# Section 1: 10-Q/A (FORM 10-Q/A)

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

**FORM 10-Q/A**
**Amendment No. 1**

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

For the quarterly period ended March 31, 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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**EXPLANATORY NOTE**

FSB Bancorp, Inc. (the "Company") is filing this amendment to its quarterly report on Form 10-Q for the period ended March 31, 2018 to amend and restate financial statements and certain other financial information filed with the Securities and Exchange Commission ("SEC"). These amendments restate the Consolidated Financial Statements and the other financial information for the three months ended March 31, 2018 and 2017, and the audited consolidated balance sheet as of December 31, 2017 (the "Restatement Periods"). These amendments are being filed to change the Company's treatment of mortgage recording tax expense for residential mortgage loans originated in Erie County, New York beginning in the fourth quarter of 2016 through the first quarter of 2018.

Effective for the 2015 tax year, New York state tax law was amended and allowed the Company to become eligible to recapture a portion of the special additional mortgage recording tax paid on mortgages and the Company elected to have the overpayment of tax refunded for the years ended December 31, 2015 through December 31, 2017 and the first quarter ended March 31, 2018 rather than used as a credit carryforward. As part of a review of the Company's 2015 state tax return by the New York State Department of Taxation and Finance, management became aware that the Company had been 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 of 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.

Upon recommendation of management, the Audit Committee of the Company determined that the effect of reversing the tax credits was necessary for the Restatement Periods. The Company estimates that the cumulative effect of the restatement due to the origination of residential mortgage loans in Erie County beginning in the fourth quarter of 2016 through the first quarter of 2018 is a reduction in income before income taxes of $266,000 and a reduction in income net of income taxes of $178,000.

The effect this restatement had on earnings for the respective comparative periods is as follows:

| *(In thousands, except per share data)* | **For the three months ended March 31, 2018** | **For the three months ended March 31, 2017** |
|---|---|---|
| Mortgage fees and taxes | $ 19 | $ 24 |
| Benefit for income taxes | (4) | (8) |
| **Net income (loss)** | $ (15) | $ (16) |
| **Earnings per common share – basic and diluted** | **$ (0.01)** | **$ (0.01)** |

Items 1, 2 and 4 have been amended to reflect the restatements. All other information contained in the original filing remains unchanged. For convenience of the reader, we have included in this amendment our entire Quarterly Report on Form 10-Q, as amended hereby. For additional information on the restatement see Note 1, Restatement in the Notes to the Unaudited Consolidated Financial Statements.

**PART I - FINANCIAL INFORMATION**
**Item 1 – Consolidated Financial Statements**

**FSB Bancorp, Inc.**
**Consolidated Balance Sheets (Restated)**
**(Unaudited)**

| *(In thousands, except share and per share data)* | March 31, 2018 | December 31, 2017 |
|---|---|---|
| **ASSETS:** | | |
| Cash and due from banks | $ 1,484 | $ 1,672 |
| Interest earning demand deposits | 6,220 | 8,725 |
| Total cash and cash equivalents | 7,704 | 10,397 |
| Available-for-sale securities, at fair value | 17,792 | 18,313 |
| Held-to-maturity securities, at amortized cost (fair value of $6,356 and $6,588, respectively) | 6,404 | 6,575 |
| Investment in restricted stock, at cost | 3,274 | 3,270 |
| Loans held for sale | 2,244 | 2,770 |
| Loans | 267,877 | 263,972 |
| Less: Allowance for loan losses | (1,336) | (1,261) |
| Loans receivable, net | 266,541 | 262,711 |
| Bank owned life insurance | 3,773 | 3,758 |
| Accrued interest receivable | 809 | 824 |
| Premises and equipment, net | 2,975 | 3,064 |
| Other assets | 2,884 | 2,700 |
| Total assets | $ 314,400 | $ 314,382 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY:** | | |
| Deposits: | | |
| Non-interest bearing | $ 8,146 | $ 8,385 |
| Interest bearing | 208,611 | 208,306 |
| Total deposits | 216,757 | 216,691 |
| Short-term borrowings | 11,500 | 13,000 |
| Long-term borrowings | 53,035 | 51,447 |
| Official bank checks | 754 | 929 |
| Other liabilities | 1,217 | 1,259 |
| Total liabilities | 283,263 | 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 | 15,531 | 15,441 |
| Retained earnings | 16,151 | 16,077 |
| Accumulated other comprehensive loss | (257) | (165) |
| Unearned ESOP shares, at cost | (307) | (316) |
| Total stockholders' equity | 31,137 | 31,056 |
| Total liabilities and stockholders' equity | $ 314,400 | $ 314,382 |

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

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

| *(In thousands, except per share data)* | For the three months ended March 31, 2018 | For the three months ended March 31, 2017 |
|---|---|---|
| **Interest and dividend income:** | | |
| Loans, including fees | $ 2,826 | $ 2,354 |
| Securities: | | |
| Taxable | 94 | 69 |
| Tax-exempt | 26 | 29 |
| Mortgage-backed securities | 40 | 30 |
| Other | 10 | 4 |
| Total interest and dividend income | 2,996 | 2,486 |
| **Interest expense:** | | |
| Interest on deposits | 563 | 371 |
| Interest on short-term borrowings | 47 | 17 |
| Interest on long-term borrowings | 234 | 203 |
| Total interest expense | 844 | 591 |
| Net interest income | 2,152 | 1,895 |
| Provision for loan losses | 75 | 52 |
| Net interest income after provision for loan losses | 2,077 | 1,843 |
| **Other income:** | | |
| Service fees | 32 | 40 |
| Fee income | 39 | 35 |
| Increase in cash surrender value of bank owned life insurance | 15 | 15 |
| Realized gain on sale of loans | 348 | 326 |
| Mortgage fee income | 174 | 172 |
| Other | 60 | 48 |
| Total other income | 668 | 636 |
| **Other expense:** | | |
| Salaries and employee benefits | 1,627 | 1,524 |
| Occupancy | 281 | 269 |
| Data processing costs | 101 | 81 |
| Advertising | 33 | 43 |
| Equipment | 143 | 143 |
| Electronic banking | 31 | 7 |
| Directors' fees | 58 | 72 |
| Mortgage fees and taxes | 52 | 48 |
| FDIC premium expense | 26 | 26 |
| Audits and tax services | 49 | 52 |
| Other | 252 | 255 |
| Total other expenses | 2,653 | 2,520 |
| Income (loss) before income taxes | 92 | (41) |
| Provision (benefit) for income taxes | 18 | (36) |
| **Net income (loss)** | $ 74 | $ (5) |
| **Earnings per common share – basic and diluted** | **$ 0.04** | **$ 0.00** |

