Hometown Bancorp, Inc.

2016 ANNUAL REPORT

President's Message

Dear Stockholders and Customers:

On behalf of the Officers and Directors of Hometown Bancorp, Inc. and everyone affiliated with its subsidiary, Hometown Bank of the Hudson Valley, it is with pleasure that I present to you our 2016 Annual Report.

Management and the Board are pleased to have announced, on December 16, 2016, that we entered into a definitive merger agreement under which Wallkill Valley Federal Savings & Loan Association will acquire the Company for $3.01 per share which will be paid out in cash to all public stockholders (excluding any shares held by the MHC). This merger with Wallkill will continue our dedication to customer service and quality community banking. We each have a similar hometown customer focus that will continue to make decisions locally and with a vested interest in our communities. This merger will expand the banking area for our customers further in Orange County and expand into Ulster County. The transition should be seamless for our customers as both banks use the same data processing system.

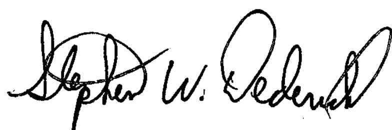
During 2016, Management and the Board continued to focus on decreasing the Bank's risk exposure and problem loan expenses. Because of this effort, non-performing loans have decreased by $1.2 million, problem loan expenses decreased by $44,000 and other real estate owned expenses decreased by $64,000. Because of improvements in our loan portfolio, the Bank recognized a recovery of $188,000 in the provision for loan losses. We continue to work to resolve the remaining non-performing assets to improve the Bank's financial condition.

We increased our non-interest income during 2016, by increasing mortgage sales volume. We originated $44.2 million in residential mortgage loans in 2016 compared to $34.6 million in 2015. Our gain on sales of loans and mortgage banking income, net increased by $249,000. We continue to sell a large portion of the loans originated, as we do not want to take on the interest rate risk associated with keeping fixed rate loans with low yielding rates on the balance sheet.

Despite the improvements in problem loans and the mortgage banking operations, the Bank has experienced increases in non-operating expenses in 2016. We have recognized $257,000 in one-time merger related expenses in 2016. Salaries and employee benefits increased by $149,000, because of increased commissions and additional staff to support the mortgage operations and increased health care costs. We continue to work with the OCC to meet the conditions in the Formal Agreement, however, the costs to meet the requirements of the Formal Agreement continue to negatively impact our earnings. The Board and Management remain committed to addressing the Articles in the Formal Agreement.

Our focus continues to be on delivering exceptional customer service. We offer all of the products, services and convenient delivery systems that are available at larger banks, but with the personal touch that you have enjoyed for years. Please take a moment to view our website at www.hometownbankhv.com.

In closing, I want to thank our Officers, Directors and Staff for their volunteerism and supporting our community initiatives. I want to thank you, our stockholders, depositors, customers and community for the confidence you have placed in us.



Stephen W. Dederick
President and Chief Executive Officer

Selected Financial and Other Data

The information at December 31, 2016 and 2015 and for the years ended December 31, 2016 and 2015 is derived in part from the audited consolidated financial statements that appear in this Annual Report. The following is only a summary and you should read it in conjunction with the audited consolidated financial statements and notes beginning on page 13.

(Dollars in thousands)	At or for the Year Ended December 31, 2016	At or for the Year Ended December 31, 2015
Financial Condition Data:		
Total assets	**$119,886**	$119,593
Cash and cash equivalents	**5,159**	2,957
Investment securities	**3,479**	2,593
Loans held for sale	**375**	645
Loans receivable, net	**102,503**	105,537
Deposits	**100,572**	103,345
Borrowings	**9,000**	5,800
Total stockholders' equity	**8,160**	8,609
Operating Data:		
Interest income	**$ 4,757**	$ 4,875
Interest expense	**296**	280
Net interest income	**4,461**	4,595
Provision (credit) for loan losses	**(188)**	(306)
Net interest income after provision for loan losses	**4,649**	4,901
Non-interest income	**2,063**	2,027
Non-interest expenses	**7,134**	6,734
Income (loss) before income taxes	**(422)**	194
Income tax (benefit) expense	**21**	(7)
Net income (loss)	**$ (443)**	$ 201

	At or for the Year Ended December 31,	
	2016	**2015**
Performance Ratios:		
Return on average assets	**(0.37)%**	0.17%
Return on average equity	**(5.20)**	2.39
Interest rate spread (1)	**3.98**	4.06
Net interest margin (2)	**4.04**	4.11
Non-interest income to average assets	**1.72**	1.67
Non-interest expense to average assets	**5.94**	5.54
Efficiency ratio (3)	**109.35**	101.69
Average interest-earning assets to average interest-bearing liabilities	**120.45**	120.14
Equity to total assets	**6.81**	7.20
Average equity to average assets	**7.09**	6.91
Capital Ratios (4):		
Tier 1 leverage capital	**5.75**	6.12
Tier 1 risk-based capital	**8.08**	7.86
Common equity tier1 risk-based	**8.08**	7.86
Total risk-based capital	**9.34**	9.12
Asset Quality Ratios:		
Allowance for loan losses as a percent of total loans	**1.69**	2.06
Allowance for loan losses as a percent of nonperforming loans	**49.73**	47.42
Net charge-offs to average outstanding loans during the year	**0.25**	0.11
Nonaccrual loans as a percent of total loans	**3.40**	4.35
Nonaccrual loans as a percent of total assets	**2.96**	3.91
Nonperforming assets as a percent of total assets	**3.29**	3.92
Per Share Related Data:		
Basic net income (loss) per common share	**$ (0.19)**	$ 0.09
Book value per share (5)	**3.51**	3.70
Tangible book value per share (6)	**3.35**	3.51
Other Data:		
Number of Offices	**4**	4

(1) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of average interest-bearing liabilities.
(2) Represents net interest income as a percent of average interest-earning assets.
(3) Represents non-interest expense divided by the sum of net interest income and non-interest income.
(4) Capital ratios are for Hometown Bank of the Hudson Valley.
(5) Book value per share is based on total stockholders' equity divided by 2,326,939 outstanding common shares at December 31, 2016 and 2015.
(6) Tangible book value per share is based on total stockholders' equity minus core deposit intangible of $362,000 and $440,000 at December 31, 2016 and 2015 respectively, divided by 2,326,939 outstanding common shares at December 31, 2016 and 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations is intended to assist in understanding our financial condition and results of operations. You should read this discussion in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in this Annual Report.

Recent Announcement

Hometown Bancorp, Inc. (the "Company"), Hometown Bancorp MHC (the "MHC") and Hometown Bank of the Hudson Valley (the "Bank") and Wallkill Valley Federal Savings & Loan Association ("Wallkill") jointly announced on December 16, 2016, that they have entered into a definitive merger agreement under which Wallkill will acquire the Company for $3.01 per share which will be paid out in cash to all public shareholders (excluding any shares held by the MHC).

Under the terms of the agreement, the Company, the MHC and the Bank will merge into Wallkill or a related Wallkill entity, with Wallkill or a related Wallkill entity as the surviving entity. The merger has been approved by each company's board of directors and is anticipated to close by the third quarter of 2017, subject to regulatory approvals, the approval of the shareholders of the Company and, if required, the members of the MHC and Wallkill and other customary closing conditions.

Overview

Our principal business is to acquire deposits from individuals and businesses in the communities surrounding our offices and to use these deposits to fund loans. We focus on providing our products and services to two segments of customers: individuals and small businesses.

Income. Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and investments, and interest expense, which is the interest that we pay on our deposits and borrowings. Changes in levels of interest rates affect our net interest income. Since the latter part of 2007, short-term interest rates (which influence the rates we earn on our loans and we pay on deposits) have remained at historical lows. The declining spread between the interest we earn on loans and investments and the interest we pay on deposits and borrowings has decreased our net interest income.

A secondary source of income is non-interest income, which is revenue that we receive from providing products and services. The majority of our non-interest income comes from service charges and fees on deposit accounts and loans and mortgage-banking income.

Provision for Loan Losses. The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Expenses. The non-interest expenses we incur in operating our business consists of salaries and employee benefit expenses, occupancy and equipment expenses, data processing expenses, FDIC insurance premiums, other real estate owned expense and other miscellaneous expenses, such as office supplies, telephone, postage, advertising and professional services.

Our largest non-interest expense is salaries and employee benefits, which consist primarily of salaries and wages paid to our employees, payroll taxes, and expenses for health insurance, retirement plans and other employee benefits.

Occupancy and equipment expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of branch lease expense, depreciation charges, furniture and equipment expenses, maintenance, real estate taxes and costs of utilities.

Operating/Business Strategy

Our strategy is to operate as a profitable local bank that seeks to differentiate itself from its competition by providing superior, personalized and prompt service, backed by knowledge and experience. As a local bank, we emphasize the local nature of our decision-making to respond effectively to the needs of our customers. We have a long tradition of focusing on the needs of the communities we serve and being an active corporate citizen and we intend to continue this focus.

Our business model and product offerings allow us to provide a full range of financial services to both individuals and businesses. Our traditional consumer products such as conforming single family residential mortgages, time deposits, checking and savings accounts appeal to a broad customer base. Additionally we offer a full range of financial products that are meeting the changing needs of today's customer. Those products include, but are not limited to, internet banking, mobile banking, remote deposit capture, cash management, debit cards and merchant services. We believe that offering a full range of financial products and services deepens the relationships with our current customers and entices new customers to bank with us, which ultimately should increase fee income.

Our primary business is attracting retail deposits from the general public and using those deposits together with funds generated from operations, principal repayments on loans and investments, loan sales and to a lesser extent borrowed funds, for our lending and investing activities. We intend to continue to pursue lending opportunities in the local residential and commercial markets.

We intend to continue to maintain our strategy to increase our core deposits, which lowers our overall cost of funds, through internal growth as well as expanding our access channels as a result of new technologies that attract those deposits.

We will continue to offer exceptional customer service, cross-selling our loan and deposit products, insurance and investment services and increasing our commercial deposits from small and medium-size businesses through the various products and services we offer.

We view the historically low interest rate environment as an opportunity to gain noninterest income by leveraging our expertise in originating residential mortgages and selling such originations in the secondary market. This strategy enables us to have a lending capacity, provides for a comprehensive product offering and reduces the interest rate, prepayment and credit risks associated with originating longer-term residential mortgage loans for retention in our loan portfolio.

Average Balance Sheets and Related Yields and Rates

The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting average yields and costs. The yields and costs for the years indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the years presented. For purposes of this table, average balances have been calculated using daily average balances, and nonaccrual loans are included in average balances. Loan fees and costs are deferred and recognized as an adjustment to interest income on loans.

Average Balance Table

(Dollars in thousands)	2016 Average Balance	2016 Interest and Dividends	2016 Yield/ Cost	2015 Average Balance	2015 Interest and Dividends	2015 Yield/ Cost
	Year Ended December 31,					
Assets:						
Interest-earning assets:						
Loans receivable	**$105,861**	**$4,680**	**4.42%**	$106,267	$4,805	4.52%
Investment securities, taxable	**2,818**	**42**	**1.49**	3,229	48	1.49
Other interest-earning assets	**1,822**	**35**	**1.92**	2,435	22	0.90
Total interest-earning assets	**110,501**	**4,757**	**4.30**	111,931	4,875	4.36
Non-interest-earning assets	**9,633**			9,560		
Total assets	**$120,134**			$121,491		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Interest-bearing demand deposits	**$ 12,285**	**13**	**0.11**	$ 11,073	12	0.11
Money market accounts	**16,733**	**43**	**0.26**	17,253	38	0.22
Savings accounts	**22,033**	**31**	**0.14**	21,873	31	0.14
Certificates of deposit	**34,022**	**169**	**0.50**	39,991	186	0.47
Borrowings	**6,666**	**40**	**0.60**	2,980	13	0.44
Total interest-bearing liabilities	**91,739**	**296**	**0.32**	93,170	280	0.30
Non-interest-bearing demand deposits	**17,536**			17,714		
Other non-interest-bearing liabilities	**2,342**			2,211		
Total liabilities	**111,617**			113,095		
Stockholders' equity	**8,517**			8,396		
Total liabilities and stockholders' equity	**$120,134**			$121,491		
Net interest income		**$4,461**			$4,595	
Interest rate spread			**3.98**			4.06
Net interest margin			**4.04**			4.11
Average interest-earning assets to average interest-bearing liabilities	**120.45%**			120.14%		

Comparison of Financial Condition at December 31, 2016 and 2015

Total Assets. Total assets increased $293,000, or 0.2%, to $119.9 million at December 31, 2016 from $119.6 million at December 31, 2015. The increase was due primarily to the increases of $2.2 million in cash and cash equivalents, $892,000 in securities available for sale and $395,000 in other real estate owned. These increases were offset by decreases of $3.0 million in loans receivable, net, and $270,000 in loans held for sale.

