Sunnyside Bancorp, Inc.
Form 10-Q
November 10, 2016

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 September 30, 2016

OR

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

For the transition period from _______________ to _______________

Commission File 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ¨ NO x

As of November 9, 2016, 793,500 shares of the Registrant's common stock, par value $0.01 per share, were issued and outstanding.

Sunnyside Bancorp, Inc.

Form 10-Q

Index

		Page
Part I. Financial Information		
Item 1.	Condensed Consolidated Financial Statements	
	Condensed Consolidated Statements of Financial Condition as of September 30, 2016 (unaudited) and December 31, 2015	1
	Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2016 and 2015 (unaudited)	2 – 3
	Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2016 and 2015 (unaudited)	4 – 5
	Condensed Consolidated Statement of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2016 (unaudited)	6
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015 (unaudited)	7
	Notes to Condensed Consolidated Financial Statements (unaudited)	8 – 26
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	27 – 31
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	31
Item 4.	Controls and Procedures	31
Part II. Other Information		
Item 1.	Legal Proceedings	32
Item 1A.	Risk Factors	32
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	32
Item 3.	Defaults upon Senior Securities	32

Item 4.	Mine Safety Disclosures	32
Item 5.	Other Information	32
Item 6.	Exhibits	32
	Signature Page	33

Table of Contents

Part I. – Financial Information

Item 1. Financial Statements

SUNNYSIDE BANCORP, INC. AND SUBSIDIARY

Condensed CONSOLIDATED Statements of Financial Condition

Assets	September 30, 2016 **(unaudited)**	December 31, 2015
Cash and cash equivalents	$ 3,086,635	$ 3,326,660
Securities held to maturity, net; approximate fair value of $4,391,000 (September 30, 2016) and $4,859,000 (December 31, 2015)	4,293,502	4,736,273
Securities available for sale	29,899,947	30,750,302
Loans receivable, net	48,009,670	47,092,298
Premises and equipment, net	1,371,058	1,465,439
Federal Home Loan Bank of New York and other stock, at cost	335,020	204,120
Accrued interest receivable	435,774	332,474
Cash surrender value of life insurance	2,184,025	2,139,657
Deferred income taxes	1,143,321	1,231,696
Other assets	668,214	329,880
Total assets	$ 91,427,166	$ 91,608,799
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$ 74,859,274	$ 78,109,759
Federal Home Loan Bank Advances	3,000,000	-
Advances from borrowers for taxes and insurance	307,641	628,645
Other liabilities	1,151,304	1,016,871
Total liabilities	79,318,219	79,755,275
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	6,991,371	7,093,621

Unallocated common stock held by the Employee Stock Ownership Plan	(472,159)	(488,818)
Retained earnings	6,383,341	6,355,056
Accumulated other comprehensive (loss)	(801,541)	(1,114,270)
Total stockholders' equity	12,108,947	11,853,524
Total liabilities and stockholders' equity	$ 91,427,166	$ 91,608,799

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

1

Table of Contents

Sunnyside BANCORP, INC. AND SUBSIDIARY

Condensed CONSOLIDATED Statements of Operations (unaudited)

	Three Months Ended September 30,	
	2016	2015
Interest and dividend income:		
Loans	$543,597	$506,222
Investment securities	34,951	43,983
Mortgage-backed securities	134,346	111,310
Federal funds sold and other earning assets	5,271	2,456
Total interest and dividend income	718,165	663,971
Interest expense:		
Deposits	77,766	87,867
Borrowings	6,017	-
Total interest expense	83,783	87,867
Net interest income	634,382	576,104
Provision for loan losses	3,650	22,000
Net interest income after provision for loan losses	630,732	554,104
Non-interest income:		
Fees and service charges	28,945	27,936
Net gain on sale of securities	16,729	22,133
Net gain on sale of loans	39,584	-
Income on bank owned life insurance	13,939	16,877
Total non-interest income	99,197	66,946
Non-interest expense:		
Compensation and benefits	372,380	370,047
Occupancy and equipment, net	88,999	95,051
Data processing service fees	69,554	65,744
Professional fees	109,130	89,387
Federal deposit insurance premiums	14,756	15,380
Advertising and promotion	17,029	11,584
Other	52,554	56,099
Total non-interest expense	724,402	703,292

Income (loss) before income taxes	5,527	(82,242)
Income tax (benefit)	(3,005)	(47,799)
Net income (loss)	$8,532	$(34,443)
Basic and diluted income (loss) per share	$0.01	$(0.05)
Weighted average shares outstanding, basic and diluted	746,096	743,875

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

Table of Contents

Sunnyside BANCORP, INC. AND SUBSIDIARY

Condensed CONSOLIDATED Statements of Operations (unaudited)