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

## Consolidated Statements of Comprehensive Income (Loss) (Restated)
## (Unaudited)

| *(In thousands)* | For the three months ended March 31, 2018 | March 31, 2017 |
|---|---|---|
| Net Income (Loss) | $ 74 | $ (5) |
| ***Other Comprehensive Income (Loss)*** | | |
| Unrealized holding gains (losses) on available-for-sale securities | | |
| Unrealized holding gains (losses) arising during the period | (118) | 15 |
| Net unrealized gain (loss) on available for sale securities | (118) | 15 |
| Other comprehensive income (loss), before tax | (118) | 15 |
| Tax effect | (26) | 5 |
| Other comprehensive income (loss), net of tax | (92) | 10 |
| Comprehensive income (loss) | $ (18) | $ 5 |
| Tax Effect Allocated to Each Component of Other Comprehensive Income | | |
| Unrealized holding gains (losses) arising during the period | $ (26) | $ 5 |
| Income tax effect related to other comprehensive income (loss) | $ (26) | $ 5 |

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

**FSB Bancorp, Inc.**
**Consolidated Statements of Stockholders' Equity (Restated)**
**(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 | - | - | 74 | - | - | 74 |
| Other comprehensive loss, net of tax | - | - | - | (92) | - | (92) |
| ESOP shares committed to be released | - | 14 | - | - | 9 | 23 |
| Stock based compensation | - | 76 | - | - | - | 76 |
| **Balance, March 31, 2018** | $ 19 | $ 15,531 | $ 16,151 | $ (257) | $ (307) | $ 31,137 |
| **Balance, January 1, 2017** | $ 19 | $ 16,352 | $ 15,839 | $ (85) | $ (350) | $ 31,775 |
| Net loss | - | - | (5) | - | - | (5) |
| Other comprehensive income, net of tax | - | - | - | 10 | - | 10 |
| ESOP shares committed to be released | - | 4 | - | - | 9 | 13 |
| **Balance, March 31, 2017** | $ 19 | $ 16,356 | $ 15,834 | $ (75) | $ (341) | $ 31,793 |

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

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

| *(In thousands)* | For the Three Months Ended March 31, 2018 | 2017 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income (loss) | $ 74 | $ (5) |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Net amortization of premiums and accretion of discounts on investments | 21 | 35 |
| Gain on sale of loans | (348) | (326) |
| Proceeds from loans sold | 19,263 | 11,567 |
| Loans originated for sale | (18,389) | (13,116) |
| Amortization of net deferred loan origination costs | 357 | 276 |
| Depreciation and amortization | 113 | 120 |
| Provision for loan losses | 75 | 52 |
| Expense related to ESOP | 23 | 13 |
| Deferred income tax benefit | (2) | (38) |
| Earnings on investment in bank owned life insurance | (15) | (15) |
| Decrease (Increase) in accrued interest receivable | 15 | (53) |
| Increase in other assets | (182) | (168) |
| Decrease in other liabilities | (16) | (418) |
| **Net cash flows from operating activities** | 989 | (2,076) |
| **INVESTING ACTIVITIES** | | |
| Purchases of securities available-for-sale | - | (1,500) |
| Proceeds from principal paydowns on securities available-for-sale | 390 | 873 |
| Proceeds from principal paydowns on securities held-to-maturity | 163 | 82 |
| Net increase in loans | (4,262) | (9,923) |
| Purchase of restricted stock, net | (4) | (483) |
| Purchase of premises and equipment | (24) | (171) |
| **Net cash flows from investing activities** | (3,737) | (11,122) |
| **FINANCING ACTIVITIES** | | |
| Net increase in deposits | 66 | 3,750 |
| Proceeds from long-term borrowings | 7,000 | 5,501 |
| Repayments on long-term borrowings | (5,412) | (4,053) |
| Proceeds from (repayments on) short-term borrowings, net | (1,500) | 7,500 |
| Stock based compensation | 76 | - |
| Net (decrease) increase in official bank checks | (175) | 275 |
| **Net cash flows from financing activities** | 55 | 12,973 |
| **Change in cash and cash equivalents** | (2,693) | (225) |
| Cash and cash equivalents at beginning of period | 10,397 | 7,407 |
| **Cash and cash equivalents at end of period** | $ 7,704 | $ 7,182 |
| **CASH PAID DURING THE PERIOD FOR:** | | |
| Interest | $ 805 | $ 584 |
| Income taxes | $ - | $ - |

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

**Note 1: Restatement**

The Company is filing this amendment to its quarterly report on Form 10-Q for the period ended March 31, 2018 to amend and restate financial statements and certain other financial information filed with the SEC. These amendments restate the Consolidated Financial Statements and the other financial information for the three months ended March 31, 2018 and 2017, and the audited consolidated balance sheet as of December 31, 2017 (the "Restatement Periods"). These amendments are being filed to change the Company's treatment of mortgage recording tax expense for residential mortgage loans originated in Erie County, New York beginning in the fourth quarter of 2016 through the first quarter of 2018.

Effective for the 2015 tax year, New York state tax law was amended and allowed the Company to become eligible to recapture a portion of the special additional mortgage recording tax paid on mortgages and the Company elected to have the overpayment of tax refunded for the years ended December 31, 2015 through December 31, 2017 and the first quarter ended March 31, 2018 rather than used as a credit carryforward. As part of a review of the Company's 2015 state tax return by the New York State Department of Taxation and Finance, management became aware that the Company had been 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 of 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.

Upon recommendation of management, the Audit Committee of the Company determined that the effect of reversing the tax credits was necessary for the Restatement Periods. The Company estimates that the cumulative effect of the restatement due to the origination of residential mortgage loans in Erie County beginning in the fourth quarter of 2016 through the first quarter of 2018 is a reduction in income before income taxes of $266,000 and a reduction in income net of income taxes of $178,000.

