidance requires that plan assets and benefit obligations be measured as of the date of the employer's fiscal year-end statement of financial condition.

401(K) Plan:

The Company has a 401(k) plan covering substantially all employees. The Company matches 50% of the first 6% contributed by participants and recognizes expense as its contributions are made.

Employee Stock Ownership Plan:

The employee stock ownership plan (ESOP) is accounted for in accordance with the provisions of ASC 718-40, "Employers' Accounting for Employee Stock Ownership Plans." The funds borrowed by the ESOP from the Company to purchase the Company's common stock are being repaid from the Association's contributions over a period of up to 25 years. The Company's common stock not yet allocated to participants is recorded as a reduction of stockholders' equity at cost. Compensation expense for the ESOP is based on the market price of the Company's stock and is recognized as shares are committed to be released to participants.

Equity Incentive Plan:

On July 17, 2014, the Board of Directors adopted the Sunnyside Bancorp, Inc. 2014 Equity Incentive Plan (the "Stock Incentive Plan") which was approved by shareholders at the Company's 2014 Annual Meeting of Shareholders held on September 16, 2014. Stock options and restricted stock may be granted to directors, officers and other employees of the Company. The maximum number of shares which may be issued upon exercise of the options under the plan cannot exceed 79,350 shares. The maximum number of shares of stock that may be issued as restricted stock awards cannot exceed 23,805.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Employee Benefits (Cont'd)

Equity Incentive Plan (Cont'd):

The Stock Incentive Plan will remain in effect as long as any awards under it are outstanding; however, no awards may be granted under the Stock Incentive Plan on or after the 10-year anniversary of the effective date of the Stock Incentive Plan or July 17, 2024.

Under FASB ASC Topic 718, the Company will recognize compensation expense in its income statement over the requisite service period or performance period based on the grant date fair value of stock options and other equity-based compensation (such as restricted stock).

On June 16, 2015, the Company granted 10,500 shares of restricted stock to certain executive officers, with a grant date fair value of $10.50 per share. Twenty percent of the shares awarded vest annually. Management recognizes expense for the fair value of those awards on a straight line basis over the requisite service period. The Company recognized approximately $5,500 in expense for the three month periods ended June 30, 2017 and 2016 and $11,000 in expense for the six month periods ended June 30, 2017 and 2016 in regard to those restricted stock awards. Expected future expense relating to the non-vested restricted shares at June 30, 2017 is $66,000 over a weighted average period of 3 years. There were no stock options outstanding as of June 30, 2017.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, and the actuarial gains and losses of the pension plan, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Concentration of Credit Risk and Interest-Rate Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, investment and mortgage-backed securities and loans. Cash and cash equivalents include amounts placed with highly rated financial institutions. Investment securities include securities backed by the U.S. Government and other highly rated instruments. The Company's lending activity is primarily concentrated in loans collateralized by real estate in the State of New York. As a result, credit risk is broadly dependent on the real estate market and general economic conditions in the State.

The Company is principally engaged in the business of attracting deposits from the general public and using these deposits, together with borrowings and other funds, to make loans secured by real estate in the State of New York. The potential for interest-rate risk exists as a result of the shorter duration of the Company's interest-sensitive liabilities compared to the generally longer duration of interest-sensitive assets. In a rising rate environment, liabilities will reprice faster than assets, thereby reducing net interest income. For this reason, management regularly monitors the maturity structure of the Company's assets and liabilities in order to measure its level of interest-rate risk and to plan for future volatility.

Advertising Costs

It is the Company's policy to expense advertising costs in the period in which they are incurred.

Earnings Per Share

Basic earnings per share is computed by dividing net income for the period by the weighted average number of shares of common stock outstanding adjusted for unearned shares of the Employee Stock Ownership Plan ("ESOP"). Diluted earnings per share is computed by adjusting the weighted average number of shares of common stock outstanding to include the effect of outstanding stock options and compensation grants, if dilutive, using the treasury stock method.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This update is intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management is required under the new guidance to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued when preparing financial statements for each interim and annual reporting period. If conditions or events are identified, the ASU specifies the process that must be followed by management and also clarifies the timing and content of going concern footnote disclosures in order to reduce diversity in practice. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. The adoption of this guidance on January 1, 2017 did not have a material impact on the Company's financial condition or results of operations.

In January, 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): "Recognition and Measurement of Financial Assets and Financial Liabilities" requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this Update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, this ASU eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017 for public entities. The adoption of this guidance on January 1, 2018 is not expected to have a material effect on the operating results or financial position of the Company.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of

the earliest comparative period presented in the financial statements. The adoption of this guidance on January 1, 2019 is not expected to have a material effect on the operating results or financial position of the Company.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The objectives of the ASU are to simplify accounting for the tax consequences of a stock payment and amend the manner in which excess tax benefits and a business's payments to satisfy the tax obligation for recipients of the shares should be classified. The amendments: (i) allow companies to estimate the number of stock awards they expect to vest, and (ii) revise the withholding requirements for classifying stock awards as equity. The adoption of this guidance on January 1, 2017 did not have a material impact on the Company's financial condition or results of operations.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326), which requires the measurement of all expected credit losses for financial assets held at the reporting date be based on historical experience, current condition, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. This guidance also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For the Company, this guidance is effective for fiscal years and interim periods beginning after

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Recent Accounting Pronouncements (Cont'd)

December 31, 2019. The Company is currently evaluating this guidance to determine the impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), which provides guidance on eight specific cash flow issues in order to reduce diversity in the manner in which certain cash receipts and cash payments are presented and classified in the statements of cash flows. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2018. The adoption of this guidance on January 1, 2019 is not expected to have a material impact on the Company's financial condition or results of operations.

In March 2017, FASB issued ASU 2017-07, "Compensation Retirement Benefits (Topic 715)" which provides more prescriptive guidance around the presentation of net periodic pension and postretirement benefit cost in the income statement. The amendment requires that the service cost component be disaggregated from other components of net periodic benefit cost in the income statement. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017. The adoption of this guidance on January 1, 2018 is not expected to have a material effect on the operating results or financial position of the Company.

