2016 Annual Report

April 17, 2017

Dear Shareholders,

We are pleased to present you with the Annual Report to Shareholders of MB Bancorp, Inc. and its wholly owned subsidiary Madison Bank of Maryland for the fiscal year ending December 31, 2016. The financial statements accompanying this report provide important information about our operations.

As a community-oriented financial institution, dedicated to serving the financial service needs of customers within our market area, we continue to endure many of the same obstacles as other financial institutions in this challenging economic environment. During 2016, our Board of Directors assessed the Company and made some difficult decisions to change the leadership of the Bank in order to better position ourselves for success. Accordingly, during the fourth quarter of 2016, we made some positive changes to our management team with a focus on improving the financial performance of the Bank. We also successfully completed a 10% share repurchase program during the second quarter of 2016 and announced an additional 5% share repurchase program during the fourth quarter of 2016.

We understand it is of paramount importance for the Company to become profitable. Toward this end, in 2016 we initiated certain strategic initiatives, including paying off higher rate Federal Home Loan Bank advances and implementing an expense management reduction program which included a reduction in workforce. Despite the reduction in personnel, we believe that we now have the proper personnel in place to efficiently drive residential mortgage and commercial loan growth within our enhanced credit standards. We also introduced a more customer focused sales culture in our branch network. We are evaluating all of our contracts to ensure that we control expenses with a view toward improving the financial performance of the Bank. In summary, we are very committed to improving earnings and asset quality, as well as enhancing shareholder value.

The proxy information regarding our May 23, 2017 annual meeting is enclosed. The Board of Directors, management team and employees of MB Bancorp, Inc. and Madison Bank of Maryland thank all of our shareholders and customers for their confidence and continued support.

Sincerely,

Phil Phillips

Phil Phillips
President and Chief Executive Officer

April 17, 2017

Dear Shareholder:

We invite you to attend the Annual Meeting of Shareholders (the “Annual Meeting”) of MB Bancorp, Inc. (the “Company”) to be held at the main office of Madison Bank of Maryland located at 1920 Rock Spring Road, Forest Hill, Maryland, on Tuesday, May 23, 2017, at 12:00 p.m., local time.

The attached Notice of Annual Meeting of Shareholders and Proxy Statement describe the formal business to be transacted at the meeting. During the meeting, we will also report on the operations of Madison Bank of Maryland, the Company’s wholly owned subsidiary. Directors and officers of the Company and the Bank will be present to respond to any questions the shareholders may have.

ON BEHALF OF THE BOARD OF DIRECTORS, WE URGE YOU TO SIGN, DATE AND RETURN THE ACCOMPANYING PROXY CARD OR VOTING INSTRUCTION CARD AS SOON AS POSSIBLE EVEN IF YOU CURRENTLY PLAN TO ATTEND THE ANNUAL MEETING. Your vote is important, regardless of the number of shares you own. This will not prevent you from voting in person but will assure that your vote is counted if you are unable to attend the Annual Meeting.

On behalf of the Board of Directors and all of the employees of MB Bancorp, Inc. and Madison Bank of Maryland, I wish to thank you for your continued support.

Sincerely,

Phil Phillips

Phil Phillips
President and Chief Executive Officer

MB Bancorp, Inc.
1920 Rock Spring Road
Forest Hill, Maryland 21050
(410) 420-9600

NOTICE OF 2017 ANNUAL MEETING OF SHAREHOLDERS

TIME AND DATE	12:00 p.m. on Tuesday, May 23, 2017
PLACE	Madison Bank of Maryland 1920 Rock Spring Road Forest Hill, Maryland 21050
ITEMS OF BUSINESS . . .	(1) To elect three directors to serve for terms of three years and one director to serve for a term of one year; (2) To ratify the selection of TGM Group LLC as our independent registered public accounting firm for the fiscal year ending December 31, 2017; (3) To vote on a non-binding resolution to approve the compensation of the named executive officers; and (4) Such other business as may properly come before the meeting. The Board of Directors is not aware of any other business to come before the meeting.
RECORD DATE	In order to vote, you must have been a shareholder at the close of business on April 7, 2017.
PROXY VOTING	It is important that your shares be represented and voted at the meeting. You can vote your shares by completing and returning the proxy card or the voting instruction card sent to you. You can revoke a proxy at any time prior to its exercise at the meeting by following the instructions in the proxy statement.

BY ORDER OF THE BOARD OF DIRECTORS

Lisa M. McGuire-Dick

Lisa M. McGuire-Dick
Corporate Secretary

Forest Hill, Maryland
April 17, 2017

Important Notice Regarding the Availability of Proxy Materials for the Shareholders Meeting to be held on May 23, 2017.

The proxy statement, proxy card and annual report to shareholders are available on the Internet at www.edocumentview.com/mbcq.

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PROXY STATEMENT

GENERAL INFORMATION

We are providing this proxy statement to you in connection with the solicitation of proxies by the Board of Directors of MB Bancorp, Inc. for the 2017 Annual Meeting of Shareholders and for any adjournment or postponement of the meeting. In this proxy statement, we may also refer to MB Bancorp, Inc. as “MB Bancorp,” the “Company,” “we,” “our” or “us.” MB Bancorp is the holding company for Madison Bank of Maryland. In this proxy statement, we may also refer to Madison Bank of Maryland as the “Bank.”

We are holding the 2017 Annual Meeting of Shareholders at the main office of Madison Bank of Maryland located at 1920 Rock Spring Road, Forest Hill, Maryland, on Tuesday, May 23, 2017 at 12:00 p.m., local time.

We intend to mail this proxy statement and the enclosed proxy card to shareholders of record beginning on or about April 17, 2017.

INFORMATION ABOUT VOTING

Who Can Vote at the Meeting

You are entitled to vote the shares of MB Bancorp common stock that you owned as of the close of business on April 7, 2017. As of the close of business on April 7, 2017, a total of 1,890,200 shares of MB Bancorp common stock were outstanding. Each share of common stock has one vote.

The Company’s Articles of Incorporation provide that record holders of the Company’s common stock who beneficially own, either directly or indirectly, in excess of 10% of the Company’s outstanding shares are not entitled to any vote with respect to the shares held in excess of the 10% limit. With respect to shares held by a broker, bank or nominee, the Company generally will look beyond the holder of the shares to the person or entity for whom the shares are held when applying the voting limitation. However, where the ultimate owner of the shares has granted voting authority to the broker, bank or nominee that holds the shares, the Company will apply the 10% voting limitation to the broker, bank or nominee.

Ownership of Shares; Attending the Meeting

You may own shares of MB Bancorp in one of the following ways:

- Directly in your name as the shareholder of record;
- Indirectly through a broker, bank or other holder of record in “street name;” or
- Indirectly in the Madison Bank of Maryland Employee Stock Ownership Plan (the “ESOP”) or the Madison Bank of Maryland 401(k) Plan (the “401(k) Plan”).

If your shares are registered directly in your name, you are the holder of record of these shares and we are sending these proxy materials directly to you. As the holder of record, you have the right to give your proxy directly to us or to vote in person at the meeting.

If you hold your shares in street name, your broker, bank or other holder of record is sending these proxy materials to you. As the beneficial owner, you have the right to direct your broker, bank or other holder of record how to vote by filling out a voting instruction card that accompanies your proxy materials. Your broker, bank or other holder of record may allow you to provide voting instructions by telephone or by the Internet. Please see the voting instruction card provided by your broker, bank or other holder of record that accompanies this proxy statement. **If you hold your shares in street name, you will need proof of ownership to be admitted to the meeting.** A recent brokerage statement or letter from a bank or broker are examples of proof of ownership. If you want to vote your shares of MB Bancorp common stock held in street name in person at the meeting, you must obtain a written proxy in your name from the broker, bank or other nominee who is the record holder of your shares.

If you are a participant in the ESOP or the 401(k) Plan, see *"— Participants in the ESOP and 401(k) Plan"* for information on how to vote your shares.

Quorum and Vote Required

Quorum. We will have a quorum and will be able to conduct the business of the annual meeting if the holders of a majority of the outstanding shares of common stock entitled to vote are present at the meeting, either in person or by proxy.

Votes Required for Proposals. At this year's annual meeting, shareholders will elect three directors to serve for terms of three years and one director to serve for a term of two years. In voting on the election of directors, you may vote in favor of a nominee, withhold votes as to all nominees, or withhold votes as to a specific nominee or nominees. There is no cumulative voting for the election of directors. Directors must be elected by a plurality of the votes cast at the annual meeting. This means that the nominees receiving the greatest number of votes will be elected.

In voting on the ratification of the appointment of TGM Group LLC as our independent registered public accounting firm, you may vote in favor of the proposal, vote against the proposal, or abstain from voting. To ratify the selection of TGM Group LLC as our independent registered public accounting firm for fiscal year 2017, the affirmative vote of a majority of the votes cast at the annual meeting is required.

In the advisory vote on the non-binding resolution to approve the compensation of the named executive officers, you may vote in favor of the proposal, vote against the proposal or abstain from voting. To approve the non-binding resolution on an advisory basis, the affirmative vote of a majority of the votes cast at the annual meeting is required.

How We Count Votes. If you return valid proxy instructions or attend the meeting in person, we will count your shares for purposes of determining whether there is a quorum, even if you abstain from voting. Broker non-votes, if any, also will be counted for purposes of determining the existence of a quorum.

In the election of directors, votes that are withheld and broker non-votes will have no effect on the outcome of the election.

In counting the votes to ratify the appointment of the independent registered public accountants and with respect to the non-binding resolution to approve the compensation of the named executive officers, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the outcome of the voting on the proposals.

Effect of Not Casting Your Vote. If you hold your shares in street name it is critical that you cast your vote if you want it to count in the election of directors and on the advisory vote to approve the compensation of the named executive officers (Proposals 1 and 3 of this proxy statement). Current regulations restrict the ability of your bank or broker to vote your uninstructed shares in the election of directors and other matters on a discretionary basis. Thus, if you hold your shares in street name and you do not instruct your bank or broker how to vote in the election of directors, or with respect to the advisory vote to approve the compensation of the named executive officers, no votes will be cast on these matters on your behalf. These are referred to as broker non-votes. Your bank or broker does, however, continue to have discretion to vote any uninstructed shares on the ratification of the appointment of the Company's independent registered public accounting firm (Proposal 2 of this proxy statement).

Voting by Proxy

The Board of Directors of MB Bancorp is sending you this proxy statement for the purpose of requesting that you allow your shares of MB Bancorp common stock to be represented at the annual meeting by the persons named in the enclosed proxy card. All shares of MB Bancorp common stock represented at the annual meeting by properly executed and dated proxy cards will be voted according to the instructions indicated on the proxy card. If you sign, date and return a proxy card without giving voting instructions, your shares will be voted as recommended by the Company's Board of Directors.

The Board of Directors recommends that you vote:

- **"FOR" each of the nominees for director;**
- **"FOR" ratification of the appointment of TGM Group LLC as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017; and**
- **"FOR" the approval of the compensation of the named executive officers.**

If any matters not described in this proxy statement are properly presented at the annual meeting, the persons named in the proxy card will use their own best judgment to determine how to vote your shares. This includes a motion to adjourn or postpone the annual meeting in order to solicit additional proxies. If the annual meeting is postponed or adjourned, your MB Bancorp common stock may be voted by the persons named in the proxy card on the new annual meeting date as well, unless you have revoked your proxy. We do not know of any other matters to be presented at the annual meeting.

You may revoke your proxy at any time before the vote is taken at the meeting. To revoke your proxy, you must either advise the Corporate Secretary of the Company in writing before your common stock has been voted at the annual meeting, deliver a later-dated proxy or attend the meeting and vote your shares in person. Attendance at the annual meeting will not in itself constitute revocation of your proxy.

Participants in the ESOP and 401(k) Plan

If you participate in the ESOP or the 401(k) Plan, you will receive a voting instruction card for each plan that will reflect all shares you may vote under the respective plan. Under the terms of the ESOP, the ESOP trustees vote all allocated shares of Company common stock held by the ESOP as directed by the plan participants. The ESOP trustees, subject to the exercise of their fiduciary duties, will vote all unallocated shares of Company common stock held by the ESOP and allocated shares for which timely voting instructions are not received in a manner calculated to most accurately reflect the instructions the ESOP trustees receive from participants. Under the terms of the 401(k) Plan, a participant is entitled to direct the 401(k) Plan MB Bancorp, Inc. Stock Fund trustees as to the voting of shares in the MB Bancorp, Inc. Stock Fund credited to his or her account. The trustees, subject to the exercise of their fiduciary duties, will vote all shares for which no directions are given or for which instructions were not timely received in a manner calculated to most accurately reflect the instructions the trustee receives from participants**. The deadline for returning your voting instructions for the ESOP and the 401(k) Plan is 11:59 p.m., Eastern Time, on Tuesday, May 16, 2017.**

CORPORATE GOVERNANCE AND BOARD MATTERS

Director Independence

The Company's Board of Directors currently consists of nine members, all of whom, as well as the nominees for director, are independent under the listing standards of the NASDAQ Stock Market, except for Phil Phillips, President and Chief Executive Officer of MB Bancorp and Madison Bank of Maryland. In determining the independence of its directors, the Board considered transactions, relationships and arrangements between the Company and its directors that are not required to be disclosed in this proxy statement under the heading *"Other Information Relating to Directors and Executive Officers — Transactions with Related Persons,"* including loans or lines of credit that the Bank has directly or indirectly made to officers, directors and related parties.

Board Leadership Structure and Board's Role in Risk Oversight

The Board of Directors has determined that the separation of the offices of Chairman of the Board and President and Chief Executive Officer enhances Board independence and oversight. Moreover, the separation of the Chairman of the Board and President and Chief Executive Officer allows the President and Chief Executive Officer to better focus on his growing responsibilities of running the Company, enhancing shareholder value and expanding and strengthening the Company's franchise while allowing the

Chairman of the Board to lead the Board in its fundamental role of providing advice to and independent oversight of management. Consistent with this determination, Douglas S. Wilson serves as Chairman of the Board of Directors. Mr. Wilson is "independent" under the listing requirements of the NASDAQ Stock Market.

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. The Company faces a number of risks, including credit risk, interest rate risk, liquidity risk, operational risk, strategic risk and reputation risk. Management is responsible for the day-to-day management of risks the Company faces, while the Board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board of Directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. To do this, the Chairman of the Board meets regularly with management to discuss strategy and the risks facing the Company. Senior management attends the Board meetings and is available to address any questions or concerns raised by the Board on risk management and any other matters. The Chairman of the Board and independent members of the Board work together to provide strong, independent oversight of the Company's management and affairs through its standing committees and, when necessary, special meetings of independent directors.

Committees of the Board of Directors

The following table identifies our standing committees and their members. All members of each committee are independent in accordance with the listing requirements of the NASDAQ Stock Market. The Board's Audit, Compensation, and Nominating/Corporate Governance Committees each operate under a written charter that is approved by the Board of Directors. Each committee reviews and reassesses the adequacy of its charter at least annually.

Director	Audit Committee	Compensation Committee	Nominating Committee
Nicole N. Glaeser	X*		
David A. Klunk		X	X
Barry A. Kuhne	X		
Michael Nobile	X	X	
Randall S. Pace	X		
Phil Phillips			
William D. Schmidt, Sr.		X	X*
Douglas S. Wilson	X	X*	
Louis J. Vigliotti			X
Number of Meetings in 2016	4	6	3

* Denotes Chairperson

Audit Committee. The Board has a separately designated Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit Committee is responsible for providing oversight relating to our financial statements and financial reporting process, systems of internal accounting and financial controls, internal audit function, annual independent audit and the compliance and ethics programs established by management and the Board. The Board of Directors has designated Nicole N. Glaeser as an audit committee financial expert under the rules of the Securities and Exchange Commission. The Board of Directors has adopted a written charter for the Audit Committee. The Audit Committee Charter is posted on the Company's website at http://www.mbofmd.com/stockholder-information.aspx.

Compensation Committee. The Compensation Committee is responsible for human resource policies, salaries and benefits, incentive compensation, executive development and management succession planning. In addition to reviewing competitive market values, the Compensation Committee also examines the total compensation mix, pay-for-performance relationship, and how all elements, in the aggregate, comprise the executives' total compensation package. The Compensation Committee reports its evaluations and findings

to the full Board of Directors. The Company's Chief Executive Officer, who also serves as a director of the Company and the Bank, does not participate in deliberations regarding his own compensation. The Board of Directors has adopted a written charter for the Compensation Committee. The Compensation Committee Charter is posted on the Company's website at http://www.mbofmd.com/stockholder-information.aspx.

Nominating/Corporate Governance Committee. The Nominating/Corporate Governance Committee is responsible for identifying individuals qualified to become Board members and recommending a group of nominees for election as directors at each annual meeting of shareholders, ensuring the Board and its committees have the benefit of qualified and experienced independent directors, and developing a set of corporate governance policies and procedures. The Board of Directors has adopted a written charter for the Nominating/Corporate Governance Committee. The Nominating/Corporate Governance Committee Charter is posted on the Company's website at http://www.mbofmd.com/stockholder-information.aspx.

Minimum Qualifications. The Nominating Committee has adopted a set of criteria that it considers when it selects individuals to be nominated for election to the Board of Directors. First, a candidate must meet the eligibility requirements set forth in the Company's governing documents. In particular, the Company's Bylaws include a requirement that the candidate not have been subject to certain criminal or regulatory actions. A candidate also must meet any qualification requirements set forth in any Board or committee governing documents.

The Nominating Committee will consider the following criteria in selecting nominees for initial election or appointment to the Board: financial, regulatory and business experience; familiarity with and participation in the local community; integrity, honesty and reputation; dedication to the Company and its shareholders; independence; and any other factors the Nominating Committee deems relevant, including age, diversity, size of the Board of Directors and regulatory disclosure obligations. In its consideration of diversity, the Nominating Committee seeks to create a Board with a diverse set of skills and experience with respect to management and leadership, vision and strategy, accounting and finance, business operations and judgment, and industry knowledge.

In addition, prior to nominating an existing director for re-election to the Board of Directors, the Nominating Committee will consider and review an existing director's Board and committee attendance and performance; length of Board service; the experience, skills and contributions that the existing director brings to the Board; and independence.

Director Nomination Process. The process that the Nominating Committee follows when it identifies and evaluates individuals to be nominated for election to the Board of Directors is as follows:

Identification. For purposes of identifying nominees for the Board of Directors, the Nominating Committee relies on personal contacts of the committee members and other members of the Board of Directors, as well as its knowledge of members of the local communities served by the Bank. The Nominating Committee will also consider director candidates recommended by shareholders in accordance with the policy and procedures set forth below. The Nominating Committee has not previously used an independent search firm in identifying nominees.

Evaluation. In evaluating potential nominees, the Nominating Committee determines whether the candidate is eligible and qualified for service on the Board of Directors by evaluating the candidate under the selection criteria set forth above. In addition, the Nominating Committee will conduct a check of the individual's background and interview the candidate.

Consideration of Recommendations by Shareholders. It is the policy of the Nominating Committee to consider director candidates recommended by shareholders who appear to be qualified to serve on the Company's Board of Directors. The Nominating Committee may choose not to consider an unsolicited recommendation if no vacancy exists on the Board of Directors and the Nominating Committee does not perceive a need to increase the size of the Board of Directors. In order to avoid the unnecessary use of the Nominating Committee's resources, the Nominating Committee will consider only those director candidates recommended in accordance with the procedures set forth below.

Procedures to be Followed by Shareholders. To submit a recommendation of a director candidate to the Nominating Committee, a shareholder should submit the following information in writing, addressed to the Chairman of the Nominating Committee, care of the Corporate Secretary, at the main office of the Company:

1. The name of the person recommended as a director candidate;
2. All information relating to such person that is required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended;
3. The written consent of the person being recommended as a director candidate to being named in the proxy statement as a nominee and to serving as a director if elected;
4. As to the shareholder making the recommendation, the name and address of such shareholder, as they appear on the Company's books, provided, however, that if the shareholder is not a registered holder of the Company's common stock, the shareholder should submit his or her name and address along with a current written statement from the record holder of the shares that reflects ownership of the Company's common stock; and
5. A statement disclosing whether such shareholder is acting with or on behalf of any other person and, if applicable, the identity of such person.

In order for a director candidate to be considered for nomination at the Company's annual meeting of shareholders, the recommendation must be received by the Nominating Committee at least 120 calendar days prior to the date the Company's proxy statement was released to shareholders in connection with the previous year's annual meeting, advanced by one year.

Board and Committee Meetings

During the fiscal year ended December 31, 2016, the Board of Directors of the Company held 10 meetings, and the Board of Directors of the Bank held 13 meetings. No director attended fewer than 75% of the total meetings of the Company Board of Directors and Committees on which he or she served.

Director Attendance at Annual Meeting of Shareholders

While the Company has no formal policy on director attendance at the annual meeting of shareholders, all directors are encouraged to attend annual shareholder meetings. All of our directors attended the 2016 annual meeting of shareholders except for Mr. Wilson.

Code of Ethics and Business Conduct

MB Bancorp has adopted a Code of Ethics and Business Conduct that is designed to ensure that the Company's directors and employees meet the highest standards of ethical conduct. The Code of Ethics and Business Conduct, which applies to all employees, officers and directors, addresses conflicts of interest, the treatment of confidential information, general employee conduct and compliance with applicable laws, rules and regulations. In addition, the Code of Ethics and Business Conduct is designed to deter wrongdoing and promote honest and ethical conduct, the avoidance of conflicts of interest, full and accurate disclosure and compliance with all applicable laws, rules and regulations.

Director Compensation

The following table provides the compensation received by individuals, who are not executive officers, who served as directors of the Company and the Bank during the year ended December 31, 2016.

	Fees Earned or Paid in Cash ($)	All Other Compensation	Total ($)
Nicole N. Glaeser[(1)]	$ 0	$0	$ 0
David A. Klunk	$ 9,810	$0	$ 9,810
Barry A. Kuhne	$13,800	$0	$13,800
Michael Nobile	$10,950	$0	$10,950
Randall S. Pace	$ 8,280	$0	$ 8,280
William D. Schmidt, Sr.	$ 9,810	$0	$ 9,810
James R. Vittek[(2)]	$ 7,425	$0	$ 7,425
Douglas S. Wilson	$13,230	$0	$13,230
Louis J. Vigliotti[(1)]	$ 0	$0	$ 0

(1) On December 20, 2016, Ms. Glaeser and Mr. Vigliotti were appointed to the Boards of Directors of the Company and the Bank effective December 31, 2016.

(2) Mr. Vittek retired from the Board of Directors effective December 31, 2016 and was approved as a Director Emeritus in January 2017.