The effect this restatement had on the Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Consolidated Statements of Stockholders' Equity, and Consolidated Statements of Cash Flows for the respective periods is as follows:

| | At March 31, 2018 | | At December 31, 2017 | |
|---|---|---|---|---|
| **Restated Consolidated Balance Sheet:** | **As Originally Reported** | **As Restated** | **As Originally Reported** | **As Restated** |
| | **(Dollars in Thousands)** | | | |
| Other assets | $ 3,151 | $ 2,884 | $ 2,948 | $ 2,700 |
| Total assets | $ 314,667 | $ 314,400 | $ 314,630 | $ 314,382 |
| Other liabilities | $ 1,306 | $ 1,217 | $ 1,344 | $ 1,259 |
| Total liabilities | $ 283,352 | $ 283,263 | $ 283,411 | $ 283,326 |
| Retained earnings | $ 16,329 | $ 16,151 | $ 16,240 | $ 16,077 |
| Total stockholders' equity | $ 31,315 | $ 31,137 | $ 31,219 | $ 31,056 |
| Total liabilities and stockholders' equity | $ 314,667 | $ 314,400 | $ 314,630 | $ 314,382 |

| Restated Consolidated Statements of Income: | For the Quarter Ended | | | |
|---|---|---|---|---|
| | March 31, 2018 | | March 31, 2017 | |
| | As Originally Reported | As Restated | As Originally Reported | As Restated |
| | (Dollars in Thousands, except per share data) | | | |
| Mortgage fees and taxes | $ 33 | $ 52 | $ 24 | $ 48 |
| Total other expenses | $ 2,634 | $ 2,653 | $ 2,496 | $ 2,520 |
| Income (loss) before income taxes | $ 111 | $ 92 | $ (17) | $ (41) |
| Provision (benefit) for income taxes | $ 22 | $ 18 | $ (28) | $ (36) |
| Net income (loss) | $ 89 | $ 74 | $ 11 | $ (5) |
| Earnings per share – basic and diluted | $ 0.05 | $ 0.04 | $ 0.01 | $ 0.00 |

| Restated Consolidated Statements of Comprehensive Income (Loss): | For the Quarter Ended | | | |
|---|---|---|---|---|
| | March 31, 2018 | | March 31, 2017 | |
| | As Originally Reported | As Restated | As Originally Reported | As Restated |
| | (Dollars in Thousands) | | | |
| Net income (loss) | $ 89 | $ 74 | $ 11 | $ (5) |
| Comprehensive income (loss) | $ (3) | $ (18) | $ 21 | $ 5 |

| Restated Consolidated Statements of Stockholders' Equity: | For the Quarter Ended | | | |
|---|---|---|---|---|
| | March 31, 2018 | | March 31, 2017 | |
| | As Originally Reported | As Restated | As Originally Reported | As Restated |
| | (Dollars in Thousands) | | | |
| Balance, beginning of period | $ 31,219 | $ 31,056 | $ 31,859 | $ 31,775 |
| Increase (decrease) attributable to net income (loss) | $ 89 | $ 74 | $ 11 | $ (5) |
| Balance, end of period | $ 31,315 | $ 31,137 | $ 31,893 | $ 31,793 |

| Restated Consolidated Statements of Cash Flows: | For the Quarter Ended | | | |
|---|---|---|---|---|
| | March 31, 2018 | | March 31, 2017 | |
| | As Originally Reported | As Restated | As Originally Reported | As Restated |
| | (Dollars in Thousands) | | | |
| Net income (loss) | $ 89 | $ 74 | $ 11 | $ (5) |
| Increase in other assets | $ (203) | $ (182) | $ (192) | $ (168) |
| Decrease in other liabilities | $ (10) | $ (16) | $ (410) | $ (418) |

In addition, Note 4 has been amended to reflect these restatements.

**Note 2: 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 2017 FSB Bancorp, Inc. consolidated financial statements, as presented in the Company's amendment no. 1 to the annual report on Form 10-K/A, should be read in conjunction with these statements.

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 3: 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.

**Note 4: 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 March 31, 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 March 31, 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 for the period ended March 31, 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.

| | Three months ended March 31, | |
|---|---|---|
| ***(In thousands, except per share data)*** | **2018** | **2017** |
| Basic and Diluted Earnings Per Common Share | | |
| Net income (loss) available to common stockholders | $ 74 | $ (5) |
| Weighted average common shares outstanding | 1,907 | 1,905 |
| Earnings per common share – basic and diluted | $ 0.04 | $ 0.00 |

## Note 5: Investment Securities

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

| (In thousands) | March 31, 2018 Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| ***Available-for-Sale Portfolio*** | | | | |
| U.S. Government and agency obligations | $ 10,611 | $ - | $ (207) | $ 10,404 |
| Mortgage-backed securities – residential | 7,507 | 15 | (134) | 7,388 |
| Total available-for-sale | $ 18,118 | $ 15 | $ (341) | $ 17,792 |
| ***Held-to-Maturity Portfolio*** | | | | |
| Mortgage-backed securities – residential | $ 472 | $ 6 | $ - | $ 478 |
| State and municipal securities | 5,932 | 19 | (73) | 5,878 |
| Total held-to-maturity | $ 6,404 | $ 25 | $ (73) | $ 6,356 |

| (In thousands) | December 31, 2017 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 March 31, 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.

| (In thousands) | Available-for-Sale Amortized Cost | Available-for-Sale Fair Value | Held-to-Maturity Amortized Cost | Held-to-Maturity Fair Value |
|---|---|---|---|---|
| Due in one year or less | $ - | $ - | $ 838 | $ 835 |
| Due after one year through five years | 8,606 | 8,423 | 3,299 | 3,274 |
| Due after five years through ten years | 1,005 | 1,004 | 1,795 | 1,769 |
| Due after ten years | 1,000 | 977 | - | - |
| Sub-total | $ 10,611 | $ 10,404 | $ 5,932 | $ 5,878 |
| Mortgage-backed securities – residential | 7,507 | 7,388 | 472 | 478 |
| Totals | $ 18,118 | $ 17,792 | $ 6,404 | $ 6,356 |

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:

| | March 31, 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 | $ 66 | $ 4,438 | 5 | $ 141 | $ 5,966 | 9 | $ 207 | $ 10,404 |
| Mortgage-backed securities - residential | 5 | 42 | 2,894 | 3 | 92 | 3,055 | 8 | 134 | 5,949 |
| Totals | 9 | $ 108 | $ 7,332 | 8 | $ 233 | $ 9,021 | 17 | $ 341 | $ 16,353 |
| ***Held-to-Maturity*** | | | | | | | | | |
| Mortgage-backed securities – residential[(1)] | - | $ - | $ - | 1 | $ - | $ 169 | 1 | $ - | $ 169 |
| State and municipal securities | 16 | 48 | 3,375 | 5 | 25 | 1,322 | 21 | 73 | 4,697 |
| Totals | 16 | $ 48 | $ 3,375 | 6 | $ 25 | $ 1,491 | 22 | $ 73 | $ 4,866 |

| | 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 39 securities in an unrealized loss position at March 31, 2018, of which 14 have been in loss positions for a period greater than twelve months and 25 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 14 securities in loss positions for a period greater than twelve months at March 31, 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 five 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 25 securities in an unrealized loss position at March 31, 2018 for less than twelve months, 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: 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 March 31, 2018 represents OTTI.

There were no realized gains or losses on sales of securities for the three months ended March 31, 2018 and March 31, 2017.