	Nine Months Ended September 30,	
	2016	2015
Interest and dividend income:		
Loans	$1,550,784	$1,509,173
Investment securities	155,701	141,432
Mortgage-backed securities	411,167	350,765
Federal funds sold and other earning assets	11,694	7,246
Total interest and dividend income	2,129,346	2,008,616
Interest expense:		
Deposits	245,996	262,967
Borrowings	16,792	272
Total interest expense	262,788	263,239
Net interest income	1,866,558	1,745,377
Provision for loan losses	3,650	59,000
Net interest income after provision for loan losses	1,862,908	1,686,377
Non-interest income:		
Fees and service charges	84,207	82,188
Net gain on sale of securities	126,398	121,159
Net gain on sale of loans	39,584	-
Income on bank owned life insurance	44,367	50,227
Total non-interest income	294,556	253,574
Non-interest expense:		
Compensation and benefits	1,104,058	1,081,465
Occupancy and equipment, net	269,589	278,576
Data processing service fees	213,105	191,766
Professional fees	295,236	254,551
Federal deposit insurance premiums	48,419	45,187
Advertising and promotion	40,608	31,301
Other	165,487	169,269
Total non-interest expense	2,136,502	2,052,115

Income (loss) before income taxes	20,962	(112,164)
Income tax (benefit)	(7,323)	(65,904)
Net income (loss)	$28,285	$(46,260)
Basic income (loss) per share	$0.04	$(0.06)
Weighted average shares outstanding, basic and diluted	745,544	743,325

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

3

Table of Contents

Sunnyside BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED Statements of Comprehensive Income (Loss) (unaudited)

	Three Months Ended September 30,	
	2016	2015
Net income (loss)	$8,532	$(34,443)
Other comprehensive income (loss), before tax:		
Defined benefit pension plans		
Amortization of loss included in net periodic plan cost	23,892	20,475
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period	(41,226)	204,685
Reclassification adjustment for (gains) losses included in operations	(16,729)	-
Other comprehensive income (loss), before tax	(34,063)	225,160
Income tax expense (benefit) related to items of other comprehensive income (loss)	(13,451)	89,379
Other comprehensive income (loss), net of tax	(20,612)	135,781
Comprehensive income (loss)	$(12,080)	$101,338

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

Table of Contents

Sunnyside BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED Statements of Comprehensive Income (Loss) (unaudited)

	Nine Months Ended September 30,	
	2016	2015
Net income (loss)	$28,285	$(46,260)
Other comprehensive income (loss), before tax:		
Defined benefit pension plans		
Amortization of loss included in net periodic plan cost	71,676	61,425
Unrealized gains on securities available for sale:		
Unrealized holding gains (losses) arising during the period	573,298	183,523
Reclassification adjustment for (gains) losses included in operations	(121,891)	(99,026)
Other comprehensive income (loss), before tax	523,083	145,922
Income tax expense (benefit) related to items of other comprehensive income (loss)	210,354	57,920
Other comprehensive income (loss), net of tax	312,729	88,002
Comprehensive income (loss)	$341,014	$41,742

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

Table of Contents

SUNNYSIDE BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)

	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, 2015	$ 7,935	$ 7,093,621	$ (488,818)	$ 6,355,056	$ (1,114,270)	$ 11,853,524
Net income for the nine months ended September 30, 2016	-	-	-	28,285	-	28,285
ESOP shares allocated or committed to be released	-	3,537	16,659	-	-	20,196
Restricted stock awards earned	-	16,538	-	-	-	16,538
Purchase of stock for restricted stock awards	-	(122,325)		-	-	(122,325)
Other comprehensive income, net of tax	-	-	-	-	312,729	312,729
Balance at September 30, 2016	$ 7,935	$ 6,991,371	$ (472,159)	$ 6,383,341	$ (801,541)	$ 12,108,947

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

Table of Contents

Sunnyside BANCORP, INC. AND SUBSIDIARY

Condensed cONSOLIDATED StatementS of Cash Flows (unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income (loss)	$28,285	$(46,260)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	109,799	115,118
Amortization of premiums and accretion of discounts, net	183,158	118,201
Amortization of deferred loan fees and costs, net	2,370	(1,563)
Net gain on sales of securities	(126,398)	(121,159)
Provision for loan losses	3,650	59,000
Increase in accrued interest receivable	(103,300)	(21,498)
Increase in cash surrender value of life insurance	(44,367)	(50,227)
Amortization of stock compensation plans	36,734	22,503
Net increase in other assets	(460,314)	(31,127)
Net increase in other liabilities	206,109	49,611
Net cash provided by (used in) operating activities	(164,274)	92,599
Cash flows from investing activities:		
Purchases of securities available for sale	(21,276,286)	(7,967,208)
Repayments and maturities of securities held to maturity	225,294	386,963
Repayments and maturities of securities available for sale	3,813,185	3,096,873
Proceeds from sales/calls of securities held to maturity	221,569	982,705
Proceeds from sales of securities available for sale	18,704,011	8,606,475
Loans purchased	(3,297,749)	(6,010,668)
Proceeds from sales of loans	618,675	
Loan principal repayments, net of originations	1,755,682	1,980,966
Purchases of bank premises and equiment	(15,418)	(4,780)
(Purchase) redemption of FHLB stock	(130,900)	3,700
Net cash provided by investing activities	618,063	1,075,026
Cash flows from financing activities:		
Net decrease in deposits	(3,250,485)	(1,856,052)
Net decrease in advances from borrowers for taxes and insurance	(321,004)	(415,692)
Net increase in short-term borrowings	3,000,000	-
Purchase of stock for restricted stock awards	(122,325)	-
Net cash used in financing activities	(693,814)	(2,271,744)