Cash Retainers and Meeting Fees for Non-Employee Directors. The following table sets forth the applicable fees that were paid during the year ended December 31, 2016 to our non-employee directors for their service on the Bank's Board of Directors. Members of the Board of Directors of MB Bancorp do not receive additional fees for service on the Company's Board of Directors.

Board of Directors of Madison Bank of Maryland:

Fee for each Board meeting attended	$675
Additional fee for committee meeting attended	285

Director Emeritus Plan

The Bank has adopted a Director Emeritus Plan to retain the advice and expertise of certain members of the Board of Directors upon their retirement from the Board by continuing their service as a Director Emeritus. All directors who served on the Bank's Board as of December 29, 2014, the date of the Company's initial public offering, are eligible to serve as a Director Emeritus, subject to compliance with the service requirements of the plan. The term of service of a Director Emeritus is three years. Director Emeritus status terminates upon (i) death, (ii) the inability to provide the required services under the plan, (iii) resignation, or (iv) a determination by the Board that the Director Emeritus has not fulfilled the plan's service requirements. Each Director Emeritus will receive annual compensation of $7,800. At December 31, 2016, we had two Directors Emeritus that were receiving compensation under this plan.

AUDIT RELATED MATTERS

Report of the Audit Committee

The Company's management is responsible for the Company's internal controls and financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements and issuing an opinion on the conformity of those financial statements with generally accepted accounting principles. The Audit Committee oversees the Company's internal controls and financial reporting on behalf of the Board of Directors.

In this context, the Audit Committee has met and held discussions with management and the independent registered public accounting firm. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent registered public accounting firm. The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed pursuant to U.S. Auditing Standards No. 380 (The Auditor's Communication With Those Charged With Governance), including the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements.

In addition, the Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by the applicable requirements of the Public Company Accounting Oversight Board and has discussed with the independent registered public accounting firm the auditors' independence from the Company and its management. In concluding that the auditors are independent, the Audit Committee considered, among other factors, whether the non-audit services provided by the auditors were compatible with its independence.

The Audit Committee discussed with the Company's independent registered public accounting firm the overall scope and plans for its audit. The Audit Committee meets with the independent registered public accounting firm, with and without management present, to discuss the results of its examination, its evaluation of the Company's internal controls, and the overall quality of the Company's financial reporting.

In performing all of these functions, the Audit Committee acts only in an oversight capacity. In its oversight role, the Audit Committee relies on the work and assurances of the Company's management, which has the primary responsibility for financial statements and reports, and of the independent registered public accounting firm who, in its report, express an opinion on the conformity of the Company's financial statements to generally accepted accounting principles. The Audit Committee's oversight does not provide it with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions with management and the independent registered public accounting firm do not assure that the Company's financial statements are presented in accordance with generally accepted accounting principles, that the audit of the Company's consolidated financial statements has been carried out in accordance with the standards of the Public Company Accounting Oversight Board or that the Company's independent registered public accounting firm is in fact "independent."

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for filing with the Securities and Exchange Commission. The Audit Committee and the Board of Directors also have approved, subject to shareholder ratification, the selection of TGM Group LLC as the Company's independent registered public accounting firm for the 2017 fiscal year.

Audit Committee of the Board of Directors
of MB Bancorp, Inc.

Nicole N. Glaeser (Chairperson)
Douglas S. Wilson
Barry A. Kuhne
Michael Nobile
Randall S. Pace

Change in Independent Registered Public Accounting Firm

The Company's independent registered public accounting firm, Stegman & Company, announced that effective June 1, 2016 substantially all directors and employees of Stegman & Company joined Dixon Hughes Goodman LLP. As a result, effective June 1, 2016, Stegman resigned as the Company's independent registered public accounting firm. The Audit Committee of the Company's Board of Directors engaged Dixon Hughes Goodman to serve as the Company's independent registered public accounting firm effective June 1, 2016.

The reports of Stegman & Company on the audits of the consolidated financial statements of the Company as of and for the years ended December 31, 2015 and 2014 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company's fiscal years ended December 31, 2015 and 2014 and the subsequent interim period through June 1, 2016, there were (i) no disagreements (as such term is used in Item 304(a)(1)(iv) of Regulation S-K) between the Company and Stegman & Company on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreement(s), if not resolved to the satisfaction of Stegman & Company, would have caused Stegman & Company to make reference to the subject matter of the disagreement(s) in connection with its report on the Company's financial statements and (ii) no reportable events within the meaning set forth in Item 304(a)(1)(v) of Regulation S-K.

During the Company's fiscal years ended December 31, 2015 and 2014 and the subsequent interim period through June 1, 2016, the Company did not consult with Dixon Hughes Goodman regarding any of the matters set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

On March 30, 2017, the Company dismissed Dixon Hughes Goodman based on the recommendation of the Audit Committee of the Board of the Directors.

The report of Dixon Hughes Goodman on the audit of the consolidated financial statements of the Company as of and for the year ended December 31, 2016 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company's fiscal year ended December 31, 2016 and the subsequent interim period through March 30, 2017, there were (i) no disagreements (as such term is used in Item 304(a)(1)(iv) of Regulation S-K) between the Company and Dixon Hughes Goodman on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreement(s), if not resolved to the satisfaction of Dixon Hughes Goodman, would have caused Dixon Hughes Goodman to make reference to the subject matter of the disagreement(s) in connection with its report on the Company's financial statements and (ii) no reportable events within the meaning set forth in Item 304(a)(1)(v) of Regulation S-K.

On April 3, 2017, based on the recommendation of the Audit Committee of the Board of Directors, the Company engaged TGM Group LLC as the Company's independent registered public accounting firm. During the Company's fiscal year ended December 31, 2016 and the subsequent interim period through April 3, 2017, the Company did not consult with TGM Group regarding any of the matters set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

Auditor Fees

The following table sets forth the fees billed to the Company by Stegman & Company for the fiscal year ended December 31, 2015 and through June 1, 2016 and by Dixon Hughes Goodman LLP for the period from June 1, 2016 to December 31, 2016:

	2016	2015
Audit fees[1]	$63,507	$65,007
Audit-related fees	—	—
Tax fees[2]	6,850	6,018
All other fees	—	—
Total	$70,357	$71,025

(1) Audit fees consist of fees for professional services rendered for the audit of the Company and the Bank and the Company's consolidated financial statements. The amount also includes fees related to the review of financial statements included in the Company's Quarterly Reports on Form 10-Q, as well as services normally provided by the independent auditor in connection with statutory and regulatory filings or engagements.

(2) Tax services fees consist of fees for compliance tax services, including tax planning and advice and preparation of tax returns.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accountants

The Audit Committee is responsible for appointing and reviewing the work of the independent registered public accounting firm and setting the independent registered public accounting firm's compensation. In accordance with its charter, the Audit Committee approves, in advance, all audit and permissible non-audit services to be performed by the independent registered public accounting firm. This approval process ensures that the independent registered public accounting firm does not provide any non-audit services to the Company that are prohibited by law or regulation. During the year ended December 31, 2016, all services were approved in advance by the Audit Committee in compliance with these procedures.

STOCK OWNERSHIP

Persons and groups beneficially owning in excess of 5% of the Company's common stock are required to file certain reports with respect to such ownership pursuant to the Securities Exchange Act of 1934, as amended. The following table sets forth as of the Record Date, certain information as to the common stock beneficially owned by the only persons known to the Company to beneficially own more than 5% of the common stock, by each of the Company's directors, by the non-director executive officers of the Company and by all executive officers and directors as a group.

Name and Address of Beneficial Owner[1]	Amount and Nature of Beneficial Ownership[2]	Percent of Shares Outstanding[3]
Persons Owning Greater Than 5%:		
Madison Bank of Maryland Employee Stock Ownership Plan Trust 1920 Rock Spring Road Forest Hill, Maryland 21050	169,280	8.96%
Stilwell Partners, L.P.[4] Stilwell Activist Fund, L.P. Stilwell Activist Investments, L.P. Stilwell Value LLC Joseph Stilwell 111 Broadway, 12th Floor New York, New York 10006	197,183	10.43

Name and Address of Beneficial Owner[1]	Amount and Nature of Beneficial Ownership[2]	Percent of Shares Outstanding[3]
Maltese Capital Management LLC[5] Maltese Capital Holdings, LLC Terry Maltese 150 East 52nd Street, 30th Floor New York, New York 10022	188,500	9.97
Jeffrey Thorp[6] 437 Madison Avenue, 3rd Floor New York, New York 10022	180,000	9.52
MFP Partners, L.P.[7] MFP Investors LLC Michael F. Price 667 Madison Avenue, 25th Floor New York, New York 10065	170,559	9.02
Directors:		
Nicole N. Glaeser	—	—
David A. Klunk	—	—
Barry A. Kuhne	10,250[8]	*
Michael Nobile	3,000	*
Randall S. Pace	1,000	*
Phil Phillips	2,500[9]	*
William D. Schmidt, Sr.	2,800[10]	*
Louis J. Vigliotti	—	—
Douglas S. Wilson	2,000	*
Executive Officers:		
Lisa McGuire-Dick	4,213[11]	*
John M. Wright	—	—
All executive officers and directors as a group (11 persons)	25,763	1.36

* Less than 1%.

(1) All directors and the named executive officers listed have the Company's address, 1920 Rock Spring Road, Forest Hill, Maryland 21050.

(2) In accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended, a person is deemed to be the beneficial owner, for purposes of this table, of any share of common stock if he or she has or shares voting or investment power with respect to such common stock or has a right to acquire beneficial ownership at any time within 60 days from the Record Date. As used herein, "voting power" is the power to vote or direct the voting of shares and "investment power" is the power to dispose or direct the disposition of shares. Unless otherwise indicated, the beneficial owner has sole voting and investment power with respect to the listed shares. The listed amounts do not include shares with respect to which Phil Phillips, John M. Wright and Lisa M. McGuire-Dick share voting power by virtue of their positions as trustees of the trust holding the ESOP shares. ESOP shares are held in a suspense account for future allocation among participants as the loan used to purchase the shares is repaid. Shares held by the ESOP trust and allocated to the accounts of participants are voted in accordance with the participants' instructions and unallocated shares are voted in the same ratio as ESOP participants direct the voting of allocated shares or, in the absence of such direction, in the ESOP trustees' best judgment. As of the Record Date, 23,510 shares had been allocated. The amounts shown include the following shares held under the ESOP for the benefit of Ms. McGuire-Dick, 1415 shares; Mr. Phillips, no shares; and Mr. Wright, no shares.

(3) Based on 1,890,200 shares outstanding as of the Record Date.

(4) Based on a Schedule 13D filed with the Securities and Exchange Commission on January 9, 2015. The Schedule 13D was filed by Joseph Stilwell with respect to the shares of Company common stock beneficially owned by Joseph Stilwell, including shares held in the names of Stilwell Activist Fund, L.P., Stilwell Activist Investments, L.P., Stilwell Partners, L.P. and Stilwell Value LLC in Mr. Stilwell's capacities as the managing member and 99% owner of Stilwell Value LLC, which is the general partner of Stilwell Activist Fund, L.P. and Stilwell Activist Investments, L.P., and the general partner of Stilwell Partners, L.P. Stilwell Activist Fund, L.P., Stilwell Activist Investments, L.P., Stilwell Partners, L.P., Stilwell Value LLC and Joseph Stilwell each have shared voting power and shared dispositive power over the 197,183 shares of Company common stock.

(5) Based on a Schedule 13G/A filed with the Securities and Exchange Commission on February 12, 2017 with respect to 188,500 shares of Company common stock which may be deemed to be beneficially owned by Maltese Capital Management LLC ("MCM") by reason of its position as investment advisor, which shares are held of record by clients of MCM, and by Terry Maltese, who is the managing member of MCM. MCM and Mr. Maltese share voting power and dispositive power over the reported shares.

(6) Based on a Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2017.

(7) Based on a Schedule 13G filed with the Securities and Exchange Commission on April 12, 2016.

(8) Includes 250 shares held as a custodian under the Uniform Trust to Minors Act.

(9) Shares of unvested restricted stock over which Mr. Phillips has voting but no dispositive power.

(10) Includes 800 shares held as a custodian under the Uniform Trust to Minors Act for his grandchildren.

(11) Includes 3,389 shares held in her account under the 401(k) Plan.

ITEMS TO BE VOTED ON BY SHAREHOLDERS

ITEM 1 — ELECTION OF DIRECTORS

The Company's Board of Directors currently consists of nine members who are elected for terms of three years, approximately one-third of whom are elected annually. The Board of Directors' nominees for election this year, to serve for three-year terms or until their successors have been elected and qualified, are Nicole N. Glaeser, Michael Nobile and Louis J. Vigliotti, and Phil Phillips for a one-year term or until his successor has been elected and qualified.

Unless you indicate on the proxy card that your shares should not be voted for each nominee, the Board of Directors intends that the proxies solicited by it will be voted for the election of the Board's nominees. If any nominee is unable to serve, the persons named in the proxy card would vote your shares to approve the election of any substitute proposed by the Board of Directors. At this time, we know of no reason why the nominees might be unable to serve.

The Board of Directors recommends a vote "FOR" the election of Messrs. Nobile, Phillips and Vigliotti and Ms. Glaeser.

Information regarding the Board of Directors' nominees and the directors continuing in office is provided below. Unless otherwise stated, each individual has held his or her current occupation for the last five years. The age indicated for each individual is as of December 31, 2016.

Nominees for Election as Director

Nominees for Election to Serve for a Three-Year Term Expiring in 2020:

Nicole N. Glaeser has served as Budget Director, Baltimore County Police Department since 1988, where she prepares, administers and manages an operating budget in excess of $200 million and $11 million in grant funds. She supervises a staff that is responsible for a $185 million payroll, expenditure approval and accounting for operating budget and grant funds. From 1993 until 2015, Ms. Glaeser also served on the Boards of Directors of Patapsco Bancorp, Inc. and Patapsco Bank. Her service on those boards also included time serving as Chair of Audit Committee of those boards. She has a bachelor's degree in Business Administration from Loyola College, an Master's Degree of Business Administration from Loyola College and received her Juris Doctorate from the University of Maryland School of Law. Age 58. Director of the Bank and the Company since December 31, 2016.

As a budget director, an attorney, a CPA, and a former member of the boards of directors of a bank and its public company holding company, Ms. Glaeser provides the Board with important knowledge and insight necessary to guide the Company and its management through the various issues facing financial institutions.

Michael Nobile recently retired from his position as the General Manager of Harley-Davidson motorcycle retail dealers in which capacity he served since January 1998. Age 67. Director of the Bank since 1999 and the Company since 2014.

Having lived and operated businesses in the greater Baltimore and surrounding areas for his entire life, Mr. Nobile provides extensive knowledge of Madison Bank of Maryland's market area. Mr. Nobile's extensive leadership and managerial skills make him a vital component to a well-rounded Board.

Louis J. Vigliotti is the former Senior Managing Director for GE Capital Markets, Inc., in which capacity he served as head of the Equipment Syndication area for GE Capital Americas from 2009 until 2016. That business worked with various entities of GE Capital and provided syndication and placement services. From 1991 until 2000, Mr. Vigliotti served as a Managing Director of GE Capital Markets, Inc. In 2000 he left GE Capital to serve as Executive Vice President, and then Interim President and Chief Executive Officer, of LENDX, a start-up business-to-business lending exchange, where he provided strategic and organizational leadership for the Financial Services Division. After successfully assisting LENDX in raising equity and on its conversion to software development, Mr. Vigliotti rejoined GE Capital Markets to oversee a specialty finance area from 2003 until 2009. He is a graduate of Indiana University of Pennsylvania, receiving his B.S. degree in Business Administration with a concentration in Accounting. He is a past trustee of the Equipment Leasing and Finance Foundation and served four years on the Board of Directors and the Executive Committee of the Equipment Leasing and Finance Association. Age 59. Director of the Bank and the Company since December 31, 2016.

Mr. Vigliotti's career has provided him with substantial experience in managing financial operations. His expertise will give the Board of Directors additional skills in financial oversight, risk management and strategic planning.

Nominee for election to serve for a one-year term expiring in 2018:

Phil Phillips was appointed as the President, Chief Executive Officer and Director of the Company and the Bank on September 30, 2016. Mr. Phillips previously served as President and Chief Executive Officer of Patapsco Bancorp, Inc. and its subsidiary, The Patapsco Bank, from August 2013 until those entities were acquired by another bank in August 2015, and stayed on with the acquiring bank for a one month period to assist in the transition. He joined The Patapsco Bank as Senior Vice President in March 2010 and was promoted to Executive Vice President in April 2012. Prior to that, Mr. Phillips was a Senior Vice President and Manager of Special Assets at Provident Bank, and M&T Bank through merger, from July 2008 to March 2010. From January 2007 until rejoining Provident Bank, he was a Senior Vice President and Regional Senior Credit Officer for Wells Fargo Bank where he assisted in establishing the Maryland Commercial Lending Office. Mr. Phillips' banking experience spans 38 years and a variety of credit and lending positions at Maryland National Bank, NationsBank, Signet Bank and Provident Bank. Age 60. Director of the Bank and the Company since September 30, 2016.

Mr. Phillips' 38 years of banking experience have provided him with strong leadership and managerial skills, as well as a deep understanding of the financial industry. In addition, Mr. Phillips' knowledge of all aspects of the community banking business, combined with his success and strategic vision, position him well to serve as President and Chief Executive Officer and as a director of the Company and the Bank.

Directors Continuing in Office

The following directors have terms expiring in 2018:

Barry A. Kuhne has been the Owner/President of Signature Healthcare, a provider of home medical equipment and respiratory services in Hunt Valley, Maryland, since 1998. He also is the owner of Benefit Systems Management, a third-party medical and pension benefits administrator, where he served as President from 1982 to June 2011. Age 71. Director of the Bank since 1996 and the Company since 2014.

Mr. Kuhne provides the Board with significant strategic, operational and management knowledge through his experience as President of Signature Healthcare. In addition, Mr. Kuhne's strong leadership skills and strategic vision have made him a significant contributor to the Board of Directors.

Randall S. Pace is the Executive Vice President and Chief Financial Officer of CallisonRTKL, an international architectural design firm in Baltimore, Maryland. He has been employed with that firm since 1988. Age 56. Director of the Bank and the Company since 2015.

Mr. Pace's career has provided him with substantial experience in managing financial operations. His expertise gives the Board of Directors additional skills in financial oversight, risk management and strategic planning.

The following directors have terms expiring in 2019:

David A. Klunk has been the President of Community Environmental Laboratories, based in Aberdeen, Maryland, and R&T Technologies, Inc., both chemical laboratories, since 1994. Age 51. Director of the Bank and the Company since 2015.

Mr. Klunk provides extensive experience in leadership and strategic skills as President of his companies. As a Harford County resident and being actively involved in the community, Mr. Klunk is an asset to our marketing efforts and Board leadership.

William D. Schmidt, Sr. was the owner of A&S Trucking Service, Inc., a trucking company based in Hunt Valley, Maryland, until his retirement in April 2009. Age 76. Director of the Bank since 1993 and the Company since 2014.

Mr. Schmidt provides extensive leadership and managerial expertise from his many years as a business owner. His experience with risk management, strategic planning and knowledge of our market area makes him a vital component to our Board of Directors.

Douglas S. Wilson has been the owner of Douglas S. Wilson & Company, CPA's, an accounting firm in Aberdeen, Maryland, since 1981. He also served as the Mayor of Aberdeen, Maryland from April 1998 to November 2005. Age 63. Director of the Bank since 2000 and the Company since 2014.

Mr. Wilson has lived in Madison Bank of Maryland's market area his entire life and has developed extensive ties within. Additionally, Mr. Wilson's management experience as business owner of his accounting firm in the local area have provided him with leadership experience and expertise that is valuable to our Board of Directors.

ITEM 2 — RATIFICATION OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has appointed TGM Group LLC to be the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017, subject to ratification by shareholders. A representative of TGM Group LLC is expected to be present at the annual meeting to respond to appropriate questions from shareholders and will have the opportunity to make a statement should he or she desire to do so.

If the ratification of the appointment of the independent registered public accounting firm is not approved by shareholders at the annual meeting, the Audit Committee will consider other independent registered public accounting firms.

The Board of Directors recommends that shareholders vote "FOR" the ratification of the appointment of the independent registered public accounting firm.

ITEM 3 — ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") requires that we provide our shareholders with the opportunity to express their views, on a non-binding advisory basis, on the compensation of the named executive officers as disclosed in this proxy statement. This vote, which is often referred to as the "say-on-pay" vote, provides shareholders with the opportunity to endorse or not endorse the following resolution:

> "Resolved, that the shareholders approve the compensation of the named executive officers, as described in the tabular disclosure regarding named executive officer compensation and the accompanying narrative disclosure in this proxy statement."

Because your vote is advisory, it will not be binding upon the Board of Directors. However, the Compensation Committee will take into account the outcome of the vote when considering future executive compensation arrangements.

The Board of Directors recommends a vote "FOR" approval of the compensation of the named executive officers.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following information is furnished for our principal executive officer and the other executive officer whose total compensation for the year ended December 31, 2016 exceeded $100,000. These individuals are referred to in this proxy as "named executive officers." No other executive officer received total compensation for the year of more than $100,000.

Name and Principal Position	Year	Salary	Bonus	Stock Awards[1]	All Other Compensation[2]	Total
Phil Phillips *President and Chief Executive Officer*	2016	$ 41,058	$ 0	$33,500	$ 0	$ 74,558
Julia A. Newton *Former President and Chief Executive Officer*	2016	$ 95,531	$ 541	$ 0	$20,263	$116,335
	2015	$117,242	$1,845	$ 0	$14,349	$133,436
Robin L. Taylor *Former Vice President and Chief Financial Officer*	2016	$ 78,780	$ 541	$ 0	$34,639	$113,960
	2015	$ 81,062	$1,276	$ 0	$ 9,987	$ 92,325
Lisa McGuire-Dick *Senior Vice President and Corporate Secretary*	2016	$ 85,902	$ 541	$ 0	$14,098	$100,541
	2015	$ 86,687	$1,365	$ 0	$10,634	$ 98,686

(1) Represents the aggregate grant date fair market value of 2,500 shares of restricted stock awards to Mr. Phillips, computed in accordance with FASB ASC Topic 718 based on a per share price of $13.40, on the date of the award on September 30, 2016.

(2) Details of the amounts disclosed in the *"All Other Compensation"* for 2016 are provided in the table below:

	Ms. Newton	Ms. Taylor	Ms. McGuire-Dick
Employer safe harbor contribution to 401(k) Plan	$ 2,894	$ 2,402	$ 2,607
Severance	$17,369	$21,646	—
ESOP	—	$10,591	$11,491
Total	$20,263	$34,639	$14,098

Ms. Newton was removed as President, Chief Executive Officer and Director of the Company and the Bank effective September 27, 2016. During 2016, Ms. Newton received $17,369 in termination benefits under her employment agreements with the Company and the Bank. See *"— Employment Agreements"* for a description of the full termination benefits to be provided to Ms. Newton under her employment agreements.