As of March 31, 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 6: Loans**

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

| *(In thousands)* | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Real estate loans: | | |
| Secured by one-to-four family residences | $ 211,265 | $ 206,894 |
| Secured by multi-family residences | 10,499 | 10,650 |
| Construction | 8,401 | 10,750 |
| Commercial real estate | 16,713 | 14,803 |
| Home equity lines of credit | 16,822 | 17,127 |
| Total real estate loans | 263,700 | 260,224 |
| Commercial and industrial loans | 4,142 | 3,679 |
| Other loans | 57 | 70 |
| Total loans | 267,899 | 263,973 |
| Net deferred loan origination fees | (22) | (1) |
| Less allowance for loan losses | (1,336) | (1,261) |
| Loans receivable, net | $ 266,541 | $ 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 March 31, 2018 and December 31, 2017, residential mortgage loans with a carrying value of $194.8 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 $132.1 million and $132.4 million at March 31, 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 $894,000 and $892,000 at March 31, 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 to the Annual Report on Form 10-K/A filed with the SEC 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 March 31, 2018 | | | | |
|---|---|---|---|---|---|
| *(In thousands)* | Pass | Special Mention | Substandard | Doubtful | Total |
| Real estate loans: | | | | | |
| Secured by one-to-four family residences | $ 209,049 | $ 115 | $ 2,101 | $ - | $ 211,265 |
| Secured by multi-family residences | 10,499 | - | - | - | 10,499 |
| Construction | 8,401 | - | - | - | 8,401 |
| Commercial real estate | 15,758 | 955 | - | - | 16,713 |
| Home equity lines of credit | 16,607 | - | 215 | - | 16,822 |
| Total real estate loans | 260,314 | 1,070 | 2,316 | - | 263,700 |
| Commercial & industrial loans | 4,142 | - | - | - | 4,142 |
| Other loans | 57 | - | - | - | 57 |
| Total loans | $ 264,513 | $ 1,070 | $ 2,316 | $ - | $ 267,899 |

| | 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 $862,000, or 29.1%, to $2.1 million at March 31, 2018 from $3.0 million at December 31, 2017 due to the upgrades of five residential mortgage loans now paying as agreed, partially offset by the addition of two residential mortgage loans newly categorized as such during the three months ended March 31, 2018. Commercial real estate loans rated special mention increased $955,000 to $955,000 from the $0 balance at December 31, 2017 due to the addition of two loans newly categorized as such after annual financial statement reviews of these borrowers were performed during the three months ended March 31, 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 March 31, 2018 and December 31, 2017, are detailed in the following tables:

| | As of March 31, 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 | $ 64 | $ - | $ 91 | $ 155 | $ 211,110 | $ 211,265 |
| Secured by multi-family residences | - | - | - | - | 10,499 | 10,499 |
| Construction | - | - | - | - | 8,401 | 8,401 |
| Commercial | - | - | - | - | 16,713 | 16,713 |
| Home equity lines of credit | 157 | - | - | 157 | 16,665 | 16,822 |
| Total real estate loans | 221 | - | 91 | 312 | 263,388 | 263,700 |
| Commercial & industrial loans | - | - | - | - | 4,142 | 4,142 |
| Other loans | - | - | - | - | 57 | 57 |
| Total loans | $ 221 | $ - | $ 91 | $ 312 | $ 267,587 | $ 267,899 |

| | 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 $635,000, or 90.8%, to $64,000 at March 31, 2018 from $699,000 at December 31, 2017 due to the removal of three loans categorized as such during the three months ended March 31, 2018.

At March 31, 2018, the Company had two nonaccrual residential mortgage loans for $91,000. 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 March 31, 2018 and December 31, 2017. At March 31, 2018 and December 31, 2017, there were no loans considered to be impaired and no troubled debt restructurings.

**Note 7: 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 March 31, 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 | (74) | (1) | (12) | 57 | (2) | 6 | 101 | 75 |
| Ending balance | $ 742 | $ 79 | $ 42 | $ 205 | $ 105 | $ 53 | $ 110 | $ 1,336 |

| | For the three months ended March 31, 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 | 77 | 7 | - | 23 | 2 | - | (57) | 52 |
| Ending balance | $ 661 | $ 45 | $ 31 | $ 107 | $ 114 | $ 28 | $ 56 | $ 1,042 |

The other/unallocated component of the allowance for loan losses increased from December 31, 2017 due to improvements in loan classifications from December 31, 2017 to March 31, 2018.

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

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

**Note 8: 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:

| | March 31, 2018 | | | |
|---|---|---|---|---|
| *(In thousands)* | Level 1 | Level 2 | Level 3 | Total Fair Value |
| ***Available-for-sale portfolio*** | | | | |
| U.S. Government and agency obligations | $ - | $ 10,404 | $ - | $ 10,404 |
| Mortgage-backed securities – residential | - | 7,388 | - | 7,388 |
| Total available-for-sale securities | $ - | $ 17,792 | $ - | $ 17,792 |

| | 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 quarter ended March 31, 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:

| | | **March 31, 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 | $ 1,484 | $ 1,484 | $ 1,672 | $ 1,672 |
| Interest earning demand deposits | 1 | 6,220 | 6,220 | 8,725 | 8,725 |
| Securities - available-for-sale | 2 | 17,792 | 17,792 | 18,313 | 18,313 |
| Securities - held-to-maturity | 2 | 6,404 | 6,356 | 6,575 | 6,588 |
| Investment in restricted stock | 2 | 3,274 | 3,274 | 3,270 | 3,270 |
| Loans held for sale | 2 | 2,244 | 2,244 | 2,770 | 2,770 |
| Loans, net | 3 | 266,541 | 261,662 | 262,711 | 261,588 |
| Accrued interest receivable | 1 | 809 | 809 | 824 | 824 |
| | | | | | |
| Financial liabilities: | | | | | |
| Demand Deposits, Savings, NOW and MMDA | 1 | 102,539 | 102,539 | 103,377 | 103,377 |
| Time Deposits | 2 | 114,218 | 114,604 | 113,314 | 113,501 |
| Borrowings | 2 | 64,535 | 64,777 | 64,447 | 64,502 |
| Accrued interest payable | 1 | 133 | 133 | 94 | 94 |

**Note 9: 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.

| *(In thousands)* | For the three months ended March 31, 2018 | |
|---|---|---|
| | Unrealized Gains and Losses on Available-for-Sale Securities | Total |
| Beginning balance | $ (165) | $ (165) |
| Other comprehensive loss | (92) | (92) |
| Ending balance | $ (257) | $ (257) |

| *(In thousands)* | For the three months ended March 31, 2017 | |
|---|---|---|
| | Unrealized Gains and Losses on Available-for-Sale Securities | Total |
| Beginning balance | $ (85) | $ (85) |
| Other comprehensive income | 10 | 10 |
| Ending balance | $ (75) | $ (75) |

