Section 1: 10-Q (FORM 10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______

FSB BANCORP, INC.

(Exact Name of Company as Specified in its Charter)

Maryland	001-37831	81-2509654
(State of Other Jurisdiction of Incorporation)	(Commission File No.)	(I.R.S. Employer Identification No.)

45 South Main Street, Fairport, NY 14450
(Address of Principal Executive Office) (Zip Code)

(585) 377-8970
(Issuer's Telephone Number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES ☒ NO ☐

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

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

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

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

As of August 10, 2018, there were 1,943,253 shares issued and outstanding of the registrant's common stock.

FSB BANCORP, INC.
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PART I - FINANCIAL INFORMATION
Item 1 – Consolidated Financial Statements

FSB Bancorp, Inc.
Consolidated Balance Sheets
(Unaudited)

(In thousands, except share and per share data)	June 30, 2018	December 31, 2017
ASSETS:		
Cash and due from banks	$ 1,672	$ 1,672
Interest earning demand deposits	6,051	8,725
Total cash and cash equivalents	7,723	10,397
Available-for-sale securities, at fair value	17,748	18,313
Held-to-maturity securities, at amortized cost (fair value of $6,307 and $6,588, respectively)	6,347	6,575
Investment in restricted stock, at cost	3,492	3,270
Loans held for sale	7,300	2,770
Loans	271,987	263,972
Less: Allowance for loan losses	(1,411)	(1,261)
Loans receivable, net	270,576	262,711
Bank owned life insurance	3,788	3,758
Accrued interest receivable	851	824
Premises and equipment, net	2,905	3,064
Other assets	2,946	2,700
Total assets	$ 323,676	$ 314,382
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Deposits:		
Non-interest bearing	$ 9,856	$ 8,385
Interest bearing	212,108	208,306
Total deposits	221,964	216,691
Short-term borrowings	7,000	13,000
Long-term borrowings	61,618	51,447
Official bank checks	397	929
Other liabilities	1,404	1,259
Total liabilities	292,383	283,326
Stockholders' equity:		
Preferred stock – par value $0.01; 25,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, par value $0.01; 50,000,000 authorized shares; 1,941,253 and 1,934,853 shares issued and outstanding, respectively	19	19
Paid-in capital	15,615	15,441
Retained earnings	16,219	16,077
Accumulated other comprehensive loss	(262)	(165)
Unearned ESOP shares, at cost	(298)	(316)
Total stockholders' equity	31,293	31,056
Total liabilities and stockholders' equity	$ 323,676	$ 314,382

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

FSB Bancorp, Inc.
Consolidated Statements of Income
(Unaudited)

(In thousands, except per share data)	**For the three months ended June 30, 2018**	**For the three months ended June 30, 2017**
Interest and dividend income:		
Loans, including fees	$ 2,887	$ 2,454
Securities:		
Taxable	97	70
Tax-exempt	26	28
Mortgage-backed securities	35	24
Other	11	20
Total interest and dividend income	3,056	2,596
Interest expense:		
Interest on deposits	603	429
Interest on short-term borrowings	37	24
Interest on long-term borrowings	279	210
Total interest expense	919	663
Net interest income	2,137	1,933
Provision for loan losses	75	60
Net interest income after provision for loan losses	2,062	1,873
Other income:		
Service fees	37	38
Fee income	34	68
Increase in cash surrender value of bank owned life insurance	15	16
Realized gain on sale of loans	289	691
Mortgage fee income	196	197
Other	44	42
Total other income	615	1,052
Other expense:		
Salaries and employee benefits	1,565	1,589
Occupancy	273	259
Data processing costs	103	89
Advertising	59	51
Equipment	140	140
Electronic banking	27	28
Directors' fees	47	58
Mortgage fees and taxes	63	72
FDIC premium expense	24	26
Audits and tax services	46	41
Other	247	265
Total other expenses	2,594	2,618
Income before income taxes	83	307
Provision for income taxes	15	83
Net income	$ 68	$ 224
Earnings per common share – basic and diluted	**$ 0.04**	**$ 0.12**

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

FSB Bancorp, Inc.
Consolidated Statements of Income
(Unaudited)

(In thousands, except per share data)	For the six months ended June 30, 2018	For the six months ended June 30, 2017
Interest and dividend income:		
Loans, including fees	$ 5,713	$ 4,808
Securities:		
Taxable	191	139
Tax-exempt	52	57
Mortgage-backed securities	75	54
Other	21	24
Total interest and dividend income	6,052	5,082
Interest expense:		
Interest on deposits	1,166	800
Interest on short-term borrowings	84	41
Interest on long-term borrowings	513	413
Total interest expense	1,763	1,254
Net interest income	4,289	3,828
Provision for loan losses	150	112
Net interest income after provision for loan losses	4,139	3,716
Other income:		
Service fees	69	78
Fee income	73	103
Increase in cash surrender value of bank owned life insurance	30	31
Realized gain on sale of loans	637	1,017
Mortgage fee income	370	369
Other	104	90
Total other income	1,283	1,688
Other expense:		
Salaries and employee benefits	3,192	3,113
Occupancy	554	528
Data processing costs	204	170
Advertising	92	94
Equipment	283	283
Electronic banking	58	35
Directors' fees	105	130
Mortgage fees and taxes	115	120
FDIC premium expense	50	52
Audits and tax services	95	93
Other	499	520
Total other expenses	5,247	5,138
Income before income taxes	175	266
Provision for income taxes	33	47
Net income	$ 142	$ 219
Earnings per common share – basic and diluted	**$ 0.07**	**$ 0.11**

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

Consolidated Statements of Comprehensive Income
(Unaudited)

(In thousands)	For the three months ended	
	June 30, 2018	**June 30, 2017**
Net Income	$ 68	$ 224
Other Comprehensive Income (Loss)		
Unrealized holding gains (losses) on available-for-sale securities		
Unrealized holding gains (losses) arising during the period	(5)	15
Net unrealized gain (loss) on available for sale securities	(5)	15
Other comprehensive income (loss), before tax	(5)	15
Tax effect	-	5
Other comprehensive income (loss), net of tax	(5)	10
Comprehensive income	$ 63	$ 234
Tax Effect Allocated to Each Component of Other Comprehensive Income		
Unrealized holding gains arising during the period	$ -	$ 5
Income tax effect related to other comprehensive income	$ -	$ 5

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

Consolidated Statements of Comprehensive Income
(Unaudited)

(In thousands)	For the six months ended June 30, 2018	For the six months ended June 30, 2017
Net Income	$ 142	$ 219
Other Comprehensive Income (Loss)		
Unrealized holding gains (losses) on available-for-sale securities		
Unrealized holding gains (losses) arising during the period	(123)	29
Net unrealized gain (loss) on available for sale securities	(123)	29
Other comprehensive income (loss), before tax	(123)	29
Tax effect	(26)	10
Other comprehensive income (loss), net of tax	(97)	19
Comprehensive income	$ 45	$ 238
Tax Effect Allocated to Each Component of Other Comprehensive Income		
Unrealized holding gains (losses) arising during the period	$ (26)	$ 10
Income tax effect related to other comprehensive income (loss)	$ (26)	$ 10

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

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

(In thousands, except share and per share data)	Common Stock	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unearned ESOP	Total
Balance, January 1, 2018	$ 19	$ 15,441	$ 16,077	$ (165)	$ (316)	$ 31,056
Net income	-	-	142	-	-	142
Other comprehensive loss, net of tax	-	-	-	(97)	-	(97)
ESOP shares committed to be released	-	22	-	-	18	40
Stock based compensation	-	152	-	-	-	152
Balance, June 30, 2018	$ 19	$ 15,615	$ 16,219	$ (262)	$ (298)	$ 31,293
Balance, January 1, 2017	$ 19	$ 16,352	$ 15,839	$ (85)	$ (350)	$ 31,775
Net income	-	-	219	-	-	219
Other comprehensive income, net of tax	-	-	-	19	-	19
ESOP shares committed to be released	-	8	-	-	18	26
Balance, June 30, 2017	$ 19	$ 16,360	$ 16,058	$ (66)	$ (332)	$ 32,039

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

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

(In thousands)	For the Six Months Ended June 30, 2018	2017
OPERATING ACTIVITIES		
Net income	$ 142	$ 219
Adjustments to reconcile net income to net cash flows from operating activities:		
Net amortization of premiums and accretion of discounts on investments	42	71
Gain on sale of loans	(637)	(1,017)
Proceeds from loans sold	24,714	32,564
Loans originated for sale	(28,607)	(31,900)
Amortization of net deferred loan origination costs	373	310
Depreciation and amortization	227	216
Provision for loan losses	150	112
Expense related to ESOP	40	26
Deferred income tax benefit	(7)	(42)
Earnings on investment in bank owned life insurance	(30)	(31)
Increase in accrued interest receivable	(27)	(47)
Increase in other assets	(246)	(326)
Increase (Decrease) in other liabilities	178	(415)
Net cash flows from operating activities	(3,688)	(260)
INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(500)	(3,503)
Proceeds from maturities and calls of securities available-for-sale	-	1,000
Proceeds from principal paydowns on securities available-for-sale	915	1,830
Purchases of securities held-to-maturity	(415)	-
Proceeds from maturities and calls of securities held-to-maturity	460	715
Proceeds from principal paydowns on securities held-to-maturity	168	90
Net increase in loans	(8,388)	(16,300)
Purchase of restricted stock, net	(222)	(23)
Purchase of premises and equipment	(68)	(240)
Net cash flows from investing activities	(8,050)	(16,431)
FINANCING ACTIVITIES		
Net increase in deposits	5,273	18,901
Proceeds from long-term borrowings	19,000	6,501
Repayments on long-term borrowings	(8,829)	(7,666)
Repayments on short-term borrowings, net	(6,000)	(500)
Stock based compensation	152	-
Net (decrease) increase in official bank checks	(532)	277
Net cash flows from financing activities	9,064	17,513
Change in cash and cash equivalents	(2,674)	822
Cash and cash equivalents at beginning of period	10,397	7,407
Cash and cash equivalents at end of period	$ 7,723	$ 8,229
CASH PAID DURING THE PERIOD FOR:		
Interest	$ 1,718	$ 1,241
Income taxes	$ 206	$ -

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

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements of FSB Bancorp, Inc. (“FSB Bancorp”), Fairport Savings Bank (the “Bank”), and its other wholly owned subsidiary, Fairport Wealth Management (collectively, the “Company”), have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions for Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes necessary for a complete presentation of consolidated financial condition, results of operations and cash flows in conformity with generally accepted accounting principles. In the opinion of management, all adjustments, consisting of normal recurring accruals considered necessary for a fair presentation, have been included. The results are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or for any future period.

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices or are provided by other third-party sources, when available. When third party information is not available, valuation adjustments are estimated in good faith by management.

Note 2: New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and subsequent updates. This ASU clarifies the principles for recognizing revenue and develops a common standard for U.S. GAAP and International Financial Reporting Standards. The ASU establishes a core principle that requires an entity to identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the entity satisfies a performance obligation. The ASU provides for improved disclosure requirements that require entities to disclose sufficient financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted the guidance effective January 1, 2018 using the modified retrospective method. The Company’s revenue is the sum of net interest income and non-interest income. The scope of the guidance excludes nearly all net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. The Company completed its review and determined that the majority of non-interest income revenue streams are within the scope of the new standard. Non-interest income streams that are out of scope of the new standard include BOLI, sales of investment securities, mortgage banking activities, and certain items within service charges and other income. Management reviewed contracts related to service charges on deposits, investment advisory commissions and fee income, insurance commission and fee income, and certain items within other service charges and other income. The Company evaluated the impact of this ASU on the Company’s various revenue streams and, upon adoption on January 1, 2018 and going forward, does not anticipate a material impact to the consolidated financial statements. The Company has included applicable disclosures regarding revenue recognition within Note 9 of these consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this update require 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, the amendments in this update also simplify the impairment assessment of equity investments without readily determinable fair values by requiring assessment for impairment qualitatively at each reporting period. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods with those fiscal years. The adoption had no impact on the consolidated financial statements and only impacted fair value measurement disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This new guidance supersedes the lease requirements in Topic 840, Leases and is based on the principle that a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor is largely unchanged from that applied under the previous guidance. In addition, the guidance requires an entity to separate the lease components from the nonlease components in a contract. The ASU requires disclosures about the amount, timing, and judgments related to a reporting entity's accounting for leases and related cash flows. The standard is required to be applied to all leases in existence as of the date of adoption using a modified retrospective transition approach. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for all companies in any interim or annual period. The Company occupies certain offices and uses certain equipment under non-cancelable operating lease agreements, which currently are not reflected in its consolidated statement of condition. The Company expects to recognize lease liabilities and right of use assets associated with these lease agreements; however, the extent of the impact on the Company's consolidated financial statements is currently under evaluation.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326). This new guidance significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. This ASU will replace the "incurred loss" model under existing guidance with an "expected loss" model for instruments measured at amortized cost, and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. This ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. This guidance requires adoption through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for all companies as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact the guidance will have on the Company's consolidated financial statements, and expects an increase in the allowance for credit losses resulting from the change to expected losses for the estimated life of the financial asset, including an allowance for debt securities. The amount of the increase in the allowance for credit losses resulting from the new guidance will be impacted by the portfolio composition and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230). The amendments provide guidance on the following eight specific cash flow issues: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; 3) contingent consideration payments made after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; 6) distributions received from equity method investees; 7) beneficial interests in securitization transactions; and 8) separately identifiable cash flows and application of the predominance principle. This ASU is effective for fiscal years beginning after December 31, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company adopted the amendment in this update during the three months ended March 31, 2018 and noted no material impact to the consolidated financial statements.