Ms. Taylor resigned as Chief Financial Officer effective December 19, 2016 and, effective December 31, 2016, was terminated in connection with a reduction in force. She received a severance payment of $21,646.

Outstanding Equity Awards at Fiscal Year-End

The following table provides information concerning stock awards that have not vested as of December 31, 2016 for each named executive officer. No officer has been awarded stock options.

	Stock Awards	
Name	Number of Restricted Shares or Units of Stock That Have Not Been Vested[(1)]	Market Value of Restricted Shares or Units of Stock That Have Not Vested[(2)]
Phil Phillips	2,500	$36,750

(1) Shares of restricted stock vest in two equal installments with the first 50% vesting on September 30, 2017.

(2) Based on MB Bancorp, Inc.'s closing stock price of $14.70 on December 31, 2016.

Change in Control Agreements

The Bank has entered into two-year change in control agreements with Phil Phillips, Lisa McGuire-Dick and John M. Wright that provide certain severance benefits if his or her employment is terminated in connection with a change in control of the Bank or the Company. On the anniversary of the date of each agreement, the Board of Directors may extend the terms of the agreement for an additional year following a review of the executive's job performance. The term of agreements run through September 2018 for Mr. Phillips, and December 2018 for Ms. McGuire-Dick and Mr. Wright.

See *"— Potential Post-Termination Benefits"* for a discussion of the benefits and payments Messrs. Phillips and Wright and Ms. McGuire-Dick may receive under their agreements upon his or her termination of employment.

Employment Agreements

The Company and the Bank each entered into employment agreements with Julia A. Newton in connection with the Company's initial public offering. The employment agreements provide for a three year term, unless terminated sooner in connection with the terms of the employment agreements. Effective September 27, 2016, the Boards of Directors of the Company and the Bank removed Julia A. Newton from her positions as President and Chief Executive Officer of the Company and the Bank. In accordance with the terms of Ms. Newton's employment agreements with the Company and the Bank, her employment with

the Company and the Bank, as well as her service on the Boards of Directors of the Company and the Bank, terminated on October 28, 2016. Pursuant to the terms of her employment agreements, over a three-year period, Ms. Newton will receive aggregate severance payments totaling $321,331 and health insurance benefits totaling $19,702. Under the terms of the agreements, Ms. Newton is subject to a one year non-competition agreement.

Supplemental Life Insurance Agreements

The Bank maintains individual supplemental life insurance agreements with Messrs. Phillips and Wright to retain and reward the executive's service to the Bank in exchange for death benefits to their beneficiaries if they die. The death benefits provided under the supplemental life insurance agreements are funded through bank-owned life insurance policies. The Bank pays all of the life insurance premiums. See *"— Potential Post-Termination Benefits"* for a description of the benefits and provided under the agreements.

Potential Post-Termination Benefits

Payments on Termination for Cause. Under Messrs. Phillips and Wright's and Ms. McGuire-Dick's change of control agreements, if the executive is terminated for Just Cause, he or she will not be eligible to receive compensation or other benefits after termination. Under the 2016 Equity Incentive Plan, if the executive is terminated for Cause, restricted stock awards that have not vested will expire and be forfeited. No stock options have been awarded under this plan.

Termination Following a Change on Control. If a Change in Control of the Bank or the Company occurs during the term of the employment agreements and either party of their successors involuntarily terminates the executive's employment other than for Cause, or if the executive voluntarily terminates his or her employment for Good Reason as defined in the agreements, the executive will receive a severance payment equal to three (3) times the executive's then current base salary in the case of Mr. Phillips and Mr. Wright, and two (2) times the executive's then current base salary in the case of Ms. McGuire-Dick, or his or her base salary as of the date of the change in control, whichever is greater. In addition to this cash severance benefit, the agreements provide for post-termination continued health and dental insurance coverage until the first to occur (i) the attainment of age 65, (ii) death, or (iii) 12 months following termination of employment. Section 280G of the Internal Revenue Code provides that payments related to a change in control that equal or exceed three times an executive's "base amount" constitute "excess parachute payments." Individuals who receive excess parachute payments are subject to a 20% excise tax on the amount that exceeds the base amount, and the employer may not deduct such amounts. The employment agreements provide that if the total value of the benefits provided and payments made to the executive in connection with a change in control, either under his or her employment agreements alone or together with other payments and benefits that he has the right to receive from the Bank or the Company, exceed three times the executive's base amount ("280G Limit"), the executive's cash severance payment will be reduced or revised so that the aggregate payments and benefits do not exceed their 280G Limit. The agreements limit payments made to the executives in connection with a change in control to amounts that will not exceed the limits imposed by the 280G Limit.

Under the 2016 Equity Incentive Plan, all unvested restricted stock awards will immediately vest in the event the executive's service is terminated (other than for Cause) on or before the second anniversary of a change in control.

Payments Made Upon Disability. Under the 2016 Equity Incentive Plan, if the executive's service is terminated due to disability, all of the executive's unvested restricted stock awards will immediately vest. No stock options have been awarded under this plan.

Pursuant to the Supplemental Life Insurance Agreements between the Bank and Messrs. Phillips and Wright and Ms. McGuire-Dick effective February 2017, if the executive is separated from service from the Bank due to a disability and dies before recovering from such disability, the executive's beneficiary will receive a lump sum death benefit of $25,000.

Payments Made Upon Death. Under the 2016 Equity Incentive Plan, if the executive dies during the executive's employment, all of the executive's unvested restricted stock awards will immediately vest. No stock options have been awarded under this plan.

Pursuant to the Supplemental Life Insurance Agreements between the Bank and Messrs. Phillips and Wright and Ms. McGuire-Dick effective February 2017, if the executive dies while employed with the Bank, the executive's beneficiary will receive a lump sum death benefit of $25,000.

OTHER INFORMATION RELATING TO DIRECTORS AND EXECUTIVE OFFICERS

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers and directors, and persons who own more than 10% of any registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Executive officers, directors and greater than 10% shareholders are required by regulation to furnish the Company with copies of all Section 16(a) reports they file. Based solely on the Company's review of copies of the reports it has received and written representations provided to it from the individuals required to file the reports, the Company believes that each of its executive officers and directors has complied with applicable reporting requirements for transactions in MB Bancorp common stock during the year ended December 31, 2016.

Transactions with Related Persons

Loans and Extensions of Credit. The Sarbanes-Oxley Act of 2002 generally prohibits loans by publicly traded companies to its executive officers and directors. However, the Sarbanes-Oxley Act contains a specific exemption from such prohibition for loans by banks to their executive officers and directors in compliance with federal banking regulations. Federal regulations generally require that all loans or extensions of credit to executive officers and directors of insured institutions must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and must not involve more than the normal risk of repayment or present other unfavorable features, although federal regulations allow us to make loans to executive officers and directors at reduced interest rates if the loan is made under a benefit program generally available to all other employees that does not give preference to any executive officer or director over any other employee. We offer a loan program for directors and employees whereby, in the event of interest rate decreases, we allow such individuals to adjust the contract rate of the loan to match the prevailing rate we offer to the general public.

In addition, loans made to a director or executive officer in an amount that, when aggregated with the amount of all other loans to the person and his or her related interests, are in excess of the greater of $25,000 or 5% of Madison Bank of Maryland's capital and surplus, up to a maximum of $500,000, must be approved in advance by a majority of the disinterested members of the Board of Directors.

The outstanding balance of loans extended by Madison Bank of Maryland to its executive officers and directors and related parties was $886,000 at December 31, 2016, or approximately 2.92% of stockholders' equity. The loans were performing according to their terms at December 31, 2016.

The following information is furnished for outstanding loans to related persons (directors, executive officers and their immediate family members) under the Madison Bank of Maryland employee loan program described above as of and for the year ended December 31, 2016:

Name	Largest Aggregate Principal Outstanding for 2016 ($)	Principal Outstanding at December 31, 2016 ($)	Principal Paid During 2016 ($)	Interest Paid During 2016 ($)	Interest Rate Payable (%)
Barry A. Kuhne *Director*	$300,097	$286,128	$13,969	$11,015	3.75%
Michael Nobile *Director*	$131,470	$128,239	$ 3,231	$ 4,469	3.75%
Douglas S. Wilson *Director*	$363,520	$351,012	$12,508	$13,544	3.625%
Robin L. Taylor *Former Vice President and Chief Financial Officer*	$129,807	$120,149	$ 9,658	$ 3,135	2.50%
Total for all executive officers, directors and related persons	$924,894	$885,528	$39,366	$32,163	

Other Transactions. Except as set forth above under *"— Loans and Extensions of Credit,"* during the year ended December 31, 2016, there have been no transactions and there are no currently proposed transactions in which we were or are to be a participant and the amount involved exceeds $120,000, and in which any of our executive officers, directors and nominee for director had or will have a direct or indirect material interest.

Policies and Procedures for Approval of Related Persons Transactions. The Company maintains a Policy and Procedures Governing Related Persons Transactions, which is a written policy and set of procedures for the review and approval or ratification of transactions involving related persons. Under the policy, related persons consist of directors, director nominees, executive officers, persons or entities known to us to be the beneficial owner of more than five percent of any outstanding class of voting securities of the Company, or immediate family members or certain affiliated entities of any of the foregoing persons.

Transactions covered by the policy consist of any financial transaction, arrangement or relationship or series of similar transactions, arrangements or relationships, in which:

- the aggregate amount involved will or may be expected to exceed $50,000 in any calendar year;
- the Company is, will or may be expected to be a participant; and
- any related person has or will have a direct or indirect material interest.

The policy excludes certain transactions, including:

- any compensation paid to an executive officer of the Company if the Compensation Committee of the Board of Directors approved (or recommended that the Board approve) such compensation;
- any compensation paid to a director of the Company if the Board or an authorized committee of the Board approved such compensation; and
- any transaction with a related person involving consumer and investor financial products and services provided in the ordinary course of the Company business and on substantially the same terms as those prevailing at the time for comparable services provided to unrelated third parties or to the Company's employees on a broad basis (and, in the case of loans, in compliance with the Sarbanes-Oxley Act of 2002).

Related person transactions will be approved or ratified by the Audit Committee. In determining whether to approve or ratify a related person transaction, the Audit Committee will consider all relevant factors, including:

- whether the terms of the proposed transaction are at least as favorable to the Company as those that might be achieved with an unaffiliated third party;
- the size of the transaction and the amount of consideration payable to the related person;
- the nature of the interest of the related person;
- whether the transaction may involve a conflict of interest; and
- whether the transaction involves the provision of goods and services to the Company that are available from unaffiliated third parties.

A member of the Audit Committee who has an interest in the transaction will abstain from voting on the approval of the transaction but may, if so requested by the Chair of the Audit Committee, participate in some or all of the discussion relating to the transaction.

SUBMISSION OF BUSINESS PROPOSALS AND SHAREHOLDER NOMINATIONS

The Company must receive proposals that shareholders seek to include in the proxy statement for the Company's next annual meeting no later than December 18, 2017. If next year's annual meeting is held on a date more than 30 calendar days from May 23, 2018, a shareholder proposal must be received by a reasonable time before the Company begins to print and mail its proxy solicitation for such annual meeting. Any shareholder proposals will be subject to the requirements of the proxy rules adopted by the Securities and Exchange Commission.

The Company's Bylaws provide that a person may not be nominated for election as a director of the Company unless that person is nominated by or at the direction of the Company's Board of Directors or by a shareholder who has given appropriate notice to the Company before the meeting. Similarly, a shareholder may not bring business before an annual meeting unless the shareholder has given the Company appropriate notice of its intention to bring that business before the meeting. The Company's Corporate Secretary must receive notice of the nomination or proposal not less than 90 days before the annual meeting; provided, however, that if less than 100 days' notice of prior public disclosure of the date of the meeting is given or made to the shareholders, notice by the shareholder to be timely must be received no later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A shareholder who desires to raise new business must provide certain information to the Company concerning the nature of the new business, the shareholder, the shareholder's ownership in the Company and the shareholder's interest in the business matter. Similarly, a shareholder wishing to nominate any person for election as a director must provide the Company with certain information concerning the nominee and the proposing shareholder. A copy of the Company's Bylaws may be obtained from the Company.

SHAREHOLDER COMMUNICATIONS

The Company encourages shareholder communications to the Board of Directors and/or individual directors. Shareholders who wish to communicate with the Board of Directors or an individual director should send their communications to the care of Lisa M. McGuire-Dick, Corporate Secretary, MB Bancorp, Inc., 1920 Rock Spring Road, Forest Hill, Maryland 21050. All communications that relate to matters that are within the scope of the responsibilities of the Board and its committees are to be presented to the Board no later than its next regularly scheduled meeting. Communications that relate to matters that are within the responsibility of one of the Board committees are also to be forwarded to the Chair of the appropriate Board committee. Communications that relate to ordinary business matters that are not within the scope of the Board's responsibilities, such as customer complaints, are to be sent to the appropriate officer. Solicitations, junk mail and obviously frivolous or inappropriate communications are not to be forwarded, but will be made available to any director who wishes to review them.

MISCELLANEOUS

The Company will pay the cost of this proxy solicitation. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of the Company. Additionally, directors, officers and other employees of the Company may solicit proxies personally or by telephone. None of these persons will receive additional compensation for these activities.

The Company's Annual Report to Shareholders has been mailed to persons who were shareholders as of the close of business on April 7, 2017. Any shareholder who has not received a copy of the Annual Report may obtain a copy by writing to the Corporate Secretary of the Company. The Annual Report is not to be treated as part of the proxy solicitation material or as having been incorporated in this proxy statement by reference.

A copy of the Company's Annual Report on Form 10-K, without exhibits, for the year ended December 31, 2016, as filed with the Securities and Exchange Commission, will be furnished without charge to persons who were shareholders as of the close of business on April 7, 2017 upon written request to Lisa M. McGuire-Dick, Corporate Secretary, MB Bancorp, Inc., 1920 Rock Spring Road, Forest Hill, Maryland 21050.

BY ORDER OF THE BOARD OF DIRECTORS

Lisa M. McGuire-Dick

Lisa M. McGuire-Dick
Corporate Secretary

Forest Hill, Maryland
April 17, 2017

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

OR

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

For the transition period from ________ to ________

Commission file number: **000-55341**

MB BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**47-1696350**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1920 Rock Spring Road, Forest Hill, Maryland	**21050**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: **(410) 420-9600**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value $0.01 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

The aggregate market value of the common stock held by non-affiliates as of June 30, 2016 was $24,783,952. As of March 30, 2017, the registrant had 1,892,200 shares of its common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the registrant's 2017 annual meeting of stockholders (Part III).

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Forward-Looking Statements

When used in this Annual Report on Form 10-K, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties including changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company's market area, competition and information provided by third-party vendors and the matters described herein under "Item 1A. Risk Factors" that could cause actual results to differ materially from historical results and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

PART I

Item 1. Business

General

MB Bancorp, Inc. MB Bancorp (the "Company") was incorporated in August 2014 to be the holding company for Madison Bank of Maryland (the "Bank") following the Bank's conversion from the mutual to the stock form of ownership. On December 29, 2014, the mutual to stock conversion was completed and the Bank became the wholly owned subsidiary of the Company. Also on that date, the Company sold and issued 2,116,000 shares of its common stock at a price of $10.00 per share, through which the Company received net offering proceeds of $20,165,000. During the year ended December 31, 2016, the Company repurchased 215,600 shares of its common stock at an average price of $13.07 per share. The Company's principal business activity is the ownership of the outstanding shares of the common stock of the Bank. The Company does not own or lease any property, but instead uses the premises, equipment and other property of the Bank, with the payment of appropriate rental fees, as required by applicable law and regulations, under the terms of an expense allocation agreement entered into with the Bank.

Madison Bank of Maryland. Madison Bank of Maryland is the product of the merger of three institutions, The Back & Middle River Building and Loan Association, Inc. (founded in 1912), Madison & Bradford Federal Savings & Loan Association (founded in 1904) and Bohemian American Federal Savings & Loan Association (founded in 1899). In 2002, Bohemian American merged with Madison & Bradford, at which time we changed our name to Madison Bradford/Bohemian American Savings Bank, and in 2004 we shortened our name to Madison Bohemian Savings Bank. In 2006, Back & Middle River merged into Madison Bohemian. In 2009, we adopted our current name, Madison Bank of Maryland.

Madison Bank of Maryland is a community-oriented financial institution, dedicated to serving the financial service needs of customers within its market area, which consists of Baltimore and Harford counties in Maryland. We offer a variety of deposit products and provide loans secured by real estate located in our market area. Our real estate loans consist primarily of residential mortgage loans, as well as non-residential real estate loans, construction and land loans and home equity lines of credit. We currently operate out of our corporate headquarters and main office in Forest Hill, Maryland and two full-service branch offices located in Aberdeen and Perry Hall, Maryland. We are subject to extensive regulation, examination and supervision by the Office of the Comptroller of the Currency, our primary federal regulator, and the Federal Deposit Insurance Corporation, our deposit insurer. At December 31, 2016, we had consolidated assets of $131.3 million, total deposits of $93.0 million and total equity of $30.3 million.

Our executive offices are located at 1920 Rock Spring Road, Forest Hill, Maryland 21050 and the telephone number is (410) 420-9600.

Available Information

The Bank maintains an internet website at http://www.mbofmd.com. The Company makes available its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to such reports filed with the Securities and Exchange Commission ("SEC") as well as other information related to the Company. SEC reports are available on this site as soon as reasonably practicable after electronically filed. The SEC's website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

Market Area

We are headquartered in Forest Hill, Maryland. We maintained offices in Baltimore County and Harford County to serve customers in those markets and occasionally make loans secured by real estate located in nearby counties but outside the markets served by our branches. We consider our deposit and lending market to consist of Baltimore and Harford counties in Maryland. The economy of our market area is a diverse cross section of employment sectors, with a mix of services, manufacturing, wholesale/retail trade, state and local government, health care facilities and finance related employment. Select employers in Baltimore County include the U.S. Social Security Administration, T. Rowe Price Group, McCormick & Company and Lockheed Martin, while Aberdeen Proving Grounds ("APG") is a major employer both in the military and civilian capacity in Harford County.

Demographic and economic growth trends provide key insight into the health of our market area. Baltimore and Harford counties recorded similar population growth from 2010 to 2015 (0.6% annually), which was slightly slower than the Maryland and national growth rates of 0.8% and 0.7%, respectively. Baltimore County and Harford County reported higher median household and per capita incomes in relation to national averages. Compared to the State of Maryland, Harford County reported higher income levels, while Baltimore County reported lower income levels. According to the U.S. Census Bureau, median household income for 2016 was $67,095 for Baltimore County and $80,465 for Harford County, compared to $74,551 for Maryland and $53,889 for the United States as a whole. Median household income for 2015 was $67,766 for Baltimore County and $79,403 for Harford County.

The unemployment rates for Maryland and the Baltimore and Harford County area was 4.2% , 4.1% and 3.5%, respectively, in December 2016 (down from Maryland 5.1% and the Baltimore metropolitan area 4.9%, respectively, as of December 2015), below the declining national unemployment rate of 4.7%. Over the past several years, the unemployment rates for Maryland, the Baltimore metropolitan statistical area and Baltimore County have remained more stable than that of the United States with the highest level of unemployment reported in Baltimore County at 7.2% in 2012 as compared to the highest national unemployment rate of 8.5% in 2011. While much improved in 2016, Harford County exhibited unemployment data better than the state and national averages through December 2016, with rates varying from 4.4% in July 2016 to 3.5% in December 2016. The demographic information is based on information provided by The Office of Workforce Information and Performance (OWIP).

Competition

We face significant competition for the attraction of deposits and origination of loans. Our most direct competition for deposits has historically come from the many financial institutions operating in our primary market area and from other financial service companies such as securities brokerage firms, credit unions and insurance companies. We also face competition for investors' funds from money market funds, mutual funds and other corporate and government securities. In addition, banks owned by large national and regional holding companies and other community-based banks also operate in our primary market area. Most of these institutions are larger than us and, therefore, may have greater resources.

Our competition for loans comes primarily from financial institutions, including credit unions, in our primary market area and from other financial service providers, such as mortgage companies and mortgage brokers. Competition for loans also comes from non-depository financial services companies entering the mortgage market, such as insurance companies, securities companies and specialty finance companies.

We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered barriers to entry, allowed banks to expand their geographic reach by

providing services over the Internet, and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Changes in federal law now permit affiliation among banks, securities firms and insurance companies, which promotes a competitive environment in the financial services industry. Competition for deposits and the origination of loans could limit our growth in the future.

Lending Activities

General. The largest segment of our loan portfolio is real estate mortgage loans, consisting primarily of residential mortgage loans, and, to a lesser extent, non-residential real estate loans, construction and land loans and home equity lines of credit. The only consumer loans we offer are loans to depositors secured by savings accounts, and we currently do not offer commercial loans; the commercial real estate loans currently in our portfolio were originated years ago. We are a portfolio lender and retain in our portfolio substantially all loans we originate.

The following is a description of the loans we offer and our lending policies. On occasion, as described below, we may choose to originate a loan that does not fully conform to our loan policies. However, such exceptions are extremely rare and the amounts involved are immaterial. Any exceptions to our loan policies must be approved by the individuals or committee having authority to approve a comparable loan that conformed fully to our lending policies. For information regarding loan approval procedures and authority, see *"— Loan Underwriting — Loan Approval Procedures and Authority."*

Residential Mortgage Loans. At December 31, 2016, we had $73.3 million in residential mortgage loans, which represented 82.4% of our total loan portfolio. Our origination of residential mortgage loans enables borrowers to purchase or refinance existing homes, most of which are located in our primary market area. Included in residential mortgage loans are loans secured by one- to four-family properties, which totaled $71.3 million at December 31, 2016, and loans secured by multi-family properties, which totaled $2.0 million at December 31, 2016. Of our residential mortgage loans, at December 31, 2016, $67.5 million, or 92.1% of residential mortgage loans, were secured by owner-occupied residences, $3.2 million, or 4.4% of residential mortgage loans, were secured by investor-owned properties, $2.0 million, or 2.7% of residential mortgage loans, were secured by multi-family properties and $617,000, or 0.8% of residential mortgage loans, were second mortgage loans.

We offer fixed-rate residential mortgage loans with terms of up to 30 years, although we prefer to originate residential mortgage loans with terms of 15 years or less. We offer conforming conventional mortgage loans, which are loans of $417,000 or less with additional requirements, such as, down payment amount and credit history, as well as jumbo mortgage loans, which are loans that exceed that amount. Although we have not sold residential mortgage loans in recent years, we generally originate residential mortgage loans in conformance with secondary market guidelines. We are currently offering adjustable-rate loans. We determine the loan fees, interest rates and other provisions of mortgage loans based on our own pricing criteria and competitive market conditions.