Cash and cash equivalents. Cash and cash equivalents increased $2.2 million to $5.2 million at December 31, 2016 compared to $3.0 million at December 31, 2015. The primary reason for the increase in cash and cash equivalents during 2016 was the result of management's strategy to maintain higher liquidity at year end.

Securities. The investment securities portfolio was $3.5 million, or 2.9% of total assets, at December 31, 2016 compared to $2.6 million, or 2.2% of total assets at December 31, 2015. The increase in the portfolio was the result of purchases of $2.0 million of U.S. government agency securities, offset by maturities and pay downs in the residential mortgage-backed securities portfolio. Our investment securities portfolio consisted primarily of U.S. government agency, municipal and residential mortgage-backed securities at December 31, 2016.

Loans. At December 31, 2016, total loans, net, excluding loans held for sale, were $102.5 million, or 85.5% of total assets at December 31, 2016 compared to $105.5 million, or 88.2% of total assets at December 31, 2015. During the year ended December 31, 2016, the loan portfolio declined primarily because of decreases of $1.5 million in commercial business loans, $1.2 million in commercial real estate mortgages, $1.2 million in land loans and $907,000 in home equity loans. The decreases were a result of pay downs exceeding new volume during the year. The decrease was partially offset by increases of $1.1 million in residential mortgages. Loans held for sale decreased by $270,000 to $375,000 at December 31, 2016.

Premises and Equipment. At December 31, 2016 and 2015, premises and equipment was $4.4 million, or 3.6% of total assets.

Other real estate owned. At December 31, 2016, other real estate owned was $401,000, or 0.3% of total assets compared to $6,000, or 0.01% of total assets at December 31, 2015. Other real estate owned at December 31, 2016 consisted of one residential property and one commercial land development property. During the year ended December 31, 2016, we sold three properties, which resulted in no gain on sale of other real estate owned for 2016 as compared to a $124,000 gain on sale of other real estate owned during 2015.

Deposits. Our primary source of funds is retail deposit accounts, which are comprised of non-interest-bearing demand accounts, interest-bearing demand accounts, money market accounts, savings accounts and certificates of deposit. During the year ended December 31, 2016, deposits decreased $2.8 million, or 2.7% to $100.6 million at December 31, 2016 from $103.3 million at December 31, 2015. Deposits decreased in the following categories: certificates of deposit decreased by $6.6 million and non-interest-bearing demand accounts decreased by $145,000. These decreases were partially offset by increases in interest-bearing demand accounts by $1.8 million, money market accounts by $1.5 million and savings accounts by $648,000. The decrease in certificates of deposit was the result of the reduction of $5.5 million in a certificate of deposit from the State of New York Office of the Comptroller and increased competition in our local market for certificates of deposit accounts.

Borrowings. We utilize borrowings from the Federal Home Loan Bank of New York to supplement our source of funds for loans and investments. We are able to utilize borrowings when necessary or advantageous as an alternative to deposits when a pricing advantage exists, as a temporary source of funds to meet liquidity needs or to manage our asset and liability position. We had $9.0 million of borrowings at December 31, 2016 and $5.8 million at December 31, 2015.

Stockholders' Equity*.* Total stockholders' equity decreased $449,000 from $8.6 million at December 31, 2015 to $8.2 million at December 31, 2016. Stockholders' equity decreased primarily due to the net loss of $443,000 for the year ended December 31, 2016.

Results of Operations for the Years Ended December 31, 2016 and 2015

Overview*.* For the year ended December 31, 2016, we reported a net loss of $443,000, compared to net income of $201,000 for the year ended December 31, 2015. The primary reasons for the decrease in net income for year ended December 31, 2016 were an increase in non-interest expenses of $400,000 and a decrease of $134,000 in net interest income, a decrease of $118,000 in the recapture of provision for loan losses, offset in part by an increase of $36,000 in non-interest income. Non-interest expenses increased as a result of merger expenses for the proposed merger, higher compensation and benefit expense due to the increase in the mortgage banking program and increased professional fees offset by lower costs on delinquent loans and other real estate owned properties, due to continued workouts and sales of problem loans and assets in 2016. Net interest income declined as a result of a decrease in average interest-earning asset balances, a decrease in average interest-earning asset yields and an increase in the average cost of interest-bearing liabilities, offset by a decrease in the average balance of interest-bearing liabilities during 2016. The decrease in the recapture of the provision for loan losses during the year ended December 31, 2016 was partially the result of an increase in net charge-offs to approximately $270,000 compared to

$120,000 during 2015. Non-interest income increased in 2016 as compared to 2015 as a result of increased gains on the sale of loans and mortgage banking income, net.

Net Interest Income. Net interest income decreased by $134,000 or 2.9%, to $4.5 million for the year ended December 31, 2016 compared to $4.6 million for the prior year. The primary reasons for the decrease in net interest income during the year ended December 31, 2016 was due to the decreases in the average balance of interest-earning assets of $1.4 million, a decrease in the average yield of interest-earning assets of six basis points to 4.30% and an increase in the average cost of interest-bearing liabilities of two basis points to 0.32% for the year ended December 31, 2016 when compared to the year ended December 31, 2015. This decrease was partially offset by a decrease in the average balance of interest-bearing liabilities of $1.4 million in 2016. The interest rate spread decreased by eight basis points to 3.98% for the year ended December 31, 2016 from 4.06% for the year ended December 31, 2015. The net interest margin decreased by seven basis points to 4.04% for the year ended December 31, 2016 as compared to 4.11% for the year ended December 31, 2015.

Interest income on loans decreased $125,000, or 2.6% to $4.7 million during the year ended December 31, 2016 due to a decrease in the average balance of the loan portfolio of $406,000, to $105.9 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. In addition, the average yield on the loan portfolio decreased by 10 basis points to 4.42% for the year ended December 31, 2016. The decline in the average balance of loans was primarily the result of decreases in the average balances of commercial business loans, commercial real estate loans and land loans because of less new loan production. The decrease in the average yield on loans was primarily the result of loan refinancing and new loan production at continued low market interest rates and the interest income not recognized on nonaccrual loans.

Interest income on investment securities decreased $6,000, or 12.5% to $42,000 for the year ended December 31, 2016 from $48,000 for the year ended December 31, 2015. The decrease in interest income on investment securities was due to a decrease in the average balance of investment securities to $2.8 million for the year ended December 31, 2016 from $3.2 million for the year ended December 31, 2015.

Interest income on other interest-earning assets increased $13,000, or 59.1%, to $35,000 for the year ended December 31, 2016 from $22,000 for the year ended December 31, 2015. The increase in interest income on other interest-earning assets was due to an increase in the average yield of 102 basis points to 1.92% for 2016 as compared to 0.90% for 2015, offset by a decrease in the average balance of such assets to $1.8 million for the year ended December 31, 2016 from $2.4 million for the year ended December 31, 2015.

Interest expense on deposits decreased 4.1%, to $256,000 for the year ended December 31, 2016 compared to $267,000 for the year ended December 31, 2015. The primary reason for the decrease was a decrease of $5.1 million, or 5.7% in the average balance of interest-bearing deposits during the year ended December 31, 2016 to $85.1 million, compared with $90.2 million for the prior year. The decrease in the average balance of interest-bearing deposits was due primarily to decreases in the average balance of certificates of deposit of $6.0 million and in the average balance of money market accounts of $520,000, offset by an increase in the average balance of interest-bearing checking accounts of $1.2 million during 2016. The decrease in the average balance of certificates of deposit was the result of management allowing higher interest rate accounts to mature.

Interest expense on borrowings increased to $40,000 for the year ended December 31, 2016 compared to $13,000 for the year ended December 31, 2015. The primary reason for the increase was an increase of $3.7 million in the average balance of borrowings during the year ended December 31, 2016 to $6.7 million, compared with $3.0 million for the prior year and an increase in the average cost of borrowings to 60 basis points in 2016 compared to 44 basis points in 2015. The increase in the average balance of borrowings was due primarily for the need for increased liquidity in order to fund decreases in the average balance of interest-bearing deposits of $5.1 million during 2016.

Provision (credit) for Loan Losses. The provision (credit) for loan losses decreased $118,000 to a credit of ($188,000) for the year ended December 31, 2016 compared to a credit of $(306,000) for the

year ended December 31, 2015. The decrease in the credit for loan losses during the year ended December 31, 2016 was partially the result of an increase in net charge-offs to approximately $270,000 in 2016 compared to $120,000 during 2015. As a result of the reduced risk in the nonaccrual and classified loans in our portfolio and a full review of the allowance methodology, which included a decrease in our historical loss factors, we were able to recognize a credit in the provision for loan losses. The allowance for loan losses totaled $1.8 million at December 31, 2016, or 1.69% of total loans, as compared to $2.2 million, or 2.06% of total loans as of December 31, 2015.

Nonperforming loans totaled $3.5 million, or 3.4%, of total loans at December 31, 2016 compared to $4.7 million, or 4.4%, of total loans at December 31, 2015. The decrease was primarily the result of our workout efforts during the year ended December 31, 2016. The $3.5 million in non-accruing loans at December 31, 2016 were comprised of $1.4 million in one-to four-family residential loans, $1.2 million in land loans, $448,000 in commercial real estate loans, $238,000 in commercial business loans, $145,000 in home equity loans and $110,000 in construction loans.

Non-interest Income. Non-interest income increased $36,000, or 1.8% to $2.1 million for the year ended December 31, 2016 compared to $2.0 million for the year ended December 31, 2015. The primary reason for the increase in non-interest income for the year ended December 31, 2016 was due to gains on loan sales and mortgage banking income, net increasing by $249,000 because of an increased volume of loans sold during the year ended December 31, 2016. This increase was offset by reduced gains on the sale of other real estate owned which decreased by $124,000 in 2016 because there were no gains on sales during the year ended December 31, 2016 compared to the year ended December 31, 2015. All other non-interest income categories net decreased by a total of $89,000 during 2016 as compared to 2015.

Non-interest Expenses. Non-interest expenses increased $400,000, or 5.9% to $7.1 million for the year ended December 31, 2016 compared to $6.7 million for 2015. Non-interest expense increased primarily due to merger expenses of $257,000, an increase in salaries and employee benefits expense of $149,000, increased professional fees expense of $72,000 and an increase in other operating expenses of $57,000. These increases were offset in part by decreases in other real estate owned expense of $64,000, delinquent loan expense of $44,000 (as a result of less nonperforming loans) and FDIC premiums of $43,000.

Income Taxes. Income tax expense was $21,000 for the year ended December 31, 2016 due to the New York State tax law change requiring a minimum franchise tax as compared to an income tax benefit of $7,000 for the year ended December 31, 2015.

Interest Rate Risk Management. Our earnings and the market value of our assets and liabilities are subject to fluctuations caused by changes in the level of interest rates. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: originating loans with adjustable interest rates; selling residential real estate fixed-rate loans with terms greater than 10 years; and promoting core deposit products and short-term time deposits.

We have an Asset/Liability Management Committee to coordinate all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities of and payments on investment securities and borrowings from the Federal Home Loan Bank of New York. 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.

We regularly adjust our investments in liquid assets based upon our assessment of (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities and (4) the objectives of our asset/liability management policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At December 31, 2016, cash and cash equivalents totaled $5.2 million. In addition, at December 31, 2016, we had borrowing capacity up to $14.7 million from the Federal Home Loan Bank of New York. On December 31, 2016, we had $9.0 million of borrowings outstanding from the Federal Home Loan Bank.