In March 2017, FASB issued ASU 2017-08, "Premium Amortization on Purchased Callable Debt Securities (Subtopic 310-20)". The update shortens the amortization period for premiums on purchased callable debt securities to the earliest call date. The amendment will apply only to callable debt securities with explicit, non-contingent call features that are callable at fixed prices and on preset dates, apply to all premiums on callable debt securities, regardless of how they were generated, and require companies to reset the effective yield using the payment terms of the debt security if the call option is not exercised on the earliest call date. The ASU does not require an accounting change for securities held at a discount. The discount continues to be amortized to maturity and does not apply when the investor has already incorporated prepayments into the calculation of its effective yield under other GAAP. The amendments in the ASU are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The adoption of this guidance on January 1, 2019 is not expected to have a material effect on the operating results or financial position of the Company.

In May, 2017, FASB issued ASU 2017-09, "Stock Compensation, Scope of Modification Accounting." This ASU clarifies when it is appropriate to apply modification accounting guidance when there is a change to the terms or

conditions of a share-based payment award. Specifically, the standard provides that an entity should account for the effects of a modification unless the fair value of the modified award is the same as the original award immediately before modification, if the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before modification, and the classification of the modified award is the same as the classification of the original award immediately before modification. ASU 2017-09 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The adoption of this guidance on January 1, 2018 is not expected to have a material effect on the operating results or financial position of the Company.

Subsequent Events

The Company has evaluated all events subsequent to the balance sheet date of June 30, 2017 through the date of this report, and has determined that there are no subsequent events that require disclosure under FASB guidance.

2. MUTUAL TO STOCK CONVERSION AND LIQUIDATION ACCOUNT

On July 15, 2013, the Association completed its mutual-to-stock conversion, and the Company consummated its initial stock offering. The Company sold 793,500 shares of its common stock, including 55,545 shares purchased by the Association's ESOP, at a price of $10.00 per share, in a subscription offering, for gross offering proceeds of $7,935,000. The cost of conversion and the stock offering were deferred and deducted from the proceeds of the offering. Conversion costs incurred totaled $845,000 resulting in net proceeds of $6.5 million after also deducting the shares acquired by the ESOP.

In accordance with applicable federal conversion regulations, at the time of the completion of our mutual-to-stock conversion, the Company established a liquidation account in the Association in an amount equal to the Association's total retained earnings as of the latest balance sheet date in the final prospectus used in the Conversion. Each eligible account holder or supplemental account holder is entitled to a proportionate share of this liquidation account in the event of a complete liquidation of the Association, and only in such event. This share will be reduced if the eligible account holder's or supplemental account holder's deposit balance falls below the amounts on the date of record as of any December 31 and will cease to exist if the account is closed. The liquidation account will never be increased despite any increase after conversion in the related deposit balance.

The Company may not declare, pay a dividend on, or repurchase any of its capital stock, if the effect thereof would cause retained earnings to be reduced below the liquidation account amount or regulatory capital requirements.

3. SECURITIES

	June 30, 2017			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Securities held to maturity:				
State, county, and municipal obligations	$549,623	$7,501	$393	$556,731
Mortgage-backed securities	110,133	3,970	-	114,103
	$659,756	$11,471	$393	$670,834
Securities available for sale:				
U.S. government and agency obligations	$4,998,174	$-	$7,954	$4,990,220
Mortgage-backed securities	27,445,970	5,740	363,150	27,088,560
	$32,444,144	$5,740	$371,104	$32,078,780

	December 31, 2016			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Securities held to maturity:				
U.S. government and agency obligations	$2,000,000	$11,698	$-	$2,011,698
State, county, and municipal obligations	550,234	-	8,225	542,009
Mortgage-backed securities	1,404,315	52,999	-	1,457,314
	$3,954,549	$64,697	$8,225	$4,011,021
Securities available for sale:				
U.S. government and agency obligations	$3,198,932	$-	$6,818	$3,192,114
Mortgage-backed securities	26,905,021	5,575	771,432	26,139,164
	$30,103,953	$5,575	$778,250	$29,331,278

Mortgage-backed securities consist of securities guaranteed by Ginnie Mae, Fannie Mae, Freddie Mac, and the Small Business Administration with amortized costs of $350,000, $15.2 million, $9.1 million, and $2.9 million, respectively, at June 30, 2017 ($1.7 million, $16.8 million, $6.7 million, and $3.1 million, respectively, at December 31, 2016).

Proceeds from the sales and calls of securities held to maturity amounted to $1,091,000 and $0 for the three months ended June 30, 2017 and 2016, respectively. Net gains of $34,400 and $0 were recognized on the sales during the three months ended June 30, 2017 and June 30, 2016, respectively.. The sale of the securities occurred after the

Association had already collected a substantial portion (at least 85%) of the principal outstanding due to prepayments on the debt securities.

Proceeds from the sales and calls of securities available for sale amounted to $0 and $3,990,000 for the three months ended June 30, 2017 and 2016, respectively. Net gains of $0 and $20,600 were recognized on those sales during the three months ended June 30, 2017 and June 30, 2016, respectively.

Proceeds from the sales and calls of securities held to maturity amounted to $3,091,000 and $222,000 for the six months ended June 30, 2017 and 2016, respectively. Net gains of $34,400 and $4,500 were recognized on the sales during the six months ended June 30, 2017 and June 30, 2016, respectively. The sale of the securities occurred after the Association had already collected a substantial portion (at least 85%) of the principal outstanding due to prepayments on the debt securities.

3. SECURITIES (Cont'd)

Proceeds from the sales and calls of securities available for sale amounted to $0 and $15,704,000 for the six months ended June 30, 2017 and 2016, respectively. Net gains of $0 and $105,000 were recognized on those sales and calls for the six months ended, June 30, 2017 and 2016, respectively.

The following is a summary of the amortized cost and fair value of securities at June 30, 2017 and December 31, 2016, by remaining period to contractual maturity. Actual maturities may differ from these amounts because certain debt security issuers have the right to call or redeem their obligations prior to contractual maturity. In addition, mortgage backed securities that amortize monthly are listed in the period the security is legally set to pay off in full.