While residential real estate loans are normally originated with up to 30-year terms, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full either upon sale of the property pledged as security or upon refinancing the original loan. Therefore, average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans on a regular basis. We do not offer residential mortgage loans with negative amortization, and we generally do not make interest only residential mortgage loans, although we have, on limited occasions, made interest only loans where there were exceptional income or credit characteristics associated with the loan.

We make owner occupied residential real estate loans with loan-to-value ratios of up to 95%. Loans with loan-to-value ratios in excess of 80% require private mortgage insurance. In addition, non-owner occupied one to four family residential real estate loan-to-value ratios may not exceed 75%. We require all properties securing mortgage loans to be appraised by a board-approved independent appraiser. We also require title insurance on all first mortgage loans. Borrowers must obtain hazard insurance, and flood insurance is required for all loans located in special flood hazard areas. We do not offer, and have not offered, sub-prime or no-documentation mortgage loans.

Included in residential mortgage loans are second mortgage loans. Second mortgage loans are made at fixed rates for terms of up to 15 years and in amounts of up to $200,000. We do not offer second mortgage loans with loan-to-value ratios exceeding 80%, including any first mortgage loan balance. Second mortgage loans totaled $617,000 at December 31, 2016 and represented 0.8% of residential mortgage loans at such date.

Non-residential Real Estate Loans. At December 31, 2016, we had $7.0 million of non-residential real estate loans in our portfolio. The non-residential real estate securing these loans generally consists of churches, small office buildings and marinas.

As of December 31, 2016, our largest non-residential real estate loan had an outstanding balance of $1.4 million and was secured by a church in Baltimore County. This loan was performing in accordance with its terms at December 31, 2016.

Construction and Land Loans. At December 31, 2016, we had $5.1 million of construction and land loans, which represented 5.7% of our total loan portfolio. At December 31, 2016, construction and land loans consisted of $2.0 million of construction loans, amounting to 39.2% of our construction and land loan portfolio, and $3.1 million of land loans, amounting to 60.8% of our construction and land loan portfolio.

We originate loans for the construction of one- to four-family homes. We originate loans to individuals to finance the construction of residential dwellings. Our construction loans generally provide for the payment of only interest during the construction phase, which is usually up to 12 months. At the end of the construction phase, the loan generally converts to a permanent mortgage loan. Loans generally can be made with a maximum loan to value ratio of 80% on residential construction, based on the lesser of the appraised value as if complete or the sum of all costs to the borrower including the cost of the land and construction costs. Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent appraiser, and we may require a feasibility study to ensure that the lot is buildable. We also will generally require an inspection of the property before disbursement of funds during the term of the construction loan.

We also originate loans to individuals for the purpose of purchasing land for future construction of one- to four-family residences. We offer land loans at a fixed-rate for a term of 20 years but are callable after five years. We limit the loan-to-value ratio to a maximum of 65%.

At December 31, 2016, our largest construction and land loan relationship was a $1.8 million land loan secured by waterfront property in Queen Anne's County on the Eastern shore of the Chesapeake Bay. This loan was performing according to its restructured terms at December 31, 2016 although we have experienced delinquencies on this loan in the past. For further information, see *"Item 7. — Management's Discussion and Analysis and Results of Financial Condition — Risk Management — Analysis of Non-performing and Classified Assets."*

Home Equity Lines of Credit. We offer home equity lines of credit in amounts of up to $200,000, although on occasion, in the past, we have approved home equity lines of credit in excess of this amount. All of our home equity lines of credit currently offered are adjustable-rate loans with rates tied to the prime rate as reported in *The Wall Street Journal* and terms of up to 20 years. We do not originate home equity loans with loan-to-value ratios exceeding 80%, including any first mortgage loan balance. Our home equity lines of credit are not necessarily secured by residential real estate on which we also maintain the first mortgage. At December 31, 2016, home equity lines of credit totaled $3.5 million, or 3.9% of our total loan portfolio.

At December 31, 2016, our largest outstanding balance on a home equity line of credit was $716,000, and the line of credit is secured by a residential investment property in Worcester County, Maryland. The loan is part of a larger lending relationship of $1.2 million, which includes real estate loans of $466,000 secured by land. The loans were performing in accordance with their terms at December 31, 2016.

Consumer Loans. The only consumer loans we offer are loans to depositors, secured by savings. At December 31, 2016, consumer loans totaled $18,000, or less than 0.02% of our total loan portfolio.

Loan Underwriting

Construction and Land Loans. Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, we may be required to advance draw funds beyond the amount originally scheduled to permit completion of the building. If the estimate of value proves to be inaccurate, we may be confronted, at or before the maturity of the loan, with a building having a value which is insufficient to assure full repayment if liquidation is required. If we are forced to foreclose on a building before or at completion due to a default, we may be unable to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs. We also disburse funds on a percentage-of-completion basis following an inspection by a third party inspector or qualified bank personnel.

Home Equity Loans and Lines of Credit. In the case of home equity loans and lines of credit, real estate values may be reduced to a level that is insufficient to cover the outstanding loan balance after accounting for the first mortgage loan balance. Loan collections depend on the borrower's continuing financial stability, and therefore are likely to be adversely affected by various factors, including job loss, divorce, illness or personal bankruptcy. 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.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors and management. Loans equal to or less than $400,000 must be approved by any two members of our Loan Committee, which consists of senior management. Our Executive Committee, which consists of senior management and one independent director, has authority to approve loans in amounts over $400,000 and up to $600,000. All loans in excess of $600,000 must be approved by the majority of the Board of Directors prior to a commitment being made.

Loans to One Borrower. The maximum amount that we may lend to one borrower and the borrower's related entities is limited, by regulation, to 15% of our unimpaired capital and surplus. At December 31, 2016, our regulatory limit on loans-to-one-borrower was $3.8 million. Notwithstanding our regulatory loans-to-one-borrower limitation, our current policy is to limit our loans to one borrower to no more than $1.5 million. At December 31, 2016, our largest lending relationship was six loans totaling $2.2 million, loans made prior to the imposition of our current policy. These loans are performing at December 31, 2016. There are two properties in Baltimore City, secured by a four story investment building and residential apartments. There are two properties in Baltimore County secured by a marina and a personal residence. The personal residence is a participation with another financial institution. For further information, see *"Item 7. — Management's Discussion and Analysis and Results of Financial Condition — Risk Management — Classified Assets."*

Loan Commitments. We issue commitments for residential mortgages conditioned upon the occurrence of certain events. Commitments to originate mortgage loans are legally binding agreements to lend to our customers. Most of our loan commitments expire after 30 days. See note 16 of the Notes to Consolidated Financial Statements.

Investment Activities

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various government-sponsored agencies and of state and municipal governments, mortgage-backed securities, including collateralized mortgage obligations and certificates of deposit of federally insured institutions. Within certain regulatory limits, we also may invest a portion of our assets in other permissible securities. As a member of the Federal Home Loan Bank of Atlanta, we also are required to maintain an investment in Federal Home Loan Bank of Atlanta stock.

At December 31, 2016, our investment securities for the Bank included securities available-for-sale and securities held-to-maturity. We account for investment and mortgage-backed securities in accordance with Accounting Standards Codification Topic 320, "Investments — Debt and Equity Securities." Accounting

Standards Codification 320 requires that investments be categorized as held-to-maturity, trading, or available for sale. In addition to our investment portfolio, at December 31, 2016, we maintained a $418,000 investment, at cost, in Federal Home Loan Bank of Atlanta common stock.

Our primary investment objectives are: (i) to provide and maintain liquidity; (ii) to fully employ the available funds of the Company and the Bank; (iii) to earn an average rate of return on invested funds competitive with comparable institutions; (iv) to manage interest rate risk; and (v) to limit risk. Our board of directors has the overall responsibility for the investment portfolio, including approval of the investment policy. Our Chief Executive Officer and Chief Financial Officer are responsible for the implementation of our policy and monitoring our investment performance. Our board of directors reviews the status of our investment portfolio on a monthly basis.

Deposit Activities and Other Sources of Funds

General. Deposits, borrowings and loan repayments are the major sources of our funds for lending and other investment purposes. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and money market conditions.

Deposit Accounts. Deposits generally are attracted from within our market area through the offering of a broad selection of deposit instruments, including non-interest-bearing demand deposits (such as checking accounts), interest-bearing demand accounts (such as NOW and money market accounts), statement savings accounts and certificates of deposit. We also utilize QwickRate, a direct deposit listing service and our own internet website to generate deposits. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, our liquidity needs, profitability to us, matching deposit and loan products and customer preferences and concerns. We generally review our deposit mix and pricing bi-weekly. Our deposit pricing strategy has typically been to offer competitive rates on all types of deposit products, and to periodically offer special rates in order to attract deposits of a specific type or term.

Borrowings. We had $7.0 million in borrowings at December 31, 2016, consisting of advances from the Federal Home Loan Bank of Atlanta to supplement our investable funds. The Federal Home Loan Bank functions as a central reserve bank providing credit for member financial institutions. As a member, we are required to own capital stock in the Federal Home Loan Bank of Atlanta and are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth, the Federal Home Loan Bank's assessment of the institution's creditworthiness, collateral value and level of Federal Home Loan Bank stock ownership. We had unused borrowing capacity of approximately $26.2 million with the Federal Home Loan Bank of Atlanta as of December 31, 2016. In addition, we maintain a $2.5 million line of credit with another bank and access to the Federal Reserve Bank Discount Window; no amounts were outstanding under the lines of credit at December 31, 2016.

Personnel

As of December 31, 2016, we had 27 full-time employees and 2 part-time employees, none of whom are represented by a collective bargaining unit. We believe our relationship with our employees is good.

Subsidiaries

Madison Bank of Maryland has two subsidiaries, both of which are wholly owned subsidiaries. 1920 Rock Spring Road, LLC was formed in 1998 to own and hold real estate. At December 31, 2016, its primary asset was the real estate where Madison Bank of Maryland's headquarters is located. Mutual, LLC was formed in 2011 to hold other real estate owned. At December 31, 2016, Mutual, LLC owned no properties.

Regulation and Supervision

General

Madison Bank of Maryland, as a federal savings bank, is subject to extensive regulation, examination and supervision by the Office of the Comptroller of the Currency, as its primary federal regulator, and by the Federal Deposit Insurance Corporation as the insurer of its deposits. Its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation. Madison Bank of Maryland must file reports with the Office of the Comptroller of the Currency concerning its activities and financial condition in addition to obtaining regulatory approvals before entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the Office of the Comptroller of the Currency to evaluate Madison Bank of Maryland's safety and soundness and compliance with various regulatory requirements. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of an adequate allowance for loan losses for regulatory purposes.

As a savings and loan holding company, MB Bancorp will be subject to examination and supervision by, and be required to file certain reports with the Federal Reserve Board.

The Dodd-Frank Act made extensive changes to the regulation of Madison Bank of Maryland and will continue to affect, into the immediate future, the lending and investment activities and general operations of depository institutions and their holding companies. Under the Dodd-Frank Act, the Office of Thrift Supervision was eliminated and responsibility for the supervision and regulation of federal savings banks such as Madison Bank of Maryland was transferred to the Office of the Comptroller of the Currency on July 21, 2011. The Office of the Comptroller of the Currency is the agency that is primarily responsible for the regulation and supervision of national banks. Additionally, the Dodd-Frank Act created a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations and has authority to impose new requirements. However, institutions of less than $10 billion in assets, such as Madison Bank of Maryland, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their prudential regulators.

Certain of the regulatory requirements that are or will be applicable to Madison Bank of Maryland and MB Bancorp are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on Madison Bank of Maryland and MB Bancorp.

Federal Banking Regulation

Business Activities. The activities of federal savings banks, such as Madison Bank of Maryland, are governed by federal laws and regulations. Those laws and regulations delineate the nature and extent of the business activities in which federal savings banks may engage. In particular, certain lending authority for federal savings banks, (*e.g.,* commercial, nonresidential real property loans and consumer loans), is limited to a specified percentage of the institution's capital or assets.

Capital Requirements. In early July 2013, the Federal Reserve Board and the Office of the Comptroller of the Currency approved revisions to their capital adequacy guidelines and prompt corrective action rules that implement the revised standards of the Basel Committee on Banking Supervision, commonly called Basel III, and address relevant provisions of the Dodd-Frank Act. "Basel III" refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The rules include new risk-based capital and leverage ratios, which became effective January 1, 2015, and revised the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to Madison Bank of Maryland are: (i) a new common equity

Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged); and (iv) a Tier 1 leverage ratio of 4% for all institutions. In addition, the rules assign a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The rules also eliminate the inclusion of certain instruments, such as trust preferred securities, from Tier 1 capital. However, instruments issued prior to May 19, 2010 are grandfathered for companies with consolidated assets of $15 billion or less. In addition, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common stock will be required to be deducted from capital, subject to a two-year transition period. Finally, Tier 1 capital will include accumulated other comprehensive income (which includes all unrealized gains and losses on available for sale debt and equity securities), subject to a two-year transition period.

The rules also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and would result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement was phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations would establish a maximum percentage of eligible retained income that could be utilized for such actions.

The Office of the Comptroller of the Currency also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of particular risks or circumstances.

Prompt Corrective Regulatory Action. Prompt corrective action regulations provide five classifications: 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 broker deposits. The Office of the Comptroller of the Currency is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The Office of the Comptroller of the Currency could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. Significantly and critically undercapitalized institutions are subject to additional mandatory and discretionary measures.

Insurance of Deposit Accounts. Madison Bank of Maryland's deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation. Deposit insurance per account owner is currently $250,000. Under the Federal Deposit Insurance Corporation's risk-based assessment system, insured institutions are assigned a risk category based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned, and certain adjustments specified by Federal Deposit Insurance Corporation regulations. Institutions deemed less risky pay lower assessments. The Federal Deposit Insurance Corporation may adjust the scale uniformly, except that no adjustment can deviate more than two basis points from the base scale without notice and comment. No institution may pay a dividend if in default of the federal deposit insurance assessment.

The Dodd-Frank Act required the Federal Deposit Insurance Corporation to revise its procedures to base its assessments upon each insured institution's total assets less tangible equity instead of deposits. The Federal Deposit Insurance Corporation finalized a rule, effective April 1, 2011, that set the assessment range at 2.5 to 45 basis points of total assets less tangible equity.

The Federal Deposit Insurance Corporation has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of Madison Bank of Maryland. Management cannot predict what insurance assessment rates will be in the future.

Loans to One Borrower. Federal law provides that savings banks are generally subject to the limits on loans to one borrower applicable to national banks. Generally, subject to certain exceptions, a savings bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily-marketable collateral. At December 31, 2016, our regulatory loans-to-one borrower limitation was $3.8 million. Notwithstanding this regulatory limitation, our current policy is not to make loans to one borrower in excess of $1.5 million.

Qualified Thrift Lender Test. Federal law requires savings banks to meet a qualified thrift lender test. Under the test, a savings bank is required to either qualify as a "domestic building and loan association" under the Internal Revenue Code or maintain at least 65% of its "portfolio assets" (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain "qualified thrift investments" (primarily residential mortgages and related investments, including certain mortgage-backed securities but also including education, credit card and small business loans) in at least nine months out of each 12-month period.

A savings bank that fails the qualified thrift lender test is subject to certain operating restrictions and the Dodd-Frank Act also specifies that failing the qualified thrift lender test is a violation of law that could result in an enforcement action and dividend limitations. As of December 31, 2016, Madison Bank of Maryland maintained 79.1% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

Limitation on Capital Distributions. Federal regulations impose limitations upon all capital distributions by a savings bank, including cash dividends, payments to repurchase its shares and payments to shareholders of another institution in a cash-out merger. Under the regulations, an application to and the prior approval of the Office of the Comptroller of the Currency is required before any capital distribution if the institution does not meet the criteria for "expedited treatment" of applications under Office of the Comptroller of the Currency regulations (*i.e.,* generally, examination and Community Reinvestment Act ratings in the two top categories), the total capital distributions for the calendar year exceed net income for that year plus the amount of retained net income for the preceding two years, the institution would be undercapitalized following the distribution or the distribution would otherwise be contrary to a statute, regulation or agreement with the Office of the Comptroller of the Currency. If an application is not required, the institution must still provide 30 days prior written notice to, and receive the non-objection of, the Federal Reserve Board of the capital distribution if, like Madison Bank of Maryland, it is a subsidiary of a holding company, as well as an informational notice filing to the Office of the Comptroller of the Currency. If Madison Bank of Maryland's capital ever fell below its regulatory requirements or the Office of the Comptroller of the Currency notified it that it was in need of increased supervision, its ability to make capital distributions could be restricted. In addition, the Office of the Comptroller of the Currency could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if the Office of the Comptroller of the Currency determines that such distribution would constitute an unsafe or unsound practice.

Community Reinvestment Act. All federal savings banks have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. An institution's failure to satisfactorily comply with the provisions of the Community Reinvestment Act could result in denials of regulatory applications. Responsibility for administering the Community Reinvestment Act, unlike other fair lending laws, is not being transferred to the Consumer Financial Protection Bureau. Madison Bank of Maryland received an "Outstanding" Community Reinvestment Act rating in its most recently completed examination.

Transactions with Related Parties. Federal law limits Madison Bank of Maryland's authority to engage in transactions with "affiliates" (*e.g.*, any entity that controls or is under common control with Madison Bank of Maryland, including MB Bancorp and its other subsidiaries). The aggregate amount of

covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the savings bank. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings bank's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type specified by federal law. The purchase of low quality assets from affiliates is generally prohibited. Transactions with affiliates must generally be on terms and under circumstances that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings banks are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings bank may purchase the securities of any affiliate other than a subsidiary.

The Sarbanes-Oxley Act of 2002 generally prohibits loans by MB Bancorp to its executive officers and directors. However, the law contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws. Under such laws, Madison Bank of Maryland's authority to extend credit to executive officers, directors and 10% shareholders ("insiders"), as well as entities of such person's control is limited. The laws limit both the individual and aggregate amount of loans that Madison Bank of Maryland may make to insiders based, in part, on Madison Bank of Maryland's capital level and requires that certain board approval procedures be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. Loans to executive officers are subject to additional limitations based on the type of loan involved.

Enforcement. The Office of the Comptroller of the Currency currently has primary enforcement responsibility over savings banks and has authority to bring actions against the institution and all institution-affiliated parties, including directors, officers, shareholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful actions likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors to institution of receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1.0 million per day in especially egregious cases. The Federal Deposit Insurance Corporation has the authority to recommend to the Office of the Comptroller of the Currency that enforcement action be taken with respect to a particular savings bank. If action is not taken by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Federal Home Loan Bank System. Madison Bank of Maryland is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. Madison Bank of Maryland, as a member of the Federal Home Loan Bank of Atlanta, is required to acquire and hold shares of capital stock in that Federal Home Loan Bank. Madison Bank of Maryland was in compliance with this requirement with an investment in Federal Home Loan Bank stock at December 31, 2016 of $418,000.

Federal Reserve System. The Federal Reserve Board regulations require savings banks to maintain non-interest-earning reserves against their transaction accounts (primarily Negotiable Order of Withdrawal (NOW) and regular checking accounts). The regulations provided that reserves be maintained against aggregate transaction accounts as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including $115.1 million; and a 10% reserve ratio is applied above $115.1 million. The first $15.5 million of otherwise reservable balances (subject to adjustments by the Federal Reserve Board) are exempted from the reserve requirements.

Other Regulations

Madison Bank of Maryland's operations are also subject to federal laws applicable to credit transactions, such as, but not limited to, the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;

- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of Madison Bank of Maryland also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;
- Title III of The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (referred to as the "USA PATRIOT Act"), and the related regulations of the Federal Reserve Board, which require savings banks operating in the United States to develop new anti-money laundering compliance programs (including a customer identification program that must be incorporated into the AML compliance program), due diligence policies and controls to ensure the detection and reporting of money laundering; and
- The Bank Secrecy Act of 1970, which requires financial institutions in the United States to keep records of cash purchases of negotiable instruments, file reports of cash transactions exceeding $10,000 (daily aggregate), and to report suspicious activity that might signify money laundering, tax evasion, or other criminal activities.

Holding Company Regulation

General. As a savings and loan holding company, MB Bancorp will be subject to Federal Reserve Board regulations, examinations, supervision, reporting requirements and regulations regarding its activities. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to Madison Bank of Maryland.

Pursuant to federal law and regulations and policy, a savings and loan holding company such as MB Bancorp may generally engage in the activities permitted for financial holding companies under Section 4(k) of the Bank Holding Company Act of 1956, as amended, and certain other activities that have been authorized for savings and loan holding companies by regulation.

Federal law prohibits a savings and loan holding company from, directly or indirectly or through one or more subsidiaries, acquiring more than 5% of the voting stock of another savings bank, or savings and loan holding company thereof, without prior written approval of the Federal Reserve Board or from acquiring or retaining, with certain exceptions, more than 5% of a non-subsidiary holding company or savings bank. A savings and loan holding company is also prohibited from acquiring more than 5% of a company engaged in activities other than those authorized by federal law or acquiring or retaining control of a depository institution that is not insured by the Federal Deposit Insurance Corporation. In evaluating

applications by holding companies to acquire savings banks, the Federal Reserve Board must consider the financial and managerial resources and future prospects of the company and institution involved the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community and competitive factors.

The Federal Reserve Board is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings banks in more than one state, except: (i) the approval of interstate supervisory acquisitions by savings and loan holding companies; and (ii) the acquisition of a savings bank in another state if the laws of the state of the target savings bank specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Capital Requirements. Savings and loan holding companies historically have not been subject to consolidated regulatory capital requirements. However, in July 2013, the Federal Reserve Board approved a new rule that implements the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. The final rule established consolidated capital requirements for savings and loan holding companies with consolidated assets over $1 million. Because MB Bancorp does not exceed this threshold, it is not subject to this requirement. See *"Regulation and Supervision — Federal Banking Regulation — Capital Requirements."*

Source of Strength. The Dodd-Frank Act also extends the "source of strength" doctrine to savings and loan holding companies. The Federal Reserve Board has issued regulations implementing the "source of strength" policy requiring that holding companies act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

Dividends and Stock Repurchases. The Federal Reserve Board has the power to prohibit dividends by savings and loan holding companies if their actions constitute unsafe or unsound practices. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies and savings and loan holding companies which expresses the Federal Reserve Board's view that a holding company should pay cash dividends only to the extent that the company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the company's capital needs, asset quality and overall financial condition. The Federal Reserve Board also indicated that it would be inappropriate for a holding company experiencing serious financial problems to borrow funds to pay dividends. Under the prompt corrective action regulations, the Federal Reserve Board may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized."