In March 2017, the FASB issued an Update (ASU 2017-08) to its guidance on “Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20) related to premium amortization on purchased callable debt securities. The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosure about a change in accounting principle. The adoption of this guidance is not expected to have a material impact on our consolidated results of operations or financial position.

In May 2018, the FASB issued ASU No. 2018-06, *Codification Improvements to Topic 942, Financial Services - Depository and Lending*. This update superseded outdated guidance related to the Office of the Comptroller of the Currency's Banking Circular 202, Accounting for Net Deferred Tax Charges. The Company does not expect the new guidance to have a material impact on the consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. This update expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. As a result, nonemployee share-based payment awards will be measured at the grant-date fair value of the equity instruments that an entity is obligated to issue when the service has been rendered, subject to the probability of satisfying performance conditions when applicable. For public entities, this update is effective for fiscal years beginning after December 15, 2018. The Company does not expect the new guidance to have a material impact on the consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update clarifies the guidance about whether a transfer of assets (or the reduction, settlement or cancellation of liabilities) is a contribution or an exchange transaction. In addition, the guidance clarifies the determination of whether a transaction is conditional. For public entities, this update is effective for contributions made in fiscal years beginning after December 15, 2018. The Company does not expect the new guidance to have a material impact on the consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-09, *Codification Improvements* to address stakeholder suggestions for minor corrections and clarifications within the codification. The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments in this update do not require transition guidance and will be effective upon issuance of this update. However, many of the amendments in this update do have transition guidance with effective dates for annual periods beginning after December 15, 2018, for public business entities. The Company does not expect the new guidance to have a material impact on the consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842. Leases* to address certain narrow aspects of the guidance issued in ASU No. 2016-02. This guidance did not change the Company's assessment of the impact of ASU No. 2016-02 on the consolidated financial statements as described above.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which amends FASB Accounting Standards Codification (ASC) Topic 842, *Leases*, to (1) add an optional transition method that would permit entities to apply the new requirements by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption, and (2) provide a practical expedient for lessors regarding the separation of the lease and non-lease components of a contract. This guidance did not change the Company's assessment of the impact of ASU No. 2016-02 on the consolidated financial statements as described above.

Note 3: Earnings per Common Share

Basic earnings per share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Net income available to common stockholders is net income to FSB Bancorp, Inc. Diluted earnings per share is calculated in a manner similar to that of basic earnings per share except that the weighted average number of common shares outstanding is increased to include the number of incremental common shares that would have been outstanding under the treasury stock method if all potentially dilutive common shares (such as stock options) issued became vested during the period. There is no impact on earnings per share because no stock options have vested as of June 30, 2018. On September 27, 2017, the Board of Directors of the Company approved restricted stock and stock option grants to senior management and the directors of the Company, pursuant to the terms of the 2017 Equity Incentive Plan (the "Plan"). The Plan was approved previously by the Company's stockholders on August 29, 2017. An aggregate of 15,000 stock options and 6,400 shares of restricted stock were granted to senior management during the period ended June 30, 2018. The grants to senior management vest over a five year period in equal annual installments, with the first installment vesting on the first anniversary date of the grant and succeeding installments on each anniversary thereafter, through 2023. The Company did not grant any restricted stock awards or stock options during the six months ended June 30, 2017. Unallocated common shares held by the ESOP are not included in the weighted average number of common shares outstanding for purposes of calculating earnings per common share until they are committed to be released.

The following tables set forth the calculation of basic and diluted earnings per share.

(In thousands, except per share data)	Three months ended June 30, 2018	Three months ended June 30, 2017
Basic and Diluted Earnings Per Common Share		
Net income available to common stockholders	$ 68	$ 224
Weighted average common shares outstanding	1,909	1,906
Earnings per common share – basic and diluted	$ 0.04	$ 0.12

(In thousands, except per share data)	Six months ended June 30, 2018	Six months ended June 30, 2017
Basic and Diluted Earnings Per Common Share		
Net income available to common stockholders	$ 142	$ 219
Weighted average common shares outstanding	1,908	1,905
Earnings per common share – basic and diluted	$ 0.07	$ 0.11

Note 4: Investment Securities

The amortized cost and estimated fair value of investment securities are summarized as follows:

	June 30, 2018			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Portfolio				
U.S. Government and agency obligations	$ 11,111	$ 7	$ (232)	$ 10,886
Mortgage-backed securities – residential	6,968	23	(129)	6,862
Total available-for-sale	$ 18,079	$ 30	$ (361)	$ 17,748
Held-to-Maturity Portfolio				
Mortgage-backed securities – residential	$ 467	$ 6	$ -	$ 473
State and municipal securities	5,880	19	(65)	5,834
Total held-to-maturity	$ 6,347	$ 25	$ (65)	$ 6,307

	December 31, 2017			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Portfolio				
U.S. Government and agency obligations	$ 10,612	$ -	$ (142)	$ 10,470
Mortgage-backed securities – residential	7,909	19	(85)	7,843
Total available-for-sale	$ 18,521	$ 19	$ (227)	$ 18,313
Held-to-Maturity Portfolio				
Mortgage-backed securities – residential	$ 637	$ 9	$ -	$ 646
State and municipal securities	5,938	41	(37)	5,942
Total held-to-maturity	$ 6,575	$ 50	$ (37)	$ 6,588

The amortized cost and estimated fair value of debt investments at June 30, 2018 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	Available-for-Sale		Held-to-Maturity	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -	$ 376	$ 375
Due after one year through five years	9,611	9,414	3,885	3,846
Due after five years through ten years	500	500	1,619	1,613
Due after ten years	1,000	972	-	-
Sub-total	$ 11,111	$ 10,886	$ 5,880	$ 5,834
Mortgage-backed securities – residential	6,968	6,862	467	473
Totals	$ 18,079	$ 17,748	$ 6,347	$ 6,307

The Company's investment securities' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	June 30, 2018								
	Less than Twelve Months			Twelve Months or More			Total		
(Dollars in thousands)	Number of Individual Securities	Unrealized Losses	Fair Value	Number of Individual Securities	Unrealized Losses	Fair Value	Number of Individual Securities	Unrealized Losses	Fair Value
Available-for-Sale									
U.S. Government and agency obligations	4	$ 84	$ 3,916	5	$ 148	$ 5,958	9	$ 232	$ 9,874
Mortgage-backed securities - residential	2	38	1,572	3	91	2,879	5	129	4,451
Totals	6	$ 122	$ 5,488	8	$ 239	$ 8,837	14	$ 361	$ 14,325
Held-to-Maturity									
Mortgage-backed securities – residential[(1)]	-	$ -	$ -	1	$ -	$ 168	1	$ -	$ 168
State and municipal securities	16	44	3,375	4	21	1,063	20	65	4,438
Totals	16	$ 44	$ 3,375	5	$ 21	$ 1,231	21	$ 65	$ 4,606

	December 31, 2017								
	Less than Twelve Months			Twelve Months or More			Total		
(Dollars in thousands)	Number of Individual Securities	Unrealized Losses	Fair Value	Number of Individual Securities	Unrealized Losses	Fair Value	Number of Individual Securities	Unrealized Losses	Fair Value
Available-for-Sale									
U.S. Government and agency obligations	4	$ 34	$ 4,472	5	$ 108	$ 5,999	9	$ 142	$ 10,471
Mortgage-backed securities - residential	4	23	2,459	4	62	3,435	8	85	5,894
Totals	8	$ 57	$ 6,931	9	$ 170	$ 9,434	17	$ 227	$ 16,365
Held-to-Maturity									
Mortgage-backed securities – residential[(1)]	-	$ -	$ -	1	$ -	$ 171	1	$ -	$ 171
State and municipal securities	10	16	1,574	5	21	1,331	15	37	2,905
Totals	10	$ 16	$ 1,574	6	$ 21	$ 1,502	16	$ 37	$ 3,076

[(1)] Aggregate unrealized loss position of these securities is less than $500.

The Company conducts a formal review of investment securities on a quarterly basis for the presence of other-than-temporary impairment ("OTTI"). The Company assesses whether OTTI is present when the fair value of a debt security is less than its amortized cost basis at the statement of condition date. Under these circumstances, OTTI is considered to have occurred (1) if we intend to sell the security; (2) if it is "more likely than not" we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not anticipated to be sufficient to recover the entire amortized cost basis. The guidance requires that credit-related OTTI is recognized in earnings while non-credit-related OTTI on securities not expected to be sold is recognized in other comprehensive income ("OCI"). Non-credit-related OTTI is based on other factors, including illiquidity and changes in the general interest rate environment. Presentation of OTTI is made in the consolidated statement of income on a gross basis, including both the portion recognized in earnings as well as the portion recorded in OCI. The gross OTTI would then be offset by the amount of non-credit-related OTTI, showing the net as the impact on earnings.

There were 35 securities in an unrealized loss position at June 30, 2018, of which 13 have been in loss positions for a period greater than twelve months and 22 have been in loss positions for a period less than twelve months. This compares to 33 securities in an unrealized loss position at December 31, 2017, of which 15 had been in loss positions for a period greater than twelve months and 18 had been in loss positions for a period less than twelve months. These issuing entities are currently rated Aaa by Moody's Investor Services and AA+ by Standard and Poors. Among the 13 securities in loss positions for a period greater than twelve months at June 30, 2018, nine were either direct issuances of, or mortgage-backed securities or collateralized mortgage obligations issued by, the following entities sponsored and guaranteed by the United States Government: GNMA, FNMA, and FHLMC. The remaining four securities that have been in a loss position for a period greater than twelve months were issued by a state or political subdivision, primarily local municipalities. The unrealized losses reflected are primarily attributable to changes in interest rates since the securities were acquired.

Among the 22 securities in an unrealized loss position at June 30, 2018 for less than twelve months, six were either direct issuances of, or mortgage-backed securities or collateralized mortgage obligations issued by, the following entities sponsored and guaranteed by the United States Government: FNMA, FHLMC, FHLB and FFCB. The remaining 16 securities were issued by a state or political subdivision, primarily local municipalities. The unrealized losses reflected are primarily attributable to changes in interest rates since the securities were acquired. The Company does not intend to sell these securities, nor is it more likely than not, that the Company will be required to sell these securities prior to recovery of the amortized cost. The state and municipal securities are general obligation (G.O.) bonds backed by the full faith and credit of local municipalities. There has never been a default of a New York G.O. in the history of the state. Historical performance does not guarantee future performance, but it does indicate that the risk of loss on default of a G.O. municipal bond for the Company is relatively low. All are paying in accordance with their terms with no deferrals of interest or defaults. As such, management does not believe any individual unrealized loss as of June 30, 2018 represents OTTI.

There were no realized gains or losses on sales of securities for the three or six months ended June 30, 2018 and June 30, 2017.

As of June 30, 2018 and December 31, 2017, no securities were pledged to secure public deposits or for any other purpose required or permitted by law.

Management has reviewed its loan and mortgage-backed securities portfolios and determined that, to the best of its knowledge, little or no exposure exists to sub-prime or other high-risk residential mortgages. The Company is not in the practice of investing in, or originating, these types of investments or loans.

Note 5: Loans

Major classifications of loans at the indicated dates are as follows:

(In thousands)	June 30, 2018	December 31, 2017
Real estate loans:		
Secured by one-to-four family residences	$ 217,157	$ 206,894
Secured by multi-family residences	10,440	10,650
Construction	6,530	10,750
Commercial real estate	17,046	14,803
Home equity lines of credit	16,528	17,127
Total real estate loans	267,701	260,224
Commercial and industrial loans	4,260	3,679
Other loans	55	70
Total loans	272,016	263,973
Net deferred loan origination fees	(29)	(1)
Less allowance for loan losses	(1,411)	(1,261)
Loans receivable, net	$ 270,576	$ 262,711

The Company originates residential mortgage, commercial, and consumer loans largely to customers throughout Monroe county and the surrounding western New York counties of Erie, Livingston, Ontario, Orleans, Jefferson, Niagara, and Wayne. Although the Company has a diversified loan portfolio, a substantial portion of its borrowers' abilities to honor their loan contracts is dependent upon the counties' employment and economic conditions.