	June 30, 2017			
	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$-	$-	$1,999,819	$1,999,784
After one to five years	203,383	202,990	2,998,355	2,990,437
After five to ten years	-	-	2,855,256	2,824,596
After ten years	456,373	467,844	24,590,714	24,263,963
	$659,756	$670,834	$32,444,144	$32,078,780

	December 31, 2016			
	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$-	$-	$2,199,549	$2,199,424
After one to five years	204,107	201,678	999,383	992,690
After five to ten years	-	-	2,905,702	2,836,866
After ten years	3,750,442	3,809,343	23,999,319	23,302,298
	$3,954,549	$4,011,021	$30,103,953	$29,331,278

3. SECURITIES (Cont'd)

The following tables summarize the fair values and unrealized losses of securities with an unrealized loss at June 30, 2017 and December 31, 2016, segregated between securities that have been in an unrealized loss position for less than one year, or one year or longer, at the respective dates.

	June 30, 2017			
	Under One Year		One Year or More	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Securities held to maturity:				
State, county, and municipal obligations	$202,990	$ 393	$-	$ -
Securities available for sale:				
U.S. government and agency obligations	4,990,220	7,954	-	-
Mortgage-backed securities	22,207,487	283,560	2,165,134	79,590
	27,197,707	291,514	2,165,134	79,590
	$27,400,697	$ 291,907	$2,165,134	$ 79,590

	December 31, 2016			
	Under One Year		One Year or More	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Securities held to maturity:				
State, county, and municipal obligations	$542,009	$ 8,225	$-	$ -
Securities available for sale:				
U.S. government and agency obligations	3,192,114	6,818	-	-
Mortgage-backed securities	22,915,969	669,270	2,354,733	102,162
	26,108,083	676,088	2,354,733	102,162
	$26,650,092	$ 684,313	$2,354,733	$ 102,162

The unrealized losses are primarily due to changes in market interest rates subsequent to purchase. A total of 37 and 34 securities were in an unrealized loss position at June 30, 2017 and December 31, 2016, respectively. The Company generally purchases securities issued by Government Sponsored Enterprises (GSE). Accordingly, it is expected that the GSE securities would not be settled at a price less than the Company's amortized cost basis. The Company does not

consider these investments to be other-than-temporarily impaired at June 30, 2017 and December 31, 2016 since the decline in market value is attributable to changes in interest rates and not credit quality and the Company has the intent and ability to hold these investments until there is a full recovery of the unrealized loss, which may be at maturity.

4. LOANS RECEIVABLE, NET

	June 30, 2017	December 31, 2016
Mortgage loans:		
Residential 1-4 family	$22,493,079	$24,808,914
Commercial and multi-family	14,941,622	15,790,917
Home equity lines of credit	506,639	524,414
	37,941,340	41,124,245
Other loans:		
Secured by savings accounts	9,281	11,390
Student	8,159,812	5,743,338
Commercial	1,240,886	1,493,323
	9,409,979	7,248,051
Total loans	47,351,319	48,372,296
Less:		
Deferred loan fees (costs) and (premiums), net	(246,125)	(139,659)
Allowance for loan losses	472,459	466,893
	226,334	327,234
	$47,124,985	$48,045,062

In the ordinary course of business, the Company makes loans to its directors, executive officers, and their associates (related parties) on the same terms as those prevailing at the time of origination for comparable loans with other borrowers. The unpaid principal balances of related party loans were approximately $156,000 and $160,000 at June 30, 2017 and December 31, 2016, respectively.

Activity in the allowance for loan losses is summarized as follows:

	Three Months Ended June 30,	
	2017	2016
Balance at beginning of period	$469,578	$463,243
Provision for loan losses	2,881	-

Balance at end of period	$472,459	$463,243

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4. LOANS RECEIVABLE, NET (Cont'd)

	Six Months Ended June 30,	
	2017	2016
Balance at beginning of period	$466,893	$463,243
Provision for loan losses	5,566	-
Balance at end of period	$472,459	$463,243

The allowance for loan losses consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. There are no specific allowances as of June 30, 2017 and December 31, 2016. The general component covers pools of loans by loan class not considered impaired, as well as smaller balance homogeneous loans, such as one-to-four family real estate, home equity lines of credit and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.

2. National, regional, and local economic and business conditions including the value of underlying collateral for collateral dependent loans.

3. Nature and volume of the portfolio and terms of loans.

4. Experience, ability, and depth of lending management and staff and the quality of the Company's loan review system.

5. Volume and severity of past due, classified and nonaccrual loans.

6. Existence and effect of any concentrations of credit and changes in the level of such concentrations.

7. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

An unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower’s overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of pass, special mention, substandard, doubtful and loss.

Loan classifications are defined as follows:

Pass — These loans are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral in a timely manner.

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4. LOANS RECEIVABLE, NET (Cont'd)

Special Mention — These loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects.

Substandard — These loans are inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful — These loans have all the weaknesses inherent in a loan classified substandard with the added characteristic that the weaknesses make the full recovery of our principal balance highly questionable and improbable on the basis of currently known facts, conditions, and values. The likelihood of a loss on an asset or portion of an asset classified as doubtful is high. Its classification as Loss is not appropriate, however, because pending events are expected to materially affect the amount of loss.

Loss — These loans are considered uncollectible and of such little value that a charge-off is warranted. This classification does not necessarily mean that an asset has no recovery or salvage value; but rather, there is much doubt about whether, how much, or when the recovery will occur.