Net decrease in cash and cash equivalents	(240,025)	(1,104,119)
Cash and cash equivalents at beginning of year	3,326,660	3,719,882
Cash and cash equivalents at end of period	$3,086,635	$2,615,763
Supplemental Information:		
Cash paid for:		
Interest	$266,204	$262,541
Income taxes (refunds received), net	$18,973	$15,000

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

Sunnyside BANCORP, INC. AND SUBSIDIARY

Form 10-Q

Notes to Condensed Consolidated Financial Statements (unaudited)

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 significantly 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 nine months ended September 30, 2016, are not necessarily indicative of the results to be expected for the year ended December 31, 2016, 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, 2015 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 September 30, 2016 and December 31, 2015, 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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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 on 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. For the three and nine months ended September 30, 2016, the Company recognized approximately $5,500 and $16,500 in expense in regard to those restricted stock awards compared to $5,500 each for the same periods in 2015. Expected future expense relating to these non-vested restricted shares at September 30, 2016 is $82,700 over a weighted average period of 3.75 years. There were no stock options outstanding as of September 30, 2016.

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.

Table of Contents

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

Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-12, "Compensation – Stock Compensation (Topic 718)". The amendments in this ASU require a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award, and compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in this ASU are effective for annual periods beginning after December 15, 2015. The adoption of this guidance on January 1, 2016 did not have a material impact on the operating results or financial condition of the Company.

In August 2014, the 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, 2015. The adoption of this guidance on January 1, 2017 is not expected to have a material impact on the operating results or financial condition of the Company.

In January 2015, the FASB issued ASU 2015-01, "Income Statement – Extraordinary and Unusual Items (Subtopic 225-20)". This ASU eliminates extraordinary items from US GAAP and will align more closely with International Accounting Standards 1, "Presentation of Financial Statements". The amendments in this ASU are effective beginning after December 15, 2015. The adoption of this guidance on January 1, 2016 did not have a material impact on the operating results or financial condition of the Company.

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810)". This ASU focuses on the consolidation evaluation for reporting organizations that are required to evaluate consolidation of certain legal entities by reducing the number of consolidation models from four to two and is intended to improve current GAAP. The amendments in this ASU are effective beginning after December 15, 2015. The adoption of this guidance on January 1, 2016 did not have a material impact on the operating results or financial condition of the Company.

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 impact on the operating results or financial condition 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

Table of Contents

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

Recent Accounting Pronouncements (Cont'd)

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 impact on the operating results or financial condition of the Company.

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation (Topic 718):" Improvements to Employee Share-Based Payment Accounting". This ASU simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as equity or liabilities, forfeitures, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016 for public entities. The adoption of this guidance on January 1, 2017 is not expected to have a material impact on the operating results or financial condition of the Company.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses" (Topic 326). The new guidance replaces the incurred loss impairment methodology in current GAAP with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit impaired loans will receive an allowance account at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, with such allowance limited to the amount by which fair value is below amortized cost. This guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company is currently evaluating this guidance to determine the impact on its consolidated financial statements.

In August 2016, the FASB issued new guidance related to the "Statement of Cash Flows" (Topic 230). The new guidance clarifies the classification within the statement of cash flows for certain transactions, including debt extinguishment costs, zero-coupon debt, contingent consideration related to business combinations, insurance proceeds, equity method distributions and beneficial interests in securitizations. The guidance also clarifies that cash flows with aspects of multiple classes of cash flows or that cannot be separated by source or use should be classified based on the activity that is likely to be the predominant source or use of cash flows for the item. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The adoption of this guidance is not expected to have a material impact on the operating results or financial condition of the Company.

Subsequent Events

The Company has evaluated all events subsequent to the balance sheet date of September 30, 2016 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.

Table of Contents

3. SECURITIES

	September 30, 2016			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Securities held to maturity:				
U.S. government and agency obligations	$2,000,000	$21,922	$-	$2,021,922
State, county, and municipal obligations	815,536	18,799	-	834,335
Mortgage-backed securities	1,477,966	56,685	-	1,534,651
	$4,293,502	$97,406	$-	$4,390,908
Securities available for sale:				
U.S. government and agency obligations	$999,332	$1,801	$-	$1,001,133
Mortgage-backed securities	28,687,226	232,710	21,122	28,898,814
	$29,686,558	$234,511	$21,122	$29,899,947

	December 31, 2015			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Securities held to maturity:				
U.S. government and agency obligations	$2,000,000	$49,394	$-	$2,049,394
State, county, and municipal obligations	816,364	15,255	571	831,048
Mortgage-backed securities	1,919,909	59,112	-	1,979,021
	$4,736,273	$123,761	$571	$4,859,463
Securities available for sale:				
U.S. government and agency obligations	$5,660,537	$-	$45,055	$5,615,482
Mortgage-backed securities	25,327,782	54,108	247,070	25,134,820
	$30,988,319	$54,108	$292,125	$30,750,302

Mortgage-backed securities consist of securities guaranteed by Ginnie Mae, Fannie Mae, Freddie Mac, and the Small Business Administration with amortized costs of $1.8 million, $18.0 million, $7.2 million, and $3.2 million, respectively, at September 30, 2016 ($2.3 million, $11.5 million, $10.0 million, and $3.6 million, respectively, at December 31, 2015).

