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

# FORM 10-Q

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

For the quarterly period ended June 30, 2017

Or

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

For the transition period from to

**Commission File No. 000-55652**

# Best Hometown Bancorp, Inc.

(Exact name of registrant as specified in its charter)

| **Maryland**<br>(State or other jurisdiction of incorporation or organization) | **81-1959486**<br>(I.R.S. Employer Identification Number) |
|---|---|
| **100 East Clay Street, Collinsville, Illinois**<br>(Address of Principal Executive Offices) | **62234**<br>Zip Code |

**(618) 345-1121**
(Registrant's telephone number)

**Not Applicable**
(Former name or former address, if changed since last report)

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☒ |
| | | Emerging Growth Company | ☒ |

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 9, 2017, there were 826,208 shares of the Registrant's common stock issued and outstanding.

**BEST HOMETOWN BANCORP, INC.**

Form 10-Q Quarterly Report

Table of Contents


| | | |
|---|---|---|
| | **PART I. FINANCIAL INFORMATION** | |
| ITEM 1. | FINANCIAL STATEMENTS | 2 |
| ITEM 2. | MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION | 28 |
| ITEM 3. | QUANTIATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK | 36 |
| ITEM 4. | CONTROLS AND PROCEDURES | 36 |
| | PART II. OTHER INFORMATION | |
| ITEM 1. | LEGAL PROCEEDINGS | 36 |
| ITEM 1A. | RISK FACTORS | 36 |
| ITEM 2. | UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS | 37 |
| ITEM 3. | DEFAULTS UPON SENIOR SECURITIES | 37 |
| ITEM 4. | MINE SAFETY DISCLOSURES | 37 |
| ITEM 5. | OTHER INFORMATION | 37 |
| ITEM 6. | EXHIBITS | 37 |
| SIGNATURES | | 38 |
| INDEX TO EXHIBITS | | 39 |

**BEST HOMETOWN BANCORP, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
(Amounts in thousands, except share and per share data)
(Unaudited)

ITEM 1. FINANCIAL STATEMENTS

| | June 30, 2017 (Unaudited) | December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 1,336 | $ 1,776 |
| Interest-earning deposits in banks | 3,252 | 3,683 |
| Total cash and cash equivalents | 4,588 | 5,459 |
| Available-for-sale securities | 21,082 | 25,162 |
| Loans | 80,486 | 75,462 |
| Allowance for loan losses | (1,232) | (1,214) |
| Net loans | 79,254 | 74,248 |
| Premises and equipment, net | 3,427 | 3,141 |
| Bank owned life insurance | 3,428 | - |
| Real estate owned, net | 82 | - |
| Accrued interest receivable | | |
| Investment securities | 253 | 244 |
| Loans receivable | 65 | 74 |
| Deferred tax asset | 119 | 138 |
| Restricted equity securities | 405 | 837 |
| Other assets | 94 | 87 |
| Total assets | $ 112,797 | $ 109,390 |
| | | |
| **LIABILITIES** | | |
| Deposits | | |
| Noninterest-bearing | $ 4,841 | $ 4,781 |
| Interest-bearing | 84,319 | 83,690 |
| Total deposits | 89,160 | 88,471 |
| Federal Home Loan Bank ("FHLB") advances | 9,000 | 6,000 |
| Accrued defined benefit pension and postretirement plans | 1,837 | 1,911 |
| Other liabilities | 147 | 209 |
| Total liabilities | 100,144 | 96,591 |
| | | |
| Commitments and contingencies | | |
| Redeemable common stock held by ESOP plan | 62 | 41 |
| | | |
| **SHAREHOLDERS' EQUITY** | | |
| Preferred stock, $0.01 par value, 1,000,000 shares authorized; none issued and outstanding | - | - |
| Common stock, $0.01 par value, 30,000,000 shares authorized, 826,208 shares issued and outstanding | 8 | 8 |
| Additional paid-in capital | 6,843 | 6,839 |
| Retained earnings - substantially restricted | 8,078 | 8,330 |
| Unearned Employee Stock Ownership Plan ("ESOP"), 61,192 and 62,844 shares | (612) | (628) |
| Accumulated other comprehensive loss, net of tax: | | |
| Net unrealized losses on available-for-sale securities | (232) | (269) |
| Net unrealized losses on defined benefit pension plan and postretirement medical plans, net | (1,432) | (1,481) |
| Total accumulated other comprehensive loss, net of tax | (1,664) | (1,750) |
| Less maximum cash obligation related to ESOP shares | (62) | (41) |
| Total shareholders' equity | 12,591 | 12,758 |
| Total liabilities and shareholders' equity | $ 112,797 | $ 109,390 |

See accompanying notes to the condensed consolidated financial statements

**BEST HOMETOWN BANCORP, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
(Amounts in thousands, except share and per share data)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Interest income: | | | | |
| Loans receivable | $ 859 | $ 822 | $ 1,694 | $ 1,654 |
| Investment securities, taxable | 106 | 52 | 207 | 98 |
| Other interest-earning assets | 7 | 11 | 16 | 20 |
| Total interest income | 972 | 885 | 1,917 | 1,772 |
| Interest expense: | | | | |
| Deposits | 266 | 257 | 527 | 495 |
| Advances from FHLB | 51 | 71 | 89 | 142 |
| Total interest expense | 317 | 328 | 616 | 637 |
| Net interest income | 655 | 557 | 1,301 | 1,135 |
| Provision for loan losses | - | - | - | - |
| Net interest income after provision for loan losses | 655 | 557 | 1,301 | 1,134 |
| Noninterest income: | | | | |
| Service charges on deposit accounts | 22 | 16 | 39 | 33 |
| Income on bank owned life insurance | 26 | - | 28 | - |
| Gain (loss) on sales of securities | (19) | - | (19) | - |
| Gain on sale of real estate owned | 1 | - | 1 | - |
| Other | 4 | 7 | 8 | 12 |
| Total noninterest income | 34 | 23 | 57 | 45 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 425 | 328 | 852 | 741 |
| Occupancy and equipment | 116 | 87 | 234 | 174 |
| Data processing | 50 | 52 | 106 | 103 |
| Professional and supervisory fees | 133 | 107 | 225 | 189 |
| Office expense | 10 | 12 | 24 | 23 |
| Advertising | 17 | 17 | 33 | 26 |
| FDIC deposit insurance | 8 | 21 | 15 | 42 |
| Provision for real estate owned and related expenses | 14 | 49 | 15 | 48 |
| Other | 53 | 60 | 106 | 120 |
| Total noninterest expense | 826 | 733 | 1,610 | 1,466 |
| Loss before income taxes | (137) | (153) | (252) | (286) |
| Income tax expense | - | - | - | - |
| Net loss | $ (137) | $ (153) | $ (252) | $ (286) |
| Basic net loss per share | $ (0.18) | NA | $ (0.33) | NA |

See accompanying notes to the condensed consolidated financial statements

**BEST HOMETOWN BANCORP, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
(Amounts in thousands, except share and per share data)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net loss | $ (137) | $ (153) | $ (252) | $ (286) |
| Other comprehensive income: | | | | |
| Unrealized gain on available-for-sale securities : | | | | |
| Unrealized holding gain arising during the period | 18 | $ 9 | 36 | 98 |
| Reclassification adjustment for losses included in net income | 19 | - | 19 | - |
| Tax effect | (12) | (4) | (18) | (34) |
| Net of tax | 25 | 5 | 37 | 64 |
| | | | | |
| Defined benefit pension and post retirement medical plans: | | | | |
| Net gain (loss) arising during the period on plans | - | - | - | - |
| Reclassification adjustment for amortization of prior service cost and net gain/loss included in net periodic pension cost | 24 | 29 | 49 | 56 |
| Tax effect | - | - | - | - |
| Net of tax | 24 | 29 | 49 | 56 |
| Total other comprehensive income | 49 | 34 | 86 | $ 120 |
| Comprehensive loss | $ (88) | $ (119) | $ (166) | $ (166) |

See accompanying notes to the condensed consolidated financial statements

**BEST HOMETOWN BANCORP, INC.**
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
(Amounts in thousands, except share and per share data)
(Unaudited)

| | Common Stock | Additional Paid-In Capital | Retained Earnings | Unearned ESOP Shares | Net Unrealized Losses On Available-for-sale Securities, Net | Net Unrealized Losses On Defined Benefit Pension and Postretirement Medical Plans, Net | Maximum Cash Obligation Related to ESOP Shares | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2015 | $ - | $ - | $ 8,789 | $ - | $ (85) | $ (1,842) | $ - | $ 6,862 |
| Net loss | - | - | (286) | - | - | - | - | (286) |
| Other comprehensive income | - | - | - | - | 64 | 56 | - | 120 |
| Proceeds from issuance of 826,208 shares of common stock | 8 | 6,836 | | (661) | | | | 6,183 |
| Balance at June 30, 2016 | $ 8 | $ 6,836 | $ 8,503 | $ (661) | $ (21) | $ (1,786) | $ - | $ 12,879 |
| | | | | | | | | |
| Balance at December 31, 2016 | $ 8 | 6,839 | 8,330 | (628) | (269) | (1,481) | $ (41) | $ 12,758 |
| Net loss | - | - | (252) | - | - | - | - | (252) |
| Other comprehensive income | - | - | - | - | 37 | 49 | - | 86 |
| ESOP shares earned | - | 4 | - | 16 | - | - | - | 20 |
| Change related to ESOP shares cash obligation | - | - | - | - | - | - | (21) | (21) |
| Balance at June 30, 2017 | $ 8 | $ 6,843 | $ 8,078 | $ (612) | $ (232) | $ (1,432) | $ (62) | $ 12,591 |