One of the primary methods the Company uses as an indicator of the credit quality of their portfolio is the regulatory classification system. The following table reflects the credit quality indicators by portfolio segment and class, at the dates indicated:

	June 30, 2017					
	Mortgage Loans					
	Residential 1-4 Family	Commercial Real Estat and Multi-Family	Home Equity	Student	Commercial and Other	Total
	(In thousands)					
Pass	$21,938	$14,942	$489	$8,160	$1,249	$46,778
Special Mention	-	-	-	-	-	-
Substandard	555	-	18	-	-	573
Total	$22,493	$14,942	$507	$8,160	$1,249	$47,351

	December 31, 2016					
	Mortgage Loans					
	Residential 1-4 Family	Commercial Real Estate and Multi-Family	Home Equity	Student	Commercial and Other	Total

	(In thousands)					
Pass	$24,249	$15,791	$503	$5,743	$1,505	$47,791
Special Mention	-	-	-	-	-	-
Substandard	560	-	21	-	-	581
Total	$24,809	$15,791	$524	$5,743	$1,505	$48,372

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4. LOANS RECEIVABLE, NET (Cont'd)

The following table provides information about loan delinquencies at the dates indicated:

	June 30, 2017						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Loans	Total Loans	90 Days or More Past Due and Accruing
	(In thousands)						
Residential 1-4 family	$-	$ -	$ 336	$336	$22,157	$22,493	$ -
Commercial real estate and multi-family	-	-	-	-	14,942	14,942	-
Home equity lines of credit	-	-	-	-	507	507	-
Student loans	6	-	30	36	8,124	8,160	30
Other loans	-	-	-	-	1,249	1,249	-
	$6	$ -	$ 366	$372	$46,979	$47,351	$ 30

	December 31, 2016						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Loans	Total Loans	90 Days or More Past Due and Accruing
	(In thousands)						
Residential 1-4 family	$-	$ 272	$ 337	$ 609	$24,200	$24,809	$ -
Commercial real estate and multi-family	-	-	-	-	15,791	15,791	-
Home equity lines of credit	-	-	21	21	503	524	-
Student loans	5	10	-	15	5,728	5,743	-
Other loans	-	-	-	-	1,505	1,505	-
	$5	$ 282	$ 358	$ 645	$47,727	$48,372	$ -

There were no troubled debt restructured loans at June 30, 2017 or December 31, 2016.

The following is a summary of loans, by loan type, on which the accrual of income has been discontinued and loans that are contractually past due 90 days or more but have not been classified as non-accrual at the dates indicated:

	June 30, 2017	December 31, 2016
	(In thousands)	
Residential 1-4 family	$555	$ 609
Commercial real estate and multi-family	-	-
Home equity lines of credit	18	21
Student loans	-	-
Other loans	-	-
Total non-accrual loans	573	630
Accruing loans delinquent 90 days or more		
Student loans	30	-
Total non-performing loans	$603	$ 630

4. LOANS RECEIVABLE, NET (Cont'd)

The total amount of interest income on non-accrual loans that would have been recognized if interest on all such loans had been recorded based upon original contract terms amounted to approximately $7,900 and $13,400 for the three months ended June 30, 2017 and 2016, respectively. The total amount of interest income recognized on non-accrual loans amounted to approximately $2,000 and $29,200 during the three months ended June 30, 2017 and 2016, respectively.

For the six months ended June 30, 2017 and 2016, such interest income that would have been recognized on non-accrual loans totaled approximately $15,900 and $25,300, respectively. The total amount of interest income recognized on non-accrual loans amounted to approximately $7,700 and $29,200 during the six months ended June 30, 2017 and 2016, respectively.

The following tables present the activity in the allowance for loan losses by loan type for the periods indicated:

	Three Months Ended June 30, 2017						
	Mortgage Loans						
	Residential 1-4 Family	Commercial and Multi-Family	Home Equity	Student	Other	Unallocated	Total
	(In thousands)						
Beginning balance	$293	$ 121	$ 4	$ 42	$ 7	$ 3	$470
Provision for loan losses	(8)	4	-	(4)	1	9	$2
Ending Balance	$285	$ 125	$ 4	$ 38	$ 8	$ 12	$472

	Three Months Ended June 30, 2016						
	Mortgage Loans						
	Residential 1-4 Family	Commercial and Multi-Family	Home Equity	Student	Other	Unallocated	Total
	(In thousands)						
Beginning balance	$301	$ 133	$ 4	$22	$ 1	$ 2	$463
Provision for loan losses	(2)	-	-	2	-	-	-

Ending Balance	$299	$ 133	$ 4	$24	$ 1	$ 2	$463

4. LOANS RECEIVABLE, NET (Cont'd)

	Six Months Ended June 30, 2017 Mortgage Loans						
	Residential 1-4 Family	Commercial and Multi-Family	Home Equity	Student	Other	Unallocated	Total
			(In thousands)				
Beginning balance	$297	$ 138	$ 5	$ 20	$ 7	$ -	$467
Provision for loan losses	(12)	(13)	(1)	18	1	12	$5
Ending Balance	$285	$ 125	$ 4	$ 38	$ 8	$ 12	$472

	Six Months Ended June 30, 2016 Mortgage Loans						
	Residential1-4 Family	Commercial and Multi-Family	Home Equity	Student	Other	Unallocated	Total
			(In thousands)				
Beginning balance	$315	$ 130	$ 3	$ 14	$ 1	$ -	$463
Provision for loan losses	(16)	3	1	10	-	2	$-
Ending Balance	$299	$ 133	$ 4	$ 24	$ 1	$ 2	$463

5. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss included in equity are as follows:

	June 30, 2017	December 31, 2016
Unrealized net loss on pension plan	$(1,543,410)	$(1,569,348)
Unrealized loss on securities available for sale	(365,364)	(772,676)
Accumulated other comprehensive loss before taxes	(1,908,774)	(2,342,024)
Tax effect	652,885	796,288

Accumulated other comprehensive loss	$(1,255,889)	$(1,545,736)

6. REGULATORY CAPITAL

The Association is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary, actions by regulators, that if undertaken could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Association must meet specific capital guidelines that involve quantitative measures of the Association’s assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

<u>6. REGULATORY CAPITAL</u> (Cont'd)

Quantitative measures established by regulation to ensure capital adequacy require the Association to maintain minimum amounts and ratios of common equity Tier 1 capital, total and Tier 1 capital to risk-weighted assets, and Tier 1 capital to average assets, as defined in the regulations. As of June 30, 2017 and December 31, 2016, the Association exceeded all capital adequacy requirements to which it was subject (see tables below).