Proceeds from the sale of securities held to maturity amounted to $0 and $982,705 for the three months ended September 30, 2016 and 2015, respectively. Net gains of $0 and $22,133 were recognized on the sales for the three months ended, September 30, 2016 and 2015, respectively. The sale of the securities in 2015 occurred after the Company 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 $3,000,000 and $0 for the three months ended September 30, 2016 and 2015, respectively. Net gains of $16,729 and $0 were recognized on those sales and calls for the three months ended, September 30, 2016 and 2015, respectively.

Proceeds from the sale of securities held to maturity amounted to $221,569 and $982,705 for the nine months ended September 30, 2016 and 2015, respectively. Net gains of $4,507 and $22,133 were recognized on the sales during the nine months ended September 30, 2016 and 2015, 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.

Table of Contents

3. SECURITIES (Cont'd)

Proceeds from the sales and calls of securities available for sale amounted to $18,704,011 and $8,606,475 for the nine months ended September 30, 2016 and 2015, respectively. Net gains of $121,891 and $99,026 were recognized on those sales and calls for the nine months ended, September 30, 2016 and 2015, respectively.

The following is a summary of the amortized cost and fair value of securities at September 30, 2016 and December 31, 2015, 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.

	September 30, 2016			
	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$65,000	$65,064	$-	$-
After one to five years	404,465	405,610	999,332	1,001,133
After five to ten years	-	-	3,134,174	3,153,923
After ten years	3,824,037	3,920,234	25,553,052	25,744,891
	$4,293,502	$4,390,908	$29,686,558	$29,899,947

	December 31, 2015			
	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$65,000	$65,637	$-	$-
After one to five years	405,463	410,756	999,176	988,268
After five to ten years	-	-	6,646,014	6,592,105
After ten years	4,265,810	4,383,070	23,343,129	23,169,929
	$4,736,273	$4,859,463	$30,988,319	$30,750,302

The following tables summarize the fair values and unrealized losses of securities with an unrealized loss at September 30, 2016 and December 31, 2015, 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.

	September 30, 2016			
	Under One Year		One Year or More	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Securities available for sale:				
Mortgage-backed securities	$-	$ -	$2,521,272	$ 21,122

15

Table of Contents

3. SECURITIES (Cont'd)

	December 31, 2015			
	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	$204,986	$571	$-	$-
Securities available for sale:				
U.S. government and agency obligations	4,627,215	34,146	988,267	10,909
Mortgage-backed securities	16,181,086	128,104	3,983,918	118,966
	20,808,301	162,250	4,972,185	129,875
Total	$21,013,287	$162,821	$4,972,185	$129,875

The unrealized losses are primarily due to changes in market interest rates subsequent to purchase. A total of 3 and 40 securities were in an unrealized loss position at September 30, 2016 and December 31, 2015, 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 September 30, 2016 and December 31, 2015 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

	September 30, 2016	December 31, 2015
Mortgage loans:		
Residential 1-4 family	$25,292,249	$29,156,224
Commercial and multi-family	15,711,496	13,816,059
Home equity lines of credit	535,393	407,764
	41,539,138	43,380,047
Other loans:		
Secured by savings accounts	5,600	18,201

Student	5,828,825	1,932,791
Commercial	947,854	2,171,795
	6,782,279	4,122,787
Total loans	48,321,417	47,502,834
Less:		
Deferred loan fees (costs), net	(101,579)	(52,707)
Premium on loans purchased	(53,567)	-
Allowance for loan losses	466,893	463,243
	311,747	410,536
	$ 48,009,670	$ 47,092,298

16

Table of Contents

4. LOANS RECEIVABLE, NET (CONT'D)

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 $163,000 and $169,000 at September 30, 2016 and December 31, 2015, respectively.

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

	Three Months Ended September 30,	
	2016	2015
Balance at beginning of period	$463,243	$433,055
Provision for loan losses	3,650	22,000
Balance at end of period	$466,893	$455,055

	Nine Months Ended September 30,	
	2016	**2015**
Balance at beginning of period	$463,243	$396,055
Provision for loan losses	3,650	59,000
Balance at end of period	$466,893	$455,055

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 September 30, 2016 and December 31, 2015. 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.