See accompanying notes to the condensed consolidated financial statements

**BEST HOMETOWN BANCORP, INC.**
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**
**(Unaudited)**
**(Amounts in thousands, except share and per share data)**

| | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (252) | $ (286) |
| Adjustments to reconcile net loss to net cash provided by (used for) operating activities: | | |
| Depreciation and amortization, net | 368 | 190 |
| Provision for loan losses | - | - |
| Income on bank owned life insurance | (28) | - |
| Gain (loss) on sale of real estate owned | (1) | 26 |
| Loss on sales of securities | 19 | - |
| ESOP compensation expense | 20 | - |
| Net change in operating assets and liabilities: | | |
| Accrued interest receivable | - | (8) |
| Accrued interest payable | (4) | (10) |
| Other | (67) | 203 |
| Net cash provided by operating activities | 55 | 115 |
| | | |
| Cash flows from investing activities: | | |
| Loan originations and repayments, net | (5,141) | 2,214 |
| Purchases of available-for-sale securities | (1,816) | (9,407) |
| Proceeeds from maturities, paydowns and calls of available-for-sale securities | 2,710 | 1,947 |
| Proceeds from sales of available-for-sale securities | 2,998 | - |
| Purchase of bank owned life insurance | (3,400) | - |
| Redemptions of FHLB stock, net | 432 | - |
| Purchases of premises and equipment | (430) | (157) |
| Proceeds from sale of foreclosed real estate | 32 | 311 |
| Net cash used in investing activities | (4,615) | (5,092) |
| | | |
| Cash flows from financing activities: | | |
| Net change in deposits | 689 | 5,673 |
| Borrowings of FHLB advances | 3,000 | - |
| Repayments of FHLB advances | - | (3,000) |
| Proceeds from issuance of common stock | - | 6,183 |
| Net cash provided by financing activities | 3,689 | 8,856 |
| Change in cash and cash equivalents | (871) | 3,879 |
| Cash and cash equivalents at beginning of period | 5,459 | 9,100 |
| Cash and cash equivalents at end of period | $ 4,588 | $ 12,979 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest on deposits | $ 527 | $ 494 |
| Interest on advances from FHLB | 92 | 153 |
| | | |
| Real estate acquired in settlement of loans | $ 113 | $ 122 |

See accompanying notes to the condensed consolidated financial statements

**BEST HOMETOWN BANCORP, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**(Amounts in thousands, except share and per share data)**

## (1) BASIS OF PRESENTATION

### General

On June 29, 2016, Best Hometown Bank (the "Bank") (formerly known as Home Federal Savings and Loan Association of Collinsville) completed its conversion (the "Conversion") from a federally-chartered mutual savings association to the capital stock form of organization, including the establishment of a stock holding company, Best Hometown Bancorp, Inc. (referred to herein as "the Company," "we," "us," or "our"), as parent of the Bank. The stock holding company is organized under the laws of the State of Maryland and owns all of the outstanding common stock of the Bank. In connection with the Conversion, the Company sold 826,208 shares of its common stock, including 66,096 shares (8% of shares sold) that were purchased by the Bank's employee stock ownership plan ("ESOP"), at a price of $10.00 per share, for gross offering proceeds of $8.3 million. The cost of the conversion and issuance of common stock was $1.4 million, which was deducted from the gross offering proceeds. The Company contributed $5.0 million of the net proceeds from the offering by the Company to the Bank, and $1.2 million was retained by the Company. In addition, $661,000 of the net proceeds were used to fund a loan to the ESOP, with which the ESOP purchased Company shares.

Voting rights are held and exercised exclusively by the shareholders of the holding company. Deposit account holders continue to be insured by the FDIC up to the applicable limits. A liquidation account was established in an amount equal to the Bank's total equity as of the latest balance sheet date in the final offering circular used in the conversion. Each eligible account holder or supplemental account holder are entitled to a proportionate share of this account in the event of a complete liquidation of the Bank, and only in such event. This share will be reduced if the eligible account holder's or supplemental account holder's deposit balance falls below the amounts on the date of record and will cease to exist if the account is closed. The liquidation account will never be increased despite any increase after conversion in the related deposit balance.

The Bank may not pay a dividend on its capital stock, if the effect thereof would cause retained earnings to be reduced below the liquidation account amount or regulatory capital requirements. In addition, the stock holding company is subject to certain regulations related to the repurchase of its capital stock.

The Conversion was accounted for as a change in corporate form with the historic basis of the Bank's assets, liabilities and equity unchanged as a result.

The accompanying unaudited consolidated financial statements of Best Hometown Bancorp, Inc.., which include the accounts of its wholly owned subsidiary Best Hometown Bank have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Intercompany accounts and transactions are eliminated during consolidation.

In the opinion of management, all adjustments (consisting only of normal recurring adjustments) which are necessary for a fair presentation of the unaudited condensed consolidated financial statements have been included to present fairly the financial position as of June 30, 2017 and December 31, 2016 and the results of operations and cash flows for the three and six months ended June 30, 2017 and 2016. All interim amounts have not been audited and the results of operations for the three and six months ended June 30, 2017, herein are not necessarily indicative of the results of operations to be expected for the entire year.

Some items in the statement of operations for the three and six months ended June 30, 2016 were reclassified to conform to the current presentation and had no effect on net income or shareholders' equity.

Cash and cash equivalents include cash on hand, federal funds sold, overnight interest-bearing deposits and amounts due from other depository institutions.

**BEST HOMETOWN BANCORP, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**(Amounts in thousands, except share and per share data)**

**Use of Estimates**

The preparation of condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of foreclosed real estate, fair values of financial instruments, measurement of defined benefit pension and postretirement medical plans and valuation of deferred tax assets.

**Contingencies**

The Company is involved in certain legal actions arising from normal business activities. Management believes that the outcome of such proceedings will not have any material adverse effect on the financial statements of the Company.

**(2) NEW ACCOUNTING STANDARDS**

In March 2017, the FASB issued ASU 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20). The update changes the amortization period of associated premiums with the purchase of callable debt securities from amortization over the life of the security to the earliest call date of the security. The standard takes effect for fiscal years and interim periods within those fiscal years, beginning after Dec. 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company intends to early adopt this standard. There have been no changes to our investment portfolio since the three months ended March 31, 2017. Accordingly, the adoption of this standard will not have an effect on the Company's consolidated financial statements as the company does not own any callable debt securities.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. The portion of ASU 2016-01 that is likely to have an effect on our financial statements and disclosures relates a clarification of accounting standards with respect to deferred tax assets arising from unrealized losses on available-for-sale securities. This ASU 2016-01 requires an entity to evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We have not completed our evaluation of the effects on our financial statements of ASU 2016-01 and disclosures at this time.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments — Credit Losses (Topic 326) — Measurement of Credit Losses on Financial Instruments. The provisions of ASU 2016-13 were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in ASU 2016-13 eliminate the probable incurred loss recognition in current GAAP and reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the financial assets.

For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination ("PCD assets") that are measured at amortized cost, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Subsequent changes in the allowance for credit losses on PCD assets are recognized through the statement of income as a credit loss expense.

Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security.

ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company continued its preparation for the implementation for this standard during the three months ended June 30, 2017. We have not completed our evaluation of its effects on our financial statements and disclosures at this time.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

**BEST HOMETOWN BANCORP, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**(Amounts in thousands, except share and per share data)**

**(3) EARNINGS (LOSS) PER SHARE**

Basic EPS or loss per common share is determined by dividing net earnings or loss available to common shareholders by the weighted average number of common shares outstanding for the period. ESOP shares are considered outstanding for this calculation unless unearned. The factors used in the earnings per common share computation follow:

| | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2017 |
|---|---|---|
| Loss per share | | |
| Net loss | $ (137) | $ (252) |
| Weighted average common shares outstanding | 826,208 | 826,208 |
| Less: average unearned ESOP shares | (61,466) | (62,017) |
| Weighted average common shares outstanding | 764,742 | 764,191 |
| Basic loss per share | $ (0.18) | $ (0.33) |

Given a net loss for the three and six months ended June 30, 2017, only basic loss per share is applicable.

Based on the accounting method used for the recording of the common stock transaction, including the funding of Best Hometown Bancorp, Inc., on June 29, 2016, together with the methods and computations for calculating the weighted-average number of related outstanding shares and loss per share for the three and six months ended June 30, 2016, the computation of loss per share would not provide meaningful information to readers of the accompanying condensed consolidated financial statements. Therefore, such presentation is not included for such periods.

**BEST HOMETOWN BANCORP, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**(Amounts in thousands, except share and per share data)**

**(4) SECURITIES AVAILABLE FOR SALE**

Debt and mortgage-backed securities have been classified in the condensed consolidated balance sheets according to management's intent. U.S. Government agency mortgage-backed securities consist of securities issued by U.S. Government agencies and U.S. Government sponsored enterprises. Investment securities at June 30, 2017 and December 31, 2016 are as follows:

| June 30, 2017 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Debt securities: | | | | |
| U.S. Government agency SBAP security | $ 925 | $ - | $ (25) | $ 900 |
| U.S. Government agency mortgage-backed securities - residential | 20,508 | - | (326) | 20,182 |
| | $ 21,433 | $ - | $ (351) | $ 21,082 |

| December 31, 2016 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Debt securities: | | | | |
| U.S. Government agency bonds | $ 1,005 | $ - | $ (29) | $ 976 |
| U.S. Government agency mortgage-backed securities - residential | 24,563 | 4 | (381) | 24,186 |
| Total | $ 25,568 | $ 4 | $ (410) | $ 25,162 |

As of June 30, 2017 and December 31, 2016, investment securities with a carrying value of $0 were pledged for public deposits.

**BEST HOMETOWN BANCORP, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**(Amounts in thousands, except share and per share data)**

The following tables show the fair value and unrealized loss of securities that have been in unrealized loss positions for less than twelve months and for more than twelve months at June 30, 2017 and December 31, 2016. The tables also show the number of securities in an unrealized loss position for each category of investment security as of the respective dates.

Because the actual cash flows for the SBAP security and mortgage-backed securities may differ from their contractual maturities, a maturity table is not shown.

| | Less than 12 Months | | | 12 Months or Longer | | |
|---|---|---|---|---|---|---|
| **June 30, 2017** | **Fair Value** | **Unrealized Loss** | **Number in Unrealized Loss (1)** | **Fair Value** | **Unrealized Loss** | **Number in Unrealized Loss (1)** |
| U.S. Government agency SBAP security | $ 900 | $ (25) | 1 | $ - | $ - | 0 |
| U.S. Government agency mortgage-backed securities - residential | 15,965 | (266) | 23 | 3,753 | (60) | 8 |
| | $ 16,865 | $ (291) | 24 | $ 3,753 | $ (60) | 8 |

| | Total | | |
|---|---|---|---|
| **June 30, 2017** | **Fair Value** | **Unrealized Loss** | **Number in Unrealized Loss (1)** |
| U.S. Government agency SBAP security | $ 900 | $ (25) | 1 |
| U.S. Government agency mortgage-backed securities - residential | 19,718 | (326) | 31 |
| Total | $ 20,618 | $ (351) | 32 |

| | Less than 12 Months | | | 12 Months or Longer | | |
|---|---|---|---|---|---|---|
| **December 31, 2016** | **Fair Value** | **Unrealized loss** | **Number in Unrealized Loss (1)** | **Market Value** | **Unrealized loss** | **Number in Unrealized Loss (1)** |
| U.S. Government agency bonds | $ 976 | $ (29) | 1 | $ - | $ - | 0 |
| U.S. Government agency mortgage-backed securities - residential | 19,341 | (320) | 26 | 3,500 | (61) | 8 |
| Total | $ 20,317 | $ (349) | 27 | $ 3,500 | $ (61) | 8 |

| | Total | | |
|---|---|---|---|
| **December 31, 2016** | **Fair Value** | **Unrealized Loss** | **Number in Unrealized Loss (1)** |
| U.S. Government agency bonds | $ 976 | $ (29) | 1 |
| U.S. Government agency mortgage-backed securities - residential | 22,841 | (381) | 34 |
| Total | $ 23,817 | $ (410) | 35 |

(1) Represents actual number of securities in an unrealized loss position.