On January 1, 2015, the final rules implementing the Basel Committee on Banking Supervision capital guidelines for banking organizations (Basel III) regulatory capital framework and related Dodd-Frank Act changes became effective for the Association. These rules supersede the federal banking agencies' general risk-based capital rules (Basel I). Full compliance with all of the final rule's requirements is phased in over a multi-year transition period ending on January 1, 2019. Basel III revised minimum capital requirements and adjusted prompt corrective action thresholds. Under the final rules, minimum requirements increased for both the quantity and quality of capital held by the Association. The rules included a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5 percent, raised the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0 percent to 6.0 percent, required a minimum ratio of total capital to risk-weighted assets of 8.0 percent, and required a minimum leverage ratio of 4.0 percent. A new capital conservation buffer, comprised of common equity Tier 1 capital, was also established above the regulatory minimum capital requirements. This conservation buffer will is being phased in beginning January 1, 2016 at 0.625 percent of risk-weighted assets and increase each subsequent year by an additional 0.625 percent until reaching its final level of 2.5 percent of risk-weighted assets on January 1, 2019. The final rule also revised the definition and calculation of Tier 1 capital, total capital and risk-weighted assets.

The following table presents the Association's actual capital positions and ratios at the dates indicated:

	Actual		Minimum Capital Requirements		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
<u>June 30, 2017</u>						
Total Risked-based Capital	$12,244	25.47%	$4,446	9.250 %	$4,807	10.00%
Common Equity Tier 1 Capital	11,772	24.49%	$2,764	5.750 %	$3,124	6.50 %

Tier 1 Risk-based Capital	11,772	24.49%	$3,485	7.250 %	$3,845	8.00 %
Tier 1 Leverage Capital	11,772	13.37%	3,521	4.000 %	4,402	5.00 %
December 31, 2016						
Total Risked-based Capital	$12,146	26.87%	$3,899	8.625 %	$4,521	10.00%
Common Equity Tier 1 Capital	11,679	25.84%	2,317	5.125 %	2,938	6.50 %
Tier 1 Risk-based Capital	11,679	25.84%	2,995	6.625 %	3,616	8.00 %
Tier 1 Leverage Capital	11,679	12.84%	3,637	4.000 %	4,547	5.00 %

7. FAIR VALUE MEASUREMENTS AND DISCLOSURES

A. Fair Value Measurements

The Accounting Standards Codification ("ASC") Topic 820, "Fair Value Measurements and Disclosures," defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC Topic 820 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures. ASC Topic 820 was issued to increase consistency and comparability in reporting fair values.

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The Company did not have any liabilities that were measured at fair value at June 30, 2016 and December 31, 2015. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets or liabilities on a non-recurring basis,

7. FAIR VALUE MEASUREMENTS AND DISCLOSURES (Cont'd)

such as foreclosed real estate owned and certain impaired loans. These non-recurring fair value adjustments generally involve the write-down of individual assets due to impairment losses.

In accordance with ASC Topic 820, the Company groups its assets 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. These levels are:

Level 1 — Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 — Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 — Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

The Company bases its fair values on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. ASC Topic 820 requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Assets that are measured on a recurring basis are limited to the available-for-sale securities portfolio. The available-for-sale portfolio is carried at estimated fair value with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders' equity. Substantially all of the available-for-sale portfolio consists of investment securities issued by government-sponsored enterprises. The fair values for substantially all of these securities are obtained from an independent securities broker. Based on the nature of the securities, the securities broker provides the Company with prices which are categorized as Level 2 since quoted prices in active markets for identical assets are generally not available for the majority of securities in the portfolio.

The following table provides the level of valuation assumptions used to determine the carrying value of assets measured at fair value on a recurring basis at June 30, 2017 and December 31, 2016:

		Fair Value Measurements		
	Carrying	Quoted Prices in Active Markets for Identical	Significant Other Observable Inputs	Significant Unobservable Inputs
Description	Value	(Level 1)	(Level 2)	(Level 3)
June 30, 2017:				
Securities available for sale	$32,078,780	$-	$ 32,078,780	$ -
December 31, 2016:				
Securities available for sale	$29,331,278	$-	$ 29,331,278	$ -

There were no assets measured at fair value on a non-recurring basis at June 30, 2017 and December 31, 2016.

B. Fair Value Disclosures

The following methods and assumptions were used by the Company in estimating fair values of financial instruments as disclosed herein.

Cash and Cash Equivalents

For cash and due from banks and federal funds sold, the carrying amount approximates the fair value (Level 1).

7. FAIR VALUE MEASUREMENTS AND DISCLOSURES (Cont'd)

B. Fair Value Disclosures (Cont'd)

Securities

The fair value of securities is estimated based on bid quotations received from securities dealers, if available (Level 1). If a quoted market price was not available, fair value was estimated using quoted market prices of similar instruments, adjusted for differences between the quoted instruments and the instruments being valued (Level 2).

FHLB Stock

The fair value for FHLB stock is its carrying value, since this is the amount for which it could be redeemed. There is no active market for this stock, and the Company is required to maintain a minimum balance based upon the unpaid principal of home mortgage loans (Level 2).

Loans Receivable

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential mortgage, commercial, and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories (Level 3).

Deposits

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, savings, and NOW and money market accounts, is equal to the amount payable on demand (Level 1). The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits with similar remaining maturities (Level 2).

Short-Term Borrowings

The carrying amounts of federal funds purchased, and other short-term borrowings maturing within 90 days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements (Level 1).

Long-Term Borrowings

The fair value of long-term borrowings is estimated using discounted cash flow analysis based on the current incremental borrowing rates for similar types of borrowing arrangements (Level 2).

Off-Balance-Sheet Instruments

In the ordinary course of business the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the financial statements when they are funded. Their fair value would approximate fees currently charged to enter into similar agreements.