Table of Contents

4. LOANS RECEIVABLE, NET (CONT'D)

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.
- 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:

	September 30, 2016				
	Mortgage Loans				
	Residential 1-4 Family	Commercial Real Estate and Multi-Family	Home Equity	Commercial and Other	Total
	(In thousands)				
Pass	$24,731	$ 15,349	$ 512	$ 6,782	$47,374
Special Mention	-	363	-	-	363
Substandard	561	-	23	-	584
Total	$25,292	$ 15,712	$ 535	$ 6,782	$48,321

18

Table of Contents

4. LOANS RECEIVABLE, NET (CONT'D)

	December 31, 2015				
	Mortgage Loans				
	Residential 1-4 Family	Commercial Real Estate and Multi-Family	Home Equity	Commercial and Other	Total
	(In thousands)				
Pass	$28,458	$ 12,676	$ 383	$ 4,123	$45,640
Special Mention	409	1,140	25	-	1,574
Substandard	289	-	-	-	289
Total	$29,156	$ 13,816	$ 408	$ 4,123	$47,503

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

	September 30, 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	$-	$ -	$ 561	$ 561	$24,731	$25,292	$ -
Commercial real estate and multi-family	2,626	-	-	2,626	$13,086	15,712	-
Home equity lines of credit	-	-	23	23	$512	535	-
Commercial and other	-	-	-	-	$6,782	6,782	-
	$2,626	$ -	$ 584	$ 3,210	$45,111	$48,321	$ -

	December 31, 2015						
	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	$-	$ 279	$ 289	$ 568	$28,588	29,156	$ -
Commercial real estate and multi-family	-	737	-	737	13,079	13,816	-
Home equity lines of credit	-	25	-	25	383	408	-
Commercial and other	-	-	-	-	4,123	4,123	-
	$-	$ 1,041	$ 289	$ 1,330	$46,173	$47,503	$ -

There were no troubled debt restructured loans at September 30, 2016 or December 31, 2015.

Table of Contents

4. LOANS RECEIVABLE, NET (CONT'D)

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:

	September 30, 2016	December 31, 2015
	(In thousands)	
Residential 1-4 family	$ 561	$ 289
Commercial real estate and multi-family	-	-
Home equity lines of credit	23	-
Other loans	-	-
Total non-accrual loans	584	289
Accruing loans delinquent 90 days or more	-	-
Total non-performing loans	$ 584	$ 289

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 $7,400 and $3,300 for the three months ended September 30, 2016 and 2015, respectively. The total amount of interest income recognized on non-accrual loans amounted to approximately $3,700 and $600 during the three months ended September 30, 2016 and 2015, respectively.

For the nine months ended September 30, 2016 and 2015, such interest income that would have been recognized on non-accrual loans totaled approximately $32,700 and $15,200, respectively. The total amount of interest income recognized on non-accrual loans amounted to approximately $32,900 and $4,900 during the nine months ended September 30, 2016 and 2015, respectively.

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

Three Months Ended
September 30, 2016
Mortgage Loans

	Residential 1-4 Family	Commercial and Multi-Family	Home Equity LOC	Commercial and Other	Unallocated	Total
	(In thousands)					
Beginning balance	$299	$ 133	$ 4	$ 25	$ 2	$463
Provision for loan losses	(6)	8	1	1	-	4
Ending Balance	$293	$ 141	$ 5	$ 26	$ 2	$467

20

Table of Contents

4. LOANS RECEIVABLE, NET (CONT'D)

	Three Months Ended September 30, 2015					
	Mortgage Loans					
	Residential 1-4 Family	Commercial and Multi-Family	Home Equity LOC	Commercial and Other	Unallocated	Total
	(In thousands)					
Beginning balance	$ 287	$ 111	$ 3	$ 26	$ 6	$ 433
Provision for loan losses	28	16	-	(20)	(2)	22
Ending Balance	$ 315	$ 127	$ 3	$ 6	$ 4	$ 455

	Nine Months Ended September 30, 2016					
	Mortgage Loans					
	Residential 1-4 Family	Commercial and Multi-Family	Home Equity LOC	Commercial and Other	Unallocated	Total
	(In thousands)					
Beginning balance	$ 315	$ 130	$ 3	$ 15	$ -	$ 463
Provision for loan losses	(22)	11	2	11	2	4
Ending Balance	$ 293	$ 141	$ 5	$ 26	$ 2	$ 467

	Nine Months Ended September 30, 2015					
	Mortgage Loans					
	Residential 1-4 Family	Commercial and Multi-Family	Home Equity LOC	Commercial and Other	Unallocated	Total
	(In thousands)					
Beginning balance	$ 258	$ 91	$ 3	$ 32	$ 12	$ 396
Provision for loan losses	57	36	-	(26)	(8)	59

Ending Balance	$315	$ 127	$ 3	$ 6	$ 4	$455

21

Table of Contents

5. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	September 30, 2016	December 31, 2015
Unrealized net loss on pension plan	$ (1,538,059)	$ (1,609,735)
Unrealized gain (loss) on securities available for sale	213,390	(238,017)
Accumulated other comprehensive loss before taxes	(1,324,669)	(1,847,752)
Tax effect	523,128	733,482
Accumulated other comprehensive loss	$ (801,541)	$ (1,114,270)

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.

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 September 30, 2016 and December 31, 2015, 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 be 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.