**Note 10: Non-Interest Income**

During the three months ended March 31, 2018, the Company adopted the amendments of ASU 2014-09 – Revenue from Contracts with Customers (Topic 606) and all subsequent ASUs that modified Topic 606. The Company has included the following table regarding the Company's non-interest income for the periods presented.

| *(In thousands)* | For the three months ended March 31, 2018 | For the three months ended March 31, 2017 |
|---|---|---|
| **Service fees** | | |
| Deposit related fees | 10 | 19 |
| Insufficient funds fee | 22 | 21 |
| Total service fees | 32 | 40 |
| **Fee income** | | |
| Securities commission income | 17 | 12 |
| Insurance commission income | 22 | 23 |
| Total insurance and securities commission income | 39 | 35 |
| **Card income** | | |
| Debit card interchange fee income | 35 | 31 |
| ATM fees | 7 | 7 |
| Total card income | 42 | 38 |
| **Mortgage fee income and realized gain on sales of loans** | | |
| Residential mortgage loan origination fees | 81 | 83 |
| Commercial loan fees | 8 | 13 |
| Loan servicing income | 85 | 76 |
| Realized gain on sales of residential mortgage loans | 301 | 326 |
| Realized gain on sale of SBA loan | 47 | - |
| Total mortgage fee income and realized gain on sales of loans | 522 | 498 |
| **Bank owned life insurance** | 15 | 15 |
| **Other miscellaneous income** | 18 | 10 |
| **Total non-interest income** | **$ 668** | **$ 636** |

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 11: 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 Bank also 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.

A summary of the Company's stock option activity and related information for its option plans for the three months ended March 31, 2018 and 2017 is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | 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 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 March 31, 2018 and did not record any compensation expense for the three months ended March 31, 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/A to reflect future events or developments.

### Restatement

The Company is filing this amendment to its quarterly report on Form 10-Q for the period ended March 31, 2018 to amend and restate financial statements and certain other financial information filed with the SEC. These amendments restate the Consolidated Financial Statements and the other financial information for the three months ended March 31, 2018 and 2017, and the audited consolidated balance sheet as of December 31, 2017 (the “Restatement Periods”). These amendments are being filed to change the Company’s treatment of mortgage recording tax expense for residential mortgage loans originated in Erie County, New York beginning in the fourth quarter of 2016 through the first quarter of 2018.

Effective for the 2015 tax year, New York state tax law was amended and allowed the Company to become eligible to recapture a portion of the special additional mortgage recording tax paid on mortgages and the Company elected to have the overpayment of tax refunded for the years ended December 31, 2015 through December 31, 2017 and the first quarter ended March 31, 2018 rather than used as a credit carryforward. As part of a review of the Company’s 2015 state tax return by the New York State Department of Taxation and Finance, management became aware that the Company had been 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 of 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.

Upon recommendation of management, the Audit Committee of the Company determined that the effect of reversing the tax credits was necessary for the Restatement Periods. The Company estimates that the cumulative effect of the restatement due to the origination of residential mortgage loans in Erie County beginning in the fourth quarter of 2016 through the first quarter of 2018 is a reduction in income before income taxes of $266,000 and a reduction in income net of income taxes of $178,000.

For additional information on the restatement, see Note 1, Restatement in the Notes to the Consolidated Financial Statements.

## Overview

The following discussion reviews the Company's financial condition at March 31, 2018 and at December 31, 2017 and the results of operations for the three month periods ended March 31, 2018 and 2017. Operating results for the three months ended March 31, 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 borrowing 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 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 three months ended March 31, 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 March 31, 2018 and at December 31, 2017**

***General.*** Following is the restated summarized comparative balance sheet data as of March 31, 2018 and December 31, 2017:

| | March 31, 2018 | December 31, 2017 | Increase (decrease) Dollars | Increase (decrease) Percentage |
|---|---|---|---|---|
| | | (Dollars in Thousands) | | |
| Assets | | | | |
| Other assets | $ 2,884 | $ 2,700 | $ 184 | 6.8% |
| Total assets | $ 314,400 | $ 314,382 | $ 18 | 0.0% |
| | | | | |
| Liabilities and Stockholders' Equity | | | | |
| Other liabilities | $ 1,217 | $ 1,259 | $ (42) | (3.3)% |
| Total liabilities | $ 283,263 | $ 283,326 | $ (63) | 0.0% |
| Retained Earnings | $ 16,151 | $ 16,077 | $ 74 | 0.5% |
| Stockholders' equity | $ 31,137 | $ 31,056 | $ 81 | 0.3% |
| Total liabilities and stockholders' equity | $ 314,400 | $ 314,382 | $ 18 | 0.0% |

***Total Assets.*** Total assets increased $18,000 to $314.4 million at March 31, 2018 primarily due to increases in net loans receivable and other assets, nearly 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 25.9%, to $7.7 million at March 31, 2018 from $10.4 million at December 31, 2017, as it was used to fund loans.

Net loans receivable increased $3.8 million, or 1.5%, to $266.5 million at March 31, 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 $4.4 million, or 2.1%, to $211.3 million at March 31, 2018 from $206.9 million at December 31, 2017. Commercial real estate loans increased $1.9 million, or 12.9%, to $16.7 million at March 31, 2018 from $14.8 million at December 31, 2017. Commercial and industrial loans increased $463,000 or 12.6%, to $4.1 million at March 31, 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 $18.2 million of residential mortgage loans and sold $12.0 million of such loans in the secondary market as a balance sheet management strategy during the first three months of 2018 to reduce interest rate risk. The Bank sold these loans at a gain of $301,000 which was recorded in other income. At March 31, 2018, the Bank was servicing $132.1 million in residential mortgage loans and $760,000 in commercial real estate loans sold to third parties and will realize servicing income on these loans as long as they remain outstanding. At March 31, 2018, the Bank had $2.2 million in loans held for sale, comprised of one- to four-family residential fixed rate conventional, FHA, and VA mortgage loans originated and closed by the Bank in the first quarter of 2018 that have been committed for sale in the secondary market, and will be delivered and sold in the second quarter of 2018. Mortgage servicing rights increased $2,000, or 0.2%, to $894,000 at March 31, 2018 compared to $892,000 at December 31, 2017, and are included in other assets on the consolidated balance sheets.

Other assets increased by $184,000, or 6.8%, to $2.9 million at March 31, 2018 from $2.7 million at December 31, 2017.

Securities available-for-sale decreased by $521,000, or 2.8%, to $17.8 million at March 31, 2018 from $18.3 million at December 31, 2017. The decrease was due to principal repayments of $390,000, a decrease in the fair market value of available-for-sale securities of $118,000 due to the increase in market interest rates, and amortization of $13,000 during the first three months of 2018.