The carrying values and estimated fair values of financial instruments are as follows (in thousands):

7. FAIR VALUE MEASUREMENTS AND DISCLOSURES (Cont'd)

B. Fair Value Disclosures (Cont'd)

	June 30, 2017		December 31, 2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$2,319	$ 2,319	$2,923	$ 2,923
Securities held to maturity	660	671	3,955	4,011
Securities available for sale	32,079	32,079	29,331	29,331
Loans receivable	47,125	47,448	48,045	48,488
FHLB and other stock, at cost	276	276	335	335
Accrued interest receivable	487	487	443	443
Financial liabilities:				
Deposits	73,088	73,129	74,288	74,308
FHLB Advances	2,000	2,001	3,000	3,001

The fair value estimates are made at a discrete point in time based on relevant market information and information about the financial instruments. Fair value estimates are 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. Further, the foregoing estimates may not reflect the actual amount that could be realized if all or substantially all of the financial instruments were offered for sale.

In addition, the fair value estimates were based on existing on-and-off balance sheet financial instruments without attempting to value the anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial assets and liabilities include premises and equipment and advances from borrowers for taxes and insurance. In addition, the tax ramifications related to the realization of the unrealized gains and losses have a significant effect on fair value estimates and have not been considered in any of the estimates.

Finally, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates which must be made given the absence of active secondary markets for

many of the financial instruments. The lack of uniform valuation methodologies introduces a greater degree of subjectivity to these estimated fair values.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Management's discussion and analysis of the financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2016 as well as the unaudited financial statements and the notes thereto, appearing on Part I, Item 1 of this quarterly report on Form 10-Q.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect" and words of similar meaning. These forward-statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;

competition among depository and other financial institutions;

inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;

adverse changes in the securities markets;

changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;

our ability to enter new markets successfully and capitalize on growth opportunities;

our ability to successfully integrate *de novo* or acquired branches, if any;

our ability to execute on our business strategy to increase commercial real estate and multi-family lending and commercial lending, including implementing an SBA lending program;

changes in consumer spending, borrowing and savings habits;

changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;

changes in our organization, compensation and benefit plans; and

changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Critical Accounting Policies

There are no material changes to the critical accounting policies disclosed in the Company’s Form 10-K for the year 2016.

Comparison of Financial Condition at June 30, 2017 and December 31, 2016

Total assets decreased $2.4 million, or 2.6%, to $87.9 million at June 30, 2017 from $90.3 million at December 31, 2016. The decrease was due primarily to decreases in securities held to maturity, net loans and cash balances. Loans decreased $920,000 while cash and investment securities balances decreased $604,000 and $547,000, respectively.

Cash and cash equivalents decreased $604,000, or 20.7%, to $2.3 million at June 30, 2017 from $2.9 million at December 31, 2016, as cash was used to pay-down the maturities of higher rate Certificates of Deposit and reduce advances from the Federal Home Loan Bank (“FHLB”). Loans decreased $920,000 or 1.9% at June 30, 2017 to $47.1 million compared to $48.0 million at December 31, 2016. Securities available for sale increased $2.7 million, or 9.4%, to $32.1 million at June 30, 2017 from $29.3 million at December 31, 2016. This increase was offset by a $3.3 million decrease in securities held to maturity from $4.0 million at December 31, 2016 to $660,000 at June 30, 2017.

Net loans receivable decreased $920,000, or 1.9%, to $47.1 million at June 30, 2017 from $48.0 million at December 31, 2016. The decrease in loans receivable was primarily due to decreases in residential loans and commercial real estate and multi-family loans of $2.3 million and $849,000, respectively, partly offset by an increase in student loans of $2.5 million. The increase in student loans was primarily due to a $3.1 million purchase of a student loan portfolio in the first quarter of 2017.

At June 30, 2017, our investment in bank-owned life insurance increased $30,000 to $2.2 million from $2.2 million at December 31, 2016. We invest in bank-owned life insurance to provide us with a funding offset for our benefit plan obligations. Bank-owned life insurance also generally provides us noninterest income that is non-taxable. Federal regulations generally limit our investment in bank-owned life insurance to 25% of our Tier 1 capital plus our allowance for loan losses, and we have not made any additional contributions to our bank-owned life insurance since 2002.

Total deposits decreased $1.2 million, or 1.6%, to $73.1 million at June 30, 2017 from $74.3 million at December 31, 2016. The decrease resulted primarily from decreases in CD's and NOW accounts of $1.0 million, or 4.0%, and $1.0 million, or 8.2%, respectively. These decreases were partly offset by increases in non-interest bearing checking of $292,000 or 6.9% , money market accounts of $300,000 or 10.2% and savings of $261,000 or 0.9%, respectively, compared to December 31, 2016.

We had $2.0 million in short-term Federal Home Loan Bank borrowings outstanding at June 30, 2017 compared to $3.0 million at December 31, 2016. At June 30, 2017, we had the ability to borrow $26.3 million or 30.0% of the Association's assets in FHLB advances and $2.0 million on a Fed Funds line of credit with Atlantic Central Bankers Bank.

Total equity increased $354,000, or 3.2%, to $11.6 million at June 30, 2017 from $11.2 million at December 31, 2016 resulting from a decrease in other comprehensive loss of $290,000, primarily due to a decrease in unrealized losses in the investment portfolio as well as net income of $38,000 for the first six months of 2017.

Comparison of Results of Operations for the Quarters Ended June 30, 2017 and June 30, 2016

General. We had net income of $28,000 for the quarter ended June 30, 2017 compared to a net loss of $3,000 for the quarter ended June 30, 2016. The increase in net income resulted primarily from higher non-interest income and lower non-interest expense partly offset by lower net interest income and higher tax expense.