Table of Contents

6. REGULATORY CAPITAL (Cont'd)

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)					
September 30, 2016						
Total Risk-based Capital	$12,165	26.08%	$4,023	8.625 %	$4,665	10.00 %
Common Equity Tier 1 Capital	11,698	25.08%	2,391	5.125 %	3,032	6.50 %
Tier 1 Risked-based Capital	11,698	25.08%	3,090	6.625 %	3,732	8.00 %
Tier 1 Leverage Capital	11,698	12.18%	3,841	4.000 %	4,801	5.00 %
December 31, 2015						
Total Risk-based Capital	$12,201	30.41%	$3,210	8.000 %	$4,012	10.00 %
Common Equity Tier 1 Capital	11,738	29.25%	1,805	4.500 %	2,608	6.50 %
Tier 1 Risked-based Capital	11,738	29.25%	2,407	6.000 %	3,210	8.00 %
Tier 1 Leverage Capital	11,738	12.92%	3,634	4.000 %	4,542	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 September 30, 2015

and December 31, 2014. 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, 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.

Table of Contents

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

A. Fair Value Measurements (Cont'd)

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 September 30, 2016 and December 31, 2015:

		Fair Value Measurements		
Description	Carrying Value	Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2016:				
Securities available for sale	$29,899,947	$ -	$ 29,899,947	$ -
December 31, 2015:				
Securities available for sale	$30,750,302	$ -	$ 30,750,302	$ -

There were no assets measured at fair value on a non-recurring basis at September 30, 2016 and December 31, 2015.

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).

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).

Table of Contents

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

B. Fair Value Disclosures (Cont'd)

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):

	September 30, 2016		**December 31, 2015**	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$3,087	$ 3,087	$3,327	$ 3,327
Securities held to maturity	4,294	4,391	4,736	4,859
Securities available for sale	29,900	29,900	30,750	30,750
Loans receivable	48,010	49,160	47,092	47,543
FHLB and other stock, at cost	335	335	204	204
Accrued interest receivable	436	436	332	332
Financial liabilities:				
Deposits	74,859	74,913	78,110	78,266
FHLB Advances	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,

Table of Contents

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

B. Fair Value Disclosures (Cont'd)

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.

Table of Contents

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 at and for the three and nine months ended September 30, 2016 and 2015 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 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.

Table of Contents

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 ended December 31, 2015.

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

Total assets decreased $182,000, or 0.2%, to $91.4 million at September 30, 2016 from $91.6 million at December 31, 2015. The decrease was due primarily to a decrease of investment securities partly offset by an increase in loans. Securities held to maturity and available for sale decreased $440,000 and $850,000, respectively. These decreases were partly offset by a $920,000 increase in loans.

Cash and cash equivalents decreased $240,000, or 7.2%, to $3.1 million at September 30, 2016 from $3.3 million at December 31, 2015. Securities available for sale decreased $850,000, or 2.8%, to $29.9 million at September 30, 2016 from $30.8 million at December 31, 2015, and securities held to maturity decreased $440,000, or 9.3%, to $4.3 million at September 30, 2016 from $4.7 million at December 31, 2015. The decreases in cash and investment securities resulted primarily from the funding of loans.

Net loans receivable increased $920,000, or 1.9%, to $48.0 million at September 30, 2016 from $47.1 million at December 31, 2015. The increase in loans receivable was primarily due to an increase in commercial real estate and student loans partly offset by a decrease in residential loans.

At September 30, 2016, our investment in bank-owned life insurance increased $44,000 to $2.2 million from $2.1 million at December 31, 2015. 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.

Other assets, consisting primarily of prepaid insurance premiums, prepaid assets, accounts receivable and an annuity contract for a former director increased $338,000, or 102.6%, to $668,000 from $330,000 at December 31, 2015 primarily due to an increase in prepaid insurance premiums and accounts receivable.

Total deposits decreased $3.3 million, or 4.2%, to $74.9 million at September 30, 2016 from $78.1 million at December 31, 2015. The decrease resulted primarily from decreases in certificates of deposit and savings deposits of $4.0 million, or 13.1%, and $1.2 million, or 3.9%, respectively, partly offset by increases in NOW accounts of $1.6 million, or 13.8%.

We had $3.0 million in short-term Federal Home Loan Bank ("FHLB") advances outstanding at September 30, 2016 compared to $0 at December 31, 2015. At September 30, 2016, we had the ability to borrow an additional $24.4 million, or 30% 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 $255,000, or 2.2%, to $12.1 million at December 31, 2016 from $11.9 million at December 31, 2015 resulting from a decrease in other comprehensive loss of $313,000, primarily due to a decrease in unrealized losses and an increase in unrealized gains in the investment portfolio as well as net income of $28,000 for the first nine months of 2016 and a decrease of $17,000 in the unallocated common stock held by the Employee Stock Ownership Plan. These increases were partly offset by the purchase of 10,500 shares of our common stock totaling $122,000 for the restricted stock awards granted in 2015.

Table of Contents

Comparison of Results of Operations for the Quarters Ended September 30, 2016 and September 30, 2015

General. We had net income of $8,500 for the quarter ended September 30, 2016 compared to a net loss of $34,000 for the quarter ended September 30, 2015. The increase in net income resulted primarily from increases in net interest and non-interest income and a decrease in the provision for loan losses partly offset by an increase in non-interest expense and decrease in income tax benefit when comparing the 2016 quarter to the 2015 quarter.

Net Interest Income. Net interest income increased $58,000, or 10.1%, to $634,000 for the quarter ended September 30, 2016 from $576,000 for the quarter ended September 30, 2015. The increase resulted from a $54,000 or 8.2% increase in interest income and a $4,000 or 4.6% decrease in interest expense.