**BEST HOMETOWN BANCORP, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**(Amounts in thousands, except share and per share data)**

The Company evaluates securities for other-than-temporary impairments ("OTTI") at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company considers the length of time and the extent to which the fair value has been less than cost and the financial condition and near-term prospects of the issuer. Additionally, the Company considers its intent to sell or whether it will be more likely than not it will be required to sell the security prior to the security's anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by Federal Government agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Total fair value securities with unrealized losses at June 30, 2017 and December 31, 2016, was $20,618 and $23,817, which was approximately 98% at both June 30, 2017 and December 31, 2016, of the Company's available-for-sale securities. None of the unrealized losses at June 30, 2017 were recognized into net income for the three and six months ended June 30, 2017 because the issuers' bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value of these securities is expected to recover as they approach their maturity date or reset date. None of the unrealized losses at December 31, 2016 were recognized as having OTTI during the three and six months ended June 30, 2017.

Sales of available-for-sale securities for the three and six months ended June 30, 2017 and 2016 are listed in the tables below:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| **Available-for-sale:** | **June 30, 2017** | **June 30, 2016** | **June 30, 2017** | **June 30, 2016** |
| Proceeds | $ 2,998 | $ - | $ 2,998 | $ - |
| Gross gains | - | - | - | - |
| Gross losses | (19) | - | (19) | - |

**(5) LOANS**

The components of loans at June 30, 2017 and December 31, 2016 were as follows:

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Real estate loans: | | |
| One-to four-family, owner occupied | $ 46,761 | $ 47,971 |
| One-to four-family, non-owner occupied | 5,290 | 5,251 |
| Commercial and multi-family | 22,316 | 17,785 |
| Construction and land | 3,131 | 2,676 |
| Commercial business loans | 1,712 | 921 |
| Consumer loans | 1,297 | 901 |
| | 80,507 | 75,505 |
| Net deferred loan fees | (21) | (43) |
| Total | $ 80,486 | $ 75,462 |

**BEST HOMETOWN BANCORP, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**(Amounts in thousands, except share and per share data)**

The following tables present the activity in the allowance for loan losses for the three six months ended June 30, 2017 and 2016 by portfolio segment:

| | Beginning Balance | Provision | Charge-offs | Recoveries | Ending Balance |
|---|---|---|---|---|---|
| **Three Months Ended June 30, 2017** | | | | | |
| Real estate loans: | | | | | |
| One-to-four family, owner occupied | $ 647 | $ (60) | $ (6) | $ 37 | $ 618 |
| One-to-four family, non-owner occupied | 109 | (3) | - | 2 | 108 |
| Commercial and multi-family | 317 | 72 | - | - | 389 |
| Construction and land | 44 | (8) | - | 7 | 43 |
| Commercial business loans | 41 | (7) | - | - | 34 |
| Consumer loans | 34 | 6 | - | - | 40 |
| Unallocated | - | - | - | - | - |
| | $ 1,192 | $ - | $ (6) | $ 46 | $ 1,232 |

| | Beginning Balance | Provision | Charge-offs | Recoveries | Ending Balance |
|---|---|---|---|---|---|
| **Three Months Ended June 30, 2016** | | | | | |
| Real estate loans: | | | | | |
| One-to-four family, owner occupied | $ 753 | $ 19 | $ (30) | $ 1 | $ 743 |
| One-to-four family, non-owner occupied | 74 | (2) | - | 1 | 73 |
| Commercial and multi-family | 263 | 13 | - | - | 276 |
| Construction and land | 43 | (5) | - | - | 38 |
| Commercial business loans | 17 | 1 | - | - | 18 |
| Consumer loans | 18 | 3 | - | - | 21 |
| Unallocated | 84 | (29) | - | - | 55 |
| | $ 1,252 | $ - | $ (30) | $ 2 | $ 1,224 |

**BEST HOMETOWN BANCORP, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**(Amounts in thousands, except share and per share data)**

| | Beginning Balance | Provision | Charge-offs | Recoveries | Ending Balance |
|---|---|---|---|---|---|
| **Six Months Ended June 30, 2017** | | | | | |
| Real estate loans: | | | | | |
| One-to-four family, owner occupied | $ 657 | $ (48) | $ (34) | $ 43 | $ 618 |
| One-to-four family, non-owner occupied | 113 | (8) | - | 3 | 108 |
| Commercial and multi-family | 309 | 80 | - | - | 389 |
| Construction and land | 42 | (5) | - | 6 | 43 |
| Commercial business loans | 18 | 16 | - | - | 34 |
| Consumer loans | 26 | 14 | - | - | 40 |
| Unallocated | 49 | (49) | - | - | - |
| | $ 1,214 | $ - | $ (34) | $ 52 | $ 1,232 |

| | Beginning Balance | Provision | Charge-offs | Recoveries | Ending Balance |
|---|---|---|---|---|---|
| **Six Months Ended June 30, 2016** | | | | | |
| Real estate loans: | | | | | |
| One-to-four family, owner occupied | $ 771 | $ (1) | $ (30) | $ 3 | $ 743 |
| One-to-four family, non-owner occupied | 82 | (11) | - | 2 | 73 |
| Commercial and multi-family | 260 | 16 | - | - | 276 |
| Construction and land | 47 | (9) | - | - | 38 |
| Commercial business loans | 14 | 4 | - | - | 18 |
| Consumer loans | 19 | 2 | - | - | 21 |
| Unallocated | 56 | (1) | - | - | 55 |
| | $ 1,249 | $ - | $ (30) | $ 5 | $ 1,224 |

**BEST HOMETOWN BANCORP, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**(Amounts in thousands, except share and per share data)**

The following tables present the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at June 30, 2017 and December 31, 2016:

| | Ending Allowance on Loans | | | Loans | | |
|---|---|---|---|---|---|---|
| | Individually Evaluated for Impairment | Collectively Evaluated for Impairment | Total | Individually Evaluated for Impairment | Collectively Evaluated for Impairment | Total |
| **June 30, 2017** | | | | | | |
| Real estate loans: | | | | | | |
| One-to four-family, owner occupied | $ - | $ 618 | $ 618 | $ 645 | $ 46,116 | $ 46,761 |
| One-to four-family, non-owner occupied | - | 108 | 108 | 79 | 5,211 | 5,290 |
| Commercial and multi-family | - | 389 | 389 | - | 22,316 | 22,316 |
| Construction and land | - | 43 | 43 | 13 | 3,118 | 3,131 |
| Commercial business loans | - | 34 | 34 | - | 1,712 | 1,712 |
| Consumer loans | - | 40 | 40 | - | 1,297 | 1,297 |
| Unallocated | - | - | - | - | - | - |
| | $ - | $ 1,232 | $ 1,232 | $ 737 | $ 79,770 | $ 80,507 |

| | Ending Allowance on Loans | | | Loans | | |
|---|---|---|---|---|---|---|
| | Individually Evaluated for Impairment | Collectively Evaluated for Impairment | Total | Individually Evaluated Impairment | Collectively Evaluated Impairment | Total |
| **December 31, 2016** | | | | | | |
| Real estate loans: | | | | | | |
| One-to four-family, owner occupied | $ 9 | $ 648 | $ 657 | $ 700 | $ 47,271 | $ 47,971 |
| One-to four-family, non-owner occupied | - | 113 | 113 | 110 | 5,141 | 5,251 |
| Commercial and multi-family | - | 309 | 309 | 69 | 17,716 | 17,785 |
| Construction and land | - | 42 | 42 | 16 | 2,660 | 2,676 |
| Commercial business loans | - | 18 | 18 | - | 921 | 921 |
| Consumer loans | - | 26 | 26 | - | 901 | 901 |
| Unallocated | - | 49 | 49 | - | - | - |
| | $ 9 | $ 1,205 | $ 1,214 | $ 895 | $ 74,610 | $ 75,505 |

The Company, at times, will maintain an unallocated allowance for loan losses due to uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance for loan losses is maintained to cover probable and incurred credit losses inherent in the loan portfolio but not captured in the general component, such as historical loss experience data that may not precisely correspond to individual loan portfolio segments and to uncertainties in economic conditions.

**BEST HOMETOWN BANCORP, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**(Amounts in thousands, except share and per share data)**

The tables below present loans that were individually evaluated for impairment by portfolio segment at June 30, 2017 and December 31, 2016.

| | June 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Unpaid Principal Balance | Recorded Investment | Related Allowance | Unpaid Principal Balance | Recorded Investment | Related Allowance |
| **With no recorded allowance:** | | | | | | |
| Real estate loans: | | | | | | |
| One-to four-family, owner occupied | $ 810 | $ 645 | $ - | $ 915 | $ 661 | $ - |
| One-to four-family, non-owner occupied | 102 | 79 | - | 134 | 110 | - |
| Commercial and multi-family | - | - | - | 69 | 69 | - |
| Construction and land | 13 | 13 | - | 16 | 16 | - |
| Commercial business loans | - | - | - | - | - | - |
| Consumer loans | - | - | - | - | - | - |
| Total | $ 925 | $ 737 | $ - | $ 1,134 | $ 856 | $ - |
| **With recorded allowance:** | | | | | | |
| Real estate loans: | | | | | | |
| One-to four-family, owner occupied | $ - | $ - | $ - | $ 39 | $ 39 | $ 9 |
| One-to four-family, non-owner occupied | - | - | - | - | - | - |
| Commercial and multi-family | - | - | - | - | - | - |
| Construction and land | - | - | - | - | - | - |
| Commercial business loans | - | - | - | - | - | - |
| Consumer loans | - | - | - | - | - | - |
| Total | $ - | $ - | $ - | $ 39 | $ 39 | $ 9 |
| **Totals:** | | | | | | |
| Real estate loans | $ 925 | $ 737 | $ - | $ 1,173 | $ 895 | $ 9 |
| Commercial loans | - | - | - | - | - | - |
| Consumer and other loans | - | - | - | - | - | - |
| Total | $ 925 | $ 737 | $ - | $ 1,173 | $ 895 | $ 9 |