A significant use of our liquidity is the funding of loan originations. At December 31, 2016, we had $6.1 million in loan commitments outstanding, which primarily consisted of $1.6 million in commitments to fund one- to four-family residential real estate loans, $662,000 in unused home equity lines of credit, $2.6 million in unused commercial lines of credit and $867,000 in letters of credit. Historically, many of the commitments expire without being fully drawn; therefore, the total amount of commitments does not necessarily represent future cash requirements. Another significant use of our liquidity is the funding of deposit withdrawals. Certificates of deposit due within one year of December 31, 2016 totaled $26.1 million, or 87.8% of certificates of deposit. The large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods in the recent low interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher than market rates on such deposits or other borrowings. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Capital Management. We are subject to various regulatory capital requirements administered by the Office of the Comptroller of the Currency ("OCC"), 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 December 31, 2016, we were considered "adequately capitalized" under OCC prompt corrective action regulations. However, as discussed below, the OCC has increased the Bank's required capital minimums.

Effective January 1, 2015, the OCC and the other federal bank regulatory agencies implemented the new capital rules that revised their risk-based capital requirements and the method for calculating risk-weighted assets making them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The rule limits capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was phased in beginning January 1, 2016 at 0.625% of risk-weighted assets increasing each year until fully implemented at 2.5% on January 1, 2019. For 2017, the capital conservation buffer will be 1.25% of risk-weighted assets.

In May 2015, the Federal Reserve Board amended its "Small Bank Holding Company" Policy Statement to extend the applicability to bank and savings and loan holding companies of up to $1 billion in assets. This exempts Hometown Bancorp, Inc. and Hometown Bancorp MHC from the consolidated holding company capital requirements.

We have ceased paying dividends and do not expect to pay dividends in the near term. Future dividend payments will depend on our profitability, approval by our Board of Directors, prevailing Federal Reserve regulations and approval of the Federal Reserve.

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with accounting principles generally accepted in the United States of America, are not recorded in our consolidated financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, lines of credit and letters of credit.

For the year ended December 31, 2016, we did not engage in any off-balance sheet transactions reasonably likely to have a material effect on our consolidated financial condition, results of operations or cash flows.

Formal Written Agreement. On March 7, 2013, the Bank entered into a Formal Written Agreement (the "Agreement") with the OCC. The Agreement sought to address OCC findings of unsafe and unsound practices by the Bank relating to management, credit risk management and asset quality. The Agreement required that the board of directors of the Bank take specific actions to address the deficiencies noted by the OCC. Among other things, specifically, the Agreement required the board of directors to:

- review the organizational structure of the Bank to ensure that full-time management was in place to carry out the board's policies, ensure compliance with the Agreement and manage the day-to-day operations of the Bank;
- hire qualified senior personnel where necessary and/or provide enhanced training for existing personnel;
- prepare, adopt and implement a written program for obtaining and analyzing credit and collateral information to monitor credit risk;
- follow a specific protocol before originating, reviewing or restructuring any loan, lease or other extension of credit;
- adopt and implement a written program to identify risk in the loan portfolio and ensure that the Bank does not improperly recognize income from the loan portfolio;
- adopt and adhere to written policies and procedures to maintain an adequate allowance for loan and lease losses;
- establish a revised and written Capital Plan that establishes internal capital ratios that identify and evaluate all material risks;
- adopt and implement a loan review system to assure the timely identification and categorization of problem loans;
- develop and implement a written profit plan to improve and sustain the earnings of the Bank; and
- revise and ensure Bank adherence to a written program of policies and procedures to provide compliance with the Bank Secrecy Act.

Concurrent with entering into the Agreement, the Bank was deemed by the OCC to be in "troubled condition" under the OCC's prompt corrective action rules. Consequently, the Bank is subject to additional regulatory restrictions that require it to:

- obtain the prior written approval of the OCC before appointing any new director or senior executive officer;
- obtain the prior written approval of the OCC before making or entering into any "golden parachute" payments or agreements;
- obtain the prior written approval of the OCC before declaring or paying any dividends or any other capital distributions; and
- provide advance notice to and receive a written notice of non-objection from the OCC before entering into or amending any contractual arrangements for compensation or benefits with any director or senior executive officer of the Bank.

The Agreement requires that we make periodic reports to the OCC as to our compliance with the requirements of the Agreement. In order to comply with the Agreement, we conducted an organizational review which resulted in the hiring of a new Chief Lending Officer, enhanced our training for existing personnel and initiated annual performance evaluations. We revised our classification of assets and appraisal policies to require updated financial information from borrowers and updated collateral valuations before originating, reviewing or restructuring any loan or extension of credit. In addition, we have revised our loan servicing and classification of assets policies to enhance our risk rating system for loans and follow the OCC guidance for maintaining an adequate allowance for loan losses.

On February 22, 2016, the Bank entered into an Amended Formal Written Agreement with the OCC. All requirements of the March 7, 2013 Agreement remain in effect without modification except that by June 30, 2016, the Bank agreed to achieve higher capital minimums. The capital minimums are: common equity tier 1 capital ratio at least equal to 9%, total capital ratio at least equal to 13%, tier 1 capital ratio at least equal to 11% and tier 1 leverage capital ratio at least equal to 9%. At December 31, 2016, the Bank was not in compliance with the Amended Formal Written Agreement.

The Bank's compliance committee monitors and coordinates compliance with the Agreement. The committee consists of four members of the Bank's Board of Directors and meets at least monthly to receive written progress reports from management on the results and status of actions needed to achieve full compliance with each article of the Agreement. Management believes that it has made substantial progress in complying with many of the requirements of the Agreement. The requirements of the Agreement will remain in effect until the OCC suspends or terminates the Agreement.

The Agreement does not affect the Bank's ability to continue to conduct its banking business with customers in a normal fashion. Banking products and services, hours of operation, internet banking, ATM usage, and FDIC deposit insurance coverage will all be unaffected. Customer deposits remain protected and insured by the FDIC up to $250,000 per depositor.

Notice by the Federal Reserve Bank of Philadelphia. The Federal Reserve Bank of Philadelphia ("FRB Phil") on February 12, 2014, gave formal notice that Hometown Bancorp, Inc. and Hometown Bancorp MHC (the "Holding Companies") are designated to be in "troubled condition". The Holding Companies are required to provide 30 day's prior written notice to the FRB Phil before adding or replacing any member of the board or any senior executive officers. The Holding Companies are prohibited from entering into and or making any payments that are deemed to be golden parachute payments, without prior written approval. We cannot determine when the Holding Companies will no longer be subject to the conditions of the FRB Phil.

This Annual Report contains certain forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words like "believe," "expect," "anticipate," "estimate" and "intend" or future or conditional verbs such as "will," "would," "should," "could" or "may." Certain factors that could cause actual results to differ materially from expected results include changes in the interest rate environment, changes in general economic conditions, legislative and regulatory changes that adversely affect the business of the Company and the Bank, and changes in the securities markets. Except as required by law, the Company does not undertake any obligation to update any forward-looking statements to reflect changes in belief, expectations or events.

For more information on Hometown Bancorp, Inc. and Hometown Bank of the Hudson Valley go to our website www.hometownbankhv.com.

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Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

March 28, 2017

To the Board of Directors and Stockholders
of Hometown Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Hometown Bancorp, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hometown Bancorp, Inc. as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Consolidated Balance Sheets

	December 31, 2016	December 31, 2015
	(In Thousands, Except Share Data)	
Assets		
Cash and due from banks	**$ 2,630**	$ 2,083
Interest earning demand deposits with banks	**2,529**	874
Cash and Cash Equivalents	**5,159**	2,957
Certificates of deposit	**-**	25
Securities available-for-sale	**3,454**	2,562
Securities held to maturity (fair value 2016 $26; 2015 $31)	**25**	31
Loans held for sale	**375**	645
Loans receivable, net of allowance for loan losses (2016 $1,762; 2015 $2,220)	**102,503**	105,537
Premises and equipment, net	**4,360**	4,357
Restricted investments in bank stocks, at cost	**751**	627
Other real estate owned	**401**	6
Accrued interest receivable and other assets	**2,858**	2,846
Total Assets	**$119,886**	$119,593
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	**$ 16,900**	$ 17,045
Interest bearing	**83,672**	86,300
Total Deposits	**100,572**	103,345
Federal Home Loan Bank advances	**9,000**	5,800
Advances from borrowers for taxes and insurance	**917**	928
Accrued interest payable	**2**	1
Other liabilities	**1,235**	910
Total Liabilities	**111,726**	110,984
Stockholders' Equity		
Preferred stock, $0.01 par value; 3,000,000 shares authorized and unissued	**-**	-
Common stock, $0.01 par value; 7,000,000 shares authorized; 2,380,500 shares issued; 2,326,939 outstanding	**24**	24
Paid-in capital	**9,883**	9,918
Accumulated deficit	**(987)**	(544)
Unearned ESOP shares, at cost	**(466)**	(513)
Treasury stock, at cost, 53,561 shares at December 31, 2016 and 2015	**(311)**	(311)
Accumulated other comprehensive income	**17**	35
Total Stockholders' Equity	**8,160**	8,609
Total Liabilities and Stockholders' Equity	**$119,886**	$119,593

See notes to consolidated financial statements.

Consolidated Statements of Operations

	Years Ended December 31,	
	2016	**2015**
	(In Thousands Except Per Share Data)	
Interest Income		
Loans receivable, including fees	**$4,680**	$4,805
Securities, taxable	**42**	48
Other	**35**	22
Total Interest Income	**4,757**	4,875
Interest Expense		
Deposits	**256**	267
Federal Home Loan Bank advances	**40**	13
Total Interest Expense	**296**	280
Net Interest Income	**4,461**	4,595
Provision (credit) for Loan Losses	**(188)**	(306)
Net Interest Income after Provision for Loan Losses	**4,649**	4,901
Non-interest Income		
Banking fees and service charges	**776**	815
Gain on sale of loans	**622**	469
Mortgage banking income, net	**562**	466
Investment brokerage fees	**27**	55
Realized gain on sale of other real estate owned	**-**	124
Other	**76**	98
Total Non-interest Income	**2,063**	2,027
Non-interest Expenses		
Salaries and employee benefits	**3,443**	3,294
Occupancy and equipment	**717**	750
Professional fees	**468**	396
Advertising and marketing	**164**	143
Data processing	**682**	657
Telephone and postage	**135**	132
FDIC premiums	**224**	267
Other real estate owned expense	**14**	78
Delinquent loan expense	**142**	186
Merger expense	**257**	-
Other	**888**	831
Total Non-interest Expenses	**7,134**	6,734
(Loss) Income before Income Taxes	**(422)**	194
Income Tax (Benefit) Expense	**21**	(7)
Net (loss) income	**$ (443)**	$ 201
Net (loss) income per common share - basic	**$ (0.19)**	$ 0.09
Weighted average number of common shares outstanding – basic	**2,277**	2,273

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive (Loss) Income

	Years Ended December 31,	
	2016	2015
	(In Thousands)	
Net (Loss) Income	**$ (443)**	$ 201
Other comprehensive (loss) income, before tax:		
Unrealized losses on securities available-for-sale:		
Unrealized holding losses arising during the year	**(27)**	(11)
Directors' retirement plan:		
Pension gains	**9**	17
Other comprehensive (loss) income, before tax	**(18)**	6
Income tax expense, net	**-**	-
Other comprehensive (loss) income, net of tax	**(18)**	6
Comprehensive (loss) income	**$ (461)**	$ 207

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2016 and 2015
(In Thousands Except Share Data)