The increase in interest income was primarily due to an increase in the average balances of loans and investments during the quarter ended September 30, 2016 compared to the same period in 2015. The average yield on our loans and investment securities increased 17 and 46 basis points, respectively, while the average yield on our mortgage-backed securities decreased 8 basis points during the quarter ended September 30, 2016 compared to the 2015 quarter. Our net interest rate spread increased 13 basis points to 2.83% for the quarter ended September 30, 2016 from 2.70% for the quarter ended September 30, 2015 and our net interest margin increased 13 basis points to 2.87% for the 2016 quarter from 2.74% for the 2015 period. Average interest-earning assets increased to $87.8 million for the quarter ended September 30, 2016 from $83.3 million for the prior year quarter.

Interest and Dividend Income. Interest and dividend income increased $54,000 or 8.1% to $718,000 for the quarter ended September 30, 2016 from $664,000 for the quarter ended September 30, 2015. The increase resulted primarily from an increase in interest income on loans and mortgage-backed securities of $37,000 and $23,000, respectively, partly offset by a $9,000 decrease in interest income on investment securities.

Interest income on loans increased $37,000 or 7.4%, to $544,000 for the quarter ended September 30, 2016 from $506,000 for the quarter ended September 30, 2015. The increase resulted primarily from a $1.6 million increase in average balances and an increase of 17 basis points in the average yield on loans to 4.35% for the 2016 quarter from 4.18% for the 2015 quarter.

Interest and dividend income on investment securities decreased $9,000 to $35,000 for the quarter ended September 30, 2016 from $44,000 for the quarter ended September 30, 2015. The decrease was due to a $2.6 million decrease in average balances partly offset by an increase of 46 basis points in the average yield on investment securities to 2.75% during the 2016 quarter from 2.29% during the 2015 quarter. Interest and dividend income on mortgage-backed securities increased $23,000 to $134,000 for the quarter ended September 30, 2016 from $111,000 for the quarter ended September 30, 2015. The increase was due to a $6.5 million increase in average balances partly offset by a

decrease of 8 basis points in the yield to 1.70% compared to 1.78% for the same quarter in 2015.

Interest Expense. Interest expense, consisting primarily of the cost of interest-bearing deposits, decreased $4,000 or 4.6%, to $84,000 for the quarter ended September 30, 2016 from $88,000 for the quarter ended September 30, 2015. The decrease in interest expense was due to a decrease of 3 basis points in the cost of interest-bearing liabilities, primarily deposits, to 0.43% for the quarter ended September 30, 2016, from 0.46% for the quarter ended September 30, 2015, primarily due to lower interest paid on certificates of deposit reflecting lower market interest rates. Average interest-bearing liabilities increased to $78.4 million for the quarter ended September 30, 2016 from $75.6 million for the quarter ended September 30, 2015. The average balances of higher cost interest-bearing certificates of deposits decreased $3.4 million and were offset with an increase in lower cost NOW and money market balances as well as lower costing advances from the Federal Home Loan Bank. Lower rates on certificates of deposit as well as the change in the composition of our interest-bearing deposits helped reduce the cost of funds from 0.43% for the quarter ended September 30, 2015 to 0.40% for the quarter ended September 30, 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. There was a $3,700 provision for loan losses recorded for the quarter ended September 30, 2016 and $22,000 recorded for the quarter ended September 30, 2015. The allowance for loan losses was $467,000 at September 30, 2016 compared to $455,000 at September 30, 2015. Non-performing loans at September 30, 2016 totaled $584,000 and $287,000 at September 30, 2015. During the quarters ended September 30, 2016 and September 30, 2015 there were no loan charge-offs or recoveries.

Noninterest Income. Noninterest income increased $32,000 to $99,000 for the quarter ended September 30, 2016 from $67,000 for the quarter ended September 30, 2015. The increase was primarily due to an increase in

Table of Contents

the gain on the sale of loans of $40,000 partly offset by a decrease in the gain on the sales and calls of securities of $5,000.

Noninterest Expense. Noninterest expense increased $21,000 or 3.0% to $724,000 for the quarter ended September 30, 2016 from $703,000 for the quarter ended September 30, 2015. The increase was primarily due to higher professional fees, advertising and promotion expenses and data processing service fees partly offset by lower occupancy and equipment expense and other expense. Professional fees increased $20,000 due to higher accounting and auditing expenses and increased legal expenses. Advertising expense increased $5,000 due to initiatives the Company undertook in 2016 that did not occur in 2015. Data processing expenses increased $4,000 as a result of higher costs related to core processing and additional costs to support new products and initiatives. Occupancy and equipment expense decreased $6,000 primarily due to lower building expense and repairs. Other expense decreased $4,000 primarily due to lower expenses related to the Company’s annual meeting.

Income Tax Expense (Benefit). We recorded a $3,000 income tax benefit for the quarter ended September 30, 2016 and a $48,000 income tax benefit for the quarter ended September 30, 2015. 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 nine months ended September 30, 2016 and September 30, 2015

General. We had net income of $28,000 for the nine months ended September 30, 2016 compared to a net loss of $46,000 for the nine months ended September 30, 2015. The increase in net income for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 resulted primarily from increases in net interest and non-interest income and a decrease in the provision for loan losses partly offset by an increase in non-interest expense and a lower tax benefit.