Securities held-to-maturity decreased $171,000, or 2.6%, to $6.4 million at March 31, 2018 from $6.6 million at December 31, 2017 due to principal repayments of $163,000 and amortization of $8,000 during the first three months of 2018.

***Deposits and Borrowings.*** Total deposits increased $66,000 to $216.8 million at March 31, 2018 from $216.7 million at December 31, 2017. Total borrowings from the Federal Home Loan Bank of New York increased $88,000, or 0.1%, to $64.5 million at March 31, 2018 from $64.4 million at December 31, 2017. Long-term borrowings increased $1.6 million, or 3.1%, to $53.0 million at March 31, 2018 from $51.4 million at December 31, 2017 due to $7.0 million in new advances partially offset by $5.4 million in principal repayments on our amortizing advances and maturities. The Company decreased its short-term borrowings by $1.5 million, or 11.5%, to $11.5 million at March 31, 2018 compared to $13.0 million at December 31, 2017 with the intention of further reducing these balances in the second quarter of 2018 due to expected deposit growth from additional promotional specials.

***Stockholders' Equity.*** Stockholders' equity increased $81,000, or 0.3%, to $31.1 million at March 31, 2018. The increase was primarily due to $74,000 in net income, a $76,000 increase in additional paid in capital as a result of stock based compensation, and an increase of $23,000 resulting from the release of ESOP shares from the suspense account, partially offset by an increase of $92,000 in accumulated other comprehensive loss during the three months ended March 31, 2018.

**Comparison of Operating Results for the Three Months Ended March 31, 2018 and 2017**

***General.*** Net income increased $79,000, or 1,580.0%, to $74,000 for the quarter ended March 31, 2018 from a loss of $5,000 for the quarter ended March 31, 2017. The quarter over quarter increase was attributable to increases in net interest income of $257,000 and other income of $32,000, partially offset by increases in other expense of $133,000, provision for income taxes of $54,000, and provision for loan losses of $23,000.

***Interest and Dividend Income.*** Total interest and dividend income increased $510,000, or 20.5%, to $3.0 million for the quarter ended March 31, 2018 from $2.5 million for the quarter ended March 31, 2017. The increase resulted from a $34.9 million increase quarter over quarter in average interest-earning assets, primarily residential mortgage and commercial real estate loans, and a 23 basis point increase in the average yield earned on interest-earning assets from 3.78% for the three months ended March 31, 2017 to 4.01% for the three months ended March 31, 2018.

Interest income on loans increased $472,000, or 20.1%, to $2.8 million for the quarter ended March 31, 2018 from $2.4 million for the quarter ended March 31, 2017, reflecting a $35.1 million increase in the average balance of loans to $269.0 million for the three months ended March 31, 2018 from $233.9 million for the three months ended March 31, 2017, in addition to a 17 basis point increase in the average yield earned on loans for the three months ended March 31, 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 March 31, 2018 as compared to the same period in 2017. The average yield on loans increased to 4.20% for the three months ended March 31, 2018 from 4.03% for the three months ended March 31, 2017, reflecting increases in market interest rates on loan products, primarily commercial mortgages, commercial and industrial, and consumer loans in addition to upward repricing for adjustable rate loans in a rising interest rate environment.

Interest income on taxable investment securities increased $25,000, or 36.2%, to $94,000 for the three months ended March 31, 2018 from $69,000 for the three months ended March 31, 2017. The average balance of taxable investment securities increased $2.3 million, or 21.0%, to $13.5 million for the three months ended March 31, 2018 from $11.1 million for the three months ended March 31, 2017. The average yield on taxable investment securities increased 32 basis points to 2.79% during the quarter ended March 31, 2018 as compared to 2.47% for the quarter ended March 31, 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 $10,000 to $40,000 for the three months ended March 31, 2018, from $30,000 for the three months ended March 31, 2017 reflecting an increase in the average yield on mortgage-backed securities of 72 basis points to 1.92% for the three months ended March 31, 2018 from 1.20% for the three months ended March 31, 2017, partially offset by a decrease in the average balance of mortgage-backed securities of $1.7 million, or 17.3%, to $8.3 million for the three months ended March 31, 2018 from $10.0 million for the three months ended March 31, 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 March 31, 2018 compared to the three months ended March 31, 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 $3,000, to $26,000 for the three months ended March 31, 2018, from $29,000 for the three months ended March 31, 2017. The average balance of state and municipal securities decreased by $736,000, or 11.0%, from $6.7 million for the three months ended March 31, 2017 to $5.9 million for the three months ended March 31, 2018. The average tax equivalent yield on state and municipal securities decreased 45 basis points to 2.19% for the three months ended March 31, 2018 from 2.64% for the three months ended March 31, 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 increased $6,000, or 150.0%, to $10,000 for the three months ended March 31, 2018 from $4,000 for the three months ended March 31, 2017. The average yield on Fed Funds sold increased 71 basis points to 1.33% during the quarter ended March 31, 2018 as compared to 0.62% for the quarter ended March 31, 2017 due to the Federal Reserve's increase of the fed funds rate, partially offset by a decrease in the average balance of Fed Funds sold of $32,000, or 1.0%, to $3.1 million for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017.

***Total Interest Expense.*** Total interest expense increased $253,000, or 42.8%, to $844,000 for the quarter ended March 31, 2018 from $591,000 for the quarter ended March 31, 2017. Total interest expense reflected an increase in interest expense on deposits of $192,000 and an increase in interest expense on borrowings of $61,000 when comparing the quarters ended March 31, 2018 and 2017. The total interest expense reflected an increase in the average cost of interest-bearing liabilities of 24 basis points from 1.01% for the three months ended March 31, 2017 to 1.25% for the three months ended March 31, 2018, in addition to an increase of $35.6 million in average interest-bearing liabilities.

Interest expense on deposits increased $192,000, or 51.8%, to $563,000 for the three months ended March 31, 2018 from $371,000 for the three months ended March 31, 2017. The average cost of deposits increased to 1.09% for the three months ended March 31, 2018 from 0.85% for the three months ended March 31, 2017, primarily reflecting higher average balances on higher rate promotional money market and certificates of deposit accounts offered during the first quarter of 2018. The average balance of deposits increased $32.6 million, or 18.7%, from $174.3 million for the three months ended March 31, 2017 to $206.9 million for the three months ended March 31, 2018 also primarily due to promotional certificates of deposit and money market accounts offered in the first quarter of 2018. The average cost of certificates of deposit (including individual retirement accounts) increased to 1.53% for the three months ended March 31, 2018 from 1.22% for the three months ended March 31, 2017, in addition to an increase in the average balance of these accounts by $25.8 million to $114.7 million for the three months ended March 31, 2018 from $88.9 million for the three months ended March 31, 2017. The average balance of transaction accounts, our core non-time deposit accounts, increased by $6.7 million to $100.0 million for the three months ended March 31, 2018 from $93.3 million for the three months ended March 31, 2017, along with an increase in the average cost of transaction accounts of six basis points to 0.49% for the three months ended March 31, 2018 from 0.43% for the three months ended March 31, 2017 primarily due to promotional money market accounts.