Federal Reserve Board policy also provides that a holding company should inform the Federal Reserve Board supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the holding company is experiencing financial weaknesses or if the repurchase or redemption would result in a net reduction, as of the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred.

Acquisition of MB Bancorp. Under the Federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect "control" of a savings and loan holding company or savings bank. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of the outstanding voting stock of the company or institution, unless the Federal Reserve Board has found that the acquisition will not result in a change of control. A change in control definitely occurs upon the acquisition of 25% or more of the company's outstanding voting stock. Under the Change in Control Act, the Federal Reserve Board generally has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that acquires control would then be subject to regulation as a savings and loan holding company.

Emerging Growth Company Status

The JOBS Act, which was enacted in April 2012, has made numerous changes to the federal securities laws to facilitate access to capital markets. Under the JOBS Act, a company with total annual gross revenues

of less than $1.0 billion during its most recently completed fiscal year qualifies as an "emerging growth company." MB Bancorp, Inc. qualifies as an emerging growth company under the JOBS Act.

An "emerging growth company" may choose not to hold stockholder votes to approve annual executive compensation (more frequently referred to as "say-on-pay" votes) or executive compensation payable in connection with a merger (more frequently referred to as "say-on-golden parachute" votes). An emerging growth company also is not subject to the requirement that its auditors attest to the effectiveness of the company's internal control over financial reporting, and can provide scaled disclosure regarding executive compensation; however, MB Bancorp, Inc. will also not be subject to the auditor attestation requirement or additional executive compensation disclosure so long as it remains a "smaller reporting company" under Securities and Exchange Commission regulations (generally less than $75 million of voting and non-voting equity held by non-affiliates). Finally, an emerging growth company may elect to comply with new or amended accounting pronouncements in the same manner as a private company, but must make such election when the company is first required to file a registration statement. Such an election is irrevocable during the period a company is an emerging growth company. We have irrevocably elected not to adopt new or revised accounting standards on a delayed basis, and will be required to adopt new or revised accounting standards in the same manner as other public companies that are not emerging growth companies.

A company loses emerging growth company status on the earlier of: (i) the last day of the fiscal year of the company during which it had total annual gross revenues of $1.0 billion or more; (ii) the last day of the fiscal year of the issuer following the fifth anniversary of the date of the first sale of common equity securities of the company pursuant to an effective registration statement under the Securities Act of 1933; (iii) the date on which such company has, during the previous three-year period, issued more than $1.0 billion in non-convertible debt; or (iv) the date on which such company is deemed to be a "large accelerated filer" under Securities and Exchange Commission regulations (generally, at least $700 million of voting and non-voting equity held by non-affiliates).

Federal Income Taxation

General. We report our income on a calendar year basis using the accrual method of accounting. The federal income tax laws apply to us in the same manner as to other corporations with some exceptions, including particularly our reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to us. Our federal income tax returns have not been audited during the last five years. For its 2016 calendar year, Madison Bank of Maryland's maximum statutory federal income tax rate was 34%.

MB Bancorp and Madison Bank of Maryland have entered into a tax allocation agreement. Because MB Bancorp owns 100% of the issued and outstanding capital stock of Madison Bank of Maryland after the completion of the conversion, MB Bancorp and Madison Bank of Maryland are members of an affiliated group within the meaning of Section 1504(a) of the Internal Revenue Code, of which group MB Bancorp will be the common parent corporation. As a result of this affiliation, Madison Bank of Maryland may be included in the filing of a consolidated federal income tax return with MB Bancorp and, if a decision to file a consolidated tax return is made, the parties agree to compensate each other for their individual share of the consolidated tax liability and/or any tax benefits provided by them in the filing of the consolidated federal income tax return.

Bad Debt Reserves. For fiscal years beginning before June 30, 1996, thrift institutions that qualified under certain definitional tests and other conditions of the Internal Revenue Code were permitted to use certain favorable provisions to calculate their deductions from taxable income for annual additions to their bad debt reserve. A reserve could be established for bad debts on qualifying real property loans, generally secured by interests in real property improved or to be improved, under the percentage of taxable income method or the experience method. The reserve for nonqualifying loans was computed using the experience method. Federal legislation enacted in 1996 repealed the reserve method of accounting for bad debts and the percentage of taxable income method for tax years beginning after 1995 and require savings institutions to recapture or take into income certain portions of their accumulated bad debt reserves.

Distributions. If Madison Bank of Maryland makes "non-dividend distributions" to MB Bancorp, the distributions will be considered to have been made from Madison Bank of Maryland's unrecaptured tax bad debt reserves, including the balance of its reserves as of December 31, 1987, to the extent of the "non-dividend distributions," and then from Madison Bank of Maryland's supplemental reserve for losses on loans, to the extent of those reserves, and an amount based on the amount distributed, but not more than the amount of those reserves, will be included in Madison Bank of Maryland's taxable income. Non-dividend distributions include distributions in excess of Madison Bank of Maryland's current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation. Dividends paid out of Madison Bank of Maryland's current or accumulated earnings and profits will not be included in Madison Bank of Maryland's taxable income.

The amount of additional taxable income triggered by a non-dividend is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Therefore, if Madison Bank of Maryland makes a non-dividend distribution to MB Bancorp, approximately one and one-half times the amount of the distribution not in excess of the amount of the reserves would be includable in income for federal income tax purposes, assuming a 34% federal corporate income tax rate. Madison Bank of Maryland does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

State Taxation

The state of Maryland imposes an income tax of approximately 8.25% on income measured substantially the same as federally taxable income. The State of Maryland currently assesses a personal property tax for December 2000 and forward.

Executive Officers Who Are Not Directors

The executive officers of MB Bancorp and Madison Bank of Maryland are elected annually by the Board of Directors and serve at the board's discretion. The executive officers of MB Bancorp and Madison Bank of Maryland who are not directors are:

Name	Position
Lisa M. McGuire-Dick	Senior Vice President of MB Bancorp and Madison Bank of Maryland
John M. Wright	Executive Vice President and Chief Financial Officer of MB Bancorp and Madison Bank of Maryland

Below is information regarding our other executive officers who are not directors. Ages presented are as of December 31, 2016.

Lisa M. McGuire-Dick has been with Madison Bank of Maryland since October 2004, serving as Vice President until March 2014 when she was named Senior Vice President. She is responsible for our Human Resources department. Age 52.

John M. Wright has been with Madison Bank of Maryland since December 2016, serving as Executive Vice President and Chief Financial Officer. Age 50.

Item 1A. Risk Factors

If our non-performing assets increase, or do not decrease, our earnings will continue to be adversely affected.

At December 31, 2016, our non-performing assets, which consist of non-accruing loans past due 90 days or more, ground rents that are delinquent three or more years, and other real estate owned, and accruing troubled debt restructurings were $5.8 million, or 4.39% of total assets. Our non-performing assets adversely affect our net income in various ways:

- we record interest income only on a cash basis for non-accrual loans and we do not record interest income for other real estate owned;

- we must provide for probable loan losses through a current period provision for loan losses which is a charge to income;
- non-interest expense increases when we write down the value of properties in our other real estate owned portfolio to reflect changing market values;
- there are legal fees associated with the resolution of problem assets, as well as carrying costs, such as taxes, insurance, and maintenance fees related to our other real estate owned; and
- the resolution of non-performing assets requires the active involvement of management, which can distract them from more profitable activity.

If additional borrowers become delinquent and do not pay their loans or if we are unable to successfully manage our non-performing assets, our net income could decrease or we could experience losses and troubled assets could increase significantly, which could have a material adverse effect on our financial condition and results of operations.

We have had losses in recent periods. If we cannot increase our income to competitive levels, our stock price may be adversely affected.

We have had losses or nominal income in recent periods, including net losses of $1.8 million and $1.0 million in the years ended December 31, 2016 and 2015, respectively. Our return on average assets was (1.27)% and (0.71)% for the years ended December 31, 2016 and 2015, respectively, and our return on average equity was (5.45)% and (2.96)% for the years ended December 31, 2016 and 2015, respectively.

Our recent losses were due primarily to a continued decline in net interest income, high non-interest expenses, valuation write downs of other real estate owned and deferred tax assets. Our growth is essential to our future profitability, and we expect to incur expenses related to the implementation of our strategic plan. In addition, the recent conversion will have a short-term adverse impact on our operating results, due to additional costs related to becoming a public company, increased compensation expenses associated with our employee stock ownership plan and the implementation of a stock-based incentive plan in May 2016. Accordingly, even if we successfully implement our strategic plan, our strategic initiatives may not succeed in generating or increasing income.

If we are unable to generate or increase income, our stock price may be adversely affected. Moreover, even if we are successful in generating net income, our earnings may be low for some time. In such event, our return on equity, which equals net income divided by average equity, may be below returns on equity.

Our business may be adversely affected by credit risk associated with residential property.

At December 31, 2016, $73.3 million, or 82.4% of our total loan portfolio, was secured by residential real estate. Residential mortgage lending, whether owner occupied or non-owner occupied, is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. Based on data provided by the Maryland Association of Realtors, for December 31, 2016, 2015 and 2014, average residential real estate prices were $253,000, $200,000 and $229,950, respectively, in Baltimore County, and $257,000, $239,450 and $209,950, respectively, in Harford County. The 4th quarter increase of 9.3% in Baltimore County residential real estate values as a result of the uptick in the housing market in our market area has increased the value of the real estate collateral securing these types of loans. Moreover, Harford County saw a 4th quarter 6.2% increase in the value of residential real estate which decreased the risk that we would incur losses if borrowers default on their loans. Fluctuations in value and levels of bank-owned sales may have a greater effect on our earnings and capital than on the earnings and capital of financial institutions whose loan portfolios are more diversified. On limited occasions, we originate "jumbo" loans, which are residential mortgage loans in amounts exceeding $417,000, which, due to the size of such loans, may expose us to additional credit risks. Moreover, we are a portfolio lender; accordingly, we expect to be exposed to the credit risk for longer periods of time, including in some cases for the entire term of the loan.

Residential loans with higher loan-to-value ratios will be more sensitive to declining property values than those with lower combined loan-to-value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, they may be unable to repay their loans in full from the sale proceeds. Further, a significant amount of our home equity loans and lines of credit are second mortgage loans, and we may not hold the first mortgage in all cases. In the case of home equity loans and lines of credit, we may not be successful in recovering all or a portion of our loan proceeds in the event of default unless the value of the collateral is sufficient to cover the first and second mortgage and the costs associated with a foreclosure are justified by the value of the property.

If our allowance for loan losses is not sufficient to cover actual loan losses, we may be required to make additional provisions for loan losses, which would cause our earnings to decrease.

We recorded a (reversal) provision for loan losses of $(258,000) and $1,000 for the years ended December 31, 2016 and 2015, respectively that were charged against income for those periods. We incurred net charge-offs of $85,000 and $171,000, respectively, during the same periods. While our allowance for loan losses was 56.42% of non-performing loans and 1.37% of total loans at December 31, 2016, we may be required to make additional material additions to our allowance for loan losses that would materially decrease our net income.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers, our borrowers' cash flow and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable incurred losses in our loan portfolio, resulting in additional provisions charged against income to increase our allowance. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. We have also determined to have an independent firm review our loan portfolio and reserve methodology on an annual basis to provide recommendations to management.

Lending money is a substantial part of our business and each loan carries a certain risk that it may not be repaid in accordance with its terms, or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things, cash flow of the borrower and/or the project being financed, the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan, the duration of the loan, the character and creditworthiness of a particular borrower, and changes in economic and industry conditions.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. If charge-offs in future periods exceed the allowance for loan losses we will need additional provisions to replenish the allowance for loan losses. Any additional provisions will result in a decrease in net income and possibly capital, and may have a material adverse effect on our financial condition and results of operations.

If our foreclosed real estate is not properly valued or if our reserves are insufficient, our earnings could be reduced.

We obtain appraisals when a loan has been foreclosed and the property taken in as foreclosed real estate, and write down the foreclosed real estate to the amount of the appraisal. We also obtain appraisals at certain other times during the holding period of the asset. Our net book value on the loan at the time of foreclosure and thereafter is compared to the updated fair value of the foreclosed property less estimated selling costs (fair value). A charge-off is recorded for any excess in the asset's net book value over its fair value less estimated selling costs. If our valuation process is incorrect, or if property values decline, the fair value of our foreclosed real estate may not be sufficient to recover our carrying value in such assets, resulting in the need for additional charge-offs. Significant charge-offs to our foreclosed real estate could

have a material adverse effect on our financial condition and results of operations. In addition, bank regulators periodically review our foreclosed real estate and may require us to recognize further charge-offs. Any increase in our charge-offs may have a material adverse effect on our financial condition and results of operations.

We may not be able to increase our profitability by implementing our business strategies.

Our ability to operate profitably depends upon a number of factors, including our ability to improve asset quality, reduce funding costs, control expenses and generate income, as well as general economic conditions, competition with other financial institutions, changes to the interest rate environment that may reduce our profit margins or impair our business strategy, adverse changes in the securities markets, changes in laws or government regulations, changes in consumer spending, borrowing, or saving, changes in accounting policies and other risks and uncertainties described in this "*Risk Factors*" section. While we believe we have the management resources and internal systems in place to successfully manage our business, we may not be successful in implementing our business strategy. Further, it will take time to implement our business strategy. Our strategic plan, even if successfully implemented, may not ultimately produce positive results.

Our strategies to modify our interest rate risk profile may be difficult to implement.

Our asset/liability management strategies are designed to decrease our interest rate risk sensitivity. One such strategy is to manage our liabilities to moderate our interest rate risk sensitivity. Customer demand is primarily for short-term maturity certificates of deposit. Using short-term liabilities to fund long-term, fixed-rate assets will increase the interest rate sensitivity of any financial institution. We have utilized Federal Home Loan Bank advances to mitigate the impact of customer demand by lengthening the maturities of our liabilities; however, these advances carry higher rates of interest than our cost of deposits, adversely affecting our net interest income.

Federal Home Loan Bank advances are entered into as liquidity is needed or to fund assets that provide for a spread considered sufficient by management. If we are unable to originate short-term or adjustable-rate loans at favorable rates or fund loan originations or securities purchases with long-term advances, we may have difficulty executing this asset/liability management strategy and/or it may result in a reduction in profitability.

If we are unable to improve our asset quality and earnings, we may be subject to regulatory actions that could limit our business or operations.

We have had high levels of non-performing assets and low earnings relative to our peer institutions during 2015 and 2016. If we fail to improve asset quality and earnings, our regulators could subject us to a formal written agreement or cease and desist order, restrict Madison Bank of Maryland's or MB Bancorp's ability to pay dividends, restrict Madison Bank of Maryland's or MB Bancorp's growth or ability to engage in certain types of lending, require Madison Bank of Maryland or MB Bancorp to take remedial actions with respect to any capital deficiency, require Madison Bank of Maryland or MB Bancorp to submit a capital plan for approval, or take other adverse regulatory actions, any one of which would negatively impact our stock price.

Adverse conditions in the local economy or real estate market could hurt our profits.

Our success depends to a large degree on the general economic conditions in our market area of Baltimore and Harford counties in Maryland. During the recent recession, our market had a significant downturn in which we experienced falling home prices, rising foreclosures and an increased level of commercial and consumer delinquencies. Notwithstanding the stabilization in the national and Maryland economies that has occurred in 2015 and 2016, the Baltimore County and Harford County real estate markets have not fully recovered from their recent lows and remain weak. At December 31, 2016, most of our loan portfolio consisted of loans secured by real estate in our market area. The vast majority of our loans are secured by real estate in our market area, and, as a result, we have a greater risk of loan defaults and losses in the event of a further economic downturn in our market area, as adverse economic conditions may have a negative effect on the ability of our borrowers to make timely payments of their loans. Further

significant decline in real estate values in our market would mean that the collateral for many of our loans would provide less security. As a result, we would be more likely to suffer losses on defaulted loans because our ability to fully recover on defaulted loans by selling the real estate collateral would be diminished.

Our local economy may affect our future growth possibilities and operations in our primary market area. Our future growth opportunities depend on the growth and stability of our regional economy and our ability to expand in our market area. Continued adverse conditions in our local economy may limit funds available for deposit and may negatively affect demand for loans, both of which could have an impact on our profitability.

A return of recessionary conditions could result in increases in our level of non-performing loans and/or reduce demand for our products and services, which could have an adverse effect on our results of operations.

Although the U.S. economy has emerged from the severe recession that occurred in 2008 and 2009, economic growth has been slow and uneven, and unemployment levels remain high. Recovery by many businesses has been impaired by lower consumer spending. A return to prolonged deteriorating economic conditions could significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Further declines in real estate values and sales volumes and continued elevated unemployment levels may result in higher than expected loan delinquencies, increases in our non-performing and criticized classified assets and a decline in demand for our products and services. These events may cause us to incur losses and may adversely affect our financial condition and results of operations. As a result of the economic downturn, our non-performing assets, accruing loans past due 90 days or more and troubled debt restructurings increased to a high of $13.2 million at December 31, 2012. Since that time, the amount of non-performing assets and troubled debt restructurings declined to $5.7 million at December 31, 2015 and to $5.8 million at December 31, 2016. Reduction in problem assets has been slow, and the process has been exacerbated by the condition of some of the properties securing non-performing loans, the lengthy foreclosure process, and extended workout plans with certain borrowers. As we work through the resolution of these assets, the continued economic problems that exist in the financial markets could have a negative impact on the Company.

A return of recessionary conditions and/or negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Further declines in real estate values and sales volumes and continued high unemployment levels may result in higher than expected loan delinquencies and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity and financial condition.

Changing interest rates may decrease our earnings and asset values.

Our net interest income is the interest we earn on loans and investments less the interest we pay on our deposits and borrowings. Our interest rate spread is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding. Changes in interest rates — up or down — could adversely affect our interest rate spread and, as a result, our net interest income. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our interest rate spread to expand or contract. Our liabilities tend to be shorter in duration than our assets, so they may adjust faster in response to changes in interest rates. Historically we have been a portfolio lender emphasizing the origination of residential mortgage loans, which we fund with deposits, a significant portion of which are certificates of deposit. In recent years, as market interest rates have declined, our borrowers have sought out longer duration residential mortgage loans, while our depositors have sought out shorter term deposits. As a result, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our interest rate spread to contract until the yield catches up. This contraction could be more severe following a prolonged period of lower interest rates, as a larger proportion of our fixed-rate residential loan portfolio will have been originated at those lower rates and borrowers may be more reluctant or unable to sell their homes in a higher interest rate environment. Changes in the slope of the "yield curve" — or the spread between short-term and long-term interest rates — could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning

short-term rates are lower than long-term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our interest rate spread as our cost of funds increases relative to the yield we can earn on our assets. Additionally, increases in interest rates may decrease loan demand. Conversely, a reduction in interest rates can result in increased prepayments of loans and mortgage-backed and related securities, as borrowers refinance their debt in order to reduce their borrowing costs. This creates the risk that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. For further discussion of how changes in interest rates could impact us, see *"Item 7. — Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management — Interest Rate Risk Management."*

Historically low interest rates may adversely affect our net interest income and profitability.

In recent years it has been the policy of the Federal Reserve Board to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of mortgage-backed securities. As a result, market rates on the loans we have originated and the yields on securities we have purchased have been at historically low levels. Our ability to lower our interest expense at current interest rate levels is limited while our average asset yield may continue to decrease. Accordingly, our net interest income (the difference between interest income earned on assets and interest expense paid on liabilities) may remain low or decrease, which would have an adverse effect on our profitability.

We are subject to certain risks in connection with our use of technology.

Our security measures may not be sufficient to mitigate the risk of a cyber-attack. Communications and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, our general ledger and virtually all other aspects of our business. Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software, and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious code and cyber-attacks that could have a security impact. If one or more of these events occur, this could jeopardize our or our customers' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us. We could also suffer significant reputational damage.

Security breaches in our Internet banking activities could further expose us to possible liability and damage our reputation. Any compromise of our security also could deter customers from using our Internet banking services that involve the transmission of confidential information. We rely on standard Internet security systems to provide the security and authentication necessary to affect secure transmission of data. These precautions may not protect our systems from compromises or breaches of our security measures, which could result in significant legal liability and significant damage to our reputation and our business.

Our security measures may not protect us from systems failures or interruptions. While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, we outsource certain aspects of our data processing and other operational functions to certain third-party providers. If our third-party providers encounter difficulties, or if we have difficulty in communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely impacted. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any failures or interruptions may require us to identify alternative sources of such services, and we cannot assure you that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial

resources, if at all. Further, the occurrence of any systems failure or interruption could damage our reputation and result in a loss of customers and business, could subject us to additional regulatory scrutiny, or could expose us to legal liability. Any of these occurrences could have a material adverse effect on our financial condition and results of operations.

Additional expenses following the offering will adversely affect our profitability.

Following the offering, our non-interest expenses have increased as a result of the financial accounting, legal and various other expenses usually associated with operating as a public company and complying with public company disclosure obligations, particularly those obligations imposed by the Sarbanes-Oxley Act of 2002.

As we resume commercial real estate lending, we may be exposed to increased lending risks and expenses.

As part of our strategy to increase earnings, we are gradually beginning to offer commercial real estate lending, and have added commercial lending personnel to assist us in these efforts. These types of loans generally expose a lender to greater risk of non-payment and loss than residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential mortgage loans. In addition, since such loans generally entail greater risk than residential mortgage loans, we may need to increase our allowance for loan losses in the future associated with the growth of such loans. Also, commercial real estate borrowers often have more than one loan outstanding with their lender. Consequently, as we increase our commercial real estate lending, an adverse development with respect to one loan or one credit relationship could expose us to a significantly greater risk of loss compared to an adverse development with respect to a residential mortgage loan. In addition, if we add new lending personnel, we will be required to make increased expenditures for salaries and employee benefits, and it may take some period of time for the new personnel to generate sufficient loan volume to offset these expenditures. Accordingly, we anticipate that, in the short term, net income could be negatively affected if we pursue this strategy.

If we conclude that the decline in value of any of our investment securities is other-than-temporary, we are required to write down the value of that security through a charge to earnings.

We review our investment securities portfolio on a monthly basis to determine whether the fair value is below the current carrying value. When the fair value of any of our investment securities has declined below its carrying value, we are required to assess whether the decline is other-than-temporary. If we conclude that the decline is other-than-temporary, we are required to write down the value of that security through a charge to earnings. Changes in the expected cash flows of these securities and/or prolonged price declines may result in our concluding in future periods that the impairment of these securities is other-than-temporary, which would require a charge to earnings to write down theses securities to their fair value. Any charges for other-than-temporary impairment would not impact cash flow, tangible capital or liquidity.