Net Interest Income. Net interest income increased $121,000, or 6.9%, to $1.9 million for the nine months ended September 30, 2016 from $1.7 million for the nine months ended September 30, 2015. The increase resulted from a $121,000 or 6.0% increase in interest income, while total interest expense remained relatively unchanged.

The increase in interest income was primarily due to an increase in the average balances of loans and mortgage-backed securities during the nine months ended September 30, 2016 compared to the same period in 2015. The average yield on our loans increased 3 basis points to 4.30% for the nine months ended September 30, 2016, compared to 4.27% for the nine months ended September 30, 2015. The yields on investment securities and mortgage-backed securities increased 54 and 3 basis points, respectively, during the nine months ended September 30, 2016 compared to the 2015 period. Our net interest rate spread increased 7 basis points to 2.81% for the nine months

ended September 30, 2016 from 2.74% for the nine months ended September 30, 2015 and our net interest margin increased 8 basis points to 2.86% for the 2016 period from 2.78% for the 2015 period. Average interest-earning assets increased to $87.3 million for the nine months ended September 30, 2016 from $83.8 million for the prior year period.

Interest and Dividend Income. Interest and dividend income increased $121,000 or 6.0% to $2.1 million for the nine months ended September 30, 2016 from $2.0 million for the nine months ended September 30, 2015. The increase resulted primarily from an increase in interest income on loans, investment securities and mortgage-backed securities of $42,000, $14,000 and $60,000, respectively.

Interest income on loans increased $42,000 or 2.8%, to $1.6 million for the nine months ended September 30, 2016 from $1.5 million for the nine months ended September 30, 2015. The increase resulted primarily from a $883,000 increase in average loan balances and a 3 basis point increase in the average yield on loans to 4.30% for the 2016 period from 4.27% for the 2015 period.

Interest and dividend income on investment securities increased $14,000 or 10.1% for the nine months ended September 30, 2016 to $156,000 from $141,000 for the nine months ended September 30, 2015 primarily due to a 54 basis point increase in yield, partly offset by a $848,000 decrease in average balances. Interest and dividend income on mortgage-backed securities increased $60,000 or 17.2% for the nine months ended September 30, 2016 to $411,000 from $351,000 for the nine months ended September 30, 2015 primarily due to a $4.0 million increase in average balances and an increase in yield of 3 basis points.

Interest Expense. Interest expense, consisting primarily of the cost of interest-bearing liabilities, remained relatively unchanged for the nine months ended September 30, 2016 compared to the same period in 2015. The average rate paid on interest-bearing liabilities decreased 2 basis points to 0.45% for the nine months ended September 30, 2016, compared to 0.47% for the nine months ended September 30, 2015. Average interest-bearing

Table of Contents

liabilities increased to $78.4 million for the nine months ended September 30, 2016 from $75.5 million for the same period in 2015. The average balances of higher cost interest-bearing certificates of deposits decreased $2.4 million and were offset with an increase in lower cost NOW accounts and lower costing advances from the Federal Home Loan Bank. Lower rates on certificates of deposit as well as the change in the composition of our interest-bearing deposits helped reduce the cost of funds from 0.44% for the nine months ended September 30, 2015 to 0.42% for 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. There was a $3,700 provision for loan losses recorded for the nine month period ended September 30, 2016 and a $59,000 provision for loan losses recorded for the nine month period ended September 30, 2015. There were no charge-offs or recoveries of loans during the nine months ended September 30, 2016 and 2015, respectively.

Noninterest Income. Noninterest income increased $41,000 or 16.2% to $295,000 for the nine months ended September 30, 2016 from $254,000 for the nine months ended September 30, 2015. The increase was primarily due to higher gains on the sale of loans and securities recognized during the 2016 period of $40,000 and $126,000, respectively, compared to $0 and $121,000 for the 2015 period.

Noninterest Expense. Noninterest expense increased $84,000 or 4.1%, to $2.1 million for the nine months ended September 30, 2016 from $2.1 million for the nine months ended September 30, 2015. The increase was primarily due to higher professional fees, data processing fees, compensation and benefits expense and advertising and promotion expense, partly offset by lower occupancy and equipment expense. Professional fees increased $41,000 due to higher auditing and accounting expenses and increased consulting and legal fees. Data processing expenses increased $21,000 as a result of higher costs related to core processing and additional costs to support new products and initiatives. Compensation and benefits increased $23.000 primarily due to higher costs of benefits. Advertising and promotion expense increased $9,000 due to initiatives the Company undertook in 2016 that did not occur in 2015. Occupancy and equipment expense decreased $9,000 primarily due to lower building expense and repairs.

Income Tax Expense (Benefit). We recorded a $7,000 income tax benefit for the nine months ended September 30, 2016 and a $66,000 income tax benefit for the nine months ended September 30, 2015. 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 September 30, 2016. 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 September 30, 2016, 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.

Table of Contents

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

Table of Contents

SIGNATURES

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

Date: November 10, 2016 /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