At March 31, 2018, we had $38.4 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 $61,000 from $220,000 for the quarter ended March 31, 2017 to $281,000 for the quarter ended March 31, 2018, due to a $3.0 million increase in our average balance of borrowings with the Federal Home Loan Bank from $59.0 million for the three months ended March 31, 2017 to $62.1 million for the three months ended March 31, 2018 in order to fund loans, along with an increase in the average cost of these funds from 1.49% for the three months ended March 31, 2017 to 1.81% for the three months ended March 31, 2018.

***Net Interest Income.*** Net interest income increased $257,000, or 13.6%, to $2.2 million for the quarter ended March 31, 2018 as compared to $1.9 million for the quarter ended March 31, 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 March 31, 2018 to the same period in 2017. Our net interest rate spread decreased one basis point to 2.76% for the quarter ended March 31, 2018 compared to 2.77% for the quarter ended March 31, 2017. There was an increase in the average cost of our interest-bearing liabilities of 24 basis points from 1.01% for the three months ended March 31, 2017 to 1.25% for the three months ended March 31, 2018, partially offset by a 23 basis point increase in the average yield on our interest-earning assets to 4.01% for the three months ended March 31, 2018 from 3.78% for the three months ended March 31, 2017. Our net interest margin decreased one basis point from 2.89% during the three months ended March 31, 2017 to 2.88% during the three months ended March 31, 2018.

***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 March 31, 2018, compared to a $52,000 provision for loan losses recorded for the quarter ended March 31, 2017. The increase in the three months ended March 31, 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, construction and commercial and industrial loans, as well as a potentially weaker economy when comparing the three months ended March 31, 2018 and March 31, 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 March 31, 2018. The allowance for loan losses was $1.3 million, or 0.50% of net loans outstanding at March 31, 2018 compared to $1.0 million, or 0.44% of net loans outstanding, at March 31, 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 increased by $32,000, or 5.0%, to $668,000 for the three months ended March 31, 2018 compared to $636,000 for the three months ended March 31, 2017. The increase in other income was primarily attributable to an increase in realized gains on sales of loans. Realized gains on sales of loans increased $22,000, or 6.8%, to $348,000 for the three months ended March 31, 2018 from $326,000 for the three months ended March 31, 2017. The increase in realized gains on sales of loans was primarily due to the sale of the guaranteed portion of a Small Business Administration ("SBA") commercial loan which will be serviced by the Bank and upon which servicing income will be realized as long as the loan remains outstanding, partially offset by lower premiums received on government and conventional mortgage loans sold in the first quarter of 2018 compared to the first quarter of 2017.

***Other Expense***. The restated components of other expense for the three months ended March 31, 2018 and March 31, 2017 were as follows:

| | | | Increase (decrease) | |
|---|---|---|---|---|
| | **2018** | **2017** | **Dollars** | **Percentage** |
| | | (Dollars in Thousands) | | |
| Mortgage fees and taxes | $ 52 | $ 48 | $ 4 | 8.3% |
| Total other expense | $ 2,653 | $ 2,520 | $ 133 | 5.3% |

Other expense increased $133,000, or 5.3%, to $2.7 million for the three months ended March 31, 2018 from $2.5 million for the three months ended March 31, 2017. The increase in other expense was primarily attributable to increases in salaries and employee benefits of $103,000, electronic banking of $24,000, and data processing costs of $20,000. Salaries and employee benefits increased $103,000, or 6.8%, to $1.6 million for the three months ended March 31, 2018 from $1.5 million for the three months ended March 31, 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. Electronic banking increased $24,000, or 342.9%, to $31,000 for the three months ended March 31, 2018 from $7,000 for the three months ended March 31, 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. Data processing costs increased $20,000, or 24.7%, to $101,000 for the three months ended March 31, 2018 from $81,000 for the three months ended March 31, 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 (Benefit).*** Income tax expense increased $54,000, or 150.0%, to $18,000 for the three months ended March 31, 2018 from a benefit of $36,000 for the three months ended March 31, 2017. The increase in income tax expense for the three months ended March 31, 2018 as compared to the same period in 2017 was due to higher income before income taxes, partially offset by 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 19.6% for the three months ended March 31, 2018 compared to (87.8)% for the three months ended March 31, 2017.

***Average balances and yields***. The following table sets 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 March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| *(Dollars in thousands)* | Average Balance | Interest | Average Yield / Cost[5] | Average Balance | Interest | Average Yield / Cost[5] |
| **Interest-earning assets:** | | | | | | |
| Loans | $ 268,975 | $ 2,826 | 4.20% | $ 233,901 | $ 2,354 | 4.03% |
| Federal funds sold | 3,088 | 10 | 1.33 | 3,120 | 4 | 0.62 |
| Taxable investment securities | 13,492 | 94 | 2.79 | 11,146 | 69 | 2.47 |
| Mortgage-backed securities | 8,300 | 40 | 1.92 | 10,039 | 30 | 1.20 |
| State and municipal securities[1] | 5,936 | 33 | 2.19 | 6,672 | 44 | 2.64 |
| Total interest-earning assets | $ 299,791 | $ 3,003 | 4.01% | $ 264,878 | $ 2,501 | 3.78% |
| **Noninterest-earning assets:** | | | | | | |
| Other assets | $ 10,857 | | | $ 10,764 | | |
| Total assets | $ 310,648 | | | $ 275,642 | | |
| **Interest-bearing liabilities:** | | | | | | |
| NOW accounts | $ 30,182 | $ 23 | 0.31% | $ 28,256 | $ 20 | 0.28% |
| Passbook savings | 24,790 | 22 | 0.35 | 25,834 | 19 | 0.29 |
| Money market savings | 37,245 | 78 | 0.84 | 31,338 | 61 | 0.78 |
| Individual retirement accounts | 7,040 | 21 | 1.17 | 7,036 | 16 | 0.91 |
| Certificates of deposit | 107,665 | 419 | 1.56 | 81,877 | 255 | 1.25 |
| Federal Home Loan Bank advances | 62,095 | 281 | 1.81 | 59,046 | 220 | 1.49 |
| Total interest-bearing liabilities | $ 269,017 | $ 844 | 1.25% | $ 233,387 | $ 591 | 1.01% |
| **Noninterest-bearing liabilities:** | | | | | | |
| Demand deposits | $ 7,805 | | | $ 7,871 | | |
| Other liabilities | 2,546 | | | 2,506 | | |
| Total liabilities | $ 279,368 | | | $ 243,764 | | |
| Stockholders' equity | $ 31,280 | | | $ 31,878 | | |
| Total liabilities & stockholders' equity | $ 310,648 | | | $ 275,642 | | |
| Net interest income | | $ 2,159 | | | $ 1,910 | |
| Interest rate spread[2] | | | 2.76% | | | 2.77% |
| Net interest-earning assets[3] | $ 30,774 | | | $ 31,491 | | |
| Net interest margin[4] | | 2.88% | | | 2.89% | |
| Ratio of average interest-earning assets to average interest-bearing liabilities | 111.44% | | | 113.49% | | |