We are dependent upon the services of a key executive and we could be harmed by the loss of his services.

We rely heavily on our President and Chief Executive Officer, Philip P. Phillips. The loss of Mr. Phillips could have a material adverse impact on our operations because, as a small company, we have fewer management-level personnel that have the experience and expertise to readily replace this individual. Changes in key personnel and their responsibilities may be disruptive to our business and could have a material adverse effect on our business, financial condition, and results of operations. We do not have key person life insurance on our executive officers.

Strong competition within our primary market area could negatively impact our prof its and slow growth.

We face intense competition both in making loans and attracting deposits. This competition has made it more difficult for us to make new loans and attract deposits. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which would reduce net interest income. Competition also makes it more difficult to grow loans and deposits. Most of the institutions with which we compete have substantially greater resources and lending limits than we have and

may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our primary market area.

We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision and examination by the Office of the Comptroller of the Currency, our primary federal regulator, and the Federal Deposit Insurance Corporation, as insurer of our deposits. Such regulation and supervision governs the activities in which an institution and its holding company may engage, and are intended primarily for the protection of the insurance fund and the depositors and borrowers of Madison Bank of Maryland rather than for holders of our common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act and recent rulemaking, we will become subject to more stringent capital requirements.

On July 9, 2013, the Office of the Comptroller of the Currency and the other federal bank regulatory agencies issued a final rule that will revise their risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more and top-tier savings and loan holding companies. Among other things, the rule establishes consolidated capital requirements for many savings and loan holding companies, including MB Bancorp, a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4.0% to 6.0% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on non-accrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain "available-for-sale" securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-in or opt-out is exercised. The rule limits a banking organization's 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 final rule became effective for Madison Bank of Maryland on January 1, 2015. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk weighted assets and will increase by that amount each year until fully implemented in January 1, 2019, when the full capital conservation buffer requirement will be effective.

Under the new capital standards, to be well-capitalized, Madison Bank of Maryland is required to have a common equity to Tier 1 capital ratio of 6.5% and a Tier 1 capital ratio of 8.0%.

The application of more stringent capital requirements for Madison Bank of Maryland could, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy, and could limit our ability to make distributions, including paying out dividends or buying back shares. Specifically, Madison Bank of Maryland's ability to pay dividends will be limited if Madison Bank of Maryland does not have the capital conservation buffer required by the new capital rules, which may limit our ability to pay dividends to shareholders.

We may face increased compliance costs and uncertainty in residential mortgage lending as a result of the adoption of consumer protection regulations by the Consumer Financial Protection Bureau.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. In January 2013, the Consumer Financial Protection Bureau issued several final regulations and changes to certain consumer protections under existing laws. These final rules, most of the provisions of which (including the qualified mortgage rule) became effective January 10, 2014, generally prohibit creditors from extending mortgage loans without regard for the consumer's ability-to-repay and add restrictions and requirements to mortgage origination and servicing practices. In addition, these rules limit prepayment penalties and require the creditor to retain evidence of compliance with the ability-to-repay requirement for three years. Compliance with these rules will likely increase our overall regulatory compliance costs and may require changes to our underwriting practices with respect to mortgage loans. Moreover, these rules may adversely affect the volume of mortgage loans that we underwrite and may subject us to increased potential liabilities related to such residential loan origination activities.

We are an emerging growth company within the meaning of the Securities Act of 1933, as amended, and if we decide to take advantage of certain exemptions from reporting requirements that are available to emerging growth companies, our common stock could be less attractive to investors.

We are an "emerging growth company," as defined in Section 2(a) of the Securities Act of 1933, as amended, as modified by the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). We are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, reduced disclosure about our executive compensation and omission of compensation discussion and analysis disclosure, and an exemption from the requirement of holding a non-binding advisory vote on executive compensation. We also will not be subject to certain requirements of Section 404 of the Sarbanes-Oxley Act of 2002, including the requirement that an independent registered public accounting firm attest to our internal control over financial reporting. As a result, our shareholders may not have access to certain information they may deem important. If we take advantage of any of these exemptions, some investors may find our common stock less attractive, which could hurt our stock price.

We may remain an emerging growth company until the earlier of: (1) the last day of the fiscal year in which we have total annual gross revenues of $1.0 billion or more; (2) the last day of the fiscal year following the fifth anniversary of the date of the first sale of common equity securities in the stock offering; (3) the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt; or (4) the date on which we are deemed to be a "large accelerated filer" under Securities and Exchange Commission regulations (which would generally require us to have at least $700 million of voting and non-voting equity held by non-affiliates).

The Articles of Incorporation and bylaws of MB Bancorp and certain laws and regulations may prevent or make more difficult certain transactions, including a sale or merger of MB Bancorp.

Provisions of the Articles of Incorporation and Bylaws of MB Bancorp, state corporate law and federal banking regulations may make it more difficult for companies or persons to acquire control of MB Bancorp. As a result, our shareholders may not have the opportunity to participate in such a transaction and the trading price of our common stock may not rise to the level of other institutions that are more vulnerable to hostile takeovers. The factors that may discourage takeover attempts or make them more difficult include:

- *Articles of Incorporation and Bylaws.* Provisions of the articles of incorporation and bylaws of MB Bancorp may make it more difficult and expensive to pursue a takeover attempt that the Board of Directors opposes. These provisions also make more difficult the removal of current directors or management, or the election of new directors. These provisions include:
    - limitation on the right to vote shares held in excess of 10% of the outstanding common stock;

    - the election of directors to staggered terms of three years;
    - provisions regarding the timing and content of shareholder proposals and nominations;
    - provisions restricting the calling of special meetings of shareholders;
    - the absence of cumulative voting by shareholders in the election of directors;
    - the removal of directors only for cause; and
    - supermajority voting requirements for changes to some provisions of the articles of incorporation and bylaws.

- *Maryland anti-takeover statute.* Under Maryland law, any person who acquires more than 10% of a Maryland corporation without prior approval of its Board of Directors is prohibited from engaging in any type of business combination with the corporation for a five-year period. Any business combination after the five-year period would be subject to supermajority shareholder approval or minimum price requirements.

- *Office of the Comptroller of the Currency regulations.* Office of the Comptroller of the Currency regulations prohibit, for three years following the completion of a mutual to stock conversion, the offer to acquire or the acquisition of more than 10% of any class of equity security of a converted institution without the prior approval of the Office of the Comptroller of the Currency.

You may not receive dividends on our common stock.

Holders of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments, and we do not expect to pay dividends until our operations are sufficiently profitable to support the payment of dividends. The declaration and payment of cash dividends will be subject to, among other things, our then current and projected consolidated operating results, financial condition, tax considerations, future growth plans, general economic conditions, and other factors our board of directors deems relevant.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We conduct our business through our main office and branch offices. The following table sets forth certain information relating to these facilities as of December 31, 2016.

Location	Year Opened	Approximate Square Footage	Owned/ Leased	Lease Expiration Date	Net Book Value at December 31, 2016	Deposits at December 31, 2016
					(In thousands)	(In thousands)
Main Office:						
1920 Rock Spring Road Forest Hill, Maryland 21050	1999	19,440	Owned	—	$3,093	$25,894
Branch Offices:						
501 S. Stepney Road Aberdeen, Maryland 21001	1998	3,596	Owned	—	$ 573	$17,143
8639 Belair Road Baltimore, Maryland 21236[(1)]	2012	2,400	Leased	8/31/2022	$ 11	$49,978

(1) This branch is in the Perry Hall section of Baltimore County.

Item 3. Legal Proceedings

Periodically, there may be various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market for Common Equity and Related Stockholder Matters

MB Bancorp's common stock is listed on the Pink Marketplace under the trading symbol "MBCQ" The following table sets forth the high and low sales prices of the common stock and dividends paid per share for the years ended December 31, 2015 and 2016. MB Bancorp's common stock commenced trading on December 30, 2014.

	High	Low	Close	Dividends Declared Per Share
Year Ended December 31, 2016:				
First Quarter	$13.50	$12.18	$12.60	—
Second Quarter	$13.65	$12.75	$13.45	—
Third Quarter	$13.45	$12.95	$13.40	—
Fourth Quarter	$15.00	$13.40	$14.70	—
Year Ended December 31, 2015:				
First Quarter	$11.20	$10.52	$11.20	—
Second Quarter	$14.00	$11.05	$12.92	—
Third Quarter	$13.50	$11.65	$12.50	—
Fourth Quarter	$13.70	$12.50	$13.48	—

As of March 30, 2017, there were approximately 65 holders of record of the Company's common stock. We believe the number of beneficial owners of our common stock is greater than the number of record holders because a large amount of our common stock is held of record through brokerage firms in "street name."

Our Board of Directors has the authority to adopt a policy of paying cash dividends, subject to statutory and regulatory requirements. We cannot guarantee that we will pay dividends or that, if paid, we will not reduce or eliminate dividends in the future.

In determining whether to declare or pay any dividends, whether regular or special, the Board of Directors will take into account our financial condition and results of operations, tax considerations, capital requirements, industry standards, and economic conditions. We will also consider the regulatory restrictions that affect the payment of dividends by Madison Bank of Maryland.

MB Bancorp is subject to the Federal Reserve Board's policy that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the company appears consistent with its capital needs, asset quality and overall financial condition. In addition, MB Bancorp is subject to Maryland law, which generally permits a corporation to pay dividends on its common stock unless, after giving effect to the dividend, the corporation would be unable to pay its debts as they become due in the usual course of its business or the total assets of the corporation would be less than its total liabilities.

MB Bancorp's ability to pay dividends may depend, in part, on its receipt of dividends from Madison Bank of Maryland. The Office of the Comptroller of the Currency limit dividends and other distributions from Madison Bank of Maryland to us. No insured depository institution may make a capital distribution if, after making the distribution, the institution would be undercapitalized or if the proposed distribution raises safety and soundness concerns. In addition, any payment of dividends by Madison Bank of Maryland to MB Bancorp that would be deemed to be drawn out of Madison Bank of Maryland's bad debt reserves would require the payment of federal income taxes by Madison Bank of Maryland at the then current income tax rate on the amount deemed distributed.

(b) Use of Proceeds

Not applicable.

(c) Issuer Purchases of Equity Securities

The Company repurchased 215,600 shares of its common stock at an average price of $13.07 per share during the year ended December 31, 2016.

Item 6. Selected Financial Data

The summary consolidated financial information presented below is derived in part from our audited consolidated financial statements. The following is only a summary and you should read it in conjunction with the consolidated financial statements and notes beginning on page F-1. The information at December 31, 2016 and 2015 and for the years then ended is derived in part from the audited consolidated financial statements of MB Bancorp that appear elsewhere in this Annual Report on Form 10-K.

	At December 31,	
(In thousands)	2016	2015
Financial Condition Data:		
Total assets	$131,311	$140,189
Cash and cash equivalents	9,267	3,721
Investment securities available-for-sale	3,698	8,480
Investment securities held-to-maturity	18,818	9,145
Loans receivable, net	86,030	93,125
Deposits	93,015	92,692
Federal Home Loan Bank advances	7,000	12,000
Total equity	30,324	34,881

	For the Year Ended December 31,	
(In thousands)	2016	2015
Operating Data:		
Interest income	$ 4,542	$ 4,763
Interest expense	1,205	1,232
Net interest income	3,337	3,531
(Reversal) Provision for loan losses	(258)	1
Net interest income after (reversal) provisions for loan losses	3,595	3,530
Non-interest income	39	188
Non-interest expense	4,614	4,418
Loss before income taxes	(980)	(700)
Income tax expense	771	334
Net loss	$(1,751)	$(1,034)

	At or For the Year Ended December 31,	
	2016	2015
Performance Ratios[1]:		
Return on average assets	(1.27)%	(.71)%
Return on average equity	(5.45)	(2.96)
Interest rate spread[2]	2.37	2.35
Net interest margin[3]	2.60	2.58
Non-interest expenses to average assets	3.35	3.04
Efficiency ratio[4]	126.96	118.80
Average interest-earning assets to average interest-bearing liabilities	124.07	125.71
Average equity to average assets	23.35	24.01
Regulatory Capital Ratios:		
Tier 1 capital (to adjusted total assets)	17.44	17.94
Tier 1 capital (to risk-weighted assets)	36.22	34.85
Total risk-based capital (to risk-weighted assets)	37.47	36.11
Common equity tier 1 capital (to risk-weighted assets)	36.22	34.85
Asset Quality Ratios:		
Allowance for loan losses as a percent of total loans	1.37	1.63
Allowance for loan losses as a percent of non-performing loans	56.42	83.92
Net charge-offs to average outstanding loans during the period	.09	.17
Non-performing loans as a percent of total loans	2.43	1.95
Non-performing assets as a percent of total assets	1.64	1.42
Other Data:		
Number of offices	3	3
Number of deposit accounts	3,581	3,846
Number of loans	744	797

(1) With the exception of end of period ratios, all ratios are based on average monthly balances during the periods.

(2) Represents the difference between the average yield on average interest-earning assets and the average cost on average interest-bearing liabilities.

(3) Represents net interest income as a percent of average interest-earning assets.

(4) Represents non-interest expense divided by the sum of net interest income and non-interest income.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Operating Strategy

Historically, our business has consisted of attracting deposits and investing those funds primarily in residential mortgage loans and investment securities. We are a portfolio lender, retaining substantially all loans we originate in our portfolio. Our objective is to build on our historic strength of customer loyalty, and gradually grow our balance sheet with assets and liabilities that allow us to increase our net interest margin while reducing our exposure to risk from interest rate fluctuations. Our operating strategy includes the following:

- improving asset quality;

- reducing funding costs;
- controlling expenses;
- continuing as a portfolio lender concentrating on residential mortgage loans; and
- building on our strengths as a community-oriented financial institution.

Improving asset quality

Resolving our problem assets remains one of our top priorities. Non-performing assets, accruing loans past due 90 days or more and accruing troubled debt restructurings increased significantly during the recent recession and reached $13.2 million at December 31, 2012. Total non-performing assets, accruing loans past due 90 days or more and accruing troubled debt restructurings represented 8.58% of total assets at December 31, 2012. Since then, non-performing assets, accruing loans past due 90 days or more and accruing troubled debt restructurings decreased to $5.7 million, or 4.06% of total assets, at December 31, 2015 and $5.8 million, or 4.39% of total assets, at December 31, 2016. We continue to work with delinquent borrowers to restore loans to performing status where possible and to pursue foreclosure and disposition of collateral when it is not. In August 2014, we engaged an independent third party to conduct periodic loan portfolio reviews, and we intend to have independent loan portfolio reviews on an annual basis going forward. The latest independent loan review was conducted as of June 30, 2016.

Reducing funding costs

We seek to increase net interest income by controlling costs of funding rather than maximizing asset yields because originating loans with high yields often involves greater credit risk. Historically, a high percentage of our deposit accounts have been higher balance, higher costing certificates of deposits. We will continue to seek to reduce our dependence on high cost deposits in favor of stable low cost money market and demand deposits to the extent possible. We have utilized additional product offerings, technology and a focus on customer service in working toward this goal. During the year ended December 31, 2016, the Company paid off $7.0 million of high cost Federal Home Loan Bank advances and incurred a $140,000 early extinguishment fee which is classified in our "Non-interest income" section of our Statement of Operations.

Controlling expenses

During 2012 and 2013 we closed three branches, one in Baltimore City and two in eastern Baltimore County, in order to improve profitability. We had employee severance and other expenses associated with those branch closures during the years ended December 31, 2012 and 2013, but we began to achieve the benefits of expense reductions resulting from the branch closures in 2014. During the year ended December 31, 2016, we had a major change in management and incurred significant severance costs (approximately $512,000). We believe that we have a solid infrastructure in place that will allow us to grow assets and liabilities without adding materially to our non-interest expenses.

Continuing as a portfolio lender concentrating on residential mortgage loans

Historically, we have concentrated on the origination of residential mortgage loans that we retain in our portfolio, and, initially following the conversion, we intend to continue this strategy. In the future, we may seek to add lending personnel with appropriate expertise for the purpose of gradually resuming the origination of commercial real estate loans to provide diversification to our loan portfolio and to increase our net interest margin while reducing our exposure to risk from interest rate fluctuations.

Building on our strengths as a community-oriented financial institution

We have operated continuously as a community-oriented financial institution since we were founded. We are committed to meeting the financial needs of the communities in which we operate, and we are dedicated to providing quality personal service to our customers. We provide a broad range of consumer financial services through our network of three branches and will continually seek out ways to improve convenience, safety and service through our product offerings. We also have an "Outstanding" Community Reinvestment Act rating.

Overview

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 investment securities, and interest expense, which is the interest that we pay on our deposits and borrowings. Other significant sources of pre-tax income are service charges (mostly from service charges on deposit accounts).

Allowance 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 at least a quarterly basis. We adjust the amount of the allowance by increasing or decreasing the amount through charges or credits to earnings.

Expenses. The non-interest expenses we incur in operating our business consists of salaries and employee benefits expenses, occupancy expenses, legal and professional fees, data processing expenses, directors fees and other general and administrative expenses including, among others, federal deposit insurance premiums and Office of the Comptroller of the Currency assessments, stationery and postage expenses and other miscellaneous expenses. Following the offering, our non-interest expenses increased as a result of expenses of shareholder communications and meetings and expenses related to additional accounting and legal services.

Salaries and employee benefits expenses consist primarily of salaries, wages and bonuses paid to our employees, payroll taxes and expenses for health insurance, retirement plans and other employee benefits. Following the offering, we recognized additional annual employee compensation expenses stemming from the adoption of new equity benefit plans. These additional costs have not been material.

Occupancy expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of depreciation charges, rental expenses, furniture and equipment expenses, maintenance, real estate taxes and costs of utilities. Depreciation of premises and equipment is computed using a combination of accelerated and straight-line methods based on the useful lives of the related assets, which range from three to 40 years.

Data processing expenses are the fees we pay to third parties for processing customer information, deposits and loans.

Federal deposit insurance premiums are payments we make to the Federal Deposit Insurance Corporation for insurance of our deposit accounts, and Office of the Comptroller of the Currency assessments are semi-annual assessments we pay to our primary regulator.

Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. The Jumpstart Our Business Startups Act (the "JOBS Act") contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. An emerging growth company may elect to comply with new or amended accounting pronouncements in the same manner as a private company, but must make such election when the company is first required to file a registration statement. Such an election is irrevocable during the period a company is an emerging growth company. We have irrevocably elected not to adopt new or revised accounting standards on a delayed basis, and will be required to adopt new or revised accounting standards in the same manner as other public companies that are not emerging growth companies.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impaired loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance at least quarterly and establishes the provision or reversal for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors

related to the collectability of the loan portfolio. Annually, management has a third party perform an independent assessment of the methodology and adequacy of the allowance. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic or other conditions differ substantially from the assumptions used in making the evaluation. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, periodically reviews our allowance for loan losses and may require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would adversely affect earnings. See note 3 of the notes to the consolidated financial statements included in this Annual Report on Form 10-K.

Other-Than-Temporary Impairment. Management evaluates securities for other-than-temporary impairment ("OTTI") on a monthly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available-for-sale or held-to-maturity are generally evaluated for OTTI under Statement of Financial Accounting Standards ASC 320, "*Accounting for Certain Investments in Debt and Equity Securities*."

In determining OTTI under the ASC 320 model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether another-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs the amount of the OTTI recognized in earnings depends on whether we intend to sell the security or it is more likely than not we will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI will be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI will be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

Deferred Tax Assets. We account for income taxes under the asset/liability method. Deferred tax assets are recognized for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period indicated by the enactment date. A valuation allowance is established for deferred tax assets when, in the judgment of management, it is more likely than not that such deferred tax assets will not become realizable. The judgment about the level of future taxable income is dependent to a great extent on matters that may, at least in part, be beyond our control. It is at least reasonably possible that management's judgment about the need for the existing valuation allowance for deferred tax assets could change in the near term.

Balance Sheet Analysis

Assets. At December 31, 2016, our assets totaled $131.3 million, a decrease of $8.9 million, or 6.3%, from total assets of $140.2 million at December 31, 2015. The decrease in assets for the year ended

December 31, 2016 was due mainly to an $11.1 million, or 60.6%, decrease in other interest-bearing deposits in other banks, a $7.1 million, or 7.6%, decrease in loans, net of unearned fees, reflecting lack of loan officers at the Bank, and a $4.8 million, or 56.4%, decrease in investment securities available-for-sale, partially offset by a $9.7 million, or 105.8%, increase in investment securities held-to-maturity and a $5.5 million, or 149.0%, increase in cash and cash equivalents.

Loans. At December 31, 2016, residential mortgage loans totaled $73.3 million, or 82.4% of the total loan portfolio compared to $78.7 million, or 82.4% of the total loan portfolio at December 31, 2015. Residential mortgage loans decreased by $5.4 million, 6.9%, during the year ended December 31, 2016 primarily due to lack of loan officers at the Bank.

Non-residential real estate loans totaled $7.0 million and represented 7.9% of total loans at December 31, 2016, compared to $8.3 million, or 8.7% of total loans, at December 31, 2015. Prior to December 2016, we did not offer non-residential real estate loans. During December 2016, we hired a new Commercial Real Estate lender and now offer this product again.

Construction and land loans totaled $5.1 million, and represented 5.7% of total loans, at December 31, 2016, compared to $4.8 million, or 5.0% of total loans, at December 31, 2015. At December 31, 2016, we had $2.0 million of construction loans, amounting to 38.3% of our construction and land loan portfolio, and $3.1 million of land loans, amounting to 61.7% of our construction and land loan portfolio.

Home equity lines of credit, all of which are secured by residential properties, totaled $3.5 million, and represented 3.9% of total loans, at December 31, 2016, compared to $3.7 million, or 3.9% of total loans, at December 31, 2015. The decrease in home equity lines of credit reflected weak loan demand in our market area.

Our non-real estate loans consist of consumer loans, all of which are loans to depositors, secured by savings. Such loans totaled $18,000 at December 31, 2016, representing less than 0.02% of the loan portfolio.

Securities. At December 31, 2016, our securities held-to-maturity increased by $9.7 million, or 105.8%, from $9.1 million at December 31, 2015 to $18.8 million at December 31, 2016. Securities held-to-maturity at December 31, 2016 consisted of U.S. Agency bonds and mortgage-backed securities issued by U.S. Government Agencies such as Freddie Mac, Fannie Mae and Ginnie Mae. At December 31, 2016, our securities available-for-sale, recorded at fair value, decreased by $4.8 million from $8.5 million at December 31, 2015 to $3.7 million at December 31, 2016. Securities available-for-sale at December 31, 2016 consisted of U.S. Agency bonds and mortgage-backed securities, including collateralized mortgage obligations issued by U.S. Government Agencies such as Freddie Mac, Fannie Mae and Ginnie Mae. Our securities portfolio is used to invest excess funds for increased yield and manage interest rate risk. At December 31, 2016, we also held a $418,000 investment in the common stock of the Federal Home Loan Bank of Atlanta. At December 31, 2016, we held no stock in Fannie Mae and Freddie Mac.