As of June 30, 2018 and December 31, 2017, residential mortgage loans with a carrying value of $196.6 million and $190.4 million, respectively, have been pledged by the Company to the Federal Home Loan Bank of New York ("FHLBNY") under a blanket collateral agreement to secure the Company's line of credit and term borrowings. The Company retains the servicing on conventional fixed-rate mortgage loans sold to Freddie Mac ("FHLMC") and receives a fee based on the principal balance outstanding. Loans serviced for others totaled $130.0 million and $132.4 million at June 30, 2018 and December 31, 2017, respectively. Loan servicing rights are recorded at fair value when loans are sold with servicing rights retained. The fair value of the mortgage servicing rights ("MSRs") is determined using a method which utilizes servicing income, discount rates, and prepayment speeds relative to the Bank's portfolio for MSRs and are amortized over the life of the loan. MSRs amounted to $883,000 and $892,000 at June 30, 2018 and December 31, 2017, respectively, and are included in other assets on the consolidated balance sheets.

Loan Origination / Risk Management

The Company's lending policies and procedures are presented in Note 4 to the consolidated financial statements included in FSB Bancorp's Amendment No. 1 of the Annual Report on Form 10-K/A filed with the Securities and Exchange Commission on August 13, 2018 and have not changed.

To develop and document a systematic methodology for determining the allowance for loan losses, the Company has divided the loan portfolio into two portfolio segments, each with different risk characteristics but with similar methodologies for assessing risk. Each portfolio segment is broken down into loan classes where appropriate. Loan classes contain unique measurement attributes, risk characteristics, and methods for monitoring and assessing risk that are necessary to develop the allowance for loan losses. Unique characteristics such as borrower type, loan type, collateral type, and risk characteristics define each class.

The following table illustrates the portfolio segments and classes for the Company’s loan portfolio:

Portfolio Segment	Class
Real Estate Loans	Secured by one-to-four family residences Secured by multi-family residences Construction Commercial real estate Home equity lines of credit
Other Loans	Commercial and industrial Other loans

The following tables present the classes of the loan portfolio, not including net deferred loan fees, summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of the dates indicated:

	As of June 30, 2018				
(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate loans:					
Secured by one-to-four family residences	$ 214,547	$ -	$ 2,610	$ -	$ 217,157
Secured by multi-family residences	10,440	-	-	-	10,440
Construction	6,530	-	-	-	6,530
Commercial real estate	16,099	947	-	-	17,046
Home equity lines of credit	16,316	-	212	-	16,528
Total real estate loans	263,932		2,822	-	267,701
Commercial & industrial loans	4,215	45	-	-	4,260
Other loans	55	-	-	-	55
Total loans	$ 268,202	$ 992	$ 2,822	$ -	$ 272,016

	As of December 31, 2017				
(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate loans:					
Secured by one-to-four family residences	$ 203,815	$ 116	$ 2,963	$ -	$ 206,894
Secured by multi-family residences	10,650	-	-	-	10,650
Construction	10,750	-	-	-	10,750
Commercial real estate	14,803	-	-	-	14,803
Home equity lines of credit	16,897	-	230	-	17,127
Total real estate loans	256,915	116	3,193	-	260,224
Commercial & industrial loans	3,679	-	-	-	3,679
Other loans	70	-	-	-	70
Total loans	$ 260,664	$ 116	$ 3,193	$ -	$ 263,973

Real estate loans secured by one-to four family residences rated substandard decreased $353,000, or 11.9%, to $2.6 million at June 30, 2018 from $3.0 million at December 31, 2017 due to the upgrades of four residential mortgage loans now paying as agreed and three mortgage loan payoffs, partially offset by the addition of seven residential mortgage loans newly categorized as substandard during the six months ended June 30, 2018. Real estate loans secured by one-to four family residences rated special mention decreased $116,000 due to the loan now being paid as agreed which was classified as special mention at December 31, 2017. Commercial real estate loans rated special mention increased $947,000 to $947,000 from the $0 balance at December 31, 2017 due to the addition of two loans newly categorized as special mention after annual financial statement reviews of these borrowers were performed during the six months ended June 30, 2018. Commercial and industrial loans rated special mention increased $45,000 to $45,000 from the $0 balance at December 31, 2017 due to the addition of one loan newly categorized as special mention during the six months ended June 30, 2018.

Management has reviewed its loan portfolio and determined that, to the best of its knowledge, no exposure exists to sub-prime or other high-risk residential mortgages. The Company is not in the practice of originating these types of loans.

Nonaccrual and Past Due Loans

Loans are placed on nonaccrual when the contractual payment of principal and interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may be currently performing.

Loans are considered past due if the required principal and interest payments have not been received within thirty days of the payment due date. An age analysis of past due loans, segregated by portfolio segment and class of loans, as of June 30, 2018 and December 31, 2017, are detailed in the following tables:

	As of June 30, 2018					
(In thousands)	**30-59 Days Past Due And Accruing**	**60-89 Days Past Due And Accruing**	**90 Days and Over**	**Total Past Due**	**Current**	**Total Loans Receivable**
Real estate loans:						
Secured by one-to-four family residences	$ -	$ 109	$ 55	$ 164	$ 216,993	$ 217,157
Secured by multi-family residences	-	-	-	-	10,440	10,440
Construction	-	-	-	-	6,530	6,530
Commercial	-	-	-	-	17,046	17,046
Home equity lines of credit	-	155	-	155	16,373	16,528
Total real estate loans	-	264	55	319	267,382	267,701
Commercial & industrial loans	-	-	-	-	4,260	4,260
Other loans	-	-	-	-	55	55
Total loans	$ -	$ 264	$ 55	$ 319	$ 271,697	$ 272,016

	As of December 31, 2017					
(In thousands)	**30-59 Days Past Due And Accruing**	**60-89 Days Past Due And Accruing**	**90 Days and Over**	**Total Past Due**	**Current**	**Total Loans Receivable**
Real estate loans:						
Secured by one-to-four family residences	$ 699	$ -	$ 153	$ 852	$ 206,042	$ 206,894
Secured by multi-family residences	-	-	-	-	10,650	10,650
Construction	-	-	-	-	10,750	10,750
Commercial	-	-	-	-	14,803	14,803
Home equity lines of credit	-	-	-	-	17,127	17,127
Total real estate loans	699	-	153	852	259,372	260,224
Commercial & industrial loans	-	-	-	-	3,679	3,679
Other loans	-	-	-	-	70	70
Total loans	$ 699	$ -	$ 153	$ 852	$ 263,121	$ 263,973

Real estate loans secured by one-to four family residences 30-59 days past due and accruing decreased $699,000 to $0 at June 30, 2018 from $699,000 at December 31, 2017 due to four loans becoming current during the six months ended June 30, 2018. Real estate loans secured by one-to four family residences 60-89 days past due and accruing increased $109,000 to $109,000 at June 30, 2018 from $0 at December 31, 2017 due the delinquency of one loan during the six months ended June 30, 2018. Home equity lines of credit 60-89 days past due and accruing increased $155,000 to $155,000 at June 30, 2018 from $0 at December 31, 2017 due to the delinquency of one loan during the six months ended June 30, 2018.

At June 30, 2018, the Company had one nonaccrual residential mortgage loan for $55,000. At December 31, 2017, the Company had two nonaccrual residential mortgage loans for $153,000.

There were no loans that were past due 90 days or more and still accruing interest at June 30, 2018 and December 31, 2017. At June 30, 2018 and December 31, 2017, there were no loans considered to be impaired and no troubled debt restructurings.

Note 6: Allowance for Loan Losses and Foreclosed Real Estate

Summarized in the tables below are changes in the allowance for loan losses for the indicated periods and information pertaining to the allocation of the allowance for loan losses, balances of the allowance for loan losses, loans receivable based on individual, and collective impairment evaluation by loan portfolio class. An allocation of a portion of the allowance to a given portfolio class does not limit the Company's ability to absorb losses in another portfolio class.

	For the three months ended June 30, 2018							
(In thousands)	Secured by one-to-four family residences real estate loans	Secured by multi-family residences real estate loans	Construction real estate loans	Commercial real estate loans	Home equity lines of credit real estate loans	Commercial & industrial	Other/ Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 742	$ 79	$ 42	$ 205	$ 105	$ 53	$ 110	$1,336
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provisions	61	(1)	(9)	6	(2)	1	19	75
Ending balance	$ 803	$ 78	$ 33	$ 211	$ 103	$ 54	$ 129	$1,411

	For the three months ended June 30, 2017							
(In thousands)	Secured by one-to-four family residences real estate loans	Secured by multi-family residences real estate loans	Construction real estate loans	Commercial real estate loans	Home equity lines of credit real estate loans	Commercial & industrial	Other/ Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 661	$ 45	$ 31	$ 107	$ 114	$ 28	$ 56	$1,042
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provisions	29	2	18	(1)	(5)	10	7	60
Ending balance	$ 690	$ 47	$ 49	$ 106	$ 109	$ 38	$ 63	$1,102

	For the six months ended June 30, 2018							
(In thousands)	Secured by one-to-four family residences real estate loans	Secured by multi-family residences real estate loans	Construction real estate loans	Commercial real estate loans	Home equity lines of credit real estate loans	Commercial & industrial	Other/ Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 816	$ 80	$ 54	$ 148	$ 107	$ 47	$ 9	$1,261
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provisions	(13)	(2)	(21)	63	(4)	7	120	150
Ending balance	$ 803	$ 78	$ 33	$ 211	$ 103	$ 54	$ 129	$1,411

	For the six months ended June 30, 2017							
(In thousands)	Secured by one-to-four family residences real estate loans	Secured by multi-family residences real estate loans	Construction real estate loans	Commercial real estate loans	Home equity lines of credit real estate loans	Commercial & industrial	Other/ Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 584	$ 38	$ 31	$ 84	$ 112	$ 28	$ 113	$ 990
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provisions	106	9	18	22	(3)	10	(50)	112
Ending balance	$ 690	$ 47	$ 49	$ 106	$ 109	$ 38	$ 63	$1,102

The Company had no foreclosed real estate at June 30, 2018 or December 31, 2017.

At June 30, 2018, the Company had one residential real estate loan for $55,000 in the process of foreclosure and at December 31, 2017, the Company had one residential real estate loan for $37,000 in the process of foreclosure.

Note 7: Fair Value Measurements

Accounting guidance related to fair value measurements and disclosures specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs, minimize the use of unobservable inputs, to the extent possible, and considers counterparty credit risk in its assessment of fair value.

The following tables summarize assets measured at fair value on a recurring basis as of the indicated dates, segregated by the level of valuation inputs within the hierarchy utilized to measure fair value:

	June 30, 2018			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Available-for-sale portfolio				
U.S. Government and agency obligations	$ -	$ 10,886	$ -	$ 10,886
Mortgage-backed securities – residential	-	6,862	-	6,862
Total available-for-sale securities	$ -	$ 17,748	$ -	$ 17,748

	December 31, 2017			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Available-for-sale portfolio				
U.S. Government and agency obligations	$ -	$ 10,470	$ -	$ 10,470
Mortgage-backed securities – residential	-	7,843	-	7,843
Total available-for-sale securities	$ -	$ 18,313	$ -	$ 18,313

There have been no transfers of assets into or out of any fair value measurement level during the six months ended June 30, 2018.

Required disclosures include fair value information of financial instruments, whether or not recognized in the consolidated statement of condition, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.

The Company has various processes and controls in place to ensure that fair value is reasonably estimated. The Company performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process.

While the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period-ends, and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end. FASB ASC Topic 820 for Fair Value Measurements and Disclosures, the financial assets and liabilities were valued at a price that represents the Company's exit price or the price at which these instruments would be sold or transferred.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The Company, in estimating its fair value disclosures for financial instruments, used the following methods and assumptions:

Cash, Due from Banks, and Interest Earning Demand Deposits

The carrying amounts of these assets approximate their fair values.

Investment Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather relying on the securities' relationship to other benchmark quoted prices and is considered to be a Level 2 measurement.

Investment in Restricted Stock

The carrying value of restricted stock, which consists of Federal Home Loan Bank and Atlantic Community Bankers Bank, approximates its fair value based on the redemption provisions of the restricted stock, resulting in a Level 2 classification.