(1) Tax-exempt interest income is presented on a tax equivalent basis using a 21% federal tax rate for the quarter ended March 31, 2018 and a 34% federal tax rate for the quarter ended March 31, 2017. The unadjusted average yield on tax-exempt securities was 1.73% and 1.74% for the quarters ended March 31, 2018 and 2017, respectively. The unadjusted interest income on tax-exempt securities was $26,000 and $29,000 for the quarters ended March 31, 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 table presents 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 March 31, 2018 vs. 2017 Increase/(Decrease) Due to | | |
|---|---|---|---|
| *(In thousands)* | Volume | Rate | Total Increase (Decrease) |
| **Interest and dividend income:** | | | |
| Loans | $ 368 | $ 104 | $ 472 |
| Federal funds sold | - | 6 | 6 |
| Taxable investment securities | 15 | 10 | 25 |
| Mortgage-backed securities | (4) | 14 | 10 |
| State and municipal securities[(1)] | (4) | (7) | (11) |
| Total interest and dividend income | 375 | 127 | 502 |
| **Interest expense:** | | | |
| NOW accounts | 1 | 2 | 3 |
| Passbook savings | (1) | 4 | 3 |
| Money market savings | 12 | 5 | 17 |
| Individual retirement accounts | - | 5 | 5 |
| Certificates of deposit | 92 | 72 | 164 |
| Federal home loan bank advances | 12 | 48 | 60 |
| Total interest expense | 116 | 136 | 252 |
| Net change in net interest income | $ 259 | $ (9) | $ 250 |

(1) Tax-exempt interest income is presented on a tax equivalent basis using a 21% federal tax rate for the quarter ended March 31, 2018 and a 34% federal tax rate for the quarter ended March 31, 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)* | March 31, 2018 | December 31, 2017 | March 31, 2017 |
|---|---|---|---|
| **Nonaccrual loans:** | | | |
| Residential mortgage loans | $ 91 | $ 153 | $ 37 |
| Total nonaccrual loans | 91 | 153 | 37 |
| Total nonperforming loans | 91 | 153 | 37 |
| Total nonperforming assets | $ 91 | $ 153 | $ 37 |
| | | | |
| Nonperforming loans to total loans | 0.03% | 0.06% | 0.02% |
| Nonperforming assets to total assets | 0.03% | 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 March 31, 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 March 31, 2018 were $91,000, a decrease of $62,000, or 40.5%, from $153,000 at December 31, 2017. At March 31, 2018, the Company had two non-performing residential mortgage loans for $91,000 and at December 31, 2017, the Company had two non-performing residential mortgage loans for $153,000. At March 31, 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 $1.3 million at March 31, 2018 and December 31, 2017. The Company reported an increase in the ratio of the allowance for loan losses to gross loans to 0.50% at March 31, 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 March 31, 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 March 31, 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 $3.4 million as of March 31, 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 $954,000 in loans rated special mention, partially offset by a decrease of $877,000 in loans rated substandard. The increase in loans classified as special mention was due to two commercial real estate loans which were newly categorized as such during the three months ended March 31, 2018. These loans were not criticized as of December 31, 2017. The decrease in loans classified as substandard was due to the upgrades of five residential mortgage loans now paying as agreed, partially offset by the addition of two residential mortgage loans newly categorized as such during the three months ended March 31, 2018. Based on current information available at March 31, 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 March 31, 2018, our liquidity ratio averaged 30.4%. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of March 31, 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 March 31, 2018, cash and cash equivalents totaled $7.7 million.

At March 31, 2018, we had $16.1 million in loan commitments outstanding. In addition to commitments to originate loans, we had $18.8 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 March 31, 2018 totaled $52.0 million, or 45.5% of our certificates of deposit (including individual retirement accounts) and 24.0% 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 March 31, 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 $88,000, to $64.5 million at March 31, 2018, from $64.4 million at December 31, 2017. At March 31, 2018, we had the ability to borrow approximately $169.5 million from the Federal Home Loan Bank of New York, of which $64.5 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 March 31, 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 March 31, 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 March 31, 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.

Fairport Savings Bank's capital amounts and ratios as of the indicated dates have been amended to reflect the restatements referenced in Note 1 and 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 March 31, 2018 | | | | | | | | |
| Total Core Capital (to Risk-Weighted Assets) | $ 30,317 | 16.23% | ≥$14,923 | ≥8.0% | ≥$18,654 | ≥10.0% | ≥$19,586 | ≥10.5% |
| Tier 1 Capital (to Risk-Weighted Assets) | 28,981 | 15.51 | ≥11,192 | ≥6.0 | ≥14,923 | ≥8.0 | ≥15,856 | ≥8.5 |
| Tier 1 Common Equity (to Risk-Weighted Assets) | 28,981 | 15.51 | ≥8,394 | ≥4.5 | ≥12,125 | ≥6.5 | ≥13,058 | ≥7.0 |
| Tier 1 Capital (to Assets) | 28,981 | 9.40 | ≥12,326 | ≥4.0 | ≥15,407 | ≥5.0 | ≥15,407 | ≥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 March 31, 2018 and December 31, 2017, we had $16.1 million and $12.4 million, respectively, of commitments to grant loans, $3.9 million and $5.9 million, respectively, of unadvanced portions of construction loans, and $18.8 million and $17.5 million, respectively, of unfunded commitments under lines of credit. We had two commercial letters of credit for $414,000 at March 31, 2018 and 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 financial statements in this Amendment No. 1 to this Quarterly Report on Form 10-Q/A and 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. 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 first 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 March 31, 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 first 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) |
|---|---|---|---|---|
| January 1 — January 31, 2018 | - | $ - | - | 27,549 |
| February 1 — February 28, 2018 | - | $ - | - | 27,549 |
| March 1 — March 31, 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 March 31, 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 Amendment No. 1 to the Quarterly Report on Form 10-Q/A 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 Amendment No. 1 to the Quarterly Report on Form 10-Q/A 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 Amendment No. 1 to the Quarterly Report of FSB Bancorp, Inc. (the "Company") on Form 10-Q/A for the period ended March 31, 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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