Net Interest Income. Net interest income decreased $51,000 or 7.7% to $608,000 for the quarter ended June 30, 2017 from $659,000 for the quarter ended June 30, 2016. Interest income on loans decreased $29,000 or 5.4% primarily due to lower yields. Interest income on mortgage backed securities decreased $14,000, or 9.2% primarily due to lower volume while interest income on investment securities decreased $36,000 or 71.6% primarily due to lower volume and yields. These decreases were partly offset by a $28,000 or 31.7% decrease in interest expense primarily due to lower volumes and rates. The average yield on our loans and investments decreased 31 and 151 basis points, respectively, while the average yield on our mortgage-backed securities increased 5 basis points during the quarter ended June 30, 2017 compared to the same quarter in 2016. Our net interest rate spread increased 5 basis points to 3.00% for the quarter ended June 30, 2017 from 2.95% for the quarter ended June 30, 2016 and our net interest margin increased 4 basis points to 3.03% for the 2017 quarter from 2.99% for the 2016 period. Average interest-earning assets decreased $8.1 million or 9.1%, to $80.4 million for the quarter ended June 30, 2017 from $88.5 million for the second quarter of 2016.

Interest and Dividend Income. Interest and dividend income decreased $79,000 or 10.6% to $669,000 for the quarter ended June 30, 2017 from $748,000 for the quarter ended June 30, 2016. The decrease resulted primarily from a decrease in interest income on loans, mortgage-backed securities and investment securities of $29,000, $14,000 and $36,000, respectively.

Interest income on loans decreased $29,000, or 5.4%, to $516,000 for the quarter ended June 30, 2017 from $546,000 for the quarter ended June 30, 2016. The decrease resulted primarily from a 31 basis point decrease in the average yield on loans. The decrease in yield was primarily due to interest income recognized on a non-accrual loan that paid off in the second quarter of 2016.

Interest and dividend income on investment and mortgage-backed securities decreased $50,000 to $147,000 for the quarter ended June 30, 2017 from $197,000 for the quarter ended June 30, 2016. Income on mortgage-backed securities decreased $14,000 or 9.2% compared to the prior year’s quarter mainly due to a decrease of $3.5 million in average balances partly offset by a 5 basis point increase in the average rate. Income on investment securities decreased $36,000 or 71.6% compared to the quarter ended June 30, 2016 due to a decrease of $2.9 million in average balances and a 151 basis point decrease in the average yield. The average balance in the mortgage-backed portfolio decreased $3.5 million to $27.1 million from $30.6 million or 11.5% compared to the same period in 2016. The average yield on mortgage- backed securities increased 5 basis points to 1.97% for the quarter ended June 30, 2017 compared to 1.92% for the same period in 2016.

Interest Expense. Interest expense, consisting primarily of the cost of interest-bearing deposits, decreased $28,000, or 31.7%, to $61,000 for the quarter ended June 30, 2017 from $89,000 for the quarter ended June 30, 2016. The decrease in interest expense was due to a decrease in both the average balances and rates paid on interest bearing liabilities. Average interest bearing liabilities decreased $7.7 million, or 9.7% mainly due to lower certificates of deposit and short term borrowings. Average certificate of deposit balances decreased $4.8 million, or 16.3% as the Bank allowed higher rate certificates to run-off. Average short-term borrowings including escrow deposits decreased $1.9 million, or 37.3% to $3.2 million for the quarter ended June 30, 2107 compared to the same period in 2016.

Provision for Loan Losses. We establish provisions for loan losses that are charged to operations in order to maintain the allowance for loan losses at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. For the quarter ended June 30, 2017 we recorded a $3,000 provision compared to $0 for the second quarter of 2016. The allowance for loan losses was $472,000 at June 30, 2017 and $467,000 at December 31, 2016. There were no charge-offs or recoveries during the quarters ended June 30, 2017 and June 30, 2016.

Non-interest Income. Non-interest income increased $44,000 or 68.4% to $109,000 for the quarter ended June 30, 2017 from $65,000 for the quarter ended June 30, 2016. The increase was primarily due to an increase in gains on the sale of securities and loans during the period. Gains on the sale of securities increased $14,000 to $34,000 compared to $20,000 for the second quarter of 2016. Gains on the sale of loans increased $32,000 as the Bank was able to sell a Small Business Administration ("SBA") loan it originated in the second quarter of 2017.

Non-interest Expense. Non-interest expense decreased $59,000 or 8.0%, to $676,000 for the quarter ended June 30, 2017 from $735,000 for the quarter ended June 30, 2016. The decrease was primarily due to decreases in compensation and benefits, occupancy and equipment, data processing costs, FDIC premiums and other expenses. Compensation and benefits expense decreased $18,000 or 4.7% primarily due to lower pension and medical expenses. Occupancy and equipment expense decreased $4,500 or 5.5% primarily due to lower repairs and depreciation partly offset by higher utilities. Data processing expense decreased $9,000 or 10.9% mainly due to lower network support and data storage costs. FDIC premiums decreased $12,000 or 65.1%. The FDIC changed their assessment methodology which resulted in a decrease in costs due to the Bank's lower risk profile. Other expenses decreased $12,000 or 19.1% mainly due to lower insurance costs, staff development expenses, and stationery and supplies expense.

Income Tax Expense (Benefit). We recorded a $9,000 income tax expense for the quarter ended June 30, 2017 compared to a ($8,000) income tax (benefit) for the quarter ended June 30, 2016. Income tax expense (benefit) is calculated based on pre-tax income or (loss) adjusted for permanent book to tax differences, such as non-taxable interest income on municipal securities and income on bank owned life insurance.

Comparison of Results of Operations for the six months ended June 30, 2017 and June 30, 2016

General. We had net income of $38,000 for the six months ended June 30, 2017 compared to net income of $20,000 for the six months ended June 30, 2016. The increase in net income resulted primarily from lower non-interest expense partly offset by lower non-interest income and higher tax expense.

Net Interest Income. Net interest income increased $2,000 or 0.2% for the six months ended June 30, 2017 compared to the same period in 2016. Interest and dividend income decreased $55,000 or 3.9% to $1.4 million compared to $1.4 million for the six months ended June 30, 2016. Interest income on loans increased $34,000 or 3.4%. Interest income on mortgage backed securities and investment securities decreased $17,000, or 6.1% and $82,000 or 67.9% respectively. The decrease in income on investment securities was due to lower volume and yield while the decrease in income from mortgage backed securities was due to lower volume. These decreases were largely offset by a $34,000 or 3.4% increase in interest income on loans. Average loan balances increased $773,000 and the average yield increased 9 basis points to 4.36% for the six months ended June 30, 2017 compared to the same period in 2016. The average yield on our mortgage-backed securities increased 3 basis points to 1.93% while the yield on our investment securities decreased 100 basis points to 1.93%. Our net interest rate spread increased 25 basis points to 3.05% for the six months ended June 30, 2017 from 2.80% for the six months ended June 30, 2016 and our net interest margin increased 23 basis points to 3.08% for the 2017 period from 2.85% for the 2016 period. Average interest-earning assets decreased $6.2 million to $80.8 million for the six months ended June 30, 2017 from $87.0 million for the prior year period.