Loans

The fair values of loans held in portfolio are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans, resulting in a Level 3 classification. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Mortgage loans held for sale in the secondary market are carried at the lower of cost or fair value, resulting in a Level 2 classification. Separate determinations of fair value for residential and commercial loans are made on an aggregate basis. Fair value is determined based solely on the effect of changes in secondary market interest rates and yield requirements from the commitment date to the date of the financial statements.

Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and payable approximates fair value.

Deposits

The fair values disclosed for demand deposits (e.g., NOW accounts, non-interest checking, regular savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts), resulting in a Level 1 classification. The carrying amounts for variable-rate certificates of deposit approximate their fair values at the reporting date, resulting in a Level 1 classification. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits, resulting in a Level 2 classification.

Borrowings

The fair values of FHLB long-term borrowings are estimated using discounted cash flow analyses, based on the quoted rates for new FHLB advances with similar credit risk characteristics, terms and remaining maturity, resulting in a Level 2 classification.

The carrying amounts and fair values of the Company's financial instruments as of the indicated dates are presented in the following table:

		June 30, 2018		December 31, 2017	
(In thousands)	**Fair Value Hierarchy**	**Carrying Amounts**	**Estimated Fair Values**	**Carrying Amounts**	**Estimated Fair Values**
Financial assets:					
Cash and due from banks	1	$ 1,672	$ 1,672	$ 1,672	$ 1,672
Interest earning demand deposits	1	6,051	6,051	8,725	8,725
Securities - available-for-sale	2	17,748	17,748	18,313	18,313
Securities - held-to-maturity	2	6,347	6,307	6,575	6,588
Investment in restricted stock	2	3,492	3,492	3,270	3,270
Loans held for sale	2	7,300	7,300	2,770	2,770
Loans, net	3	270,576	265,743	262,711	261,588
Accrued interest receivable	1	851	851	824	824
Financial liabilities:					
Demand Deposits, Savings, NOW and MMDA	1	105,081	105,081	103,377	103,377
Time Deposits	2	116,883	117,475	113,314	113,501
Borrowings	2	68,618	63,223	64,447	64,502
Accrued interest payable	1	139	139	94	94

Note 8: Accumulated Other Comprehensive Income (Loss)

Changes in the components of accumulated other comprehensive income (loss) ("AOCI"), net of tax, for the periods indicated are summarized in the table below.

	For the three months ended June 30, 2018	
(In thousands)	**Unrealized Gains and Losses on Available-for-Sale Securities**	**Total**
Beginning balance	$ (257)	$ (257)
Other comprehensive loss	(5)	(5)
Ending balance	$ (262)	$ (262)

	For the three months ended June 30, 2017	
(In thousands)	**Unrealized Gains and Losses on Available-for-Sale Securities**	**Total**
Beginning balance	$ (75)	$ (75)
Other comprehensive income	9	9
Ending balance	$ (66)	$ (66)

	For the six months ended June 30, 2018	
(In thousands)	**Unrealized Gains and Losses on Available-for-Sale Securities**	**Total**
Beginning balance	$ (165)	$ (165)
Other comprehensive loss	(97)	(97)
Ending balance	$ (262)	$ (262)

	For the six months ended June 30, 2017	
(In thousands)	**Unrealized Gains and Losses on Available-for-Sale Securities**	**Total**
Beginning balance	$ (85)	$ (85)
Other comprehensive loss	(19)	(19)
Ending balance	$ (66)	$ (66)

Note 9: Non-Interest Income

The Company has included the following tables regarding the Company's non-interest income for the periods presented.

(In thousands)	For the three months ended June 30, 2018	For the three months ended June 30, 2017
Service fees		
Deposit related fees	16	18
Insufficient funds fee	21	20
Total service fees	37	38
Fee income		
Securities commission income	9	11
Insurance commission income	25	57
Total insurance and securities commission income	34	68
Card income		
Debit card interchange fee income	36	35
ATM fees	8	7
Total card income	44	42
Mortgage fee income and realized gain on sales of loans		
Residential mortgage loan origination fees	87	113
Commercial loan fees	24	6
Loan servicing income	85	78
Realized gain on sales of residential mortgage loans	289	691
Total mortgage fee income and realized gain on sales of loans	485	888
Bank owned life insurance	15	16
Total non-interest income	**$ 615**	**$ 1,052**

(In thousands)	For the six months ended June 30, 2018	For the six months ended June 30, 2017
Service fees		
Deposit related fees	27	37
Insufficient funds fee	42	41
Total service fees	69	78
Fee income		
Securities commission income	27	23
Insurance commission income	46	80
Total insurance and securities commission income	73	103
Card income		
Debit card interchange fee income	71	65
ATM fees	15	15
Total card income	86	80
Mortgage fee income and realized gain on sales of loans		
Residential mortgage loan origination fees	168	196
Commercial loan fees	32	19
Loan servicing income	170	154
Realized gain on sales of residential mortgage loans	590	1,017
Realized gain on sale of SBA loan	47	-
Total mortgage fee income and realized gain on sales of loans	1,007	1,386
Bank owned life insurance	30	31
Other miscellaneous income	18	10
Total non-interest income	**$ 1,283**	**$ 1,688**

The Company recognizes revenue as it is earned and noted no impact to its revenue recognition policies as a result of the adoption of ASU 2014-09. The following is a discussion of key revenues within the scope of the new revenue guidance:

- *Service fees* – Revenue from fees on deposit accounts is earned through the presentation of an individual item for processing for insufficient funds fees or customer initiated activities or passage of time for deposit related fees.
- *Fee income* – Fee income is earned through commissions on insurance and securities sales and earned at a point in time.
- *Card income* – Card income consists of interchange fees from consumer debit card networks and other card related services. Interchange rates are set by the card networks. Interchange fees are based on purchase volumes and other factors and are recognized as transactions occur.
- *Mortgage fee income and realized gain on sales of loans* – Revenue from mortgage fee income and realized gain on sales of loans is earned through the origination of residential and commercial mortgage loans and the sales of one-to-four family residential mortgage loans and government guaranteed portions of SBA loans and is recognized as transactions occur.

Note 10: Stock-Based Compensation

On January 5, 2018, a total of 6,400 restricted stock awards were granted to four executive officers of the Company. The awards will vest ratably over five years (20% per year for each year of the participant's service with the Company).

The Company has a stock-based compensation plan which allows the Company to issue up to 194,168 stock options. On January 5, 2018, the Board of Directors granted a combined total of 15,000 options to three executive officers to buy stock under the plan at an exercise price of $17.52, the fair value of the stock as of January 5, 2018. These options have a 10-year term and are vested over a five year period (20% per year for each year of the participant's service with the Company).

A summary of the Company's stock option activity and related information for its option plans for the three and six months ended June 30, 2018 is as follows:

	For the three months ended June 30, 2018		For the six months ended June 30, 2018	
	Options	Weighted Average Exercise Price Per Share	Options	Weighted Average Exercise Price Per Share
Outstanding at beginning of year	-	$ -	152,080	$ 16.72
Grants	-	-	15,000	17.52
Exercised	-	-	-	-
Outstanding at quarter end	-	$ -	167,080	$ 16.79
Exercisable at quarter end	-	$ -	-	$ -

The Company did not grant any stock options for the three and six months ended June 30, 2017.

The grants to senior management and directors vest over a five year period in equal annual installments, with the first installment vesting on the first anniversary date of the grant and succeeding installments on each anniversary thereafter, through 2023.

The compensation expense of the awards is based on the fair value of the instruments on the date of grant. The Company recorded compensation expense in the amount of $76,000 for the three months ended June 30, 2018 and $152,000 for the six months ended June 30, 2018. The Company did not record any compensation expense for the three and six months ended June 30, 2017.

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

Statement Regarding Forward-Looking Statements

Certain statements contained herein are “forward looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to:

- Credit quality and the effect of credit quality on the adequacy of our allowance for loan losses;
- Deterioration in financial markets that may result in impairment charges relating to our securities portfolio;
- Competition in our primary market areas;
- Changes in interest rates and national or regional economic conditions;
- Changes in monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board;
- Significant government regulations, legislation and potential changes thereto;
- A reduction in our ability to generate or originate revenue-producing assets as a result of compliance with heightened capital standards;
- Increased cost of operations due to greater regulatory oversight, supervision and examination of banks and bank holding companies, and higher deposit insurance premiums;
- Limitations on our ability to expand consumer product and service offerings due to anticipated stricter consumer protection laws and regulations; and
- Other risks described herein and in the other reports and statements we file with the SEC.

The Company disclaims any obligation to revise or update any forward-looking statements contained in this quarterly report on Form 10-Q to reflect future events or developments.

Overview

The following discussion reviews the Company's financial condition at June 30, 2018 and at December 31, 2017 and the results of operations for the three and six month periods ended June 30, 2018 and 2017. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or for any other period.

Our business has traditionally focused on originating one- to four-family residential real estate mortgage loans, home equity lines of credit, and offering retail deposit accounts. In recent years, we have expanded our mortgage origination footprint and opened new mortgage offices in Cheektowaga and Lewiston, New York. Our primary market area now consists of Monroe County and the surrounding western New York counties of Erie, Livingston, Ontario, Orleans, Jefferson, Niagara, and Wayne. Management has made the decision to deploy available funds from deposit and borrowings growth into higher-yielding assets, primarily commercial loan products and adjustable rate one- to four-family mortgage and construction loans in 2018. More recently, we shifted attention to expand our commercial loan department in an effort to improve our interest rate risk exposure with shorter duration commercial loan products, as well as higher yielding assets.

Our results of operations depend primarily on our net interest income and, to a lesser extent, other income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities and other interest-earning assets (primarily cash and cash equivalents), and the interest we pay on our interest-bearing liabilities, consisting primarily of savings accounts, NOW accounts, money market accounts, time deposits and borrowings. Other income consists primarily of realized gains on sale of loans, mortgage fee income, fees and service charges from deposit products, fee income from our financial services subsidiary, earnings on bank owned life insurance and miscellaneous other income. Our results of operations also are affected by our provision for loan losses and other expenses. Other expenses consist primarily of salaries and employee benefits, occupancy, equipment, electronic banking, data processing costs, mortgage fees and taxes, advertising, directors’ fees, FDIC deposit insurance premium expense, audit and tax services, and other miscellaneous expenses. Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, government policies and actions of regulatory authorities.

Critical Accounting Policies

Critical accounting policies are defined as those that involve significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. The most significant accounting policies followed by the Company are presented in FSB Bancorp's Amendment No. 1 of the Annual Report on Form 10-K/A filed with the Securities and Exchange Commission (the "SEC") on August 13, 2018. These policies, along with the disclosures presented in the other financial statement notes filed with the SEC and in this discussion, provide information on how significant assets and liabilities are valued in the consolidated financial statements and how those values are determined. We believe that the most critical accounting policies upon which our financial condition and results of operations depend, involve the most complex subjective decisions or assessments including our policies with respect to our allowance for loan losses, deferred tax assets and the estimation of fair values for accounting and disclosure purposes. These areas could be the most subject to revision as new information becomes available. There have been no significant changes in application of critical accounting policies during the six months ended June 30, 2018.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. The amount of the allowance is based on significant estimates, and the ultimate losses may vary from such estimates as more information becomes available or conditions change. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions used and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

As a substantial percentage of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property securing a loan and the related allowance determined. Management carefully reviews the assumptions supporting such appraisals to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management performs an evaluation of the adequacy of the allowance for loan losses at least quarterly. We consider a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates by management that may be susceptible to significant change based on changes in economic and real estate market conditions.

The evaluation has specific, general, and unallocated components. The specific component relates to loans that are deemed to be impaired and classified as special mention, substandard, doubtful, or loss. For such loans that are also classified as impaired, an allowance is generally established when the collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. 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 known and inherent losses in the portfolio.

Actual loan losses may be significantly more than the allowance we have established which could have a material negative effect on our financial results.

Deferred Tax Assets. The deferred tax assets and liabilities represent the future tax return consequences of the temporary differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Estimation of Fair Values. Fair values for securities available-for-sale are obtained from an independent third party pricing service. Where available, fair values are based on quoted prices on a nationally recognized securities exchange. If quoted prices are not available, fair values are measured using quoted market prices for similar benchmark securities. Management generally makes no adjustments to the fair value quotes provided by the pricing source. The fair values of foreclosed real estate and the underlying collateral value of impaired loans are typically determined based on evaluations by third parties, less estimated costs to sell. When necessary, appraisals are updated to reflect changes in market conditions.