**BEST HOMETOWN BANCORP, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**(Amounts in thousands, except share and per share data)**

The tables below present the average recorded investment of loans individually evaluated for impairment and the amount of interest earned on those loans for the three and six months ended June 30, 2017 and 2016:

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2017 | | June 30, 2016 | | June 30, 2017 | | June 30, 2016 | |
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| **With no recorded allowance:** | | | | | | | | |
| Real estate loans: | | | | | | | | |
| One-to four-family, owner occupied | $ 647 | $ 11 | $ 1,745 | $ 29 | $ 650 | $ 21 | $ 1,692 | $ 56 |
| One-to four-family, non-owner occupied | 79 | - | 82 | - | 79 | 3 | 82 | - |
| Commercial and multi-family | - | - | - | - | - | - | - | - |
| Construction and land | 14 | - | - | - | 14 | - | - | - |
| Commercial business loans | - | - | - | - | - | - | - | - |
| Consumer loans | - | - | - | - | - | - | - | - |
| Total | $ 740 | $ 11 | $ 1,827 | $ 29 | $ 743 | $ 24 | $ 1,774 | $ 56 |
| **With recorded allowance:** | | | | | | | | |
| Real estate loans: | | | | | | | | |
| One-to four-family, owner occupied | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| One-to four-family, non-owner occupied | - | - | - | - | - | - | - | - |
| Commercial and multi-family | - | - | - | - | - | - | - | - |
| Construction and land | - | - | - | - | - | - | - | - |
| Commercial business loans | - | - | - | - | - | - | - | - |
| Consumer loans | - | - | - | - | - | - | - | - |
| Total | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| **Totals:** | | | | | | | | |
| Real estate loans | $ 740 | $ 11 | $ 1,827 | $ 29 | $ 743 | $ 24 | $ 1,774 | $ 56 |
| Commercial business loans | - | - | - | - | - | - | - | - |
| Consumer and other loans | - | - | - | - | - | - | - | - |
| Total | $ 740 | $ 11 | $ 1,827 | $ 29 | $ 743 | $ 24 | $ 1,774 | $ 56 |

Generally, impaired loans with identified losses have been reduced by partial charge-offs and are carried at their estimated net realizable value. The Company believes no further allowance for loan losses were necessary at June 30, 2017 and December 31, 2016.

There were no loans modified as troubled debt restructurings during the six months ended June 30, 2017 and 2016 or commitments to lend additional funds to borrowers with loans whose terms have been modified as a troubled debt restructure.

At June 30, 2017 and December 31, 2016, there were no residential real estate loans in the process of foreclosure.

**BEST HOMETOWN BANCORP, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**(Amounts in thousands, except share and per share data)**

The following tables present the aging of past due loans as well as nonaccrual loans at June 30, 2017 and December 31, 2016. Nonaccrual loans and accruing loans past due 90 days or more include both smaller balance homogenous loans and larger balance loans that are evaluated either collectively or individually for impairment.

| June 30, 2017 | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Current | Total | Nonaccrual Loans | Accruing Loans Past Due 90 Days or More |
|---|---|---|---|---|---|---|---|
| Real estate loans: | | | | | | | |
| One-to four-family, owner occupied | $ 248 | $ 95 | $ - | $ 46,418 | $ 46,761 | $ - | $ - |
| One-to four-family, non-owner occupied | - | - | - | 5,290 | 5,290 | - | - |
| Commercial and multi-family | 437 | - | - | 21,879 | 22,316 | - | - |
| Construction and land | - | - | - | 3,131 | 3,131 | 13 | - |
| Commercial business loans | 60 | - | - | 1,652 | 1,712 | - | - |
| Consumer loans | - | - | - | 1,297 | 1,297 | - | - |
| | $ 745 | $ 95 | $ - | $ 79,667 | $ 80,507 | $ 13 | $ - |

| December 31, 2016 | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Current | Total | Nonaccrual Loans | Accruing Loans Past Due 90 Days or More |
|---|---|---|---|---|---|---|---|
| Real estate loans: | | | | | | | |
| One-to four-family, owner occupied | $ 505 | $ 40 | $ 39 | $ 47,387 | $ 47,971 | $ 39 | $ - |
| One-to four-family, non-owner occupied | 12 | 43 | - | 5,196 | 5,251 | 30 | - |
| Commercial and multi-family | - | 69 | - | 17,716 | 17,785 | 69 | - |
| Construction and land | - | - | - | 2,676 | 2,676 | 16 | - |
| Commercial business loans | - | - | - | 921 | 921 | - | - |
| Consumer loans | 3 | - | - | 898 | 901 | - | - |
| | $ 520 | $ 152 | $ 39 | $ 74,794 | $ 75,505 | $ 154 | $ - |

**Loan Grades:**

**Loan Grades:**

The Company utilizes a grading system whereby all loans are assigned a grade based on the risk profile of each loan. Loan grades are determined based on an evaluation of relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. All loans, regardless of size, are analyzed and are given a grade based upon the management's assessment of the ability of borrowers to service their debts.

**Pass:** Loan assets of this grade conform to a preponderance of our underwriting criteria and are acceptable as a credit risk, based upon the current net worth and paying capacity of the obligor. Loans in this category also include loans secured by liquid assets and secured loans to borrowers with unblemished credit histories.

**Pass-Watch:** Loan assets of this grade represent our minimum level of acceptable credit risk. This grade may also represent obligations previously rated "Pass", but with significantly deteriorating trends or previously rated.

**Special Mention:** Loan assets of this grade have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects for the loan or of the institution's credit position at some future date.

**BEST HOMETOWN BANCORP, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**(Amounts in thousands, except share and per share data)**

**Substandard:** Loan assets of this grade are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful:** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

**Loss:** Loans classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

**Loan Portfolio Segments:**

The Company groups loans of similar type that share common risk characteristics. We segment our loan portfolio along with assigning individual risk grades to each loan as part of our methodology for determining our allowance for loan losses. Those portfolio segments and significant risk characteristics are as follows:

**One-to four-family, owner occupied:** One-to four-family, owner occupied loans consist primarily of loans secured by first or second mortgages on primary residences, and are originated as primarily as fixed-rate loans for the construction, purchase or refinancing of a mortgage. These loans are collateralized by owner-occupied properties located in the Company’s market area. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties.

The Company currently originates residential mortgage loans for our portfolio with loan-to-value ratios of up to 80% for traditional owner-occupied homes. For traditional homes, the Company may originate loans with loan-to-value ratios in excess of 80% if the borrower provides additional readily marketable collateral.

**One-to four-family, non-owner occupied:** One-to four-family, non-owner occupied loans are similar to owner occupied one-to four-family loans in terms of collateral, but they carry greater inherent risks than owner occupied loans, since the repayment ability of the borrower is generally reliant on the success of the income generated from the property. The Company currently originates one-to four-family, non-owner occupied mortgage loans for our portfolio with loan-to-value ratios of up to 80% for traditional owner-occupied homes.

**Commercial and multi-family:** Commercial real estate loans are secured primarily by office buildings, churches and various income producing properties. Multifamily real estate loans are secured by generally apartment complexes. Commercial and multifamily real estate loans are underwritten based on the economic viability of the property and creditworthiness of the borrower, with emphasis given to projected cash flow as a percentage of debt service requirements. These loans carry increased risks as they involve larger balances concentrated with single borrowers or groups of related borrowers. Repayment of loans secured by income producing properties depends on the successful operation of the real estate and the economy. The Company generally obtains personal guarantees on these loans.

The Company currently originates commercial and multi-family loans in amounts of up to 80% of the lesser of the appraised value or the purchase price of the property with an appropriate projected debt service coverage ratio.

**Construction and Land:** The Company makes construction loans to individuals for the construction of their primary residences and to commercial businesses for their real estate needs. These loans generally have maximum terms of nine months, and upon completion of construction convert to conventional amortizing mortgage loans. Residential construction loans have rates and terms comparable to one-to-four family residential mortgage loans that the Company originates. Commercial construction loans have rates and terms comparable to other commercial real estate loans that we originate. During the construction phase, the borrower generally pays interest only. Generally, the maximum loan-to-value ratio of our owner-occupied construction loans is 80%. Residential construction loans are generally underwritten pursuant to the same guidelines used for originating permanent

residential mortgage loans. Commercial construction loans are generally underwritten pursuant to the same guidelines used for originating other commercial real estate loans.

The Company also makes interim construction loans for nonresidential properties. In addition, the Company occasionally makes loans for the construction of homes "on speculation," but the Company generally permits a borrower to have only two such loans at a time. These loans generally have a maximum term of nine months, and upon completion of construction, borrowers can convert to conventional amortizing nonresidential real estate loans. These construction loans have rates and terms comparable to permanent loans secured by property of the type being constructed that we originate. Generally, the maximum loan-to-value ratio of these construction loans is 85%.

**Commercial business loans:** Commercial, non-real estate, loans are offered to businesses and professionals in the Company's market area. These loans generally have short and medium terms on a collateralized basis. The structure of these loans are largely determined by the loan purpose and collateral. Sources of collateral can include a lien on equipment, inventory, receivables and other assets of the company. A UCC-1 is typically filed to perfect our lien on these assets.

Commercial loans typically are underwritten on the basis of the borrower's ability to make repayment from the cash flow of its business and generally are collateralized by business assets. As a result, such loans and leases involve additional complexities, variables and risks and require more thorough underwriting and servicing than other types of loans and leases. Repayment of commercial loans largely depends on the successful operation of the business for which and operating loan is utilized.

**Consumer loans:** The Company offers installment loans for various consumer purposes, including the purchase of automobiles, boats, and for other legitimate personal purposes. The maximum terms of consumer loans is 12 months for unsecured loans and 12 to 60 months for loans secured by a vehicle, depending on the age of the vehicle. The Company generally only extends consumer loans to existing customers or their immediate family members, and these loans generally have relatively low balances. We also originate floating rate home equity lines of credit and home improvement loans secured by second mortgages.