	Common Stock	Paid-In Capital	Accumulated Deficit	Unearned ESOP Shares	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance - December 31, 2014	$ 24	$ 9,958	$ (745)	$ (560)	$ (311)	$ 29	$ 8,395
Net income	-	-	201	-	--	-	201
Other comprehensive income	-	-	-	-	-	6	6
ESOP shares committed to be released (4,666 shares)	-	(40)	-	47	-	-	7
Balance - December 31, 2015	24	9,918	(544)	(513)	(311)	35	8,609
Net loss	**-**	**-**	**(443)**	**-**	**-**	**-**	**(443)**
Other comprehensive loss	**-**	**-**	**-**	**-**	**-**	**(18)**	**(18)**
ESOP shares committed to be released (4,666 shares)	**-**	**(35)**	**-**	**47**	**-**	**-**	**12**
Balance - December 31, 2016	**$ 24**	**$ 9,883**	**$ (987)**	**$ (466)**	**$ (311)**	**$ 17**	**$ 8,160**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2016	**2015**
	(In Thousands)	
Cash Flows from Operating Activities		
Net (loss) income	**$ (443)**	$ 201
Adjustments to reconcile net (loss) income to net cash flow from operating activities:		
Depreciation and amortization	**199**	220
Provision for loan losses	**(188)**	(306)
Amortization of deposit premium	**78**	78
Amortization of mortgage servicing rights	**141**	117
Net amortization of securities premiums and discounts	**11**	12
Net gain on sale of loans	**(622)**	(469)
Loans originated for sale	**(35,206)**	(24,932)
Proceeds from sale of loans	**36,098**	25,131
Gain on sale of other real estate owned	**-**	(124)
ESOP expense	**12**	7
Increase in accrued interest receivable and other assets	**(231)**	(67)
Increase in accrued interest payable and other liabilities	**341**	102
Net Cash Flow From Operating Activities	**190**	(30)
Cash Flows from Investing Activities		
Maturity of certificates of deposit	**25**	253
Activity in available for sale securities:		
Purchases	**(2,000)**	-
Maturities, calls and principal repayments	**1,065**	1,092
Activity in held to maturity securities:		
Maturities, calls and principal repayments	**6**	6
Net decrease in loans receivable	**2,420**	1,885
Proceeds from sale of other real estate owned	**406**	868
Net increase in restricted investment in bank stocks	**(124)**	(237)
Purchases of bank premises and equipment	**(202)**	(12)
Net Cash Flow From Investing Activities	**1,596**	3,855
Cash Flows from Financing Activities		
Net decrease in deposits	**(2,773)**	(11,584)
Increase in borrowings	**3,200**	5,800
Net (decrease) increase in advances from borrowers for taxes and insurance	**(11)**	99
Net Cash Flow From Financing Activities	**416**	(5,685)
Net Change in Cash and Cash Equivalents	**2,202**	(1,860)
Cash and Cash Equivalents - Beginning	**2,957**	4,817
Cash and Cash Equivalents - Ending	**$ 5,159**	$ 2,957
Supplementary Cash Flows Information		
Interest paid	**$ 295**	$ 281
Income taxes paid (refund)	**$ 9**	$ (7)
Supplemental Schedule of Noncash Investing Activities		
Loans transferred to other real estate owned	**$ 801**	$ -

See notes to consolidated financial statements.

Note 1 - Significant Accounting Policies

Organization and Nature of Operations

Hometown Bancorp, Inc. (the "Company"), is a federally chartered mid-tier stock holding company, and a subsidiary of Hometown Bancorp, MHC (the "Mutual Holding Company"), a federally chartered mutual holding company. The Mutual Holding Company owns 1,309,275 shares, or 56.3%, of the Company's outstanding stock, and the remaining Company stock is held by the public or has been repurchased by the Company. The Mutual Holding Company activity is not included in the accompanying consolidated financial statements. Hometown Bank of the Hudson Valley, formerly known as Walden Federal Savings and Loan Association (the "Bank"), is a wholly owned subsidiary of the Company. The same directors and officers, who manage the Bank, also manage the Company and the Mutual Holding Company.

The Company, the Mutual Holding Company and the Bank and Wallkill Valley Federal Savings & Loan Association ("Wallkill") jointly announced on December 16, 2016, that they have entered into a definitive merger agreement under which Wallkill will acquire the Company for $3.01 per share which will be paid out in cash to all public shareholders (excluding any shares held by the MHC).

Under the terms of the agreement, the Company, the Mutual Holding Company and the Bank will merge into Wallkill or a related Wallkill entity, with Wallkill or a related Wallkill entity as the surviving entity. The merger has been approved by each company's board of directors and is anticipated to close by the third quarter of 2017, subject to regulatory approvals, the approval of the shareholders of the Company and, if required, the members of the MHC and Wallkill and other customary closing conditions.

The Bank maintains its executive offices and main branch in Walden, New York, with branches in Montgomery, Monroe, and Otisville, New York. The Bank is a community-oriented savings institution whose business primarily consists of accepting deposits from customers within its market area and investing those funds principally in mortgage loans secured by one- to four-family residences, multi-family and commercial properties, land loans, commercial loans, consumer loans and investment securities.

The Bank has three wholly-owned subsidiaries, Ever-Green Financial Services, Inc., Valley Services, Inc. and Balsam Realty Inc., which lease certain premises used by the Bank and hold other real estate owned.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank and the Bank's wholly-owned subsidiaries, Ever-Green Financial Services, Inc., Valley Services, Inc. and Balsam Realty Inc. All significant intercompany transactions and balances have been eliminated in consolidation.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 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 in the near term relate to the determination of the allowance for loan losses.

Concentrations of Credit Risk

Most of the Company's activities are with customers located within Orange and Ulster Counties, New York and to a lesser extent the adjacent county of Sullivan. Note 2 discusses the types of securities that the Bank invests in. Note 3 discusses the types of lending that the Bank engages in. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy. The Bank does not have any significant concentrations in any one industry or customer.

Reclassifications

Amounts in the prior year's consolidated financial statements have been reclassified whenever necessary to conform to the current year's presentation. Such reclassifications had no impact on stockholders' equity or net income as previously reported.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and interest-bearing deposits with an original maturity of three months or less.

Securities

Management determines the appropriate classification of debt securities at the time of purchase.

Securities classified as available for sale are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair value. Unrealized gains and losses are reported in other comprehensive income (loss), net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the effective interest method over the terms of the securities.

Securities classified as held to maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, recognized in interest income using the effective interest method over the terms of the securities.

On a quarterly basis, the Bank performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment. A security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. If impaired, the Bank then assesses whether the unrealized loss is other-than-temporary. The assessment considers (i) whether the Bank intends to sell the security prior to recovery and/or maturity, (ii) whether it is more likely than not that the Bank will have to sell the security prior to recovery and/or maturity and (iii) if the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis. If a debt security is deemed to be other-than-temporarily impaired, the credit loss component of an other-than-temporary impairment write-down is recorded in earnings while the remaining portion of the impairment loss is recognized, net of tax, in other comprehensive income provided that the Bank does not intend to sell the underlying security and it is more-likely-than not that the Bank would not have to sell the security prior to recovery. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security. There were no other-than-temporary impairments recorded in the years ended December 31, 2016 or 2015.

Securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain securities, it is at least reasonably possible that changes in the values of securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Federal law requires a member institution of the Federal Home Loan Bank (FHLB) system to hold restricted stock of its district FHLB according to a predetermined formula, which amounted to approximately $691,000 and $567,000 at December 31, 2016 and 2015, respectively. The restricted stock is carried at cost. Management reviews impairment based on the ultimate recoverability of the cost basis in the FHLB stock. The Bank owns $60,000 of restricted stock from its correspondent bank Atlantic Central Bankers Bank (ACBB) at December 31, 2016 and 2015. The purchase was required in order to access credit lines and other services. The restricted stock is carried at cost. Management reviews impairment based on the ultimate recoverability of the cost basis in the ACBB stock.

Note 1 - Significant Accounting Policies (Continued)

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees and costs are deferred and recognized as an adjustment of interest income on the related loans. The Bank is amortizing these amounts over the expected life of the loan.

For all classes of loans receivable, the accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest is reversed against interest income. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The Bank has issued letters of credit on behalf of customers primarily to secure construction or land development projects that involve public improvements. The letters of credit are fully secured by a note and a mortgage placed on the related property. The note contains provisions that waive any interest payments provided there are no drawdowns on the letter of credit. Funds equal to the full amount of the letters of credit are advanced and placed in a non-interest bearing deposit account in order to enhance the Bank's collateral position under New York State Lien Law. These loans and deposits are reported gross in the consolidated balance sheets as the Bank does not intend to offset them. Interest is not imputed on these loans and deposits as it is a customary lending and deposit activity of the Bank.

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The Bank periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (TDR). All TDRs are classified as impaired.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying amount of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for the following qualitative factors:

- Trends in past due and problem loans
- Trends in volume and nature of the portfolio
- Changes in lending policy
- Changes in lending management
- Economic trends in lending
- Concentrations of credit
- Changes in loan review
- External factors (regulatory and competition)

Note 1 - Significant Accounting Policies (Continued)

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

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

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

Loans Held for Sale and Loan Servicing

Loans held for sale represent residential mortgage loans originated for sale on a whole-loan basis. These loans are carried at the lower of cost or estimated fair value, as determined on an aggregate basis. Net unrealized losses are recognized in a valuation allowance by charges to operations. Premiums and discounts and origination fees and costs on loans held for sale are deferred and recognized as a component of the gain or loss on sale. Commitments to originate loans that will be held for sale and forward commitments to sell such loans are derivative instruments which are required to be recognized as assets or liabilities at fair value. Fair value is determined based solely on the effect of changes in secondary market interest rates and yield requirements from the commitment date to the date of the financial statements. The fair values of these commitments have had an immaterial effect on the Company's consolidated balance sheets and income statements.

The Bank sells residential mortgage loans to third parties. The Bank, as transferor, must surrender control over the transferred assets (i.e., the loans sold) in order to record a sale. The criteria specify that (i) the transferred assets have been isolated from the transferor (put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership); (ii) each transferee has the right to pledge or exchange the assets it received; and (iii) the transferor does not maintain effective control over the transferred assets through an agreement to repurchase the assets or an ability to unilaterally cause the holder to return specific assets.

Gains and losses on sales of loans are recognized when the sales proceeds are received (including consideration of assets obtained and liabilities incurred in the transfer, if any, such as servicing rights and recourse obligations). Recourse liabilities on loan sales through December 31, 2016 and 2015 are not material to the Company's consolidated balance sheets and income statement. Loan servicing income is reported in mortgage banking income, net.

Originated mortgage servicing rights are recorded at their fair value when loans are sold and are amortized in proportion to and over the period of estimated net servicing income or loss. The carrying value of originated mortgage servicing rights is periodically evaluated for impairment.

Premises and Equipment

Premises and equipment are recorded at cost. Depreciation is computed using the straight-line method over the expected useful lives of the related assets, which is generally 15 to 40 years for buildings and building improvements and 3 to 10 years for furniture, equipment, computers and software. Leasehold improvements are amortized over the related terms of the leases or their useful life if shorter.

Note 1 - Significant Accounting Policies (Continued)

Other Real Estate Owned

Real estate acquired in settlement of loans is recorded at the fair value of the property at the date of physical possession. Physical possession of residential real estate property collateralizing a residential real estate mortgage occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through similar legal agreement. Write-downs from cost to fair value less estimated selling costs are charged to the allowance for loan losses. Subsequent write-downs to fair value, net of estimated selling costs, are charged to other real estate owned expense.

Intangible Assets

Intangible assets include a core deposit intangible (CDI) arising from the acquisition of the Monroe branch on September 9, 2011. The CDI is amortized on a straight-line basis over 10 years. CDI, which is recorded in other assets, has a net carrying amount of $362,000 and $440,000 at December 31, 2016 and 2015, respectively. The gross carrying amount and accumulated amortization of the CDI amounted to $776,000 and $414,000, respectively, at December 31, 2016 and $776,000 and $336,000, respectively, at December 31, 2015. The estimated amortization expense is $77,000 for each of the next four years ending December 31, 2020 and $54,000 thereafter.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and net operating losses and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company and its subsidiary file a consolidated federal income tax return.

Net Income Per Common Share

Basic net income per common share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. The Company has a simple capital structure as it has not granted any restricted stock awards or stock options and, during the years ended December 31, 2016 and 2015, had no potentially dilutive common stock equivalents. Unallocated common shares held by the ESOP are not included in the weighted-average number of common shares outstanding for purposes of calculating earnings per common share until they are committed to be released.

Comprehensive Income (Loss)

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

There were no income taxes allocated to components of other comprehensive income (loss) at December 31, 2016 and 2015.