Comparison of Financial Condition at June 30, 2018 and at December 31, 2017

Total Assets. Total assets increased $9.3 million to $323.7 million at June 30, 2018 from $314.4 million at December 31, 2017, primarily due to increases in restricted stock, net loans receivable and other assets, partially offset by decreases in cash and cash equivalents, securities available-for-sale, and securities held-to-maturity.

Cash and cash equivalents, primarily interest-earning demand deposits at the Federal Reserve Bank and the Federal Home Loan Bank, decreased by $2.7 million, or 25.7%, to $7.7 million at June 30, 2018 from $10.4 million at December 31, 2017, in order to fund loans.

Net loans receivable increased $7.9 million, or 3.0%, to $270.6 million at June 30, 2018 from $262.7 million at December 31, 2017. The Bank continues to focus on loan production as we continue to primarily grow our residential mortgage and commercial loan portfolios at a measured pace while still maintaining our exceptional credit quality and strict underwriting standards. One-to four-family residential mortgage loans increased $10.3 million, or 5.0%, to $217.2 million at June 30, 2018 from $206.9 million at December 31, 2017. Commercial real estate loans increased $2.2 million, or 15.2%, to $17.0 million at June 30, 2018 from $14.8 million at December 31, 2017. Commercial and industrial loans increased $581,000 or 15.8%, to $4.3 million at June 30, 2018 from $3.7 million at December 31, 2017. We anticipate continued growth in loan production throughout the remainder of the year. The Bank originated $44.2 million of residential mortgage loans and sold $23.3 million of such loans in the secondary market as a balance sheet management strategy during the first half of 2018 to reduce interest rate risk. The Bank sold these loans at a gain of $590,000 which was recorded in other income. At June 30, 2018, the Bank was servicing $130.0 million in residential mortgage loans and $753,000 in commercial real estate loans sold to third parties and will realize servicing income on these loans as long as they remain outstanding. At June 30, 2018, the Bank had $7.3 million in loans held for sale, comprised of one- to four-family residential fixed rate conventional, FHA, VA, and USDA mortgage loans originated and closed by the Bank in the second quarter of 2018 that have been committed for sale in the secondary market, and will be delivered and sold in the third quarter of 2018. Mortgage servicing rights decreased $9,000, or 1.0%, to $883,000 at June 30, 2018 compared to $892,000 at December 31, 2017, and are included in other assets on the consolidated balance sheets.

Investment in restricted stock increased by $222,000, or 6.8%, to $3.5 million at June 30, 2018 from $3.3 million at December 31, 2017 due to increased borrowings from the Federal Home Loan Bank of New York.

Other assets increased by $246,000, or 9.1%, to $2.9 million at June 30, 2018 from $2.7 million at December 31, 2017, primarily due to increased mortgage loan originations.

Securities available-for-sale decreased by $565,000, or 3.1%, to $17.7 million at June 30, 2018 from $18.3 million at December 31, 2017. The decrease was due to principal repayments of $915,000, a decrease in the fair market value of available-for-sale securities of $123,000 due to the increase in market interest rates, and amortization of $27,000, partially offset by purchases of $500,000 in new securities of U.S. Government and agency obligations during the first half of 2018.

Securities held-to-maturity decreased $228,000, or 3.5%, to $6.3 million at June 30, 2018 from $6.6 million at December 31, 2017 due to calls and principal repayments of $628,000 and amortization of $15,000, partially offset by purchases of $415,000 during the first half of 2018.

Deposits and Borrowings. Total deposits increased $5.3 million, or 2.4%, to $222.0 million at June 30, 2018 from $216.7 million at December 31, 2017. Transaction accounts increased $1.7 million, or 1.6%, to $105.1 million at June 30, 2018 from $103.4 million at December 31, 2017. Certificates of deposit (including individual retirement accounts) increased $3.6 million, or 3.2%, to $116.9 million at June 30, 2018 from $113.3 million at December 31, 2017. Total borrowings from the Federal Home Loan Bank of New York increased $4.2 million, or 6.5%, to $68.6 million at June 30, 2018 from $64.4 million at December 31, 2017. Long-term borrowings increased $10.2 million, or 19.8%, to $61.6 million at June 30, 2018 from $51.4 million at December 31, 2017 due to $19.0 million in new advances partially offset by $8.8 million in principal repayments on our amortizing advances and maturities. The Company decreased its short-term borrowings by $6.0 million, or 46.2%, to $7.0 million at June 30, 2018 compared to $13.0 million at December 31, 2017 with the intention of further reducing these balances in the third quarter of 2018 due to expected deposit growth from additional promotional specials.

Stockholders' Equity. Stockholders' equity increased $237,000, or 0.8%, to $31.3 million at June 30, 2018 from $31.1 million at December 31, 2017. The increase was primarily due to $142,000 in net income, a $152,000 increase in additional paid in capital as a result of stock based compensation, and an increase of $40,000 resulting from the release of ESOP shares from the suspense account, partially offset by an increase of $97,000 in accumulated other comprehensive loss during the six months ended June 30, 2018.

Comparison of Operating Results for the Three Months Ended June 30, 2018 and 2017

General. Net income decreased $156,000, or 69.6%, to $68,000 for the quarter ended June 30, 2018 from $224,000 for the quarter ended June 30, 2017. The quarter over quarter decrease was attributable to a decrease in other income of $437,000 and an increase in the provision for loan losses of $15,000, partially offset by an increase in net interest income of $204,000 and decreases in other expense of $24,000 and provision for income taxes of $68,000.

Interest and Dividend Income. Total interest and dividend income increased $460,000, or 17.7%, to $3.1 million for the quarter ended June 30, 2018 from $2.6 million for the quarter ended June 30, 2017. The increase resulted from a $26.0 million increase quarter over quarter in average interest-earning assets, primarily residential mortgage and commercial real estate loans, and a 27 basis point increase in the average yield earned on interest-earning assets from 3.76% for the three months ended June 30, 2017 to 4.03% for the three months ended June 30, 2018.

Interest income on loans increased $433,000, or 17.6%, to $2.9 million for the quarter ended June 30, 2018 from $2.5 million for the quarter ended June 30, 2017, reflecting a $32.2 million increase in the average balance of loans to $273.1 million for the three months ended June 30, 2018 from $241.0 million for the three months ended June 30, 2017, in addition to a 16 basis point increase in the average yield earned on loans for the three months ended June 30, 2018 as compared to the same period in 2017. The increase in the average balance of loans was due to our focus on increasing our residential mortgage and commercial loan portfolios during the three months ended June 30, 2018 as compared to the same period in 2017. The average yield on loans increased to 4.23% for the three months ended June 30, 2018 from 4.07% for the three months ended June 30, 2017, reflecting increases in market interest rates on loan products, primarily commercial mortgages, commercial and industrial, and home equity lines of credit, in addition to upward repricing for adjustable rate loans in a rising interest rate environment.

Interest income on taxable investment securities increased $27,000, or 38.6%, to $97,000 for the three months ended June 30, 2018 from $70,000 for the three months ended June 30, 2017. The average balance of taxable investment securities increased $1.5 million, or 12.5%, to $13.7 million for the three months ended June 30, 2018 from $12.2 million for the three months ended June 30, 2017. The average yield on taxable investment securities increased 53 basis points to 2.81% during the quarter ended June 30, 2018 as compared to 2.28% for the quarter ended June 30, 2017 due to new purchases of modestly higher yielding investment securities replacing calls of slightly lower yielding investment securities. Interest income on mortgage-backed securities increased $11,000 to $35,000 for the three months ended June 30, 2018, from $24,000 for the three months ended June 30, 2017 reflecting an increase in the average yield on mortgage-backed securities of 77 basis points to 1.82% for the three months ended June 30, 2018 from 1.05% for the three months ended June 30, 2017, partially offset by a decrease in the average balance of mortgage-backed securities of $1.4 million, or 15.3%, to $7.8 million for the three months ended June 30, 2018 from $9.2 million for the three months ended June 30, 2017. The increase in average yield on mortgage-backed securities was primarily attributable to slower prepayment speeds and upward repricing on the pools of mortgage-backed securities held in portfolio during the three months ended June 30, 2018 compared to the three months ended June 30, 2017. A portion of the cash flow from these investment and mortgage-backed securities was redeployed to fund loan growth. Interest income on tax-exempt state and municipal securities decreased $2,000, to $26,000 for the three months ended June 30, 2018, from $28,000 for the three months ended June 30, 2017. The average balance of state and municipal securities decreased by $543,000, or 8.3%, from $6.5 million for the three months ended June 30, 2017 to $6.0 million for the three months ended June 30, 2018. The average tax equivalent yield on state and municipal securities decreased 41 basis points to 2.22% for the three months ended June 30, 2018 from 2.63% for the three months ended June 30, 2017, as a result of the enactment of the Tax Cuts and Jobs Act that took effect on January 1, 2018 which reduced the corporate federal income tax rate from 34% to 21%. Interest income on Fed Funds sold decreased $9,000, or 45.0%, to $11,000 for the three months ended June 30, 2018 from $20,000 for the three months ended June 30, 2017. The decrease in Fed Funds sold was attributable to a decrease in the average balance of Fed Funds sold of $5.7 million, or 64.2%, to $3.2 million for the three months ended June 30, 2018 from $8.9 million for the three months ended June 30, 2017, partially offset by an increase in the average yield on Fed Funds sold of 46 basis points to 1.35% during the quarter ended June 30, 2018 as compared to 0.89% for the quarter ended June 30, 2017 due to the Federal Reserve's increase of the fed funds rate.

Total Interest Expense. Total interest expense increased $256,000, or 38.6%, to $919,000 for the quarter ended June 30, 2018 from $663,000 for the quarter ended June 30, 2017. Total interest expense reflected an increase in interest expense on deposits of $174,000 and an increase in interest expense on borrowings of $82,000 when comparing the quarters ended June 30, 2018 and 2017. The total interest expense reflected an increase in the average cost of interest-bearing liabilities of 27 basis points from 1.08% for the three months ended June 30, 2017 to 1.35% for the three months ended June 30, 2018, in addition to an increase of $26.1 million in average interest-bearing liabilities.

Interest expense on deposits increased $174,000, or 40.6%, to $603,000 for the three months ended June 30, 2018 from $429,000 for the three months ended June 30, 2017. The average cost of deposits increased to 1.16% for the three months ended June 30, 2018 from 0.93% for the three months ended June 30, 2017, primarily reflecting higher average balances on higher rate promotional savings, money market, and certificates of deposit accounts offered during the second quarter of 2018. The average balance of deposits increased $23.3 million, or 12.6%, from $185.4 million for the three months ended June 30, 2017 to $208.7 million for the three months ended June 30, 2018 also primarily due to promotional certificates of deposit, savings, and money market accounts offered in the second quarter of 2018. The average cost of certificates of deposit (including individual retirement accounts) increased to 1.63% for the three months ended June 30, 2018 from 1.30% for the three months ended June 30, 2017, in addition to an increase in the average balance of these accounts by $19.8 million to $115.1 million for the three months ended June 30, 2018 from $95.3 million for the three months ended June 30, 2017. The average balance of transaction accounts, our core non-time deposit accounts, increased by $3.9 million to $102.7 million for the three months ended June 30, 2018 from $98.8 million for the three months ended June 30, 2017, along with an increase in the average cost of transaction accounts of five basis points to 0.53% for the three months ended June 30, 2018 from 0.48% for the three months ended June 30, 2017 primarily due to promotional savings accounts.

At June 30, 2018, we had $26.3 million of certificates of deposit, including individual retirement accounts, scheduled to mature throughout the remainder of 2018. Based on current market interest rates, we expect that the cost of these deposits upon renewal will be at a moderately higher cost to us than their current contractual rates.

Interest expense on borrowings increased $82,000 from $234,000 for the quarter ended June 30, 2017 to $316,000 for the quarter ended June 30, 2018, due to a $2.9 million increase in our average balance of borrowings with the Federal Home Loan Bank from $60.6 million for the three months ended June 30, 2017 to $63.4 million for the three months ended June 30, 2018 in order to fund loans, along with an increase in the average cost of these funds from 1.55% for the three months ended June 30, 2017 to 1.99% for the three months ended June 30, 2018 as a result of an increase in market interest rates.

Net Interest Income. Net interest income increased $204,000, or 10.6%, to $2.1 million for the quarter ended June 30, 2018 as compared to $1.9 million for the quarter ended June 30, 2017. Net interest income increased primarily due to continued efforts to change the interest-earning asset mix to increase the balances of higher yielding residential and commercial loans when comparing the quarter ended June 30, 2018 to the same period in 2017. Our net interest rate spread remained unchanged at 2.68% when comparing the quarters ended June 30, 2018 and 2017. There was a 27 basis point increase in the average yield on our interest-earning assets to 4.03% for the three months ended June 30, 2018 from 3.76% for the three months ended June 30, 2017, which was offset by an increase in the average cost of our interest-bearing liabilities of 27 basis points from 1.08% for the three months ended June 30, 2017 to 1.35% for the three months ended June 30, 2018. Our net interest margin increased two basis points to 2.82% during the three months ended June 30, 2018 from 2.80% during the three months ended June 30, 2017.