Consumer loans may entail greater credit risk than a typical residential mortgage loan, particularly in the case of consumer loans that are unsecured or are secured by rapidly depreciable assets, such as automobiles. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

The following tables present total loans by risk grade and portfolio segment at June 30, 2017 and December 31, 2016:

| | Pass | Watch | Special Mention | Substandard | Doubtful | Loss | Total |
|---|---|---|---|---|---|---|---|
| **June 30, 2017** | | | | | | | |
| Real estate loans: | | | | | | | |
| One-to four-family, owner occupied | $ 44,626 | $ 726 | $ 149 | $ 1,260 | $ - | $ - | $ 46,761 |
| One-to four-family, non-owner occupied | 5,211 | - | - | 79 | - | - | 5,290 |
| Commercial and multi-family | 22,316 | - | - | - | - | - | 22,316 |
| Construction and land | 2,944 | 174 | - | 13 | - | - | 3,131 |
| Commercial business loans | 1,493 | - | 219 | - | - | - | 1,712 |
| Consumer loans | 1,297 | - | - | - | - | - | 1,297 |
| | $ 77,887 | $ 900 | $ 368 | $ 1,352 | $ - | $ - | $ 80,507 |

| | Pass | Watch | Special Mention | Substandard | Doubtful | Loss | Total |
|---|---|---|---|---|---|---|---|
| **December 31, 2016** | | | | | | | |
| Real estate loans: | | | | | | | |
| One-to four-family, owner occupied | $ 45,335 | $ 987 | $ 250 | $ 1,399 | $ - | $ - | $ 47,971 |
| One-to four-family, non-owner occupied | 5,141 | - | - | 110 | - | - | 5,251 |
| Commercial and multi-family | 17,731 | 54 | - | - | - | - | 17,785 |
| Construction and land | 2,483 | 177 | - | 16 | - | - | 2,676 |
| Commercial business loans | 852 | - | - | 69 | - | - | 921 |
| Consumer loans | 901 | - | - | - | - | - | 901 |
| | $ 72,443 | $ 1,218 | $ 250 | $ 1,594 | $ - | $ - | $ 75,505 |

**(6) FHLB Advances**

At June 30, 2017 and December 31, 2016, advances from the Federal Home Loan Bank were as follows:

| Maturity Date | Interest Rate | June 30, 2017 | December 31, 2016 |
|---|---|---|---|
| February 12, 2018 | 1.27% | $ 3,000 | $ - |
| March 12, 2018 | 4.92% | 1,000 | 1,000 |
| July 18, 2018 | 1.84% | 3,000 | 3,000 |
| July 18, 2019 | 2.21% | 2,000 | 2,000 |
| Total | | $ 9,000 | $ 6,000 |

Each advance is payable at its maturity date, with a prepayment penalty if paid earlier than its maturity date. The advances were collateralized by $38,198 and $46,544 of first mortgage loans under a blanket lien arrangement at June 30, 2017 and December 31, 2016. Based on this collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to a total of $38,500 at June 30, 2017.

**(7) EMPLOYEE STOCK OWNERSHIP PLAN**

Employees participate in an Employee Stock Ownership Plan ("ESOP"). The ESOP borrowed from the Company to purchase 66,096 shares of the Company's common stock at $10 per share on June 29, 2016. The Bank may make discretionary contributions to the ESOP and pays dividends on unallocated shares to the ESOP. The ESOP uses funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation and expense is recorded. Any dividends on allocated shares increase participant accounts. Participants receive the shares at the end of employment.

No contributions to the ESOP were made during the six months ended June 30, 2017. The expense recognized for the three and six months ended June 30, 2017 was $10 and $20, respectively, and is reported in salaries and wages. No ESOP expense was recognized during the three or six months ended June 30, 2016.

ESOP shares at June 30, 2017 and December 31, 2016 are summarized as follows:

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Committed to be released to participants | 1,653 | - |
| Allocated to participants | 3,252 | 3,252 |
| Unearned | 61,191 | 62,844 |
| Total ESOP shares | 66,096 | 66,096 |
| | | |
| Fair value of unearned shares | $ 771 | $ 792 |

**(8) DEFINED BENEFIT AND POST RETIREMENT MEDICAL PLANS**

Net periodic cost for the defined benefit pension plan and postretirement medical plan for the three and six months ended June 30, 2017 and 2016 included the following components:

| | Defined Benefit Pension Plan | | Postretirement Medical Plan | |
|---|---|---|---|---|
| | Three Months Ended | | Three Months Ended | |
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Service cost | $ - | $ - | $ - | $ - |
| Interest cost | 33 | 35 | 9 | 10 |
| Expected return on plan assets | (36) | (34) | - | - |
| Amortization: | | | | |
| Unrecognized net loss | 24 | 29 | 2 | 2 |
| Unrecognized prior service cost | - | - | (2) | (2) |
| Asset (loss) gain deferred | - | - | - | - |
| Net periodic cost | $ 21 | $ 30 | $ 9 | $ 10 |

| | Defined Benefit Pension Plan | | Postretirement Medical Plan | |
|---|---|---|---|---|
| | Six Months Ended | | Six Months Ended | |
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Service cost | $ - | $ - | $ - | $ - |
| Interest cost | 66 | 71 | 18 | 20 |
| Expected return on plan assets | (72) | (68) | | |
| Amortization: | | | | |
| Unrecognized net loss | 49 | 56 | 4 | 4 |
| Unrecognized prior service cost | - | - | (4) | (4) |
| Asset (loss) gain deferred | - | - | - | - |
| Net periodic cost | $ 43 | $ 59 | $ 18 | $ 20 |

The following table summarizes plan assets for the defined benefit pension plan, measured at fair value on a recurring basis at

June 30, 2017 and December 31, 2016, segregated by the level of the inputs (as defined in Note 8) within the hierarchy used to measure fair value:

| | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|
| **June 30, 2017** | | | | |
| Pooled separate accounts | $ - | $ 2,637 | $ - | $ 2,637 |

| | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|
| **December 31, 2016** | | | | |
| Pooled separate accounts | $ - | $ 2,558 | $ - | $ 2,558 |

During the six months ended June 30, 2017, benefits paid, employer contributions and the actual return on plan assets for the defined benefit pension plan were $137, $69, $147, respectively. During the six months ended June 30, 2016, benefits paid, employer contributions, and the actual return on plan assets were $136, $172, and $104, respectively.

The Company's defined benefit pension plan target allocations and weighted-average allocations by asset category are as follows:

| | Target Allocation 2017 | June 30, 2017 | December 31, 2016 |
|---|---|---|---|
| Pooled separate accounts | | | |
| Equity | 30%-40% | 36% | 37% |
| Debt | 60%-70% | 64% | 63% |

The Company's investment strategy is to maintain a diversified investment portfolio. Rebalancing occurs on a periodic basis to maintain the target allocations, but normal market activity may result in deviations. As a result of the percentage of equities held, actual return of plan assets for any period may fluctuate significantly due to changes in the stock market.

Accumulated other comprehensive loss, net for the benefit plans are summarized as follows:

| | Defined Benefit Pension Plan | | Postretirement Medical Plan | |
|---|---|---|---|---|
| | Three Months Ended | | Three Months Ended | |
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Unrecognized net loss | $ 24 | $ 29 | $ (2) | $ (2) |
| Unrecognized prior service cost | - | - | 2 | 2 |
| | 24 | 29 | - | - |
| Tax effect | - | - | - | - |
| Unrecognized gain, net of tax | $ 24 | $ 29 | $ - | $ - |

| | Defined Benefit Pension Plan | | Postretirement Medical Plan | |
|---|---|---|---|---|
| | Six Months Ended | | Six Months Ended | |
| | June 30, | June 30, | June 30, | June 30, |
| Unrecognized net loss | $ 49 | $ 56 | $ 4 | $ 4 |
| Unrecognized prior service cost | - | - | (4) | (4) |
| | 49 | 56 | - | - |
| Tax effect | - | - | - | - |
| Unrecognized gain, net of tax | $ 49 | $ 56 | $ - | $ - |

**(9) FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

**Investment Securities:**

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

**Impaired Loans:**

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value

per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

**Real Estate Owned:**

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Fair value is commonly based on recent real estate appraisals, which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, management reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Company compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value.

Assets and liabilities measured at fair value on a recurring basis at June 30, 2017 and December 31, 2016 are summarized below:

| | Level 2 | |
|---|---|---|
| | June 30, 2017 | December 31, 2016 |
| **Financial Assets** | | |
| Available-for-sale securities | $ 21,082 | $ 25,162 |
| | $ 21,082 | $ 25,162 |

Presented in the table below are assets measured at fair value on a nonrecurring basis using Level 3 inputs at June 30, 2017 and December 31, 2016:

| | Level 3 | |
|---|---|---|
| | June 30, 2017 | December 31, 2016 |
| **Impaired loans (collateral dependent)** | | |
| One-to four-family, owner occupied | $ - | $ 39 |
| One-to four-family, non-owner occupied | - | - |
| Total financial assets | - | 39 |
| | | |
| Nonfinancial assets | | |
| Real estate owned, net: | | |
| One-to four-family, owner occupied | - | - |
| Total nonfinancial assets | $ - | $ - |
| Total assets measured at fair value on a nonrecurring basis | $ - | $ 39 |

The Company's impaired loan at December 31, 2016 was measured at fair value based primarily upon the estimated value of real estate collateral less costs to sell. The carrying amounts of this loan was $39. This loan had a specific valuation allowance of $9 at December 31, 2016. At June 30, 2016 impaired loans of $33 were adjusted to fair value through charge offs of $30 to the allowance for loan losses for the three and six months ended June 30, 2016.

Real estate owned is carried at the lower of carrying value or fair value less costs to sell. At June 30, 2016, real estate owned of $130 was adjusted to fair value, recognizing a loss of $16 for the three and six months ended June 30, 2016.

The table below presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at June 30, 2017 and December 31, 2016:

| | Level 3 Quantitative Information | | | | |
|---|---|---|---|---|---|
| | June 30, 2017 Fair Value | December 31, 2016 Fair Value | Valuation Technique | Unobservable Inputs | Range |
| Impaired real estate loans net, with specific allocations: | | | | | |
| One-to-four family, owner occupied | $ - | $ 39 | Sales comparison approach | Adjustment for differences between the comparable sales | 0% to 30% |

**Fair Value of Financial Instruments**

Many of the Company's assets and liabilities are short-term financial instruments whose carrying amounts reported in the consolidated balance sheet approximate fair value and are considered Level 1 assets and liabilities. These items include cash and cash equivalents, accrued interest receivable and accrued interest payable balances. The estimated fair values of the Company's remaining on-balance sheet financial instruments at June 30, 2017 and December 31, 2016 are summarized below:

| | Carrying Amount | Fair Value | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| **June 30, 2017** | | | | | |
| Financial assets | | | | | |
| Available-for-sale securities | $ 21,082 | $ - | $ 21,082 | $ - | $ 21,082 |
| Restricted equity securities (1) | 405 | NA | NA | NA | NA |
| Loans, net | 79,254 | - | - | 79,853 | 79,853 |
| Financial liabilities | | | | | |
| Deposits | $ 89,160 | $ 27,387 | $ 62,804 | $ - | $ 90,191 |
| FHLB Advances | 9,000 | - | 9,080 | - | 9,080 |
| **December 31, 2016** | | | | | |
| Financial assets | | | | | |
| Available-for-sale securities | $ 25,162 | $ - | $ 25,162 | $ - | $ 25,162 |
| Restricted equity securities (1) | 837 | NA | NA | NA | NA |
| Loans, net | 74,248 | - | - | 75,877 | 75,877 |
| Financial liabilities | | | | | |
| Deposits | $ 88,471 | $ 25,497 | $ 64,082 | $ - | $ 89,579 |
| FHLB Advances | 6,000 | - | 6,158 | - | 6,158 |

(1) It is not practicable to determine fair value of restricted equity securities due to restrictions placed on transferability.