Ground Rents. Ground rents, net amounted to $688,000 at December 31, 2016 compared to $695,000 at December 31, 2015.

Deposits. Total deposits increased by $323,000, or 0.3%, to $93.0 million at December 31, 2016 from $92.7 million at December 31, 2015. Balances in non-interest-bearing deposits decreased by $343,000, or 19.5%, from $1.8 million at December 31, 2015 to $1.4 million at December 31, 2016. Interest-bearing deposits increased by $666,000, or 0.7%, to $91.6 million at December 31, 2016 compared to $90.9 million at December 31, 2015.

Borrowings. At December 31, 2016, we had $7.0 million in borrowings from the Federal Home Loan Bank of Atlanta compared to $12.0 million in borrowings at December 31, 2015, a $5.0 million, or 41.7% reduction in short term FHLB advances. During December 2016 we retired $7.0 million in FHLB advances and incurred a $140,000 early extinguishment fee which is classified with our "Other non-interest fees".

Stockholders' Equity. Stockholders' equity decreased by $4.6 million, or 13.1%, to $30.3 million at December 31, 2016 from $34.9 million at December 31, 2015 primarily as the result of a stock repurchase plan whereby the company repurchased 215,600 shares of its common stock at an average price of $13.07 per share and net losses of $1.8 million for the 12 months ended December 31, 2016.

The following table sets forth the composition of our loan portfolio at the dates indicated.

(Dollars in thousands)	At December 31, 2016 Amount	2016 Percent	2015 Amount	2015 Percent
Real estate mortgage loans:				
Residential	$73,304	82.44%	$78,732	82.37%
Non-residential	7,021	7.90	8,290	8.67
Construction and land loans	5,104	5.74	4,835	5.06
Home equity lines of credit	3,473	3.90	3,695	3.87
Total real estate loans	88,902	99.98	95,552	99.97
Consumer and other loans:				
Loans to depositors, secured by savings	18	.02	27	.03
Total loans	$88,920	100.00%	$95,579	100.00%
Add:				
Net (discount) premium on purchased loans	10		(9)	
Unamortized net deferred costs	16		26	
Less:				
Undisbursed portion of construction loans	(1,650)		(871)	
Unearned net loan origination fees	(48)		(39)	
Less allowance for credit losses	(1,218)		(1,561)	
Loans receivable, net	$86,030		$93,125	

Loan Maturity

The following table sets forth certain information at December 31, 2016 regarding the dollar amount of loan principal repayments becoming due during the periods indicated. The table does not include any estimate of prepayments, which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

(In thousands)	Residential	Non-residential	Construction and Land Loans	Home Equity Lines of Credit	Loans to Depositors Secured by Savings	Total Loans
Amounts due in:						
One year or less	$ 246	$ —	$2,017	$ —	$—	$ 2,263
More than one year to two years	605	4	1,009	—	—	1,618
More than two year to three years	523	—	—	—	—	523
More than three year to five years	600	157	27	68	18	870
More than five year to ten years	13,795	—	53	1,118	—	14,966
More than ten year to fifteen years	20,727	2,929	396	1,695	—	25,747
More than fifteen years	36,808	3,931	1,602	592	—	42,933
Total	$73,304	$7,021	$5,104	$3,473	$18	$88,920

Fixed vs. Adjustable Rate Loans

The following table sets forth the dollar amount of all loans at December 31, 2016 that are due after December 31, 2017, and that have either fixed interest rates or floating or adjustable interest rates. The amounts shown below exclude unearned loan origination fees and deferred loan costs.

(In thousands)	Fixed Rates	Floating or Adjustable Rates	Total
Secured by real estate:			
Residential	$66,222	$ 6,836	$73,058
Non-residential	3,119	3,902	7,021
Construction and land loans	2,683	404	3,087
Home equity lines of credit	—	3,473	3,473
Consumer and other loans:			
Loans to depositors, secured by savings	18	—	18
Total loans	$72,042	$14,615	$86,657

Scheduled contractual principal repayments of loans do not reflect the actual life of such assets. The average life of loans is substantially less than their contractual terms because of prepayments. In addition, due-on-sale clauses on loans generally give us the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of mortgage loans tends to increase when current mortgage loan market rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when current mortgage loan market rates are substantially lower than rates on existing mortgage loans.

Loan Activity

The following table shows loan activity during the periods indicated.

	Year Ended December 31,	
(In thousands)	2016	2015
Total loans at beginning of period	$95,579	$104,584
Loans originated:		
Residential	6,048	8,010
Non-residential	—	—
Construction and land loans	1,322	90
Home equity lines of credit	1,041	667
Loans to depositors, secured by savings	—	27
Total loans originated	8,411	8,794
Loans purchased:		
Residential	—	—
Non-residential	—	—
Construction and land loans	—	—
Home equity lines of credit	—	—
Loans to depositors, secured by savings	—	—
Total loans purchased	—	—
Deduct:		
Loan principal repayments (amortization and payoffs)	15,469	19,079
Loan sales	—	—
Other repayments	(484)	(1,655)
Charge-offs	85	375
Net loan activity	15,070	17,799
Total loans at end of period	$88,920	$ 95,579

Loan originations come from a number of sources. Our primary sources of loan originations are existing customers, walk-in traffic, advertising and referrals from customers.

Currently we retain all loans originated in portfolio. We did not sell any loans during the years ended December 31, 2016 or 2015.

We did not purchase loans during the years ended December 31, 2016 or 2015.

Securities

Our securities held-to-maturity increased by $9.7 million, or 105.8%, from $9.1 million at December 31, 2015 to $18.8 million at December 31, 2016. Securities held-to-maturity at December 31, 2016 consisted of bonds issued by Freddie Mac, Fannie Mae and the Federal Farm Credit Bureau as well as mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae.

At December 31, 2016, our securities available-for-sale decreased by $4.8 million from $8.5 million at December 31, 2015 to $3.7 million at December 31, 2016. Securities available for sale at December 31, 2016 consisted of bonds issued by Freddie Mac and the Federal Farm Credit Bureau as well as mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae.

Our securities portfolio is used to invest excess funds for increased yield and manage interest rate risk. At December 31, 2016, we also held a $418,000 investment in the common stock of the Federal Home Loan Bank of Atlanta. A portion of this investment is required in order to collateralize borrowings from the Federal Home Loan Bank of Atlanta, and the investment is periodically increased by stock dividends paid by the Federal Home Loan Bank of Atlanta. At December 31, 2016, we held no stock in Fannie Mae and Freddie Mac, nor have we held stock in these entities throughout the periods presented.

The following table sets forth the amortized costs and fair values of our investment securities at the dates indicated.

	At December 31,			
	2016		2015	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investments available-for-sale:				
Obligations of U.S. government agencies	$ 1,000	$ 933	$ 6,974	$ 6,944
Mortgage-backed securities	2,837	2,765	1,525	1,536
Investments held-to-maturity:				
Obligations of U.S. government agencies	12,500	11,888	4,998	4,910
Mortgage-backed securities	6,318	6,383	4,147	4,385
Total securities	$22,655	$21,969	$17,644	$17,775

The following table sets forth the stated maturities and weighted average yields of investment securities at December 31, 2016. Certain mortgage-backed securities have adjustable interest rates and will reprice annually within the various maturity ranges. These repricing schedules are not reflected in the table below. Weighted average yield calculations on investments available-for-sale do not give effect to changes in fair value that are reflected as a component of equity. At December 31, 2016, we did not have any security (other than U.S. government agency securities) that exceeded 10% of our total equity at that date.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
(Dollars in thousands)	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Investments (available-for-sale):										
Obligations of U.S. government agencies	$—	0.00%	$—	0.00%	$ —	0.00%	$ 933	2.54%	$ 933	2.54%
Mortgage-backed securities	—	—	—	—	187	3.00	2,578	2.59	2,765	2.62
Investments (held-to-maturity):										
Obligations of U.S. government agencies	—	—	—	—	3,000	2.30	9,500	2.68	12,500	2.59
Mortgage-backed securities	—	—	94	4.76	190	4.60	6,034	3.11	6,318	3.18
Total securities	$—	0.00%	$94	4.76%	$3,377	2.47%	$19,045	2.80%	$22,516	2.75%

Ground Rents. Ground rents are a form of real estate ownership where the land is owned by one entity, but the improved property located on the land is owned by the homeowner. Madison Bank of Maryland's ground rents are supported by deeds that have been registered with Maryland State Department of Assessments and Taxation.

Ground rents are recorded at the lower of cost or fair value. Fair value is estimated based on the contractual value of the unconsummated redemption or sales agreements. Ground rent fees are recognized upon receipt and included in non-interest income. At December 31, 2016 and 2015, Madison Bank of Maryland's investments includes individual ground rents ranging from $600 to $3,000, totaling $829,000 and $831,000, respectively. An allowance for losses is established when the collectability of ground rent payments becomes uncertain, typically when the ground rent payment becomes three years delinquent. At December 31, 2016 and 2015, Madison Bank of Maryland had $141,000 and $136,000, respectively, of ground rents that were three years or more delinquent and were reserved at 100%. We intend to let our portfolio of ground rent investments run off over time as the homeowners redeem the ground rents.

Bank-Owned Life Insurance. Years ago under prior management, we had invested in bank-owned life insurance to provide us with a funding source for our benefit plan obligations. Bank-owned life insurance also generally provided us non-interest income that is non-taxable. Federal regulations generally limit our investment in bank-owned life insurance to 25% of our Tier 1 capital plus our allowance for loan losses at the time of investment. This investment is accounted for using the cash surrender value method and is recorded at the amount that can be realized under the insurance policies at the balance sheet date. At December 31, 2016 and December 31, 2015, the aggregate cash surrender value of these policies was $931,000 and $896,000, respectively.

Deposits. Deposits serve as the primary source of funds for our lending and investment activities. We accept deposits primarily from individuals who are located in our primary market area. We rely on competitive pricing, customer service, account features and the location of our branch offices to attract and retain deposits. We also utilize QwickRate and our own Internet website to source deposits. Interest-bearing deposit accounts offered include time deposits, which are certificates of deposit, NOW and money market accounts and savings accounts. Non-interest-bearing demand accounts consist of free checking accounts and business checking accounts. We do not utilize brokered deposits.

The following table sets forth average balances and average rates of our deposit products for the periods indicated. For purposes of this table, average balances have been calculated using monthly balances.

	For the Year Ended December 31			
	2016		2015	
(Dollars in thousands)	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
Non-interest-bearing demand deposits	$ 1,408	—%	$ 1,145	—%
Interest-bearing deposits:				
Certificates of deposit	57,493	1.22	59,190	1.11
NOW and money markets	21,104	.24	21,433	.23
Savings	14,328	.10	14,980	.10
Total	$94,333	.82	$96,748	.75

The following table sets forth the balances of our deposit accounts at the dates indicated.

	At December 31,			
	2016		2015	
(Dollars in thousands)	Amount	Percent	Amount	Percent
Non-interest-bearing demand deposits	$ 1,415	1.52%	$ 1,758	1.90%
Interest-bearing deposits:				
NOW accounts	8,180	8.80	7,451	8.03
Money market	13,061	14.04	13,140	14.18
Regular and other savings	13,811	14.85	14,721	15.88
Certificates of deposit	56,548	60.79	55,622	60.01
Total interest-bearing deposits	91,600	98.48	90,934	98.10
Total deposits	$93,015	100.00%	$92,692	100.00%

Balances in non-interest-bearing deposits decreased by $343,000, or 19.5%, from $1.8 million at December 31, 2015 to $1.4 million at December 31, 2016.

The following table indicates the amount of jumbo certificates of deposit with balances of $250,000 or greater by time remaining until maturity as of December 31, 2016, none of which are brokered deposits.

Maturity Period at December 31, 2016	Amount
	(In thousands)
Three months or less	$ 662
Over three through six months	—
Over six through twelve months	500
Over twelve months	1,562
Total	$2,724

The following table sets forth time deposits classified by rates at the dates indicated.

(In thousands)	At December 31, 2016	At December 31, 2015
.00 – .999%	$19,580	$24,972
1.00 – 1.999	34,226	27,040
2.00 – 2.999	2,742	3,610
3.00 – 3.999	—	—
4.00 – 4.999	—	—
Total	$56,548	$55,622

The following table sets forth the amount and maturities of time deposits at December 31, 2016.

	Amount Due					
(Dollars in thousands)	Less Than One Year	More Than One Year to Two Years	More Than Two Years to Three Years	More Than Three Years	Total	Percent of Total Time Deposits
.00 – .999%	$15,833	$ 3,747	$ —	$ —	$19,580	34.63%
1.00 – 1.999	7,071	8,299	7,434	11,422	34,226	60.52
2.00 – 2.999	62	—	—	2,680	2,742	4.85
3.00 – 3.999	—	—	—	—	—	—
Total	$22,966	$12,046	$7,434	$14,102	$56,548	100.00%

The following table sets forth deposit activity for the periods indicated.

(In thousands)	Year Ended December 31, 2016	Year Ended December 31, 2015
Beginning balance	$92,692	$98,473
Decrease before interest credited	(446)	(6,504)
Interest credited	769	723
Net Increase in deposits	323	(5,781)
Ending Balance	$93,015	$92,692

Borrowings. We use borrowings from the Federal Home Loan Bank of Atlanta to supplement our supply of funds for loans and investments and for interest rate risk management. The following tables sets forth information regarding our Federal Home Loan Bank of Atlanta advances for the periods presented.

FHLB short term advances (Dollars in thousands)	Year Ended December 31, 2016	Year Ended December 31, 2015
Maximum amount of Federal Home Loan Bank advances outstanding at any month end during the period	$6,000	$3,750
Average Federal Home Loan Bank advances outstanding during the period	$ 230	$1,021
Weighted average interest rate during the period	0.59%	0.23%
Balance outstanding at end of period	$6,000	$ —
Weighted average interest rate at end of period	0.61%	0%

FHLB long term advances (Dollars in thousands)	Year Ended December 31, 2016	2015
Maximum amount of Federal Home Loan Bank advances outstanding at any month end during the period	$12,000	$12,000
Average Federal Home Loan Bank advances outstanding during the period	$10,470	$12,000
Weighted average interest rate during the period	4.08%	4.16%
Balance outstanding at end of period	$ 1,000	$12,000
Weighted average interest rate at end of period	4.40%	4.16%

Equity. Equity decreased by $4.6 million, or 13.1%, to $30.3 million at December 31, 2016 from $34.9 million at December 31, 2015 primarily as the result of a stock repurchase plan whereby the company repurchased 215,600 shares of its common stock at an average price of $13.07 per share and net losses of $1.8 million for the 12 months ended December 31, 2016.

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

Overview. We had net loss of $1.8 million for the year ended December 31, 2016, as compared to net loss of $1.0 million for the year ended December 31, 2015. The increase in net loss between the periods were primarily due to an increase of $437,000 of tax expense as we placed a full valuation allowance on our deferred tax asset, a $196,000 increase in non-interest expenses due to additional salary costs and a reduction of non-interest income by $149,000 due to the early extinguishment fee related to our FHLB advances, partially offset by a $259,000 reduction in provision for loan losses.

Net Interest Income. Net interest income decreased by $194,000, or 5.5%, for the year ended December 31, 2016 compared to the year ended December 31, 2015. The decrease in net interest income was primarily attributable to a decline in our average interest earning assets from $136.9 million for the year ended December 31, 2015 to $128.6 million for the year ended December 31, 2016 and the yield on our loan portfolio decreased by 7 basis points from 4.19% during the year ended December 31, 2015 to 4.12% for the year ended December 31, 2016.

Interest on investment securities held-to-maturity increased by $215,000, or 67.0%, for year ended December 31, 2016 as compared to the comparable period in 2015, due to a $8.2 million increase in the average balance of investment securities held-to maturity. However, the yield on investment securities held-to-maturity decreased by 25 basis points for the comparable periods.

Interest on investment securities available-for-sale was $107,000, for year ended December 31, 2016 and $81,000, for the year ended December 31, 2015. There was a 3 basis point decrease in the average yield on investment securities available-for-sale and a $1.0 million increase in the average balance of investment securities available-for-sale.

Interest on certificates of deposit increased by $45,000, or 6.8%, during for the year ended December 31, 2016 as compared to the year ended December 31, 2015, due to an 11 basis point increase in the average cost of certificates of deposit, resulting from increasing market interest rates during the year ended December 31, 2016, and a $1.7 million, or 2.9%, decrease in the average balance of certificates of deposit, as we elected to decrease our certificates of deposit since we did not have the need for increased deposits.

Interest on Federal Home Loan Bank of Atlanta advances decreased by $73,000, or 14.3%, during for the year ended December 31, 2016, due to a $2.6 million, or 19.54%, decrease in the average balance of Federal Home Loan Bank of Atlanta advances, which was partially offset by a 25 basis point increase in the average cost of Federal Home Loan Bank of Atlanta advances. In the fourth quarter of 2016, we paid off $7.0 million of Federal Home Loan Bank of Atlanta advances and incurred an early extinguishment of debt costs of $140,000 which is classified in our non-interest income section of our Consolidated Statements of Operations.

At December 31, 2016, we had $7.0 million in advances from the Federal Home Loan Bank of Atlanta, maturing between January and February 2017 which carry interest rates ranging from 0.61% to 4.397%.

Our interest rate spread increased 2 basis points from 2.35% for the year ended December 31, 2015 to 2.37% for the year ended December 31, 2016, due primarily to the increase in our average yield on interest earning assets.

Average Balances and Yields. 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 annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Average balances have been calculated using daily balances for 2016 and monthly balances for 2015, and non-accrual loans are included in average balances only. Loan fees are included in interest income on loans and are insignificant. Any adjustments necessary to present yields on a tax-equivalent basis are insignificant.

	Year Ended December 31,					
	2016			2015		
(Dollars in thousands)	**Average Balance**	**Interest and Dividends**	**Yield/ Cost**	**Average Balance**	**Interest and Dividends**	**Yield/ Cost**
Interest-earning assets:						
Interest-bearing deposits in other banks	$ 15,079	$ 135	0.90%	$ 24,394	$ 184	.76%
Loans receivable, net of unearned fees	90,600	3,735	4.12	98,677	4,133	4.19
Investment securities available-for-sale – amortized cost	3,811	107	2.80	2,833	81	2.83
Investment securities held-to-maturity	18,460	536	2.90	10,235	321	3.15
Other interest-earning assets	619	29	4.72	752	44	5.80
Total interest-earning assets	128,569	4,542	3.53	136,891	4,763	3.48
Cash and due from banks	3,332			3,209		
Allowance for credit losses	(1,326)			(1,716)		
Other non-interest-earning assets	7,086			7,155		
Total assets	137,661			145,539		
Interest-bearing liabilities:						
Certificates of deposit	57,492	704	1.22	59,190	659	1.11
NOW and money market	21,104	51	.24	21,433	48	.23
Savings	14,328	14	.10	14,980	16	.10
Federal Home Loan Bank advances	10,700	436	4.08	13,288	509	3.83
Total interest-bearing liabilities	103,624	1,205	1.16	108,891	1,232	1.13
Non-interest-bearing demand deposits	1,326			1,145		
Other non-interest-bearing liabilities	563			552		
Total liabilities	105,513			110,588		
Total equity	32,148			34,951		
Total liabilities and equity	$137,661			$145,539		
Net interest income		$3,337			$3,531	
Interest rate spread			2.37%			2.35%
Net interest margin			2.60%			2.58%
Ratio of average interest-earning assets to average interest-bearing liabilities			124.07%			125.71%

Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. Changes attributable to changes in both rate and volume have been allocated proportionally based on the absolute dollar amounts of change in each.

	Year Ended December 31, 2016 Compared to Year Ended December 31, 2015			
	Increase (Decrease) Due to			
(In thousands)	**Rate**	**Volume**	**Rate/Volume**	**Net**
Interest-earning assets:				
Interest-bearing deposits in other banks	$ 34	$ (71)	$(12)	$ (49)
Loans receivable, net of unearned fees	(69)	(338)	9	(398)
Investment securities available-for-sale[(1)]	(1)	28	(1)	26
Investment securities held-to-maturity	(26)	259	(18)	215
Other interest-earning assets	(8)	(8)	1	(15)
Total interest-earning assets	(70)	(130)	(21)	(221)
Interest-bearing liabilities:				
Certificates of deposit	65	(19)	(1)	45
NOW and money markets	2	(1)	2	3
Savings	—	(1)	(1)	(2)
Federal Home Loan Bank advances	33	(99)	(7)	(73)
Total interest-bearing liabilities	100	(120)	(7)	(27)
Net change in interest income	$(170)	$ (10)	$(14)	$(194)

(1) Investment securities available-for-sale are presented at fair market value.

Provision for Loan Losses. We had a (reversal) provision for loan losses of $(258,000) for the year ended December 31, 2016, compared to a provision of $1,000 for the year ended December 31, 2015. In 2015 we established an unallocated reserve of $250,000 on loans which were in the process of foreclosure to cover potential interior damage that may not have been reflected in the exterior only appraised values. After being sold at foreclosure to a third party, it was subsequently determined that the reserve was not necessary and was therefore reversed in 2016. At December 31, 2016, the allowance for loan losses was $1.2 million, or 1.40% of the total loan portfolio, compared to $1.6 million, or 1.63% of the total loan portfolio, at December 31, 2015.

Non-accrual loans amounted to $2.2 million at December 31, 2016 compared to $1.9 million at December 31, 2015. The increase in non-accrual loans of $299,000 was primarily due to the inclusion of one loan which was previously a performing troubled debt restructuring. As a percentage of non-performing loans and accruing troubled debt restructurings, the allowance for loan losses was 21.67% at December 31, 2016 compared to 28.09% at December 31, 2015. Net loan charge-offs amounted to $85,000 during the year ended December 31, 2016, compared to $171,000 during the year ended December 31, 2015.

An analysis of the changes in the allowance for loan losses, non-performing loans and classified loans is presented under "— *Risk Management — Analysis of Non-performing and Classified Assets*" and "— *Risk Management — Analysis and Determination of the Allowance for Loan Losses*."

Non-interest Income. Total non-interest income decreased by $149,000, or 79.3%, from $188,000 for the year ended December 31, 2015 to $39,000 for the year ended December 31, 2016. The decrease in total non-interest income primarily was due to a $140,000 loss recognized on the early extinguishment of FHLB advances.