Provision for Loan Losses. We establish provisions for loan losses which are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses inherent in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for loan losses, we consider past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan, and the levels of non-performing and other classified loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for loan losses on at least a quarterly basis and make provisions for loan losses in order to maintain the allowance.

Based on our evaluation of the above factors, we recorded a $75,000 provision for loan losses for the quarter ended June 30, 2018, compared to a $60,000 provision for loan losses recorded for the quarter ended June 30, 2017. The increase in the provision for loan losses for the three months ended June 30, 2018 was the result of additional specific and general provisions deemed necessary to support an increased balance of loans receivable, primarily one- to four-family residential real estate, multi-family residential real estate, and commercial real estate, and to a lesser extent, commercial and industrial loans when comparing the three months ended June 30, 2018 and June 30, 2017. The increase in the specific provision was due to an increase in loans rated special mention and substandard which were classified as such during the three months ended June 30, 2018. The allowance for loan losses was $1.4 million, or 0.52% of net loans outstanding at June 30, 2018 compared to $1.1 million, or 0.46% of net loans outstanding, at June 30, 2017. The allowance for loan losses was $1.3 million, or 0.48% of net loans outstanding at December 31, 2017.

Other Income. Other income decreased by $437,000, or 41.5%, to $615,000 for the three months ended June 30, 2018 compared to $1.1 million for the three months ended June 30, 2017. The decrease in other income was primarily attributable to decreases in realized gains on sales of loans and fee income. Realized gains on sales of loans decreased $402,000, or 58.2%, to $289,000 for the three months ended June 30, 2018 from $691,000 for the three months ended June 30, 2017. The decrease in realized gains on sales of loans was primarily due to lower volume of mortgage loans sold in addition to lower premiums received on government and conventional mortgage loans sold in the second quarter of 2018 compared to the second quarter of 2017. Fee income from Fairport Wealth Management decreased by $34,000, or 50.0%, to $34,000 for the three months ended June 30, 2018 compared to $68,000 for the three months ended June 30, 2017 due to a decrease in non-deposit investment product sales.

Other Expense. Other expense decreased $24,000, or 0.9%, to $2.6 million for the three months ended June 30, 2018. The decrease in other expense was primarily attributable to decreases in salaries and employee benefits of $24,000 and other miscellaneous expenses of $18,000, partially offset by increases in occupancy expense of $14,000 and data processing costs of $14,000. Salaries and employee benefits decreased $24,000, or 1.5%, to $1.6 million for the three months ended June 30, 2018 primarily due to a decrease in commission expense due to lower mortgage and commercial loan origination volume and annual incentive expense, partially offset by annual merit increases for existing staff, the addition of a Chief Lending Officer in October 2017, and the expense related to the issuance of restricted stock awards and stock options to senior management and the Board of Directors in the fourth quarter of 2017 and the first quarter of 2018. Other miscellaneous expenses decreased $18,000, or 6.8%, to $247,000 for the quarter ended June 30, 2018 from $265,000 for the quarter ended June 30, 2017 due to decreases in professional services, office supplies, and losses on customer and card transactions. Occupancy expense increased $14,000, or 5.4%, to $273,000 for the quarter ended June 30, 2018 from $259,000 for the quarter ended June 30, 2017 primarily due to additional rent expense related to the addition of our Lewiston mortgage origination office in November 2017, additional office space in our Cheektowaga mortgage origination office, and increases in building repairs and maintenance for our branches. Data processing costs increased $14,000, or 15.7%, to $103,000 for the three months ended June 30, 2018 from $89,000 for the three months ended June 30, 2017 primarily due to the end of first year promotional pricing associated with the conversion of our core processing system from in-house hosting to data center hosting.

Income Taxes. Income tax expense decreased $68,000, or 81.9%, to $15,000 for the three months ended June 30, 2018 from $83,000 for the three months ended June 30, 2017. The decrease in income tax expense for the three months ended June 30, 2018 as compared to the same period in 2017 was due to lower income before income taxes and the reduction in the corporate federal income tax rate from 34% to 21% as a result of the enactment of the Tax Cuts and Jobs Act that took effect on January 1, 2018. The effective tax rate was 18.1% for the three months ended June 30, 2018 compared to 27.0% for the three months ended June 30, 2017.

Comparison of Operating Results for the Six Months Ended June 30, 2018 and 2017

General. Net income decreased $77,000, or 35.2%, to $142,000 for the six months ended June 30, 2018 from $219,000 for the six months ended June 30, 2017. The year over year six month decrease was attributable to increases in other expense of $109,000 and the provision for loan losses of $38,000, and a decrease in other income of $405,000, partially offset by an increase in net interest income of $461,000 and a decrease in provision for income taxes of $14,000.

Interest and Dividend Income. Total interest and dividend income increased $970,000, or 19.1%, to $6.1 million for the six months ended June 30, 2018 from $5.1 million for the six months ended June 30, 2017. The increase resulted from a $30.4 million year over year six month increase in average interest-earning assets, primarily residential mortgage and commercial real estate loans, and a 25 basis point increase in the average yield earned on interest-earning assets from 3.77% for the six months ended June 30, 2017 to 4.02% for the six months ended June 30, 2018.

Interest income on loans increased $905,000, or 18.8%, to $5.7 million for the six months ended June 30, 2018 from $4.8 million for the six months ended June 30, 2017, reflecting a $33.6 million increase in the average balance of loans to $271.1 million for the six months ended June 30, 2018 from $237.5 million for the six months ended June 30, 2017, in addition to a 17 basis point increase in the average yield earned on loans for the six months ended June 30, 2018 as compared to the same period in 2017. The increase in the average balance of loans was due to our focus on increasing our residential mortgage and commercial loan portfolios during the six months ended June 30, 2018 as compared to the same period in 2017. The average yield on loans increased to 4.22% for the six months ended June 30, 2018 from 4.05% for the six months ended June 30, 2017, reflecting increases in market interest rates on loan products, primarily commercial mortgages, commercial and industrial, and home equity lines of credit, in addition to upward repricing for adjustable rate loans in a rising interest rate environment.

Interest income on taxable investment securities increased $52,000, or 37.4%, to $191,000 for six months ended June 30, 2018 from $139,000 for the six months ended June 30, 2017. The average balance of taxable investment securities increased $1.9 million, or 16.6%, to $13.6 million for the six months ended June 30, 2018 from $11.7 million for the six months ended June 30, 2017. The average yield on taxable investment securities increased 43 basis points to 2.80% during the six months ended June 30, 2018 as compared to 2.37% for the six months ended June 30, 2017 due to new purchases of modestly higher yielding investment securities replacing calls of slightly lower yielding investment securities. Interest income on mortgage-backed securities increased $21,000 to $75,000 for the six months ended June 30, 2018, from $54,000 for the six months ended June 30, 2017 reflecting an increase in the average yield on mortgage-backed securities of 74 basis points to 1.87% for the six months ended June 30, 2018 from 1.13% for the six months ended June 30, 2017, partially offset by a decrease in the average balance of mortgage-backed securities of $1.6 million, or 16.3%, to $8.0 million for the six months ended June 30, 2018 from $9.6 million for the six months ended June 30, 2017. The increase in average yield on mortgage-backed securities was primarily attributable to slower prepayment speeds and upward repricing on the pools of mortgage-backed securities held in portfolio during the six months ended June 30, 2018 compared to the six months ended June 30, 2017. A portion of the cash flow from these investment and mortgage-backed securities was redeployed to fund loan growth. Interest income on tax-exempt state and municipal securities decreased $5,000, to $52,000 for the six months ended June 30, 2018, from $57,000 for the six months ended June 30, 2017. The average balance of state and municipal securities decreased by $639,000, or 9.7%, from $6.6 million for the six months ended June 30, 2017 to $6.0 million for the six months ended June 30, 2018. The average tax equivalent yield on state and municipal securities decreased 42 basis points to 2.21% for the six months ended June 30, 2018 from 2.63% for the six months ended June 30, 2017, as a result of the enactment of the Tax Cuts and Jobs Act that took effect on January 1, 2018 which reduced the corporate federal income tax rate from 34% to 21%. Interest income on Fed Funds sold decreased $3,000, or 12.5%, to $21,000 for the six months ended June 30, 2018 from $24,000 for the six months ended June 30, 2017. The decrease in Fed Funds sold was attributable to a decrease in the average balance of Fed Funds sold of $2.9 million, or 48.0%, to $3.1 million for the six months ended June 30, 2018 from $6.0 million for the six months ended June 30, 2017, partially offset by an increase in the average yield on Fed Funds sold of 55 basis points to 1.34% during the six months ended June 30, 2018 as compared to 0.79% for the six months ended June 30, 2017 due to three rate increases from the Federal Reserve in 2018 which increased the fed funds rate from 1.25% to 2.00%.

Total Interest Expense. Total interest expense increased $509,000, or 40.6%, to $1.8 million for the six months ended June 30, 2018 from $1.3 million for the six months ended June 30, 2017. Total interest expense reflected an increase in interest expense on deposits of $366,000 and an increase in interest expense on borrowings of $143,000 when comparing the six months ended June 30, 2018 and 2017. The total interest expense reflected an increase in the average cost of interest-bearing liabilities of 25 basis points from 1.05% for the six months ended June 30, 2017 to 1.30% for the six months ended June 30, 2018, in addition to an increase of $30.9 million in average interest-bearing liabilities.

Interest expense on deposits increased $366,000, or 45.8%, to $1.2 million for the six months ended June 30, 2018 from $800,000 for the six months ended June 30, 2017. The average cost of deposits increased to 1.12% for the six months ended June 30, 2018 from 0.89% for the six months ended June 30, 2017, primarily reflecting higher average balances on higher rate promotional money market and certificates of deposit accounts offered during the first half of 2018. The average balance of deposits increased $27.9 million, or 15.5%, from $179.9 million for the six months ended June 30, 2017 to $207.8 million for the six months ended June 30, 2018 also primarily due to promotional certificates of deposit, savings, and money market accounts offered in the first half of 2018. The average cost of certificates of deposit (including individual retirement accounts) increased to 1.58% for the six months ended June 30, 2018 from 1.27% for the six months ended June 30, 2017, in addition to an increase in the average balance of these accounts by $22.8 million to $114.9 million for the six months ended June 30, 2018 from $92.1 million for the six months ended June 30, 2017. The average balance of transaction accounts, our core non-time deposit accounts, increased by $5.3 million to $101.4 million for the six months ended June 30, 2018 from $96.1 million for the six months ended June 30, 2017, along with an increase in the average cost of transaction accounts of six basis points to 0.51% for the six months ended June 30, 2018 from 0.45% for the six months ended June 30, 2017 primarily due to promotional savings and money market accounts.

Interest expense on borrowings increased $143,000 from $454,000 for the six months ended June 30, 2017 to $597,000 for the six months ended June 30, 2018, due to a $3.0 million increase in our average balance of borrowings with the Federal Home Loan Bank from $59.8 million for the six months ended June 30, 2017 to $62.8 million for the six months ended June 30, 2018 in order to fund loans, along with an increase in the average cost of these funds from 1.52% for the six months ended June 30, 2017 to 1.90% for the six months ended June 30, 2018 as a result of an increase in market interest rates.

Net Interest Income. Net interest income increased $461,000, or 12.0%, to $4.3 million for the six months ended June 30, 2018 as compared to $3.8 million for the six months ended June 30, 2017. Net interest income increased primarily due to continued efforts to change the interest-earning asset mix to increase the balances of higher yielding residential and commercial loans when comparing the six months ended June 30, 2018 to the same period in 2017. Our net interest rate spread remained unchanged at 2.72% when comparing the six month periods ended June 30, 2018 and 2017. There was a 25 basis point increase in the average yield on our interest-earning assets to 4.02% for the six months ended June 30, 2018 from 3.77% for the six months ended June 30, 2017, which was offset by an increase in the average cost of our interest-bearing liabilities of 25 basis points from 1.05% for the six months ended June 30, 2017 to 1.30% for the six months ended June 30, 2018. Our net interest margin remained unchanged at 2.85% when comparing the six month periods ended June 30, 2018 and 2017.

Provision for Loan Losses. We establish provisions for loan losses which are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses inherent in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for loan losses, we consider past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan, and the levels of non-performing and other classified loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for loan losses on at least a quarterly basis and make provisions for loan losses in order to maintain the allowance.