Note 1 - Significant Accounting Policies (Continued)

The balances and changes in the components of accumulated other comprehensive income (loss) are as follows:

	Unrealized Gains (Losses) on Available-for-Sale Securities	Directors Retirement Plan	Accumulated Other Comprehensive Income
Balance, December 31, 2014	$ 29	$ -	$ 29
Other comprehensive income (loss) for 2015	(11)	17	6
Balance, December 31, 2015	18	17	35
Other comprehensive income (loss) for 2016	**(27)**	**9**	**(18)**
Balance, December 31, 2016	**$ (9)**	**$ 26**	**$ 17**

Note 2 - Securities

The amortized cost of securities and their approximate fair values are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
Available For Sale:				
December 31, 2016:				
U. S. Government agency securities	**$ 2,749**	**$ -**	**$ 28**	**$ 2,721**
Municipal securities	**522**	**16**	**-**	**538**
Residential mortgage-backed securities	**197**	**-**	**2**	**195**
Total	**$ 3,468**	**$ 16**	**$ 30**	**$ 3,454**
December 31, 2015:				
U. S. Government agency securities	$ 1,750	$ -	$ 8	$ 1,742
Municipal securities	530	27	-	557
Residential mortgage-backed securities	264	-	1	263
Total	$ 2,544	$ 27	$ 9	$ 2,562

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
Held to Maturity:				
December 31, 2016:				
Residential mortgage-backed securities	**$ 25**	**$ 1**	**$ -**	**$ 26**
Total	**$ 25**	**$ 1**	**$ -**	**$ 26**
December 31, 2015:				
Residential mortgage-backed securities	$ 31	$ -	$ -	$ 31
Total	$ 31	$ -	$ -	$ 31

Note 2 – Securities (Continued)

All residential mortgage-backed securities are issued by U.S. Government agencies or sponsored enterprises.

There were no sales of investments in 2016 and 2015. At December 31, 2016 and 2015, no securities were pledged.

The following table shows the Bank's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2016 and 2015:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
December 31, 2016:						
U. S. Government agency securities	**$ 1,970**	**$ 28**	**$ -**	**$ -**	**$ 1,970**	**$ 28**
Residential mortgage-backed securities	**195**	**2**	**-**	**-**	**195**	**2**
Total	**$ 2,165**	**$ 30**	**$ -**	**$ -**	**$ 2,165**	**$ 30**
December 31, 2015:						
U. S. Government agency securities	$ 748	$ 2	$ 994	$ 6	$ 1,742	$ 8
Residential mortgage-backed securities	263	1	-	-	263	1
Total	$ 1,011	$ 3	$ 994	$ 6	$ 2,005	$ 9

At December 31, 2016, there was three securities in a continuous loss position for less than 12 months and no securities in a continuous loss position for more than 12 months. These securities are of high credit quality and the decline in fair value is primarily due to the effects of changes in market interest rates. The fair values are expected to recover as the securities approach their maturity date and/or market interest rates change. Because the Bank does not intend to sell the securities and it is not more likely than not that the Bank will be required to sell the securities before recovery of their amortized cost basis, which may be maturity, the Bank does not consider the securities to be other-than-temporarily impaired at December 31, 2016.

The amortized cost and fair value of securities as of December 31, 2016, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the borrowers may have the right to prepay obligations with or without any penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)		(In Thousands)	
Due in one year or less	**$ -**	**$ -**	**$ -**	**$ -**
Due after one year through five years	**2,749**	**2,721**	**-**	**-**
Due after five years through ten years	**522**	**538**	**-**	**-**
Due after ten years	**-**	**-**	**-**	**-**
Residential Mortgage-backed securities	**197**	**195**	**25**	**26**
	$ 3,468	**$ 3,454**	**$ 25**	**$ 26**

Note 3 - Loans Receivable and Allowance for Loan Losses

The composition of loans receivable at December 31, 2016 and 2015 is as follows:

	2016	2015
	(In Thousands)	
Real estate mortgages:		
Residential	**$ 62,359**	$ 61,236
Construction	**861**	708
Multi-family	**2,446**	2,456
Commercial	**22,992**	24,146
Land	**5,986**	7,162
Total Real Estate Mortgages	**94,644**	95,708
Other loans:		
Commercial	**3,068**	4,595
Home equity loans and credit lines	**6,108**	7,015
Consumer	**255**	289
Total Loans	**104,075**	107,607
Deferred loan origination costs, net	**190**	150
Allowance for loan losses	**(1,762)**	(2,220)
Net Loans	**$ 102,503**	$ 105,537

The Bank grants loans to customers primarily within Orange County and Ulster County, New York, and to a lesser extent, portions of the adjacent county of Sullivan. A large portion of the loan portfolio is secured by real estate. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy.

The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the losses inherent in the loan portfolio, the composition of the loan portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of all loans on which full collectability may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for the loan loss allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. The Bank considers residential mortgages, home equity loans, which include credit lines and consumer loans to customers as small, homogeneous loans, which are evaluated for impairment collectively based on historical loss experience, except that such loans subject to a troubled debt restructuring are individually evaluated for impairment. Commercial mortgage, construction, multi-family, land and commercial loans are evaluated individually and considered impaired if it is probable that the Bank will not be able to collect scheduled payments of principal and interest when due, according to the contractual terms of the loan agreements. The measurement of impaired loans is primarily based on the fair value of the underlying collateral. The allowance for loan losses is increased by a provision for loan losses (which results in a charge to expense) and recoveries of loans previously charged off and is reduced by loan charge-offs.

The following tables present changes in the allowance for loan losses for the years ended December 31, 2016 and 2015 (In Thousands):

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

For the Year Ended December 31, 2016

	Residential mortgage	Construction	Multi-family	Commercial real estate	Land	Commercial	Home equity	Consumer	Unallocated	Total
Allowance for loan losses:										
Beginning Balance	$ 679	$ 13	$ 29	$ 573	$ 511	$ 75	$ 89	$ 2	$ 249	$ 2,220
Charge-offs	(119)	-	-	-	(209)	(17)	(121)	(6)	-	(472)
Recoveries	100	-	-	-	39	7	54	2	-	202
Provisions	96	(3)	1	(145)	(104)	(23)	74	4	(88)	(188)
Ending balance	$ 756	$ 10	$ 30	$ 428	$ 237	$ 42	$ 96	$ 2	$ 161	$ 1,762
Ending balance: related to loans individually evaluated for impairment	$ 34	$ -	$ -	$ 173	$ -	$ -	$ 2	$ -	$ -	$ 209
Ending balance: related to loans collectively evaluated for impairment	$ 722	$ 10	$ 30	$ 255	$ 237	$ 42	$ 94	$ 2	$ 161	$ 1,553
Loans receivable:										
Ending balance	$ 62,359	$ 861	$ 2,446	$ 22,992	$ 5,986	$ 3,068	$ 6,108	$ 255		$ 104,075
Ending balance: individually evaluated for impairment	$ 4,189	$ 110	$ -	$ 4,007	$ 1,242	$ 252	$ 262	$ -		$ 10,062
Ending balance: collectively evaluated for impairment	$ 58,170	$ 751	$ 2,446	$ 18,985	$ 4,744	$ 2,816	$ 5,846	$ 255		$ 94,013

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

For the Year Ended December 31, 2015

	Residential mortgage	Construction	Multi-family	Commercial real estate	Land	Commercial	Home equity	Consumer	Unallocated	Total
Allowance for loan losses:										
Beginning Balance	$ 997	$ 43	$ 50	$ 663	$ 438	$ 209	$ 128	$ 6	$ 112	$ 2,646
Charge-offs	(176)	(4)	-	-	-	(63)	-	(8)	-	(251)
Recoveries	92	-	-	-	-	36	-	3	-	131
Provisions	(234)	(26)	(21)	(90)	73	(107)	(39)	1	137	(306)
Ending balance	$ 679	$ 13	$ 29	$ 573	$ 511	$ 75	$ 89	$ 2	$ 249	$ 2,220
Ending balance: related to loans individually evaluated for impairment	$ 99	$ -	$ -	$ 250	$ 207	$ 3	$ 27	$ -	$ -	$ 586
Ending balance: related to loans collectively evaluated for impairment	$ 580	$ 13	$ 29	$ 323	$ 304	$ 72	$ 62	$ 2	$ 249	$ 1,634
Loans receivable:										
Ending balance	$ 61,236	$ 708	$ 2,456	$ 24,146	$ 7,162	$ 4,595	$ 7,015	$ 289		$ 107,607
Ending balance: individually evaluated for impairment	$ 4,487	$ 408	$ -	$ 4,211	$ 1,923	$ 592	$ 392	$ -		$ 12,013
Ending balance: collectively evaluated for impairment	$ 56,749	$ 300	$ 2,456	$ 19,935	$ 5,239	$ 4,003	$ 6,623	$ 289		$ 95,594

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

Nonperforming Assets and Loan Delinquencies

Management places loans on nonaccrual status once the loans have become 90 days or more delinquent. Nonaccrual is defined as a loan in which collectability is questionable and therefore interest on the loan will no longer be recognized on an accrual basis. A loan is not placed back on accrual status until the borrower has demonstrated the ability and willingness to make timely payments on the loan. A loan does not have to be 90 days delinquent in order to be classified as nonaccrual. Nonaccrual loans consisted primarily of loans secured by real estate at December 31, 2016. While the Bank makes every reasonable effort to work with the borrowers to collect amounts due, the number of loans in process of foreclosure has grown substantially over the past several years. This growth has been the result of adverse changes within the economy and increases in local unemployment. The growth is also due in part to the extended length of time required to meet all of the legal requirements mandated by New York State law prior to a foreclosure sale, which may be in excess of three years. At December 31, 2016, nonaccrual loans totaling $2.0 million were in the process of foreclosure.

The following table represents nonaccrual loans by classes of the loan portfolio as of December 31, 2016 and 2015.

(Dollars in thousands)	December 31, 2016	2015
Nonaccrual loans:		
Residential mortgage	**$ 1,360**	$ 1,476
Construction	**110**	408
Commercial real estate	**448**	36
Land	**1,242**	1,923
Commercial	**238**	573
Home equity loans and credit lines	**145**	266
Total nonaccrual loans	**$ 3,543**	$ 4,682
Total nonaccrual loans to total loans	**3.40%**	4.35%
Total nonaccrual loans to total assets	**2.96%**	3.91%

Interest not recognized on nonaccrual loans was $192,000 and $356,000 for the years ended December 31, 2016 and 2015, respectively. There were no loans past due 90 days or more and still accruing interest at December 31, 2016 and 2015.

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2016 (In Thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable
Residential mortgage	**$ 955**	**$ 237**	**$ 823**	**$ 2,015**	**$ 60,344**	**$ 62,359**
Construction	**-**	**-**	**110**	**110**	**751**	**861**
Multi-family	**-**	**-**	**-**	**-**	**2,446**	**2,446**
Commercial real estate	**675**	**-**	**-**	**675**	**22,317**	**22,992**
Land	**-**	**-**	**1,242**	**1,242**	**4,744**	**5,986**
Commercial	**-**	**-**	**1**	**1**	**3,067**	**3,068**
Home equity	**216**	**-**	**20**	**236**	**5,872**	**6,108**
Consumer	**2**	**-**	**-**	**2**	**253**	**255**
Total	**$ 1,848**	**$ 237**	**$ 2,196**	**$ 4,281**	**$ 99,794**	**$ 104,075**

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2015 (In Thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable
Residential mortgage	$ 252	$ 131	$ 571	$ 954	$ 60,282	$ 61,236
Construction	-	-	408	408	300	708
Multi-family	-	-	-	-	2,456	2,456
Commercial real estate	1,082	-	36	1,118	23,028	24,146
Land	88	-	1,923	2,011	5,151	7,162
Commercial	14	-	295	309	4,286	4,595
Home equity	9	-	97	106	6,909	7,015
Consumer	-	2	-	2	287	289
Total	$ 1,445	$ 133	$ 3,330	$ 4,908	$ 102,699	$ 107,607

Management closely monitors the quality of the loan portfolio and has established a loan review process designed to help grade the quality and profitability of the Bank's loan portfolio. The credit quality grade helps management make a consistent assessment of each loan relationship's credit risk. Consistent with regulatory guidelines, the Bank provides for the classification of loans considered being of lesser quality. Such ratings coincide with the "Substandard," "Doubtful" and "Loss" classifications used by federal regulators in their examination of financial institutions. Generally, an asset is considered Substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. Substandard assets include those characterized by the distinct possibility that the insured financial institution will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent in assets classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable. Assets classified as Loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a full loss allowance and/or charge-off is not warranted. Assets that do not currently expose the insured financial institutions to sufficient risk to warrant classification in one of the aforementioned categories but otherwise possess weaknesses are designated "Special Mention." These loans represent borrowers with declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average risk. When the Bank classifies problem assets as either Substandard or Doubtful, it generally establishes a valuation allowance or "loss reserve" in an amount deemed prudent by management. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets.