Interest and Dividend Income. Interest and dividend income decreased $55,000 or 3.9% to $1.4 million for the six months ended June 30, 2017 from $1.4 million for the six months ended June 30, 2016. The decrease resulted primarily from decreases in interest income on investment securities and mortgage backed securities of $82,000 and $17,000, respectively, partly offset by a $34,000 increase in interest income on loans.

Interest income on loans increased $34,000, or 3.4%, during the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The average balance of loans increased $773,000 while the average yield on loans increased 9 basis points to 4.36% compared to 4.27% for the six months ended June 30, 2016.

Interest and dividend income on investment and mortgage-backed securities decreased $99,000 to $299,000 for the six months ended June 30, 2017 from $398,000 for the six months ended June 30, 2016. Income on mortgage-backed securities decreased $17,000 or 6.1% compared to the prior year's period mainly due to a decrease of $2.2 million in average balances partly offset by a 3 basis point increase in the average rate. Income on investment securities decreased $82,000 or 67.9% compared to the prior year's period mainly due to a decrease of $4.2 million in average balances and a decrease of 100 basis points in the average yield. The average balance in the mortgage-backed portfolio decreased $2.2 million to $27.1 million from $29.3 million or 7.5% compared to the same period in 2016. The average yield on mortgage-backed securities increased 3 basis points to 1.93% for the six months ended June 30, 2017 compared to 1.90% for the same period in 2016.

Interest Expense. Interest expense, consisting primarily of the cost of interest-bearing deposits, decreased $57,000, or 31.7%, to $122,000 for the six months ended June 30, 2017 from $179,000 for the six months ended June 30, 2016. The decrease in interest expense was due to a decrease in both the average balances and rates paid on interest bearing liabilities. Average interest bearing liabilities decreased $6.3 million, or 8.0% mainly due to lower certificates of deposit and short term borrowings. Average certificate of deposit balances decreased $4.9 million, or 16.5% as the Bank allowed higher rate certificates to run-off. Average short-term borrowings including escrow deposits decreased $884,000, or 21.8% to $3.2 million for the quarter ended June 30, 2107 compared to the same period in 2016.

Provision for Loan Losses. We establish provisions for loan losses that are charged to operations in order to maintain the allowance for loan losses at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. For the six months ended June 30, 2017 we recorded a $6,000 provision compared to $0 for the same period in 2016. The allowance for loan losses was $472,000 at June 30, 2017 and $467,000 at December 31, 2016. There were no charge offs or recoveries during the six months ended June 30, 2017 and June 30, 2016.

Non-interest Income. Non-interest income decreased $17,000 or 8.8% to $178,000 for the six months ended June 30, 2017 from $195,000 for the six month period ended June 30, 2016. The decrease was primarily due to lower gains on the sale of securities partly offset by an increase in the gain on the sale of loans. Gains on the sale of securities decreased $75,000 to $34,000 compared to $110,000 for the first half of 2016. Gains on the sale of loans increased $60,000 as the Bank was able to sell Small Business Administration ("SBA") loans it originated during the six months ended June 30, 2017.

Non-interest Expense. Non-interest expense decreased $53,000, or 3.7%, to $1.4 million for the six months ended June 30, 2017 from $1.4 million for the six months ended June 30, 2016. The decrease was primarily due to decreases in compensation and benefits, occupancy and equipment, data processing, FDIC insurance premiums and other expenses partly offset by an increase in professional fees. Compensation and benefits expense decreased $16,000 or 2.1% primarily due to lower pension and medical expenses. Occupancy and equipment expense decreased $7,000 or 4.4% primarily due to lower repairs and depreciation partly offset by higher utilities. Data processing expense decreased $9,900 mainly due to lower network support and data storage expenses. FDIC premiums decreased $21,000 or 63.2%. The FDIC changed their assessment methodology which resulted in a decrease in costs due to the Bank's lower risk profile. Other expenses decreased $18,000 or 15.6% mainly due to lower insurance costs, staff development expenses, and stationery and supplies expense. Professional fees increased $20,000 or 10.8% mainly due to higher accounting and legal expenses.

Income Tax Expense (Benefit). We recorded a $10,000 income tax expense for the six months ended June 30, 2017 compared to a ($4,000) income tax (benefit) for the six months ended June 30, 2016. Income tax expense (benefit) is calculated based on pre-tax income or (loss) adjusted for permanent book to tax differences, such as non-taxable interest income on municipal securities and income on bank owned life insurance.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable, as the Registrant is a smaller reporting company.

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the 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 June 30, 2017. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Registrant's disclosure controls and procedures were effective.

During the quarter ended June 30, 2017, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

The Company is subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Bank’s or the Company’s financial condition or results of operations.

Item 1A. Risk Factors

Not applicable, as the Registrant is a smaller reporting company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) There were no sales of unregistered securities during the period covered by this Report.

(b) Not applicable.

(c) There were no issuer repurchases of securities during the period covered by this Report.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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. INS XBRL Instance Document

101. SCH XBRL Taxonomy Extension Schema Document

101. CAL XBRL Taxonomy Extension Calculation Linkbase Document

101. DEF XBRL Taxonomy Extension Definition Linkbase Document

101. LAB XBRL Taxonomy Extension Label Linkbase Document

101. PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

Date: August 11, 2017 */s/ Timothy D. Sullivan*
Timothy D. Sullivan
President and Chief Executive Officer

/s/ Edward J. Lipkus
Edward J. Lipkus
Vice President, Chief Financial Officer, and
Treasurer