The following methods and assumptions were used in estimating the fair values shown above:

**Loans:**

The fair value of loans is computed for each loan category using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

**Deposits:**

Deposits with no defined maturities, such as checking accounts, savings accounts and money market deposit accounts are, by definition, equal to the amount payable on demand at the balance sheet date. The fair values of certificate accounts are computed using interest rates currently being offered to deposit customers.

**FHLB advances:**

FHLB advances are valued at current market interest rates of FHLB advances.

**Off-balance sheet commitments:**

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to either enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

**PART 1. FINANCIAL INFORMATION**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's discussion and analysis of financial condition and results of operations at June 30, 2017 and for the three and six months ended June 30, 2017 and 2016 is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and the notes thereto, appearing in Part 1, Item 1 of this report.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Form 10-Q contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect," "will," "may" and words of similar meaning. These forward-looking statements include, but are not limited to:

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

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this Form 10-Q, except as required by law.

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

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the Securities and Exchange Commission, the Financial Accounting Standards Board and the Public Company Accounting Oversight Board;

- changes in our organization, compensation and benefit plans;
- changes in our financial condition or results of operations that reduce capital; and
- changes in the financial condition or future prospects of issuers of securities that we own.

Additional factors that may affect our results are discussed in Best Hometown Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission on March 30, 2017, including under the section titled "Risk Factors". These factors and the other factors listed above should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements.

**Critical Accounting Policies**

There are no material changes to the critical accounting policies disclosed in the Annual Report on Form 10-K for Best Hometown Bancorp, Inc. for the year ended December 31, 2016.

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

Our total assets increased $3.4 million, or 3.1%, to $112.8 million at June 30, 2017 from $109.4 million at December 31, 2016. The increase in total assets is primarily due to the $5.0 million increase in net loans and the purchase of bank owned life insurance of $3.4 million. The increase in total assets was primarily supported by increases in our total deposits and FHLB advances of $3.6 million, or 3.7%, to $98.1 million at June 30, 2017 from $94.5 million at December 31, 2016. The increase in net loans and bank owned life insurance was offset partially by a $4.1 million, or 16.3%, decrease in available-for-sale securities to $21.1 million at June 30, 2017 from $25.2 million at December 31, 2016, which is largely related to our sale of approximately $3.0 in amortized cost of available-for-sales securities for liquidity needs and principal paydowns on mortgage backed securities. Cash and cash equivalents also decreased by $871,000, or 16.1%, to $4.6 million at June 30, 2017 from $5.4 million at December 31, 2016. The decrease in cash and cash equivalents is reflective of our loan growth since December 31, 2016.

Gross loans increased by $5.0 million, or 6.6%, to $80.5 million at June 30, 2017 from $75.5 million at December 31, 2016. All of our loan portfolio segments increased except for our one-to four-family owner occupied loans. Our commercial and multifamily, construction and land, commercial business, and consumer loan segments increased by $4.5 million, $455,000, $791,000, and $396,000, respectively. In total, our one-to four-family, owner occupied and non-owner occupied loans decreased to $52.0 million at June 30, 2017 from $53.0 million at December 31, 2016. The decrease in one-to four-family loans and increase in all other loan segments, particularly, commercial and multi-family and commercial business loans, reflects our strategy of focusing our lending efforts more on commercial lending and an increase in demand for these types of loans during the first six months of 2017.

Securities available for sale decreased by $4.1 million, or 16.3%, to $21.1 million at June 30, 2017 from $25.2 million at December 31, 2016, which is largely related to our sale of approximately $3.0 in amortized cost of available-for-sales securities for liquidity needs and principal paydowns on mortgage-backed securities.

Real estate owned, net increased to $82,000 at June 30, 2017, which was the result of one foreclosure on a one-to four-family residential loan during the three months ended June 30, 2017. The real estate owned was recorded at fair value less costs to sell. No charge-off was recognized.

Our deposits increased $689,000, or 0.78%, to $89.2 million at June 30, 2017 from $88.5 million at December 31, 2016, with $629,000, or 0.75%, of the increase in interest-bearing deposits and $60,000, or 1.2%, in noninterest bearing deposits. The increase reflects a steady demand by our deposit products, particularly our money market savings and checking accounts.

FHLB advances increased to $9.0 million at June 30, 2017 from $6.0 million at December 31, 2016. The increase in FHLB advances reflects additional funding needs to support our loan growth. We repaid a short-term $3.0 million variable rate advance maturing in September 2017 with the proceeds from the sale of available-for-sale securities and entered into a 9 month advance for $3 million at a fixed rate of 1.27%, maturing in February 2018.

Shareholders' equity decreased by $167,000, or 1.31%, to $12.6 million at June 30, 2017 from $12.8 million at December 31, 2016. The decrease in shareholders' equity reflects our net loss of $252,000 for the six months ended June 30, 2017, offset mainly by a decrease of $86,000, or 4.9%, of accumulated other comprehensive loss related to available-for-sale securities and the defined

benefit and postretirement medical plans, and a $21,000 increase in shareholders' equity attributable to the recognition of employee stock ownership plan expenses over the six months ended June 30, 2017.

**Nonperforming Assets**

The table below sets forth the amounts and categories of our nonperforming assets at the dates indicated.

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| | (Dollars in thousands) | |
| Non-accrual loans: | | |
| Real estate mortgage loans: | | |
| One- to four-family, owner occupied | $ - | $ 39 |
| One- to four-family, non-owner occupied | - | 30 |
| Commercial and multi-family | - | 69 |
| Construction and land | 13 | 16 |
| Total non-accrual loans | 13 | 154 |
| Accruing troubled debt restructured loans: | | |
| Real estate mortgage loans: | | |
| One- to four-family, owner occupied | 86 | 87 |
| Total accruing troubled debt restructured loans | 86 | 87 |
| Total non-performing loans | 99 | 241 |
| Foreclosed real estate held for sale: | | |
| One- to four-family | 82 | - |
| Total foreclosed real estate held for sale | 82 | - |
| Total non-performing assets | $ 181 | $ 241 |
| Total non-performing loans to total gross loans | 0.12% | 0.32% |
| Total non-performing assets to total assets | 0.16% | 0.22% |

Interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was less than $1,000 for the three and six months ended June 30, 2017 and no income was recognized on these loans for the three and six months ended June 30, 2017. There were no nonaccrual loans during the three and six month ended June 30, 2016.

Interest income that would have been recorded had our trouble debt restructured loans been current in accordance with their original terms was $2,000 and $7,000 for the six months ended June 30, 2017 and 2016. Interest of $1,000 and $7, 000 was recognized on these loans and is included in net income for the six months ended June 30, 2017 and 2016.

The decrease in nonperforming assets is a reflection of strong credit quality within our loan portfolio.

**Analysis of Net Interest Margin**

The following table sets forth average balance sheets, average annualized yields and rates, and certain other information at and for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Nonaccrual loans were included in the computation of average balances, but have been reflected in the tables as loans carrying a zero yield. The yields set forth below include the effect of net deferred costs, discounts and premiums that are amortized or accreted to income.

| | For the Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2017 | | | June 30, 2016 | | |
| | Average Balance | Interest and Dividends | Yield/ Cost | Average Balance | Interest and Dividends | Yield/ Cost |
| | (Dollars in Thousands) | | | | | |
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans | $ 79,878 | 859 | 4.30% | $ 73,557 | 822 | 4.47% |
| Investment securities | 25,001 | 106 | 1.70 | 15,345 | 52 | 1.36 |
| Interest-bearing deposits | 1,744 | 7 | 1.61 | 7,738 | 11 | 0.57 |
| Total interest-earning assets | 106,623 | 972 | 3.65 | 96,640 | 885 | 3.66 |
| Noninterest-earning assets | 19,490 | | | 5,575 | | |
| Total assets | $ 126,113 | | | $ 102,215 | | |
| **Liabilities and equity:** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Checking accounts | $ 446 | 1 | 0.90% | 319 | - | -% |
| Savings accounts | 7,725 | 1 | 0.05 | 8,280 | 1 | 0.05 |
| Money market accounts | 14,367 | 17 | 0.47 | 9,952 | 8 | 0.32 |
| Certificates of deposit | 61,786 | 247 | 1.60 | 62,642 | 248 | 1.59 |
| Total interest-bearing deposits | 84,324 | 266 | 1.27 | 81,193 | 257 | 1.27 |
| FHLB advances and other | 11,074 | 51 | 1.85 | 6,000 | 71 | 4.76 |
| Total interest-bearing liabilities | 95,398 | 317 | 1.33 | 87,193 | 328 | 1.51 |
| Noninterest bearing deposits | 4,992 | | | 5,426 | | |
| Other noninterest-bearing liabilities | 2,213 | | | 2,790 | | |
| Total liabilities | 102,603 | | | 95,409 | | |
| Equity | 23,509 | | | 6,806 | | |
| Total liabilities and equity | $ 126,113 | | | $ 102,215 | | |
| Net interest income | | $ 655 | | | $ 557 | |
| Interest rate spread | | | 2.32% | | | 2.15% |
| Net interest margin | | | 2.46% | | | 2.31% |
| Average interest-earning assets to average interest-bearing liabilities | 1.12X | | | 1.11X | | |