When the Bank identifies problem assets as being impaired, it is required either to establish a specific allowance for losses equal to the amount of impairment of the assets, or to charge-off such amount. The Bank's determination as to the classification of its assets and the amount of its valuation allowance is subject to review by its regulatory agencies, which can order the establishment of additional general or specific loss allowances. The Bank reviews its portfolio monthly to determine whether any assets require classification in accordance with applicable regulations.

The inherent risk within the loan portfolio varies depending upon the loan type. The Bank's primary lending activity is the origination of residential mortgage loans, including home equity loans, which are collateralized by residences. Generally, residential mortgage loans are made in amounts up to 85.0% of the appraised value of the property. However, the Bank will originate residential mortgage loans with loan-to-value ratios of up to 95.0%, with private mortgage insurance. In the event of default by the borrower, the Bank will acquire and liquidate the underlying collateral. By originating the loan at a loan-to-value ratio of 85% or less, the Bank limits its risk of loss in the event of default. However, the market values of the collateral may be adversely impacted by declines in the economy. Home equity loans may have an additional inherent risk if the Bank does not hold the first mortgage. The Bank may stand in a secondary position in the event of collateral liquidation resulting in a greater chance of insufficiency to meet all obligations.

Construction lending generally involves a greater degree of risk than other residential mortgage lending. The repayment of the construction loan is, to a great degree, dependent upon the successful and timely completion of the construction of the subject

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

property. The Bank completes inspections during the construction phase prior to any disbursements. The Bank limits its risk during the construction as disbursements are not made until the required work for each advance has been completed. Construction delays may further impair the borrower's ability to repay the loan.

Loans collateralized by commercial real estate, and multi-family loans, such as apartment buildings generally are larger than residential loans and involve a greater degree of risk. Commercial mortgage loans often involve large loan balances to single borrowers or groups of related borrowers. Payments on these loans depend to a large degree on the results of operations and management of the properties or underlying businesses, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of commercial real estate loans makes them more difficult for management to monitor and evaluate.

Loans collateralized by land generally are larger than residential loans and involve a greater degree of risk. Payments on these loans depend to a large degree on the results of operations and sales of the properties, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of land loans makes them more difficult for management to monitor and evaluate.

Consumer loans generally have shorter terms and higher interest rates than residential mortgage loans. In addition, consumer loans expand the products and services offered by the Bank to better meet the financial services needs of its customers. Consumer loans generally involve greater credit risk than residential mortgage loans because of the difference in the underlying collateral. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance because of the greater likelihood of damage, loss or depreciation in the underlying collateral. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections depend on the borrower's personal financial stability. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Commercial lending generally involves greater risk than residential mortgage lending and involves risks that are different from those associated with residential and commercial real estate lending. Real estate lending is generally considered to be collateral based, with loan amounts based on fixed-rate loan-to-collateral values, and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial loans may be collateralized by equipment or other business assets, the liquidation of collateral in the event of a borrower default is often an insufficient source of repayment because equipment and other business assets may be obsolete or of limited use, among other things. Accordingly, the repayment of a commercial loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment.

Credit Quality Indicators

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention and substandard within the Bank's internal risk rating system as of December 31, (In Thousands):

2016	Pass	Special Mention	Substandard	Total
Residential mortgage	**$ 60,999**	**$ -**	**$ 1,360**	**$ 62,359**
Construction	**751**	**-**	**110**	**861**
Multi-family	**2,446**	**-**	**-**	**2,446**
Commercial real estate	**19,036**	**1,634**	**2,322**	**22,992**
Land	**3,477**	**-**	**2,509**	**5,986**
Commercial	**2,524**	**251**	**293**	**3,068**
Home equity	**5,963**	**-**	**145**	**6,108**
Consumer	**255**	**-**	**-**	**255**
Total	**$ 95,451**	**$ 1,885**	**$ 6,739**	**$ 104,075**

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

2015	Pass	Special Mention	Substandard	Total
Residential mortgage	$ 59,412	$ -	$ 1,824	$ 61,236
Construction	300	-	408	708
Multi-family	2,456	-	-	2,456
Commercial real estate	19,758	1,909	2,479	24,146
Land	3,859	-	3,303	7,162
Commercial	3,620	267	708	4,595
Home equity	6,664	-	351	7,015
Consumer	289	-	-	289
Total	$ 96,358	$ 2,176	$ 9,073	$ 107,607

The Bank had no loans classified as Doubtful or Loss at December 31, 2016 and 2015.

A loan is considered impaired when it is probable that the borrower will be unable to repay the loan according to the original contractual terms of the loan agreement or the loan is restructured in a troubled debt restructuring. Loans are reviewed on a regular basis to assess collectability of all principal and interest payments due. Management determines that a loan is impaired or nonperforming when it is probable at least a portion of the loan will not be collected due to an irreversible deterioration in the financial condition of the borrower or the value of the underlying collateral. When a loan is determined to be impaired, the measurement of the loan is based on present value of estimated future cash flows, except that all collateral dependent loans are measured for impairment based on the fair value of the collateral.

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2016 and 2015 (In Thousands):

Impaired Loans

December 31, 2016	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential mortgage	**$ 3,418**	**$ 3,662**	**$ -**	**$ 3,009**	**$ 79**
Construction	**110**	**174**	**-**	**110**	**-**
Commercial real estate	**3,174**	**3,181**	**-**	**2,921**	**159**
Land	**1,242**	**1,301**	**-**	**1,242**	**-**
Commercial	**237**	**320**	**-**	**483**	**1**
Home equity	**235**	**253**	**-**	**228**	**5**
Total	**$ 8,416**	**$ 8,891**	**$ -**	**$ 7,993**	**$ 244**
With an allowance recorded:					
Residential mortgage	**771**	**771**	**34**	**785**	**32**
Commercial real estate	**833**	**833**	**173**	**845**	**25**
Commercial	**15**	**15**	**-**	**17**	**-**
Home equity	**27**	**27**	**2**	**29**	**2**
Total	**$ 1,646**	**$ 1,646**	**$ 209**	**$ 1,676**	**$ 59**
Total:					
Residential mortgage	**$ 4,189**	**$ 4,433**	**$ 34**	**$ 3,794**	**$ 111**
Construction	**110**	**174**	**-**	**110**	**-**
Commercial real estate	**4,007**	**4,014**	**173**	**3,766**	**184**
Land	**1,242**	**1,301**	**-**	**1,242**	**-**
Commercial	**252**	**335**	**-**	**500**	**1**
Home equity	**262**	**280**	**2**	**257**	**7**
Total	**$ 10,062**	**$ 10,537**	**$ 209**	**$ 9,669**	**$ 303**

Notes to Consolidated Financial Statements

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

December 31, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential mortgage	$ 3,141	$ 3,420	$ -	$ 3,212	$ 63
Construction	408	521	-	412	-
Commercial real estate	2,851	2,855	-	2,919	139
Land	1,698	1,890	-	1,538	-
Commercial	531	571	-	521	-
Home equity	328	349	-	314	5
Total	$ 8,957	$ 9,606	$ -	$ 8,916	$ 207
With an allowance recorded:					
Residential mortgage	1,346	1,349	99	1,106	37
Commercial real estate	1,360	1,360	250	1,379	47
Land	225	270	207	238	-
Commercial	61	61	3	66	2
Home equity	64	64	27	41	2
Total	$ 3,056	$ 3,104	$ 586	$ 2,830	$ 88
Total:					
Residential mortgage	$ 4,487	$ 4,769	$ 99	$ 4,318	$ 100
Construction	408	521	-	412	-
Commercial real estate	4,211	4,215	250	4,298	186
Land	1,923	2,160	207	1,776	-
Commercial	592	632	3	587	2
Home equity	392	413	27	355	7
Total	$ 12,013	$ 12,710	$ 586	$ 11,746	$ 295

The Bank generally does not separately identify individual residential mortgages, home equity and consumer loans for impairment unless the loan is restructured in a troubled debt restructuring.

During the years ended December 31, 2016 and 2015, certain loan modifications were executed which were considered to be troubled debt restructurings. Substantially all of these modifications included one or a combination of the following: extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; temporary reduction in the interest rate; change in scheduled payment amount; permanent reduction of principal of the loan; or extension of additional credit for payment of delinquent real estate taxes.

The following tables summarize troubled debt restructurings by loan classification that occurred during the year indicated (in thousands):

For the year ended December 31, 2016	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
Commercial real estate	**2**	**$ 315**	**$ 460**

For the year ended December 31, 2015	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
Residential mortgage	1	$ 258	$ 261
Home equity loans and credit lines	2	$ 120	$ 142
Commercial	5	$ 247	$ 295

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

A loan is considered to be in payment default once it is greater than 90 days contractually past due under the modified terms. There were no significant troubled debt restructurings that defaulted in the first twelve months after restructure in 2016 and 2015.

Loans subject to a troubled debt restructuring are evaluated as impaired loans for the purpose of determining the specific component of allowance for loan losses.

At December 31, 2016 and 2015, one- to four-family residential mortgage loans serviced for others amounted to approximately $158.6 million and $140.1 million, respectively. Advances from borrowers for taxes and insurance related to loans serviced for others amounted to approximately $1.8 million and $1.6 million at December 31, 2016 and 2015. These loans and related advances are not included in the accompanying consolidated balance sheets.

The following summarizes activity pertaining to mortgage servicing rights for the years ended December 31, 2016 and 2015:

	2016	2015
	(In Thousands)	
Balance, beginning	**$ 829**	$ 696
Capitalized during the year	**340**	250
Amortization	**(141)**	(117)
Balance, ending	**$ 1,028**	$ 829

Mortgage servicing rights are included in accrued interest receivable and other assets in the consolidated balance sheets.

Note 4 – Other Real Estate Owned

Other real estate owned activity was as follows:

	2016	2015
	(In Thousands)	
Beginning balance	**$ 6**	$ 750
Loans transferred to other real estate owned	**801**	-
Capitalized expenditures	**-**	-
Direct write-downs	**-**	-
Gain (loss) on sales	**-**	124
Proceeds from sales of other real estate owned	**(406)**	(868)
End of year	**$ 401**	$ 6

At December 31, 2016, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceeds are in process is $637,000.

Expenses related to other real estate owned include:

	2016	2015
	(In Thousands)	
Provision for unrealized losses	**$ -**	$ -
Operating expenses, net of rental income	**14**	78
	$ 14	$ 78

Note 5 - Premises and Equipment

The components of premises and equipment at December 31, 2016 and 2015 are as follows:

	2016	2015
	(In Thousands)	
Land	**$ 1,801**	$ 1,801
Buildings and leasehold improvements	**4,115**	3,998
Furniture and equipment	**1,031**	1,013
Automobiles	**32**	32
	6,979	6,844
Accumulated depreciation	**2,619**	2,487
	$ 4,360	$ 4,357

Depreciation and amortization expense was $199,000 and $220,000 in 2016 and 2015, respectively.

Note 6 - Deposits

Deposits at December 31, 2016 and 2015 consist of the following major classifications:

	2016	2015
	(In Thousands)	
Non-interest bearing demand	**$ 16,900**	$ 17,045
NOW	**13,498**	11,700
Money market	**18,062**	16,536
Savings	**22,418**	21,770
Certificates of deposit	**29,694**	36,294
	$ 100,572	$ 103,345

A summary of certificates of deposit by maturity at December 31, 2016 is as follows (In Thousands):

Year ending December 31:	
2017	**$ 26,078**
2018	**2,276**
2019	**1,118**
2020	**74**
2021	**148**
	$ 29,694

The aggregate amount of certificates of deposit with a minimum denomination of $250,000 was $2.8 million and $8.0 million at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, $2.0 million and $7.5 million, respectively, of certificates of deposit consisted of one municipal deposit from the New York State Office of the Comptroller which is secured by a municipal letter of credit issued by the Federal Home Loan Bank (see Note 7).