Based on our evaluation of the above factors, we recorded a $150,000 provision for loan losses for the six months ended June 30, 2018, compared to a $112,000 provision for loan losses recorded for the six months ended June 30, 2017. The increase in the provision for loan losses for the six months ended June 30, 2018 was the result of additional specific and general provisions deemed necessary to support an increased balance of loans receivable, primarily one- to four-family residential real estate, multi-family residential real estate, and commercial real estate, and to a lesser extent, commercial and industrial loans when comparing the six months ended June 30, 2018 and June 30, 2017. The increase in the specific provision was due to an increase in loans rated special mention and substandard which were classified as such during the six months ended June 30, 2018 compared to December 31, 2017. The allowance for loan losses was $1.4 million, or 0.52% of net loans outstanding at June 30, 2018 compared to $1.1 million, or 0.46% of net loans outstanding, at June 30, 2017. The allowance for loan losses was $1.3 million, or 0.48% of net loans outstanding at December 31, 2017.

Other Income. Other income decreased by $405,000, or 24.0%, to $1.3 million for the six months ended June 30, 2018 compared to $1.7 million for the six months ended June 30, 2017. The decrease in other income was primarily attributable to decreases in realized gains on sales of loans and fee income. Realized gains on sales of loans decreased $380,000, or 37.4%, to $637,000 for the six months ended June 30, 2018 from $1.0 million for the six months ended June 30, 2017. The decrease in realized gains on sales of loans was primarily due to lower volume of mortgage loans sold in addition to lower premiums received on government and conventional mortgage loans sold during the first six months of 2018 compared to the first six months of 2017. Fee income from Fairport Wealth Management decreased by $30,000, or 29.1%, to $73,000 for the six months ended June 30, 2018 compared to $103,000 for the six months ended June 30, 2017 due to a decrease in non-deposit investment product sales.

Other Expense. Other expense increased $109,000, or 2.1%, to $5.2 million for the six months ended June 30, 2018 from $5.1 million for the six months ended June 30, 2017. The increase in other expense was primarily attributable to increases in salaries and employee benefits of $79,000, data processing costs of $34,000, occupancy expense of $26,000, and electronic banking of $23,000, partially offset by decreases in directors' fees of $25,000 and other miscellaneous expense of $21,000. Salaries and employee benefits increased $79,000, or 2.5%, to $3.2 million for the six months ended June 30, 2018 from $3.1 million for the six months ended June 30, 2017 primarily due to annual merit increases for existing staff, the addition of a Chief Lending Officer in October 2017, and the expense related to the issuance of restricted stock awards and stock options to senior management and the Board of Directors in the fourth quarter of 2017 and the first quarter of 2018, partially offset by a decrease in commission expense due to lower mortgage and commercial loan origination volume and annual incentive expense. Data processing costs increased $34,000, or 20.0%, to $204,000 for the six months ended June 30, 2018 from $170,000 for the six months ended June 30, 2017 primarily due to the end of first year promotional pricing associated with the conversion of our core processing system from in-house hosting to data center hosting. Occupancy expense increased $26,000, or 4.9%, to $554,000 for the six months ended ended June 30, 2018 from $528,000 for the six months ended June 30, 2017 primarily due to additional rent expense related to the addition of our Lewiston mortgage origination office, additional office space in our Cheektowaga mortgage origination office in November 2017, and increases in building repairs and maintenance for our branches. Electronic banking increased $23,000, or 65.7%, to $58,000 for the six months ended June 30, 2018 from $35,000 for the six months ended June 30, 2017 primarily due to the end of first year promotional pricing associated with the conversion of our core processing system from in-house hosting to data center hosting. Directors' fees decreased $25,000, or 19.2%, to $105,000 for the six months ended June 30, 2018 from $130,000 for the six months ended June 30, 2017 due to the retirement of four directors as of December 31, 2017. Other miscellaneous expense decreased $21,000, or 4.0%, to $499,000 for the six months ended June 30, 2018 from $520,000 for the six months ended June 30, 2017 due to decreases in legal expense, office supplies, professional services, organizational dues, and loss on customer transactions.

Income Taxes. Income tax expense decreased $14,000, or 29.8%, to $33,000 for the six months ended June 30, 2018 from $47,000 for the six months ended June 30, 2017. The decrease in income tax expense for the six months ended June 30, 2018 as compared to the same period in 2017 was due to lower income before income taxes and the reduction in the corporate federal income tax rate from 34% to 21% as a result of the enactment of the Tax Cuts and Jobs Act that took effect on January 1, 2018. The effective tax rate was 18.9% for the six months ended June 30, 2018 compared to 17.7% for the six months ended June 30, 2017.

Average balances and yields. The following tables set forth average balance sheets, average yields and costs and certain other information for the periods indicated. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are accreted or amortized to interest income or interest expense.

	For the three months June 30,					
	2018			2017		
(Dollars in thousands)	Average Balance	Interest	Average Yield / Cost[5]	Average Balance	Interest	Average Yield / Cost[5]
Interest-earning assets:						
Loans	$ 273,137	$ 2,887	4.23%	$ 240,960	$ 2,454	4.07%
Federal funds sold	3,194	11	1.35	8,925	20	0.89
Taxable investment securities	13,744	97	2.81	12,217	70	2.28
Mortgage-backed securities	7,764	35	1.82	9,168	24	1.05
State and municipal securities[1]	5,994	33	2.22	6,537	43	2.63
Total interest-earning assets	$ 303,833	$ 3,063	4.03%	$ 277,807	$ 2,611	3.76%
Noninterest-earning assets:						
Other assets	$ 10,879			$ 10,570		
Total assets	$ 314,712			$ 288,378		
Interest-bearing liabilities:						
NOW accounts	$ 30,410	$ 24	0.32%	$ 28,991	$ 22	0.30%
Passbook savings	28,643	39	0.54	27,554	27	0.39
Money market savings	34,582	72	0.84	33,604	69	0.82
Individual retirement accounts	6,854	21	1.22	7,056	18	1.04
Certificates of deposit	108,225	447	1.65	88,235	293	1.33
Federal Home Loan Bank advances	63,409	316	1.99	60,552	234	1.55
Total interest-bearing liabilities	$ 272,123	$ 919	1.35%	$ 245,992	$ 663	1.08%
Noninterest-bearing liabilities:						
Demand deposits	$ 9,068			$ 8,638		
Other liabilities	2,218			1,724		
Total liabilities	$ 283,409			$ 256,354		
Stockholders' equity	$ 31,303			$ 32,024		
Total liabilities & stockholders' equity	$ 314,712			$ 288,378		
Net interest income		$ 2,144			$ 1,948	
Interest rate spread[2]			2.68%			2.68%
Net interest-earning assets[3]	$ 31,710			$ 31,815		
Net interest margin[4]		2.82%			2.80%	
Ratio of average interest-earning assets to average interest-bearing liabilities	111.65%			112.93%		

(1) Tax-exempt interest income is presented on a tax equivalent basis using a 21% federal tax rate for the quarter ended June 30, 2018 and a 34% federal tax rate for the quarter ended June 30, 2017. The unadjusted average yield on tax-exempt securities was 1.75% and 1.74% for the quarters ended June 30, 2018 and 2017, respectively. The unadjusted interest income on tax-exempt securities was $26,000 and $28,000 for the quarters ended June 30, 2018 and 2017, respectively.

(2) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by total interest-earning assets.

(5) Annualized.

(Dollars in thousands)	For the six months June 30, 2018 Average Balance	2018 Interest	2018 Average Yield / Cost[5]	2017 Average Balance	2017 Interest	2017 Average Yield / Cost[5]
Interest-earning assets:						
Loans	$ 271,067	$ 5,713	4.22%	$ 237,450	$ 4,808	4.05%
Federal funds sold	3,141	21	1.34	6,039	24	0.79
Taxable investment securities	13,619	191	2.80	11,685	139	2.37
Mortgage-backed securities	8,030	75	1.87	9,601	54	1.13
State and municipal securities[1]	5,966	66	2.21	6,604	87	2.63
Total interest-earning assets	$ 301,823	$ 6,066	4.02%	$ 271,379	$ 5,112	3.77%
Noninterest-earning assets:						
Other assets	$ 10,868			$ 10,755		
Total assets	$ 312,691			$ 282,134		
Interest-bearing liabilities:						
NOW accounts	$ 30,297	$ 47	0.31%	$ 28,626	$ 42	0.29%
Passbook savings	26,727	60	0.45	26,699	45	0.34
Money market savings	35,906	150	0.84	32,477	130	0.80
Individual retirement accounts	6,947	42	1.22	7,046	34	0.97
Certificates of deposit	107,946	867	1.61	85,074	549	1.29
Federal Home Loan Bank advances	62,756	597	1.90	59,803	454	1.52
Total interest-bearing liabilities	$ 270,579	$ 1,763	1.30%	$ 239,725	$ 1,254	1.05%
Noninterest-bearing liabilities:						
Demand deposits	$ 8,440			$ 8,256		
Other liabilities	2,644			2,151		
Total liabilities	$ 281,663			$ 250,132		
Stockholders' equity	$ 31,028			$ 32,002		
Total liabilities & stockholders' equity	$ 312,691			$ 282,134		
Net interest income		$ 4,303			$ 3,858	
Interest rate spread[2]			2.72%			2.72%
Net interest-earning assets[3]	$ 31,244			$ 31,654		
Net interest margin[4]		2.85%			2.85%	
Ratio of average interest-earning assets to average interest-bearing liabilities	111.55%			113.20%		

(1) Tax-exempt interest income is presented on a tax equivalent basis using a 21% federal tax rate for the six months ended June 30, 2018 and a 34% federal tax rate for the six months ended June 30, 2017. The unadjusted average yield on tax-exempt securities was 1.74% for both six month periods ended June 30, 2018 and 2017. The unadjusted interest income on tax-exempt securities was $52,000 and $57,000 for the six months ended June 30, 2018 and 2017, respectively.

(2) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by total interest-earning assets.

(5) Annualized.

Rate/Volume Analysis

The following tables present the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of these tables, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	Three months ended June 30, 2018 vs. 2017 Increase/(Decrease) Due to		
(In thousands)	Volume	Rate	Total Increase (Decrease)
Interest and dividend income:			
Loans	$ 333	$ 100	$ 433
Federal funds sold	(46)	37	(9)
Taxable investment securities	9	18	27
Mortgage-backed securities	(3)	14	11
State and municipal securities(1)	(3)	(7)	(10)
Total interest and dividend income	290	162	452
Interest expense:			
NOW accounts	1	1	2
Passbook savings	1	11	12
Money market savings	2	1	3
Individual retirement accounts	(1)	4	3
Certificates of deposit	75	79	154
Federal home loan bank advances	12	70	82
Total interest expense	90	166	256
Net change in net interest income	$ 200	$ (4)	$ 196

(1) Tax-exempt interest income is presented on a tax equivalent basis using a 21% federal tax rate for the quarter ended June 30, 2018 and a 34% federal tax rate for the quarter ended June 30, 2017.

(In thousands)	Six months ended June 30, 2018 vs. 2017 Increase/(Decrease) Due to Volume	Rate	Total Increase (Decrease)
Interest and dividend income:			
Loans	$ 698	$ 207	$ 905
Federal funds sold	7	(10)	(3)
Taxable investment securities	25	27	52
Mortgage-backed securities	(7)	28	21
State and municipal securities[1]	(8)	(13)	(21)
Total interest and dividend income	715	239	954
Interest expense:			
NOW accounts	2	3	5
Passbook savings	-	15	15
Money market savings	14	6	20
Individual retirement accounts	-	8	8
Certificates of deposit	165	153	318
Federal home loan bank advances	24	119	143
Total interest expense	205	304	509
Net change in net interest income	$ 510	$ (65)	$ 445

(1) Tax-exempt interest income is presented on a tax equivalent basis using a 21% federal tax rate for the six months ended June 30, 2018 and a 34% federal tax rate for the six months ended June 30, 2017.

Loan and Asset Quality and Allowance for Loan Losses

The following table represents information concerning the aggregate amount of nonperforming assets at the indicated dates:

(Dollars In thousands)	June 30, 2018	December 31, 2017	June 30, 2017
Nonaccrual loans:			
Residential mortgage loans	$ 55	$ 153	$ 37
Total nonaccrual loans	55	153	37
Total nonperforming loans	55	153	37
Total nonperforming assets	$ 55	$ 153	$ 37
Nonperforming loans to total loans	0.02%	0.06%	0.02%
Nonperforming assets to total assets	0.02%	0.05%	0.01%

Nonperforming assets include nonaccrual loans, non-accruing TDRs, and foreclosed real estate. The Company generally places a loan on nonaccrual status and ceases accruing interest when loan payment performance is deemed unsatisfactory and the loan is past due 90 days or more. At June 30, 2018 there were no loans that were past due 90 days or more and still accruing interest. Loans are considered modified in a TDR when, due to a borrower’s financial difficulties, the Company makes a concession(s) to the borrower that it would not otherwise consider. These modifications may include, among others, an extension of the term of the loan, and granting a period when interest-only payments can be made, with the principal payments made over the remaining term of the loan or at maturity. At the dates indicated above, the Company had no TDRs outstanding.