| | For the Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2017 | | | June 30, 2016 | | |
| | Average Balance | Interest and Dividends | Yield/ Cost | Average Balance | Interest and Dividends | Yield/ Cost |
| | (Dollars in Thousands) | | | | | |
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans | $ 77,959 | 1,694 | 4.35% | $ 73,989 | 1,654 | 4.47% |
| Investment securities | 25,424 | 207 | 1.63 | 13,353 | 98 | 1.47 |
| Interest-bearing deposits | 2,414 | 16 | 1.33 | 6,322 | 20 | 0.63 |
| Total interest-earning assets | 105,797 | 1,917 | 3.62 | 93,664 | 1,772 | 3.78 |
| Noninterest-earning assets | 7,006 | | | 6,285 | | |
| Total assets | $ 112,803 | | | $ 99,949 | | |
| **Liabilities and equity:** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Checking accounts | $ 444 | 1 | 0.45% | $ 305 | 1 | 0.66% |
| Savings accounts | 7,535 | 2 | 0.05 | 8,115 | 3 | 0.07 |
| Money market accounts | 13,830 | 31 | 0.45 | 9,440 | 13 | 0.28 |
| Certificates of deposit | 62,302 | 493 | 1.60 | 61,611 | 479 | 1.57 |
| Total interest-bearing deposits | 84,111 | 527 | 1.26 | 79,471 | 496 | 1.26 |
| FHLB advances and other | 8,715 | 89 | 2.06 | 6,097 | 142 | 4.71 |
| Total interest-bearing liabilities | 92,826 | 616 | 1.34 | 85,568 | 638 | 1.51 |
| Noninterest bearing deposits | 6,244 | | | 4,717 | | |
| Other noninterest-bearing liabilities | 2,213 | | | 2,814 | | |
| Total liabilities | 101,283 | | | 93,099 | | |
| Equity | 11,520 | | | 6,850 | | |
| Total liabilities and equity | $ 112,803 | | | $ 99,949 | | |
| Net interest income | | $ 1,301 | | | $ 1,134 | |
| Interest rate spread | | | 2.28% | | | 2.27% |
| Net interest margin | | | 2.46% | | | 2.42% |
| Average interest-earning assets to average interest-bearing liabilities | 1.14X | | | 1.09X | | |

**Comparison of Operating Results for the Three Months Ended June 30, 2017 and 2016**

***General.*** We recognized a net loss of $137,000 for the three months ended June 30, 2017 compared to a net loss of $153,000 for the three months ended June 30, 2016. The decrease in net loss was primarily attributed to an increase in net interest income of $98,000, or 17.6%, to $655,000 for the three months ended June 30, 2017 from $557,000 for the three months ended June 30, 2016, and increase in total noninterest income of $11,000, or 47.8%, to $34,000 from $23,000 for the same periods, offset partially by an increase in noninterest expense of $93,000, or 12.7%, to $826,000 for the three months ended June 30, 2017 compared to $733,000 for the three months ended June 30, 2016.

***Interest Income.*** Interest income increased $87,000, or 9.8%, to $972,000 for the three months ended June 30, 2017 from $885,000 for the three months ended June 30, 2016. The increase in interest income reflects an increase in the average balances of

interest-earning assets, which increased to $106.6 million for the three months ended June 30, 2017 from $96.6 million for the three months ended June 30, 2016. The increase in the average balances of interest-earning assets reflects our emphasis on investing in interest-earning assets the funds received from our conversion and public offering on June 29, 2016 and funds from increasing deposit levels since June 30, 2016. For the three months ended June 30, 2017 compared to the three months ended June 30, 2016, the average balance of loans increased to $79.9 million from $73.5 million and the average balance of investments increased to $25.0 million from $15.3 million. The average balance of interest-bearing deposits decreased to $1.7 million for the three months ended June 30, 2017 compared to $7.7 million for the three months ended June 30, 2016 as more of our excess funds were deployed into higher-yielding loans and investment securities. The increase in the average balance of our interest-earning assets more than offset the decrease in the average yield on interest-earning assets, which decreased 1 basis point to 3.65% from 3.66% for the three months ended June 30, 2017 and 2016, respectively. Yield on loans decreased 17 basis points to 4.30% from 4.47% for the three months ended June 30, 2017 and 2016, respectively. The decrease in yield on loans reflects the lower interest rate environment in our highly competitive market area, particularly for commercial loans. The increase of 34 basis points in yield on our investment securities reflects a slowdown in prepayments on our mortgage-backed securities during the period, which had a positive impact on the investment portfolio's overall yield.

***Interest Expense*.** Interest expense decreased by $11,000, or 3.3%, to $317,000 for the three months ended June 30, 2017 from $328,000 for the three months ended June 30, 2016. The decrease reflects a decrease in the average rate of our interest-bearing liabilities of 18 basis points to 1.33% for the three months ended June 30, 2017 from 1.51% for the three months ended June 30, 2016. The decrease in our average cost of funds reflects the 2.91 basis point decrease in the cost of FHLB advances to 1.85% for the three months ended June 30, 2017 from 4.76% for the three months ended June 30, 2016. We have lowered our cost of FHLB funding by securing lower rate advances as an additional funding source for our loan growth and refinancing maturing advances with lower rate advances. Interest expense on FHLB advances decreased 20,000, or 28.2%, to $51,000 for the three months ended June 30, 2017 from $71,000 for the three months ended June 30, 2016. The decrease in interest expense on FHLB advances was offset partially by an increase in interest expense from our deposits, which increased $9,000, or 3.5%, to $266,000 for the three months ended June 30, 2017 from $257,000 for the three months ended June 30, 2016. The increase was primarily caused by an increase in the average balance of our deposits of $3.1 million, or 3.8%, to $84.3 million for the three months ended June 30, 2017 from $81.2 million for the three months ended June 30, 2016 due to the growth in our deposits. Money market accounts grew in average balance by $4.4 million, or 44.4%, to $14.4 million for the three months ended June 30, 2017 from $10.0 million for the three months ended June 30, 2016. Certificates of deposit decreased in average balance by $856,000, or 1.4%, to $61.8 million from $62.6 million for the same periods.

***Net Interest Income.*** Net interest income increased $98,000, or 17.6%, to $655,000 for the three months ended June 30, 2017 from $557,000 for the three months ended June 30, 2016, which was largely a reflection of the increase in net interest margin of 15 basis points to 2.46% from 2.31% for the same periods.

***Provision for Loan Losses.*** There was no provision for loan losses for the three months ended June 30, 2017 or 2016, which is a reflection of our continued strong credit quality as evidenced by our continued low and decreasing levels of nonperforming loans.

Our total allowance for loans losses was 1.5% of total gross loans at June 30, 2017 compared to 1.6% at December 31, 2016. We do not have an allowance for specifically identified impaired loans as we generally charge off identified impairments on impaired loans to the allowance for loan losses to a net realizable value on those loans. As needed we may have an unallocated portion in our general allowance that we believe represents those probable incurred losses within our loan portfolio not specifically identified with any particular portfolio segment. At June 30, 2017, we did not have an unallocated portion. At December 31, 2016, our unallocated portion of our allowance for loan losses was $49,000.

***Noninterest Income.*** Noninterest income increased $11,000, or 47.8%, to $34,000 for the three months ended June 30, 2017 from $23,000 for the three months ended June 30, 2016. The increase reflects both the recognition of $26,000 of income on bank owned life insurance related to the $3.4 million of bank owned life insurance purchased in March of 2017 and the increase of $6,000 in service charges on deposit accounts, related to increased activity in transaction accounts and overdraft fees during the three months ended June 30, 2017 compared to the three months ended June 30, 2016. Noninterest income for the three months ended June 30, 2017 was adversely impacted by a $19,000 loss on sales of securities from the sale of approximately $3.0 million in amortized cost of available-for-sale securities.

***Noninterest Expense.*** Noninterest expense increased $93,000, or 12.7%, to $826,000 for the three months ended June 30, 2017 from $733,000 for the three months ended June 30, 2016. The increase was largely attributed to increases in salaries and employee benefits, occupancy and equipment expenses, and professional and supervisory fees. Salary and employee benefits increased by $97,000, or 29.6%, to $425,000 for the three months ended June 30, 2017 from $328,000 for the three months ended June 30, 2016. The increase reflects normal pay increases for employees, additional compensation expense associated with our

ESOP, and the addition of our new chief financial officer and compliance officer. Occupancy and equipment expenses increased by $29,000, or 33.3%, to $116,000 for the three months ended June 30, 2017 from $87,000 for the three months ended June 30, 2016. The increase was primarily related to increased depreciation costs resulting from depreciation of renovation costs incurred for the renovation of our main office. Professional and supervisory fees increased by $26,000, or 24.3%, to $133,000 for the three months ended June 30, 2017 from $107,000 for the three months ended June 30, 2016. The increase in professional and supervisory fees was related to the increased costs associated with our conversion to a public company subsequent to the period ended June 30, 2016 and additional legal expenses incurred during the three months ended June 30, 2017 related to loan foreclosures and real estate owned. These increases were partially offset by decreases in FDIC deposit insurance premiums and real estate owned expenses. FDIC deposit insurance premiums decreased by $13,000, or 62.0%, to $8,000 for the three months ended June 30, 2017 from $21,000 for the three months ended June 30, 2016, and real estate owned expenses decreased by $35,000, or 71.4%, to $14,000 for the three months ended June 30, 2017 from $49,000 for the three months ended June 30, 2016.

**Income Tax Expense.** There was no provision for income taxes for the three months ended June 30, 2017 or June 30, 2016. A valuation allowance has been recorded against all components of the net deferred tax asset, except for the unrealized loss on available-for-sale securities, based upon our cumulative operating losses in recent years.

The deferred tax asset will only be recognized in future periods upon the Company's ability to realize and maintain profitable results of operations.

**Comparison of Operating Results for the Six Months Ended June 30, 2017 and 2016**

***General.*** We recognized a net loss of $252,000 for the six months ended June 30, 2017 compared to a net loss of $286,000 for the six months ended June 30, 2016. The decrease in net loss was primarily attributed to an increase in net interest income of $166,000 or 14.7%, to $1.3 million for the six months ended June 30, 2017 from $1.1 million for the six months ended June 30 and an increase in noninterest income of $12,000, or 26.7%, to $57,000 from $45,000 for the same periods, offset partially by an increase in noninterest expense of $144,000, or 9.8%, to $1.6 million for the six months ended June 30, 2017 compared to $1.5 million for the six months ended June 30, 2016.