A summary of interest expense on deposits for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
	(In Thousands)	
NOW and money market demand	**$ 56**	$ 50
Savings	**31**	31
Certificates of deposit	**169**	186
	$ 256	$ 267

Note 7 – Federal Home Loan Bank and Other Borrowings

At December 31, 2016, the Bank had borrowings of $9.0 million at 0.74% due January 3, 2017 and had borrowings of $5.8 million at 0.53% at December 31, 2015 due January 4, 2016. As a member of the FHLB, the Bank may borrow in the form of term and overnight borrowing up to a portion of the amount of eligible residential mortgage loans and securities that have been pledged as collateral under a blanket security agreement. As of December 31, 2016, the Bank had pledged residential mortgage loans totaling $37.4 million. Based on $9.0 million of outstanding borrowings and a secured $3.0 million municipal letter of credit, the Bank had unused borrowing capacity with FHLB of approximately $14.7 million at December 31, 2016.

Note 8 - Legal Contingencies

Various legal claims arise from time to time in the normal course of business, which in the opinion of management will have no material effect on the Company's consolidated financial statements.

Note 9 - Restrictions on Dividends, Loans and Advances

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Company. The total amount of dividends which may be paid at any date is generally limited to retained net income of the Bank for the current and preceding two years. In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below minimum capital requirements. Loans or advances are limited to 10% of the Bank's capital and surplus on a secured basis.

At December 31, 2016 and 2015, the Bank had no retained earnings available for the payment of dividends. Prior approval of the Bank's regulatory agency would be required for the payment of dividends or any loans or advances to the Company. The Company's ability to pay dividends is generally dependent on the Bank's ability to pay dividends to the Company.

Note 10 - Lease Commitments and Total Rental Expense

The Bank leases two locations under long-term operating leases. Future minimum lease payments by year and in the aggregate, under noncancelable operating leases with initial or remaining terms of one year or more, consisted of the following at December 31, 2016 (In Thousands):

Years ending December 31:	
2017	**$ 50**
2018	**45**
2019	**22**
2020	**22**
2021	**16**
	$ 155

The leases contain options to extend for periods up to ten years. The cost of such extensions is not included above. The total rental expense for all leases for both of the years ended December 31, 2016 and 2015 was approximately $64,000 and $40,000, respectively.

Note 11 - Income Taxes

The income tax expense (benefit) consists of the following for the years ended December 31, 2016 and 2015:

	2016	2015
	(In Thousands)	
Federal:		
Current	$ -	$ -
Deferred	-	-
	-	-
State		
Current	21	(7)
Deferred	-	-
	21	(7)
Income Tax Expense (Benefit)	$ 21	$ (7)

A reconciliation of the statutory federal income tax at a rate of 34% to the income tax expense (benefit) included in the consolidated statements of operations for the years ended December 31, 2016 and 2015 is as follows:

	2016		2015	
	Amount	% of Pretax Income	Amount	% of Pretax Income
	(Dollars in Thousands)			
Federal income tax at statutory rate	$ (143)	(34.0) %	$ 66	34.0 %
State income taxes, net of federal tax benefit	14	3.3	(5)	(2.6)
Tax-exempt interest and other permanent differences	44	10.4	(29)	(14.9)
Valuation allowance for federal net deferred tax assets	97	23.1	(44)	(22.7)
Other	9	2.2	5	2.6
	$ 21	5.0 %	$ (7)	(3.6) %

Items that gave rise to significant portions of deferred taxes are as follows:

	December 31, 2016	December 31, 2015
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 642	$ 795
Directors' retirement plan	138	135
Nonaccrual interest	74	136
Net operating losses	4,259	3,875
Unrealized loss on securities available-for-sale	5	-
Other	-	1
	5,118	4,942
Deferred tax liabilities:		
Premises and equipment	112	123
Mortgage servicing rights	394	317
Other	8	-
	514	440
Valuation allowance	(4,604)	(4,502)
Net Deferred Tax Asset	$ -	$ -

Note 11 - Income Taxes (Continued)

Net deferred tax assets are recorded in accrued interest receivable and other assets. Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the carryback period. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax liabilities, the level of historical taxable income, and the projected future level of taxable income over the periods in which the temporary differences or net operating losses related to the deferred tax assets will be deductible. The judgment about the level of future taxable income is inherently subjective and is reviewed on a continual basis as regulatory and business factors change. Due to the significant operating losses in 2014 and 2013, management assessed the potential realization of the deferred tax assets and recorded a valuation allowance equal to the full amount of the net deferred tax assets at both December 31, 2016 and 2015.

As a thrift institution, the Bank is subject to special provisions in the Federal tax laws regarding its allowable tax bad debt deductions and related tax bad debt reserves. These reserves consist primarily of a defined base-year amount for Federal income tax purposes. Deferred tax liabilities are recognized with respect to any portion of the base-year amount which is expected to become taxable (or “recaptured”) in the foreseeable future.

Under current tax laws, Federal base-year reserves would be subject to recapture if the Bank pays a cash dividend in excess of earnings and profits or liquidates. The Bank expects that it will take no action in the foreseeable future which would require the establishment of a tax liability associated with these bad debt reserves. Deferred tax liabilities have not been recognized with respect to the base-year reserve of approximately $500,000 at December 31, 2016, since the Bank does not expect that these amounts will become taxable in the foreseeable future. The unrecognized deferred tax liability with respect to the base-year reserves was approximately $170,000 at December 31, 2016.

The Company has net operating loss carry forwards for Federal income tax purposes of approximately $10.6 million which begin to expire in 2033. In addition, the Company has net operating loss carry forwards for New York State income tax purposes of approximately $14.0 million which will begin to expire in 2031.

Note 12 - Employee Benefit Plans

401(k)

The Bank has a 401(k) savings plan, which is offered to all eligible employees, defined as those who are at least 21 years of age that have worked for the Bank for one year and work a minimum of 1,000 hours per Plan year. The Plan permits tax deferred employee contributions of up to 15% of compensation and provides for employer discretionary matching and additional contributions determined annually by the Board of Directors. Employer contributions are subject to the employee completing 1,000 hours of service during the Plan year and being employed on the last day of the Plan year. Employer contributions vest to the employee at the rate of 20% after completion of two years of service and 20% per year, thereafter, becoming 100% vested upon the completion of six years of service.

In 2016 and 2015, the Board of Directors did not approve any matching or additional contributions.

Employee Stock Ownership Plan (“ESOP”)

In June 2007, the Bank established an ESOP which acquired 93,315 shares of the Company’s common stock with funds provided by a loan from the Company. The stock acquired by the ESOP but not yet released to participants is shown as a reduction of stockholders’ equity in the accompanying consolidated balance sheets. The ESOP loan will be repaid principally from the Bank’s contributions to the ESOP in annual payments through 2027 at a fixed interest rate of 8.25%. Shares are released to participants on a straight-line basis over the loan term and allocated based on participant compensation. The Bank recognizes compensation benefit expense as shares are committed for release at their current market price. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends on allocated shares are recorded as a reduction of retained earnings and dividends on unallocated shares are recorded as a reduction of debt. The Company recognized $12,000 and $7,000 of compensation expense related to this plan for the years ended December 31, 2016 and 2015. At December 31, 2016, there were 46,655 shares not yet released having an aggregate market value of approximately $134,000. Participant eligibility requirements and vesting provisions for the ESOP are the same as the 401(k) savings plan outlined above.

Note 12 - Employee Benefit Plans (Continued)

Directors' Retirement Plan

Effective March 2007, the Bank adopted an unfunded directors' retirement plan for the benefit of non-employee directors. Under the plan, directors who have attained the normal retirement age of 65 receive a retirement benefit based on their length of service upon termination. Benefits vest at the rate of 20% per year over a five year period commencing on the date of adoption for existing directors or the initial date of service for directors who join the Board of Directors after the adoption date. The plan's projected benefit obligation as of the December 31, 2016 and 2015 measurement date, activity in the plan and the amounts recognized in the accompanying consolidated financial statements follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015
	(In Thousands)	
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 353**	$ 354
Service cost	**3**	2
Interest cost	**14**	14
Gains	**(9)**	(17)
Projected benefit obligation at end of year	**$ 361**	$ 353

The discount rate used to determine the projected benefit obligation at December 31, 2016 and 2015 was 4.00%. The projected benefit obligation is recorded in the other liabilities in the consolidated balance sheets.

The components of net periodic pension expense follow (In Thousands):

	2016	2015
Service cost	**$ 3**	$ 2
Interest cost	**14**	14
Net periodic pension expense	**$ 17**	$ 16

Discount rates of 4.25% and 4.00% were used to determine net periodic pension expense for the years ended December 31, 2016 and 2015, respectively.

The following table shows the expected benefit payments to be paid to participants for the years indicated (In Thousands):

Years ending December 31,	
2017	**$ 22**
2018	**43**
2019	**43**
2020	**43**
2021	**42**
2022 - 2026	**217**

Hometown Bancorp, Inc. 2008 Equity Incentive Plan

In 2008, the stockholders approved the 2008 Equity Incentive Plan ("Equity Plan") the purpose of which is to promote the long-term financial success of the Company and the Bank, by providing a means to attract, retain and reward individuals who can and do contribute to such success and to further align their interests with those of our stockholders. The Compensation Committee determines which executives will receive stock awards as well as type, size and restrictions on the awards. Under the Equity Plan, the Compensation Committee may make grants of incentive stock options, nonqualified stock options, stock appreciation rights or restricted stock of up to 163,301 shares. Grants have not yet been made under the Equity Plan.

Note 13 - Transactions with Officers and Directors

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, their immediate families, and affiliated companies (commonly referred to as related parties), on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the Bank. These persons were indebted to the Bank for loans totaling approximately $893,000 and $509,000 at December 31, 2016 and 2015, respectively. During 2016, there were $475,000 new loans requested and approximately $91,000 of repayments made. During 2015, there were no new loans requested and approximately $78,000 of repayments were made.

Deposits from related parties held by the Bank at December 31, 2016 and 2015 amounted to approximately $340,000 and $316,000, respectively.

Note 14 - Off-Balance Sheet Risk

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank's financial instruments with off-balance sheet risk at December 31, 2016 and 2015 is as follows:

	2016	2015
	(In Thousands)	
Commitments to grant loans	**$ 1,571**	$ 1,089
Unfunded commitments under lines of credit	**3,628**	8,598
Letters of credit	**867**	1,044
	$ 6,066	$ 10,731

Fixed rate commitments to grant loans amounted to approximately $1.2 million at December 31, 2016, and had interest rates that ranged from 4.00% to 7.00%.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies, but includes principally residential or commercial real estate.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party and generally expire within one year. Those guarantees are primarily issued to municipalities to ensure the completion of public improvements in residential subdivisions by contractors that are customers of the Bank. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral supporting these commitments for which collateral is deemed necessary. The current amount of the liability as of December 31, 2016 and 2015 for guarantees under standby letters of credit issued is not material.

Note 15 - Regulatory Matters

The Bank is required to maintain a cash reserve balance in vault cash or with the Federal Reserve Bank. The total of this reserve balance was approximately $515,000 and $463,000 at December 31, 2016 and 2015, respectively.

Banks, savings banks, bank holding companies and savings and loan holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Prompt corrective action regulations provide five classification: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2016 and 2015, the most recent regulatory notifications categorized the Bank as adequately capitalized under the regulatory framework for prompt corrective action.