As indicated in the table above, nonperforming assets at June 30, 2018 were $55,000, a decrease of $98,000, or 64.1%, from $153,000 at December 31, 2017. At June 30, 2018, the Company had one non-performing residential mortgage loan for $55,000 and at December 31, 2017, the Company had two non-performing residential mortgage loans for $153,000. At June 30, 2017, the Company had one non-performing residential mortgage loan for $37,000. At the dates indicated above, the Company had no foreclosed real estate.

The allowance for loan losses represents management's estimate of the probable losses inherent in the loan portfolio as of the date of the balance sheet. The allowance for loan losses was $1.4 million at June 30, 2018 and $1.3 million at December 31, 2017. The Company reported an increase in the ratio of the allowance for loan losses to gross loans to 0.52% at June 30, 2018 as compared to 0.48% at December 31, 2017. Management performs a quarterly evaluation of the allowance for loan losses based on quantitative and qualitative factors and has determined that the current level of the allowance for loan losses is adequate to absorb the losses in the loan portfolio as of June 30, 2018.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures unless subject to a troubled debt restructuring.

At June 30, 2018 and December 31, 2017, the Company did not have loans which were deemed to be impaired.

Management has identified potential credit problems which may result in the borrowers not being able to comply with the current loan repayment terms and which may result in it being included in future impaired loan reporting. Management has identified potential problem loans totaling $3.8 million as of June 30, 2018 as compared to $3.3 million at December 31, 2017. These loans have been internally classified as special mention, substandard, or doubtful, yet are not currently considered impaired. Total potential problem loans increased between these two dates, as the Company reported an increase of $876,000 in loans rated special mention, partially offset by a decrease of $371,000 in loans rated substandard. The increase in loans classified as special mention was due to two commercial real estate loans and one commercial and industrial loan which were newly categorized as such during the six months ended June 30, 2018, partially offset by one residential mortgage loan now paying as agreed. These loans were not criticized as of December 31, 2017. The decrease in loans classified as substandard was due to the upgrades of four residential mortgage loans now paying as agreed and three residential mortgage loan payoffs, partially offset by the addition of seven residential mortgage loans newly categorized as substandard during the six months ended June 30, 2018. Based on current information available at June 30, 2018, these loans were re-evaluated for their range of potential losses and reclassified accordingly.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our cash flows are derived from operating activities, investing activities and financing activities as reported in our consolidated statements of cash flows included in our consolidated financial statements.

Our primary sources of funds consist of deposit inflows, loan repayments, borrowings from the Federal Home Loan Bank of New York, maturities and principal repayments of securities, and loan and securities sales. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. Our asset/liability management committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We seek to maintain a liquidity ratio of 20.0% or greater. For the quarter ended June 30, 2018, our liquidity ratio averaged 29.4%. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of June 30, 2018.

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

(i) expected loan demand;

(ii) expected deposit flows;

(iii) yields available on interest-earning deposits and securities; and

(iv) the objectives of our asset/liability management program.

Excess liquid assets are invested generally in interest-earning deposits, short and intermediate-term securities and federal funds sold. Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At June 30, 2018, cash and cash equivalents totaled $7.7 million.

At June 30, 2018, we had $21.5 million in loan commitments outstanding. In addition to commitments to originate loans, we had $20.8 million in unused lines of credit outstanding to borrowers. Certificates of deposit (including individual retirement accounts comprised solely of certificates of deposit), due within one year of June 30, 2018 totaled $55.0 million, or 47.1% of our certificates of deposit (including individual retirement accounts) and 24.8% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including loan sales, other deposit products, and Federal Home Loan Bank borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the existing certificates of deposit due on or before June 30, 2019. We believe, however, based on past experience that a significant portion of such deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of New York, which provides an additional source of funds. Federal Home Loan Bank borrowings increased by $4.2 million, to $68.6 million at June 30, 2018, from $64.4 million at December 31, 2017. At June 30, 2018, we had the ability to borrow approximately $171.1 million from the Federal Home Loan Bank of New York, of which $68.6 million had been advanced.

We also have a repurchase agreement with Raymond James providing an additional $10.0 million in liquidity. Funds obtained under the repurchase agreement are secured by the Company's U.S. Government and agency obligations. There were no advances outstanding under the repurchase agreement at June 30, 2018 and December 31, 2017. In addition to the repurchase agreement with Raymond James, we also have an unsecured line of credit through Atlantic Community Bankers Bank which would provide an additional $5.0 million in liquidity. There were no draws or outstanding balances from the line of credit at June 30, 2018 and December 31, 2017.

Capital

Fairport Savings Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At June 30, 2018, Fairport Savings Bank exceeded all regulatory capital requirements and was considered "well capitalized" under regulatory guidelines.

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

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies are required to develop a “Community Bank Leverage Ratio” (the ratio of a bank’s tangible equity capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A “qualifying community bank” that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered “well capitalized” under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution’s risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies must set the minimum capital for the new Community Bank Leverage Ratio at not less than 8% and not more than 10%. A financial institution can elect to be subject to this new definition.

Fairport Savings Bank’s capital amounts and ratios as of the indicated dates are presented in the following table.

	Actual		**Minimum For Capital Adequacy Purposes**		**Minimum To Be "Well-Capitalized" Under Prompt Corrective Provisions**		**Well-Capitalized With Buffer, Fully Phased in for 2019**	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of June 30, 2018								
Total Core Capital (to Risk-Weighted Assets)	$ 30,593	15.79%	≥$15,497	≥8.0%	≥$19,371	≥10.0%	≥$20,340	≥10.5%
Tier 1 Capital (to Risk-Weighted Assets)	29,182	15.06	≥11,623	≥6.0	≥15,497	≥8.0	≥16,466	≥8.5
Tier 1 Common Equity (to Risk-Weighted Assets)	29,182	15.06	≥8,717	≥4.5	≥12,591	≥6.5	≥13,560	≥7.0
Tier 1 Capital (to Assets)	29,182	9.34	≥12,517	≥4.0	≥15,646	≥5.0	≥15,646	≥5.0
As of December 31, 2017:								
Total Core Capital (to Risk-Weighted Assets)	$ 30,067	16.11%	≥$14,927	≥8.0%	≥$18,658	≥10.0%	≥$19,591	≥10.5%
Tier 1 Capital (to Risk-Weighted Assets)	28,806	15.44	≥11,195	≥6.0	≥14,927	≥8.0	≥15,860	≥8.5
Tier 1 Common Equity (to Risk-Weighted Assets)	28,806	15.44	≥8,396	≥4.5	≥12,128	≥6.5	≥13,061	≥7.0
Tier 1 Capital (to Assets)	28,806	9.47	≥12,173	≥4.0	≥15,216	≥5.0	≥15,216	≥5.0

Off-Balance Sheet Arrangements

In the ordinary course of business, Fairport Savings Bank is a party to credit-related financial instruments with off-balance sheet risk to meet the financing needs of our customers. These financial instruments include commitments to extend credit. We follow the same credit policies in making commitments as we do for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by us, is based on our credit evaluation of the customer.

At June 30, 2018 and December 31, 2017, we had $21.5 million and $12.4 million, respectively, of commitments to grant loans, $4.4 million and $5.9 million, respectively, of unadvanced portions of construction loans, and $20.8 million and $17.5 million, respectively, of unfunded commitments under lines of credit. We had four commercial letters of credit for $252,000 at June 30, 2018 and two commercial letters of credit for $414,000 at December 31, 2017.

Impact of Inflation and Changing Prices

Our consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

A smaller reporting company is not required to provide the information relating to this item.

Item 4 – Controls and Procedures

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities and Exchange Act of 1934, as amended (the "Exchange Act") is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. As of December 31, 2017, the Company's management, including the Company's Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Accounting Officer), has evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15 and 15d-15(e) under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must necessarily reflect the fact that there are resource constraints and that management is required to apply its judgement in evaluating the benefits of possible controls and procedures relative to their costs.

We identified a material weakness in our controls over accounting that occurred beginning in the fourth quarter of 2016 through the first quarter of 2018 relating to a tax credit for residential mortgages on property located in Erie County, New York, as described below. Based upon that discovery, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective at a level that provides reasonable assurance as of the last day of the period covered by this report.

The material weakness in internal control over financial reporting resulted from the lack of controls which allowed for incorrectly claiming a tax credit for residential mortgages on property located in Erie County, the Company's second largest county for mortgage originations. Pursuant to New York State Department of Taxation and Finance rules, no tax credit will be allowed for payment on the special additional mortgage recording tax with respect to a mortgage of real property located in Erie County and the mortgage was recorded after 1987. Specifically, we did not have adequate controls in place to properly identify and account for the additional mortgage recording tax on property located in Erie County, which should have resulted in the Company recognizing an expense for accounting purposes. This material weakness resulted in the correction of the material errors and restatement of prior financial statements as disclosed in Note 1 to the consolidated audited financial statements in the Amendment No. 1 to the Annual Report on Form 10-K/A for the year ended December 31, 2017 and Note 1 to the consolidated financial statements in Amendment No. 1 to the Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2018. Management has identified effective control plans for the remediation of the material weakness which has been implemented in fiscal year 2018.

In order to remediate the material weakness in internal controls, the Company refined its process of identifying and recording residential mortgage loans eligible for the mortgage recording tax credit and terminated its relationship with its corporate tax services provider.

Other than the remediation described above, there has been no change in the Company's internal control over financial reporting during the second quarter of the fiscal year ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

As of June 30, 2018, the Company is not currently a named party in a legal proceeding, the outcome of which would have a material effect on the financial condition or results of operations of the Company.

Item 1A – Risk Factors

A smaller reporting company is not required to provide the information relating to this item.

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

The following table provides certain information with regard to shares repurchased by the Company in the second quarter of 2018.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)
April 1 — April 30, 2018	-	$ -	-	27,549
May 1 — May 31, 2018	-	$ -	-	27,549
June 1 — June 30, 2018	-	$ -	-	27,549
Total	-	$	-	

(1) The Company's Board of Directors authorized its first stock repurchase program on July 27, 2017 to acquire up to 97,084 shares, or 5.0% of the Company's then outstanding common stock. Repurchases will be made from time to time depending on market conditions and other factors, and will be conducted through open market or private transactions, through block trades, and pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. There is no guarantee as to the exact number of shares to be repurchased by the Company.

Item 3 – Defaults Upon Senior Securities

None

Item 4 – Mine Safety Disclosures

Not applicable

Item 5 – Other Information

None

Item 6 – Exhibits

Exhibit No.	Description
31.1	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Executive Officer
31.2	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Financial Officer
32	Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer
101	The following materials from FSB Bancorp, Inc. Form 10-Q for the quarter ended June 30, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Financial Condition, (iii) Consolidated Statements of Cash Flows, and (iv) related notes

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.

FSB BANCORP, INC.
(registrant)

August 13, 2018	/s/ Kevin D. Maroney Kevin D. Maroney President & Chief Executive Officer
August 13, 2018	/s/ Angela M. Krezmer Angela M. Krezmer Chief Financial Officer

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Section 2: EX-31.1 (EXHIBIT 31.1)

EXHIBIT 31.1: Rule 13a-14(a) / 15d-14(a) Certification of the Chief Executive Officer

Certification of Chief Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Kevin D. Maroney, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FSB Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15 (f)) for the registrant have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 13, 2018 | /s/ Kevin D. Maroney
Kevin D. Maroney
President & Chief Executive Officer

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Section 3: EX-31.2 (EXHIBIT 31.2)

EXHIBIT 31.2: Rule 13a-14(a) / 15d-14(a) Certification of the Chief Financial Officer

Certification of Chief Financial Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Angela M. Krezmer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FSB Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15 (f)) for the registrant have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 13, 2018 | /s/ Angela M. Krezmer
Angela M. Krezmer
Chief Financial Officer

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Section 4: EX-32 (EXHIBIT 32)

EXHIBIT 32 Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer

Certification pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of FSB Bancorp, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2018 as filed with the Securities and Exchange Commission (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

August 13, 2018

/s/ Kevin D. Maroney
Kevin D. Maroney
President & Chief Executive Officer

August 13, 2018

/s/ Angela M. Krezmer
Angela M. Krezmer
Chief Financial Officer

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