***Interest Income.*** Interest income increased $145,000, or 8.2%, to $1.9 million for the six months ended June 30, 2017 from $1.8 million for the six months ended June 30, 2016. The increase in interest income reflects an increase in the average balances of interest-earning assets, which increased to $105.8 million for the six months ended June 30, 2017 from $93.7 million for the six months ended June 30, 2016. The increase in the average balances of interest-earning assets reflects our emphasis on investing in interest-earning assets the funds received from our conversion and public offering on June 29, 2016 and funds from increasing deposit levels since June 30, 2016. For the six months ended June 30, 2017 compared to the six months ended June 30, 2016, the average balance of loans increased to $78.0 million from $74.0 million and the average balance of investments increased to $25.4 million from $13.3 million. The average balance of interest-bearing deposits decreased to $2.4 million for the six months ended June 30, 2017 compared to $6.3 million for the six months ended June 30, 2016 as more of our excess funds were deployed into higher-yielding loans and investment securities. The increase in the average balance of our interest-earning assets more than offset the decrease in the average yield on interest-earning assets, which decreased 16 basis points to 3.62% from 3.78% for the six months ended June 30, 2017 and 2016, respectively. The decrease in yield on loans reflects the lower interest rate environment in our highly competitive market area, particularly for commercial loans. The increase of 16 basis points in yield on our investment securities reflects a slowdown in prepayments on our mortgage-backed securities during the period, which had a positive impact on the investment portfolio's overall yield.

***Interest Expense.*** Interest expense decreased by $21,000, or 3.4%, to $616,000 for the six months ended June 30, 2017 from $638,000 for the six months ended June 30, 2016. The decrease reflects a decrease in the average rate of our interest-bearing liabilities of 17 basis points to 1.34% for the six months ended June 30, 2017 from 1.51% for the six months ended June 30, 2016. The decrease in our average cost of funds reflects the 265 basis point decrease in the cost of FHLB advances to 2.06% for the six months ended June 30, 2017 from 4.71% for the six months ended June 30, 2016. We have lowered our cost of FHLB funding by securing lower rate advances as an additional funding source for our loan growth and refinancing maturing advances with lower rate advances. Interest expense on FHLB advances decreased $53,000, or 37.3%, to $89,000 for the six months ended June 30, 2017 from $142,000 for the six months ended June 30, 2016. The decrease in interest expense from FHLB advances was offset partially by an increase in interest expense from our deposits, which increased $32,000, or 6.2%, to $527,000 for the six months ended June 30, 2017 from $495,000 for the six months ended June 30, 2016. The increase was primarily caused by an increase in the average balance of our deposits of $4.6 million, or 6.0%, to $84.1 million for the six months ended June 30, 2017 from $79.5 million for the six months ended June 30, 2016 due to the growth in our deposits. Money market accounts grew in average balance by $4.4 million, or 46.5%, to $13.8 million for the six months ended June 30, 2017 from $9.4 million for the six months ended June 30, 2016. Certificates of deposit grew in average balance by $691,000, or 1.1%, to $62.3 million from $61.6 million for the same periods.

***Net Interest Income.*** Net interest income increased $166,000, or 14.7%, to $1.3 million for the six months ended June 30, 2017 from $1.1 million for the six months ended June 30, 2016, which was largely a reflection of the increase in the ratio of average interest-earning assets to average interest-bearing liabilities to 1.14X for the six months ended June 30, 2017 from 1.09X for the six months ended June 30, 2016 and to a smaller degree an increase of 4 basis points in our net interest margin to 2.46% from 2.42% for the same periods.

***Provision for Loan Losses.*** There was no provision for loan losses for the six months ended June 30, 2017 or 2016, which is a reflection of our continued strong credit quality as evidenced by our continued low and decreasing levels of nonperforming loans.

Our total allowance for loans losses was 1.5% of total gross loans at June 30, 2017 compared to 1.6% at December 31, 2016. We do not have an allowance for specifically identified impaired loans as we generally charge off identified impairments on impaired loans to the allowance for loan losses to a net realizable value on those loans. As needed we may have an unallocated portion in our general allowance that we believe represents those probable incurred losses within our loan portfolio not specifically identified with any particular portfolio segment. At June 30, 2017, we did not have an unallocated portion. At December 31, 2016, our unallocated portion of our allowance for loan losses was $49,000.

***Noninterest Income.*** Noninterest income increased $12,000, or 26.7%, to $57,000 for the six months ended June 30, 2017 from $45,000 for the six months ended June 30, 2016. The increase reflects both the recognition of $28,000 of income on bank owned life insurance related to the $3.4 million of bank owned life insurance purchased in March of 2017 and the increase of $6,000 in service charges on deposit accounts, related to increased activity in transaction accounts and overdraft fees during the six months ended June 30, 2017 compared to the six months ended June 30, 2016. Noninterest income for the six months ended June 30, 2017 was offset by a $19,000 loss on sales of securities as we sold approximately $3.0 million in book value of available-for-sale securities for liquidity purposes during the six months ended June 30, 2017.

**Noninterest Expense.** Noninterest expense increased $144,000, or 9.8%, to $1.6 million for the six months ended June 30, 2017 from $1.5 million for the six months ended June 30, 2016. The increase was largely attributed to increases in salaries and employee benefits, occupancy and equipment expenses, and professional and supervisory fees. Salary and employee benefits increased by $111,000, or 15.0%, to $852,000 for the six months ended June 30, 2017 from $741,000 for the six months ended June 30, 2016. The increase reflects normal pay increases for employees, additional compensation expense associated with our ESOP, and the addition of our new chief financial officer and compliance officer. Occupancy and equipment expenses increased by $60,000, or 34.5%, to $234,000 for the six months ended June 30, 2017 from $174,000 for the six months ended June 30, 2016. The increase was primarily related to increased depreciation costs resulting from depreciation of renovation costs incurred for the renovation of our main office. Professional and supervisory fees increased by $36,000, or 19.0%, to $225,000 for the six months ended June 30, 2017 from $189,000 for the six months ended June 30, 2016. The increase in professional and supervisory fees was related to the increased costs associated with our conversion to a public company subsequent to the period ended June 30, 2016 and additional legal expenses incurred during the six months ended June 30, 2017 related to loan foreclosures and real estate owned. These increases were partially offset by decreases in FDIC deposit insurance premiums and real estate owned expenses. FDIC deposit insurance premiums decreased by $27,000, or 64.3%, to $15,000 for the six months ended June 30, 2017 from $42,000 for the six months ended June 30, 2016, and real estate owned expenses decreased by $33,000, or 68.8%, to $15,000 for the six months ended June 30, 2017 from $48,000 for the six months ended June 30, 2016.

**Income Tax Expense.** There was no provision for income taxes for the six months ended June 30, 2017 or June 30, 2016. A valuation allowance has been recorded against all components of the net deferred tax asset, except for the unrealized loss on available for sale securities, based upon our cumulative operating losses in recent years.

The deferred tax asset will only be recognized in future periods upon the Company's ability to realize and maintain profitable results of operations.

**Liquidity and Capital Resources**

Our primary sources of funds consist of deposit inflows, loan repayments, FHLB advances, and repayments, maturities and calls of investment securities. 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 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 believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of June 30, 2017.

We regularly monitor and 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 and non interest-earning deposits and short- and medium-term securities.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, we have borrowing agreements with the Federal Home Loan Bank of Chicago (FHLB) that provide an additional source of funds. Our FHLB advances totaled $9.0 million at June 30, 2017. In addition, the Company has an irrevocable standby letter of credit with the FHLB of $2.7 million at June 30, 2017 to secure public deposits. At June 30, 2017, we had the ability to borrow up to an additional $38.5 million from the FHLB, subject to pledging additional collateral. We also have an unused open line of credit at The Independent BankersBank that would allow us to borrow up to $2.5 million at June 30, 2017.

The Company is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At June 30, 2017 and December 31, 2016, the Company exceeded all regulatory capital requirements. The Company is considered “well capitalized” under regulatory guidelines.

The net proceeds from the stock offering significantly increased our liquidity and capital resources. Over time, the initial level of liquidity will be reduced as net proceeds from the stock offering are used for general corporate purposes, including the funding of new loans. Our results of operations will be enhanced by the net proceeds from the stock offering, resulting in increased net interest income. However, due to the increase in equity resulting from the net proceeds raised in the stock offering, our return on equity will be adversely affected.

## ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

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

## ITEM 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company’s management, including the President and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Bank’s disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of June 30, 2017. Based on that evaluation, the Company’s management, including the President and Chief Executive Officer and the Chief Financial Officer, concluded that the Registrant’s disclosure controls and procedures were effective.

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

# PART II

## ITEM 1. LEGAL PROCEEDINGS

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

## ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Best Hometown Bancorp, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2016 (“Form 10-K”) as filed with the Securities and Exchange Commission on March 30, 2017, including under the section titled “Risk Factors, which could materially affect our business, financial condition or future results. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations. At June 30, 2017, the risk factors for Best Hometown Bancorp, Inc. have not changed materially from those reported in our Form 10-K. However, the risks described in the Form 10-K are not the only risks that we face.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

The exhibits required by Item 601 of Regulation S-K are included with this Form 10-Q and are listed in the "Index to Exhibits" immediately following the Signatures.

## 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.

| | |
|---|---|
| | **BEST HOMETOWN BANCORP, INC.** |
| Date: August 9, 2017 | /s/ Ronnie R. Shambaugh<br>Ronnie R. Shambaugh<br>President and Chief Executive Officer |
| Date: August 9, 2017 | /s/ H. Allen Salter, CPA<br>H. Allen Salter, CPA<br>Chief Financial Officer |

**INDEX TO EXHIBITS**

| Exhibit number | Description |
| --- | --- |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.0 | The following materials from Best Hometown Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Loss, (iv) the Condensed Consolidated Statements of Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) the Notes to Condensed Consolidated Financial Statements |

**Exhibit 31.1**

**Certification of Chief Executive Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Ronnie R. Shambaugh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Best Hometown 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)) for the registrant and 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 subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) 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

   c) 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 (or persons performing the equivalent functions):

   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.

Date: August 9, 2017

/s/ Ronnie R. Shambaugh
Ronnie R. Shambaugh
President and Chief Executive Officer

**Exhibit 31.2**

**Certification of Chief Financial Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, H. Allen Salter, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Best Hometown 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)) for the registrant and 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 subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) 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

   c) 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 (or persons performing the equivalent functions):

   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.

Date: August 9, 2017

/s/ H. Allen Salter, CPA
H. Allen Salter, CPA
Chief Financial Officer

**Exhibit 32.1**

**Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Ronnie R. Shambaugh, President and Chief Executive Officer of Best Hometown Bancorp, Inc., (the "Company") and Cynthia T. Knebel, Chief Financial Officer of the Company, each certify in his capacity as an officer of the Company that they have reviewed the quarterly report on Form 10-Q for the quarter ended June 30, 2017 (the "Report") and that to the best of their knowledge:

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.

Date: August 9, 2017

/s/ Ronnie R. Shambaugh
Ronnie R. Shambaugh
President and Chief Executive Officer

Date: August 9, 2017

/s/ H. Allen Salter, CPA
H. Allen Salter, CPA
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.