The Bank's actual capital amounts and ratios are presented below.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of December 31, 2016:						
Tier 1 leverage	**$ 6,932**	**5.75 %**	**$ ≥4,819**	**≥4.0 %**	**$ ≥6,024**	**≥ 5.0 %**
Common equity Tier 1 risk-based	**6,932**	**8.08**	**≥3,860**	**≥4.5**	**≥5,576**	**≥ 6.5**
Tier 1 risk-based	**6,932**	**8.08**	**≥5,147**	**≥6.0**	**≥6,863**	**≥ 8.0**
Total risk-based	**8,013**	**9.34**	**≥6,863**	**≥8.0**	**≥8,579**	**≥10.0**
As of December 31, 2015:						
Tier 1 leverage	$ 7,271	6.12 %	$ ≥4,754	≥4.0 %	$ ≥5,942	≥ 5.0 %
Common equity Tier 1 risk-based	7,271	7.86	≥4,164	≥4.5	≥6,015	≥ 6.5
Tier 1 risk-based	7,271	7.86	≥5,552	≥6.0	≥7,403	≥ 8.0
Total risk-based	8,441	9.12	≥7,403	≥8.0	≥9,253	≥10.0

Formal Written Agreement. On March 7, 2013, the Bank entered into a Formal Written Agreement ("Agreement") with the Office of the Comptroller of the Currency ("OCC"). The Agreement seeks to address OCC findings of unsafe and unsound practices by the Bank relating primarily to management, credit risk management and asset quality. The Agreement requires that the board of directors of the Bank take specific actions to address the deficiencies noted by the OCC. The Agreement requires the Bank to improve its risk management program and credit administration practices, develop and implement a written program to reduce the level of credit risk in the Bank, including the level of criticized assets, develop and implement a written profit plan to improve and sustain the earnings of the Bank. The Agreement also requires the Bank to prepare a written capital plan for the Bank covering at least a three-year period and adhere to other compliance related matters. The Agreement requires that the Bank make periodic reports to the OCC as to its compliance with the requirements of the Agreement. The Agreement will remain in effect until the OCC suspends or terminates it.

On February 22, 2016, the Bank entered into an Amended Formal Written Agreement with the OCC. All requirements of the

Note 15 - Regulatory Matters (Continued)

March 7, 2013 Agreement remain in effect without modification except that by June 30, 2016, the Bank had agreed to achieve higher capital minimums. The capital minimums are: common equity tier 1 risk-based capital ratio at least equal to 9%, total risk-based capital ratio at least equal to 13%, tier 1 risk-based capital ratio at least equal to 11% and tier 1 leverage capital ratio at least equal to 9%. At December 31, 2016, the Bank was not in compliance with the Amended Formal Written Agreement.

Notice by the Federal Reserve Bank of Philadelphia. The Federal Reserve Bank of Philadelphia ("FRB Phil") on February 12, 2014, gave formal notice that the Company and Mutual Holding Company (the "Holding Companies") are designated to be in "troubled condition", as defined by regulation. The Holding Companies are required to provide 30 day's prior written notice to the FRB Phil before adding or replacing any member of the board or any senior executive officers. The Holding Companies are prohibited from entering into and or making any payments that are deemed to be golden parachute payments, without prior written approval. It cannot be determined when the Holding Companies will no longer be subject to the conditions of the FRB Phil.

The OCC Agreement and the FRB Phil formal notice do not affect the Bank's ability to continue to conduct its banking business with customers in a normal fashion. Banking products and services, hours of operation, internet banking, ATM usage, and FDIC deposit insurance coverage will all be unaffected. Customer deposits remain protected and insured by the FDIC up to $250,000 per depositor.

As outlined above, the Bank's regulators have required the Bank to maintain capital ratios in excess of the amounts set forth in the table above to be adequately or well capitalized. Failure to comply with the increased capital requirements or other aspects of the Agreement discussed above can result in further discretionary supervisory enforcement actions and possible legal proceedings. These actions could include the issuance of cease and desist orders, the imposition of civil money penalties and/or removal of directors and officers. The exercise of additional discretionary supervisory enforcement actions, if deemed necessary by the regulators, may have a material adverse impact on the Company's consolidated financial statements.

Note 16 - Fair Value Measurements and Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of December 31, 2016 and 2015 and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

A fair value hierarchy is used that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2016 are as follows:

Note 16 - Fair Value of Financial Instruments (Continued)

Description	Carrying Amount	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)		
U. S. Government agency securities	**$ 2,721**	**$ -**	**$ 2,721**	**$ -**
Municipal securities	**$ 538**	**$ -**	**$ 538**	**$ -**
Residential mortgage-backed securities	**$ 195**	**$ -**	**$ 195**	**$ -**
Forward sales contract	**$ 19**	**$ -**	**$ 19**	**$ -**

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2015 are as follows:

Description	Carrying Amount	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)		
U. S. Government agency securities	$ 1,742	$ -	$ 1,742	$ -
Municipal securities	$ 557	$ -	$ 557	$ -
Residential mortgage-backed securities	$ 263	$ -	$ 263	$ -
Forward sales contract	$ 22	$ -	$ 22	$ -

The Company enters into forward sales contracts to sell certain residential real estate loans. Such commitments are considered to be derivative financial instruments and, therefore, are carried at estimated fair value in the other assets or other liabilities section of the consolidated balance sheets. The fair value of these forward sales contracts is primarily measured by obtaining pricing from certain government-sponsored entities. The pricing is derived from market observable inputs that can generally be verified and do not typically involve significant judgment by the Company and therefore, are classified as Level 2 in the fair value hierarchy.

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2016 are as follows:

Description	Carrying Amount	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)		
Impaired loans	**$ 361**	**$ -**	**$ -**	**$ 361**

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2015 are as follows:

Note 16 - Fair Value of Financial Instruments (Continued)

Description	Carrying Amount	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)		
Impaired loans	$ 1,270	$ -	$ -	$ 1,270

The valuation techniques and significant unobservable inputs in the determination of fair value of assets classified as level 3 on a nonrecurring basis at December 31, 2016 and 2015 are as follows:

December 31, 2016	Valuation Technique	Unobservable Input	Range
Impaired loans	Appraisal of collateral	Management appraisal adjustments and estimated costs to sell	0.0% - 6.0%

December 31, 2015	Valuation Technique	Unobservable Input	Range
Impaired loans	Appraisal of collateral	Management appraisal adjustments and estimated costs to sell	10.0% - 20.0%

Impaired Loans

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive a specific valuation allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These real estate appraisals may include up to three approaches to value: the sales comparison approach, the income approach (for income-producing property) and the cost 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, if applicable. Although the fair value of the property normally will be based on an appraisal, the valuation should be consistent with the price that a market participant will pay to purchase the property at the measurement date. Circumstances may exist that indicate that the appraised value is not an accurate measurement of the property's current fair value. Examples of such circumstances include changed economic conditions since the last appraisal, stale appraisals or imprecision and subjectivity in the appraisal process. Appraisal adjustments may be made by management to reflect these conditions resulting in a discount of the appraised value. In addition, a discount is typically applied to account for estimated costs to sell. 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 the market conditions from the time of the valuations, and management's expertise and knowledge of the client's business. The methods used to determine the fair values of impaired loans typically result in a level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

There were no impairment charges on loans related to the above nonrecurring fair value measurements, included in the provision for loan losses for the year ended December 31, 2016. For the year ended December 31, 2015, there was $205,000 included in the provision for loan losses for impaired loans.

Note 16 - Fair Value of Financial Instruments (Continued)

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2016 and 2015:

Cash and Cash Equivalents and Certificates of Deposit

The carrying amounts reported in the consolidated balance sheet for these instruments approximate the fair value.

Securities

Fair values of available for sale and held to maturity securities are based on quoted market prices of comparable instruments. When necessary, the Company utilizes matrix pricing from a third party pricing vendor to determine fair value pricing.

Matrix pricing is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. Securities valued using matrix pricing result in a level 2 classification.

Loans Held for Sale

Fair values for loans held for sale are based on existing commitments from investors or prevailing market prices resulting in a level 2 classification.

Loans Receivable

The fair values of loans are estimated using discounted cash flow analyses at interest rates currently offered in the market for loans with similar terms to borrowers of similar credit quality resulting in a level 3 classification. The estimate of maturities is based on the contractual cash flows adjusted for prepayment estimates based on current economic and lending conditions.

Restricted Investments in Bank Stocks

The carrying amount of Federal Home Loan Bank and Atlantic Central Bankers Bank stock approximates fair value.

Accrued Interest Receivable and Payable

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

Mortgage Servicing Rights

The Company accounts for mortgage servicing rights (MSRs) at amortized cost. The Company performs a valuation of fair value to determine if there is any impairment. Fair value for MSRs is determined using a static discounted cash flow valuation approach resulting in a level 2 classification. This approach consists of projecting servicing cash flows under static interest-rate scenarios and discounting these cash flows using risk-adjusted rates. The model assumptions used in the valuation of MSRs include mortgage prepayment speeds and discount rates. The fair value of MSRs is primarily affected by changes in prepayments that result from shifts in mortgage interest rates.

Deposits

Fair values for demand deposits, savings accounts and certain money market deposits are, by definition, equal to the amount payable on demand at the reporting date. Fair values of fixed-maturity certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on similar instruments with similar maturities resulting in a level 2 classification.

Borrowings ("Federal Home Loan Bank Advances")

Fair values are equal to the amount payable at the reporting date since the borrowings are overnight.

Note 16 - Fair Value of Financial Instruments (Continued)

The estimated fair values of the Company's financial instruments at December 31, 2016 and 2015 were as follows:

		December 31,			
		2016		2015	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(In Thousands)			
Financial assets:					
Cash and cash equivalents	1	$ 5,159	$ 5,159	$ 2,957	$ 2,957
Certificates of deposit	1	-	-	25	25
Securities available for sale	2	3,454	3,454	2,562	2,562
Securities held to maturity	2	25	26	31	31
Loans held for sale	2	375	375	645	645
Loans receivable, net	3	102,503	103,450	105,537	106,318
Restricted investments in bank stocks	2	751	751	627	627
Accrued interest receivable	1	359	359	351	351
Mortgage servicing rights	2	1,028	1,270	829	1,023
Financial liabilities:					
Non-interest bearing demand accounts	1	16,900	16,900	17,045	17,045
NOW accounts	1	13,498	13,498	11,700	11,700
Money market accounts	1	18,062	18,062	16,536	16,536
Savings accounts	1	22,418	22,418	21,770	21,770
Certificates of deposit	2	29,694	29,732	36,294	36,343
Federal Home Loan Bank Advances	2	9,000	9,000	5,800	5,800
Accrued interest payable	1	2	2	1	1

Note 17 – Subsequent Events

The Company has evaluated subsequent events through March 28, 2017, the date that the consolidated financial statements were available to be issued.

STOCKHOLDER INFORMATION

Corporate Office
Hometown Bancorp, Inc.
12 Main Street
Walden, NY 12586
(845) 778-2171

Annual Meeting of Stockholders
The annual meeting of Hometown Bancorp, Inc. will be held May 16, 2017 at 4:00 pm at the Company's office, 12 Main Street, Walden, NY 12586.

Stock Transfer Agent & Registrar
Stockholders wishing to change name, address or ownership of stock, or to report lost certificates or to consolidate accounts should contact the Company's stock registrar and transfer agent directly at:

Computershare, Inc.
P.O. Box 30170
College Station, TX 77842
(800) 368-5948

Regulatory Counsel
Luse Gorman, P.C.
5335 Wisconsin Avenue, N.W. Suite 780
Washington, DC 20015

Independent Accounting Firm
Bonadio & Co., LLP
432 N. Franklin Street, Suite 60
Syracuse, NY 13204

Market Information for Common Stock
The common stock of Hometown Bancorp, Inc. is quoted on the OTC Pink under the symbol "HTWC."

At December 31, 2016, there were approximately 238 stockholders of record, not including the number of persons or entities holding stock in nominee or street names through various brokers and banks.

DIRECTORS AND OFFICERS
Hometown Bancorp, Inc.

Board of Directors
Steven E. Howell: Chairman of the Board, CPA and partner with RBT CPA's, LLP.

Stephen E. Sabine: Retired Division Manager from New York State Electric & Gas Corp.

Kenneth R. Schliphack: Retired from B&C Fuel Oil Co. Inc.

Curtis J. Schoeberl, Sr.: Assessor for the Town of Shawangunk, NY

Ian J. Green: President of Pendragon Capital Management Inc., CEO of BrokerageSelect and CPA.

Officers
Stephen W. Dederick: President & Chief Executive Officer and Chief Financial Officer

Michael Shaughnessy: Senior Vice President and Chief Credit Officer

Amy Sherwood: Vice President and Compliance Officer and Corporate Secretary

Hometown Bancorp, Inc.

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