Non-interest Expenses. Total non-interest expenses increased by $196,000, or 4.4%, from $4.4 million for the year ended December 31, 2015 to $4.6 million for the year ended December 31, 2016. The increase primarily was attributable to $365,000 increase in salaries and employee benefits primarily due to the severance charges (approximately $512,000) incurred due to the changes in management and an expense management reduction plan, a $58,000 increase in legal and professional fees and $50,000 increase in data processing and other outside service charges. This increase was offset, in part, by a $158,000 reduction in provision for loss on the other real estate owned since no provisions were needed in the current year, a $25,000 decrease in FDIC insurance premiums, and a $37,000 decrease in advertising costs.

Income Tax Expense. We had an income tax expense of $771,000 and $334,000 during the years ended December 31, 2016 and 2015, respectively. During the year ended December 31, 2016, management concluded that based on existing accounting guidance it is more likely than not the Bank will be unable to generate sufficient taxable income in the foreseeable future to fully utilize the deferred tax assets and placed a full valuation allowance on all net deferred tax assets. The effective tax rate for these respective periods was (78.7%) and (47.6%).

Risk Management

Overview. Managing risk is an essential part of successfully managing a financial institution. Our most prominent risk exposures are credit risk, interest rate risk and market risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of interest income as a result of changes in interest rates. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available-for-sale securities that are accounted for on a mark-to-market basis. Other risks that we face are operational risk, liquidity risks and reputation risk. Operational risks include risks related to fraud, regulatory compliance, processing errors, technology, use of third-party vendors and disaster recovery. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in our customer base or income.

Credit Risk Management. Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans. We do not offer, and have not offered no-documentation mortgage loans or Alt A mortgage loans.

When a borrower fails to make a required loan payment, we take a number of steps to have the borrower cure the delinquency by creating a loan strategy to restore the loan to current status. When the loan becomes 15 days past due, a late notice is sent to the borrower. Between 15 and 30 days past due, telephone calls are also made to the borrower, and we make efforts to work with the borrower to resolve the situation. After 30 days, we regard the borrower in default. Between 30 and 45 days delinquent, borrowers with loans other than one- to four-family owner-occupied properties may be sent a letter from our attorney and we may commence collection proceedings. Borrowers with loans secured by one- to four-family owner-occupied properties are sent more stringent notices again at 60 and 90 days delinquent. At 120 days, if a current loan status or acceptable strategy is unable to be mutually agreed upon by borrower and Madison Bank of Maryland then the borrower is referred to our attorney and we may commence collection proceedings. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan generally is sold at foreclosure auction. Management informs the Board of Directors monthly of the amount of loans delinquent more than 30 days, new/revised loan strategies, loans in foreclosure and property that we own.

Analysis of Non-performing and Classified Assets. We consider repossessed assets, non-accrual loans and ground rents delinquent in excess of three years to be non-performing assets. Loans generally are placed on non-accrual status when they become 120 days delinquent. We may choose to consider loans from 90 to 119 days delinquent to be non-accrual, and generally do so except where a borrower has a history of periodically bringing a loan current after being 90 days or more delinquent. If the loan is less than 90 days delinquent, but information is brought to our attention that indicates the collection of interest is doubtful, the loan will immediately be considered non-accrual. When a loan is deemed non-accrual, the accrual of interest ceases and the allowance for any uncollectible accrued interest is established and charged against interest income. Typically, payments received on a non-accrual loan are first applied to unpaid interest and thereafter, in order, to escrow payments, the outstanding principal balance and late charges.

Real estate that we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as other real estate owned until it is sold. When property is acquired it is recorded at the fair market value at the date of foreclosure less estimated selling costs. Any holding costs and declines in fair value after acquisition of the property result in charges against income.

The following table provides information with respect to our non-performing assets at the dates indicated.

(Dollars in thousands)	At December 31, 2016	2015
Non-accrual loans:		
Residential, home equity lines of credit and consumer	$1,106	$ 724
Non-residential	1,020	1,097
Construction and land	33	39
Total	2,159	1,860
Accruing loans past due 90 days or more:		
Residential, home equity lines of credit and consumer	181	—
Total	181	—
Total of non-performing loans and accruing loans 90 days or more past due	2,340	1,860
Assets acquired through foreclosure	—	—
Ground rents	141	136
Total non-performing assets	2,481	1,996
Troubled debt restructurings accruing	3,280	3,697
Troubled debt restructurings accruing and total non-performing assets	$5,761	$5,693
Total of non-performing loans and accruing loans past due 90 days or more to total loans	2.68%	1.95%
Total non-performing loans to total assets	1.64	1.33
Total non-performing assets and accruing loans past due 90 days or more to total assets	1.78	1.42
Total non-performing loans and accruing troubled debt restructurings to total assets	4.14	3.96
Total non-performing assets and accruing loans past due 90 days or more and accruing troubled debt restructurings to total assets	4.28	4.06

At December 31, 2016, non-accrual loans consisted of 21 residential mortgage loans totaling $1.1 million, two non-residential loans totaling $1.0 million, one construction and land loan totaling $33,000 and no home equity lines of credit. The increase in non-performing loans at December 31, 2016 as compared to December 31, 2015 is primarily the result of only 1 loan payoff and three loans returning to non-accrual status. We had one loan 90 days or more delinquent but still accruing at December 31, 2016 as compared to no loans at December 31, 2014.

At December 31, 2016, our largest non-performing loan relationships consisted of the following:

- A $900,000 loan secured by a first mortgage on a church in Baltimore City. We restructured the loan to reduce the interest rate on the loan in 2015, and this loan was non-accrual at December 31, 2016. We also had a $9,000 loan secured by a third mortgage on this church. The loan secured by the third mortgage was accruing at December 31, 2016, and we received certain rental payments that are paid directly to us to meet the debt service requirements on that loan.

We occasionally modify loans to extend the term or make other concessions to help borrowers stay current on their loans and to avoid foreclosure. We do not forgive principal or interest on loans but have modified the interest rates on loans to rates that are below market rates. In the case of non-residential mortgage loans or large residential mortgage loans, before agreeing to modify a loan, we perform a financial analysis of the borrower to determine that the borrower will be able to comply with the terms of the loan as restructured. At December 31, 2016 and 2015, we had $3.3 million, $3.7 million, respectively, in modified loans, which are also referred to as troubled debt restructurings, on which we continue to accrue interest.

If a loan is in non-accrual status at the time we restructure it and classify the restructure as a troubled debt restructuring, it is our policy to maintain the loan as non-accrual until we receive six consecutive monthly payments under the restructured terms.

At December 31, 2016, our largest accruing troubled debt restructured loan was a $1.7 million land loan secured by multiple waterfront lots in Queen Anne's County on the Eastern shore of the Chesapeake Bay. Because of difficulties experienced by the borrower, we restructured this loan to lower the interest rate and defer outstanding amounts, and the borrower has made payments in accordance with the restructured terms, so the loan was considered accruing at December 31, 2016. At December 31, 2016, the borrower had a second loan with an outstanding balance of $52,000 secured by the same property. The borrower is seeking to sell the property securing these loans. The borrower does have a couple of contracts on lots securing our loan and we anticipate receiving some pay downs during the first quarter of 2017.

Interest income that would have been recorded for the year ended December 31, 2016 and the year ended December 31, 2015 had non-accrual loans been current according to their original terms, amounted to approximately $86,000 and $74,000, respectively. Interest income of $1.1 million and $451,000 related to non-accrual loans was included in interest income for the years ended December 31, 2016 and 2015, respectively.

At December 31, 2015 and 2016, we had no other real estate owned.

Classified Assets. Federal regulations require us to review and classify our assets on a regular basis. In addition, the Office of the Comptroller of the Currency has the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. "Substandard assets" must have one or more defined weakness and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. "Doubtful assets" have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified "loss" is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. The regulations also provide for a "special mention" category, described as assets that do not currently expose an institution to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving close attention.

The following table shows the aggregate amounts of our classified and criticized assets at the dates indicated.

	At December 31,	
(In thousands)	**2016**	**2015**
Special mention assets	$3,251	$1,575
Substandard assets	6,078	4,288
Total criticized and classified assets	$9,329	$5,863

Classified and criticized assets include loans that are classified due to factors other than payment delinquencies, such as lack of current financial statements and other required documentation, insufficient cash flows or other deficiencies, and, therefore are not included as non-performing assets. Other than as disclosed in the above tables, there are no other loans where management has serious doubts about the ability of the borrowers to comply with the present loan repayment terms. Also included in classified and criticized assets are other real estate owned properties of $0 at December 31, 2016 and 2015.

At December 31, 2016, our four largest classified asset lending relationships totaled $5.4 million, which represented 57.8% of classified assets. Of our remaining classified assets, none had a book value in excess of $500,000. At December 31, 2016, our four largest classified asset lending relationships consisted of the following:

- A $2.0 million lending relationship which consists of six loans with one person having common ownership in each of these loans. The six loans are classified as special mention because two of the loans totaling $228,000 matured in December 2016. Each of these six loans have been kept

current with monthly payments with the exception of the two matured loans having not paid off the note balance due at maturity. The customer has informed us that he is in the process of refinancing these two loans with a different institution;

- A $1.8 million lending relationship secured by waterfront property in Queen Anne's County on the Eastern shore of the Chesapeake Bay (see "— *Analysis of Non-performing and Classified Assets*" for additional information regarding this lending relationship);

- A $910,000 relationship consisting of two loans secured by a church in Baltimore City (see "— *Analysis of Non-performing and Classified Assets*" for additional information regarding this lending relationship);

- A $716,000 construction loan secured by a single family home in Ocean City, Maryland. As of December 31, 2016 the borrower has kept the loan current on an ongoing basis.

Delinquencies. The following table provides information about delinquencies in our loan portfolio at the dates indicated.

	At December 31,							
	2016				2015			
	30 – 89 Days		90 Days or More		30 – 89 Days		90 Days or More	
(Dollars in thousands)	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
Residential, home equity lines of credit and consumer	14	$1,341	13	$681	12	$916	6	$260
Non-residential			1	109			1	103
Construction and land	3	1,792	—	—	1	39	—	—
Total	17	$3,133	14	$790[(1)]	13	$955	7	$363[(1)]

(1) Does not include troubled debt restructured loans that were current on their restructured payment terms but where the loan continues to be non-accrual.

Analysis and Determination of the Allowance 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 monthly basis, and any adjustments must be approved quarterly by the board of directors. When additional allowances are necessary, a provision for loan losses is charged to earnings. When reductions to the allowance are necessary, a reversal for loan losses is credited to earnings. Our methodology for assessing the appropriateness of the allowance for loan losses is reviewed periodically by the board of directors. The board of directors also reviews the allowance for loan losses established on a quarterly basis.

General Valuation Allowance. We establish a general valuation allowance for loans that should be adequate to reserve for the estimated credit losses inherent in each segment of our loan portfolio, given the facts and circumstances as of the valuation date for all loans in the portfolio that have not been classified. The allowance is based on our average annual rate of net charge offs experienced over the previous two years on each segment of the portfolio and is adjusted for current qualitative factors. If historical loss data is not available for a segment, the estimates used will be based on various components such as industry averages. For purposes of determining the estimated credit losses, the loan portfolio is segmented as follows: (i) residential first mortgage real estate loans; (ii) residential second mortgage real estate loans; (iii) residential home equity lines of credit; (iv) commercial loans; (v) construction loans; (vi) land loans; and (vii) consumer loans. Qualitative factors that are considered in determining the adequacy of the allowance for loan losses are as follows: (i) trends of delinquent and non-accrual loans; (ii) economic factors; (iii) concentrations of credit; (iv) changes in the nature and volume of the loan portfolio; and

(v) changes in lending staff and loan policies. We do not record allowances for impaired loans in our general allowance; however, the balances of impaired loans are included in the other categories of our allowance for loan losses until an updated appraisal is received when measured individually.

Specific Valuation Allowance. Specific valuation allowances are only established for non-collateral dependent troubled-debt restructured loans and are established at the modification date of the troubled loan. The specific valuation allowance is computed as the excess of the loan's expected cash flow based on the remaining original loan terms and the expected cash flow of the corresponding modified loan discounted at the original loan rate. As long as the borrower performs under the terms of the modification agreement, on a monthly basis we recalculate the specific valuation using the discounted cash-flow method described above. If the borrower fails to perform under the modification agreement, we will treat the loan as a collateral dependent and measure the loss by using the fair value of the collateral less disposition costs.

Losses on non-modified loans are charged-off in the month the loss is measured. Non-modified loans are measured for loss at the point the loan becomes 90 to 120 days delinquent or at maturity if an extension is requested. We obtain a third party appraisal to determine the fair value of the collateral. We measure these loans for loss by using the fair value of collateral less disposition costs method and if any loss is determined it is charged off directly. Subsequently, these loans are re-evaluated at least annually by obtaining an updated third party appraisal to determine if there should be any further loss recognition.

All other adversely classified loans as well as special mention and watch loans are reviewed monthly. Our historical loss experience in each category of loans is utilized in determining the allowance for that group. The determined loss factor in each loan category may be adjusted for qualitative factors as determined by management.

Unallocated Allowance. Our allowance for loan losses methodology may also include an unallocated component to reflect the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the loan portfolio. In 2015 we established an unallocated reserve of $250,000 on loans which were in the process of foreclosure to cover potential interior damage that may not have been reflected in the exterior only appraised values. After being sold at foreclosure to a third party, it was subsequently determined that the reserve was not necessary and was therefore reversed in 2016.

The following table sets forth the breakdown of the allowance for loan losses by loan category at the dates indicated. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

	At December 31,					
	2016			2015		
(Dollars in thousands)	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans
Residential and home equity lines of credit	$ 973	79.89%	86.36%	$ 960	61.50%	86.24%
Non-residential	158	12.97	7.89	194	12.43	8.67
Construction and land	87	7.14	5.73	157	10.06	5.06
Consumer	—	—	.02	—	—	.03
Unallocated	—	—	—	250	16.01	—
Total	$1,218	100.00%	100.00%	$1,561	100.00%	100.00%

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while we believe we have established our allowance for loan losses in conformity with generally accepted accounting principles, there can be no assurance that the Office of the Comptroller of the Currency, in reviewing our loan portfolio, will not require us to increase our allowance

for loan losses. The Office of the Comptroller of the Currency may require us to increase our allowance for loan losses based on judgments different from ours. While management believes it has established the allowance for loan losses in accordance with generally accepted accounting principles and has taken into account the views of its regulators and the current economic environment, there can be no assurance that in the future Madison Bank of Maryland's regulators or the economic environment will not require further increases in the allowance. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

Analysis of Loan Loss Experience. The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

(Dollars in thousands)	Year Ended December 31, 2016	2015
Allowance at beginning of period	$1,561	$1,731
Charge-offs:		
Residential, home equity lines of credit and consumer	(4)	(22)
Non-residential	—	(247)
Construction and land loans	(81)	(106)
Total charge-offs	(85)	(375)
Recoveries:		
Residential, home equity lines of credit and consumer	—	29
Non-residential	—	5
Construction and land loans	—	170
Total recoveries	—	204
Net charge-offs	(85)	(171)
(Reversal) Provision for loan losses	(258)	1
Allowance at end of period	$1,218	$1,561
Allowance for loan losses to non-performing loans and accruing troubled debt restructurings at end of period	22.39%	28.09%
Allowance for loan losses to total loans at end of period	1.37%	1.63%
Net charge-offs to average loans outstanding during the period	.11%	.17%

A loan is considered past due or delinquent when a contractual payment is not paid on the day it is due. Loans generally are placed on non-accrual status when they become 120 days delinquent. We may choose to consider loans from 90 to 119 days delinquent to be non-accrual, and generally do so except where a borrower has a history of periodically bringing a loan current after being 90 days or more delinquent. A loan is considered impaired when, based on current information and events, it is probable that Madison Bank of Maryland will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis. If the loan is deemed collateral dependent the impairment is measured on the net realizable value of the collateral. If loan repayment is not deemed collateral dependent, impairment is measured on the net present value of the expected discounted future cash flows. Impaired loans totaled $8.4 million as of December 31, 2016 and were comprised of the following: 11 loans ($609,000) that were 90 days or more delinquent and 36 loans ($7.8 million) that were less than 90 days delinquent. See note 3 of notes to consolidated financial statements.

We measure an impaired loan for loss in the following ways:

- Collateral dependent loans are measured for loss at the point the loan becomes 90 to 120 days delinquent or at maturity if an extension is requested. We obtain a third party appraisal to determine the fair market value of the collateral. We measure these loans for loss by using the fair value of collateral less disposition costs method and if any loss is determined it is charged off directly. Subsequently, these loans are re-evaluated at least annually by obtaining an updated third party appraisal to determine if there should be any further loss recognition.
- Non-collateral dependent loans are measured for loss at the point the loan becomes 90 to 120 days delinquent. If there are no work-out arrangements, we will treat the loan as a collateral dependent loan and measure for loss as stated above. If any loss is determined, it is our policy to charge off this loss directly. If there is a work-out arrangement, the loan will be measured for loss using the present value of discounted cash flows method, and if a loss is measured, a specific reserve is established. As long as the borrower performs under the terms of the work-out arrangement, no further measurement for loss is performed. If the borrower would fail to perform under the work-out arrangement, we will treat the loan as a collateral dependent loan and measure for loss as stated above.

During the years ended December 31, 2016 and 2015, we had net charge-offs totaling $85,000 and $171,000, respectively.

Interest Rate Risk Management. 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 adjusting our loan mix by originating fixed-rate loans with shorter maturities and adjusting our investment portfolio mix and duration. Specifically, while we do not originate adjustable-rate residential mortgage loans, over the past several years we have sought to shorten the average term of our loan portfolio by emphasizing the origination of residential fixed-rate loans with seven-to 15-year terms. At December 31, 2016, we also had $250,000 of interest-bearing deposits in other banks that reprice in the very near term. With respect to liabilities, we have had some success in the current low interest rate environment in increasing our longer-term certificates of deposit, as our customers have been willing to purchase longer-term certificates of deposit in exchange for increased yield, while, conversely, decreasing our short-term certificates of deposit.

We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

We have an Asset/Liability Management Committee, which includes members of senior management and one non-management director, to communicate, coordinate and control 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.

Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest and net income.

Net Interest Income Analysis. The Bank analyzes its sensitivity to changes in interest rates through our net interest income simulation model which is provided to us by an independent third party. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings. We estimate what our net interest income would be for a one-year period based on current interest rates. We then calculate what the net interest income would be for the same period under different interest rate assumptions. We also estimate the impact over a five year time horizon. These analyses assess the risk of loss in net interest income in the event of a sudden and sustained 100 to 400 basis point increase or 100

basis point decreases in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement. The following table shows the estimated impact on net interest income for the one-year period beginning December 31, 2016 resulting from potential changes in interest rates. These estimates require certain assumptions to be made, including loan and mortgage-related investment prepayment speeds, reinvestment rates, and deposit maturities and decay rates. These assumptions are inherently uncertain. As a result, no simulation model can precisely predict the impact of changes in interest rates on our net interest income. Although the net interest income table below provides an indication of our interest rate risk exposure at a particular point in time, such estimates are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

Rate Shift[(1)]	Net Interest Income Year 1 Forecast	Year 1 Change from Level
	(Dollars in thousands)	
+400	$3,081	(4.5)%
+300	$3,124	(3.2)%
+200	$3,166	(1.9)%
+100	$3,200	(0.8)%
Level	$3,226	—
-100	$3,147	(2.4)%

(1) The calculated changes assume an immediate shock of the static yield curve.

The decline in net interest income during year 1 in each of these scenarios is caused by our liabilities repricing faster than our assets. In addition to immediate rate shocks, the Bank also analyzes different rate environments such as a more gradual rate increase. In a gradual rate 200 basis point increase environment, the analysis shows net interest income increasing by $29,000 to $3,255,000 as this gradual increase has less effect on our interest bearing liabilities.

Economic Value of Equity Analysis. The Bank also analyzes the sensitivity of our financial condition to changes in interest rates through our economic value of equity model, which is also provided to us by the same independent third party as the net interest income analysis. This analysis measures the difference between predicted changes in the present value of our assets and predicted changes in the present value of our liabilities assuming various changes in current interest rates. These analyses assess the risk of loss in market value of equity in the event of a sudden and sustained 100 to 400 basis point increase or 100 basis point decreases in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement. As with the net interest income simulation model, the estimates of changes in the economic value of our equity require certain assumptions to be made. These assumptions include loan and mortgage-related investment prepayment speeds, reinvestment rates, and deposit maturities and decay rates. These assumptions are inherently uncertain and, as a result, we cannot precisely predict the impact of changes in interest rates on the economic value of our equity. Although our economic value of equity analysis provides an indication of our interest rate risk exposure at a particular point in time, such estimates are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates on the economic value of our equity and will differ from actual results.

Rate Shift[(1)]	Economic Value of Equity	% Change In Equity from Level
	(Dollars in thousands)	
+400	$17,583	(31.3)%
+300	$19,476	(23.9)%
+200	$21,614	(15.5)%
+100	$23,654	(7.6)%
Level	$25,590	—
-100	$26,258	2.6%

(1) The calculated changes assume an immediate shock of the static yield curve.

Our economic value of equity analysis shows a loss in economic value in each of the up rate environments because our assets lose more value than our liabilities gain.

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds available to meet short-term liquidity needs consist of deposit inflows, loan repayments and maturities and sales of investment securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly adjust our investments in liquid assets available to meet short-term liquidity needs based upon our assessment of (i) expected loan demand, (ii) expected deposit flows, (iii) yields available on interest-earning deposits and securities, and (iv) the objectives of our asset/liability management policy. We do not have long-term debt or other financial obligations that would create long-term liquidity concerns.

Our most liquid assets are cash and cash equivalents and interest-bearing deposits. The level of these assets depends on our operating, financing, lending and investing activities during any given period. At December 31, 2016, cash and cash equivalents totaled $9.2 million. Securities classified as available-for-sale, amounting to $3.7 million at December 31, 2016, provide an additional source of liquidity. In addition, at December 31, 2016, we had the ability to borrow a total of approximately $25 million from the Federal Home Loan Bank of Atlanta. At December 31, 2016, we had $7.0 million in Federal Home Loan Bank advances outstanding. In addition, we maintain a $2.5 million line of credit with another bank and access to the Federal Reserve Bank Discount Window. No amounts were outstanding under such lines of credit at December 31, 2016.

At December 31, 2016, we had $1.6 million in commitments to extend credit outstanding. Certificates of deposit due by December 31, 2017 totaled $23.0 million, or 40.6% of certificates of deposit. We believe the large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods due to the recent low interest rate environment and local competitive pressures. 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 rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2017. 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.

The following table represents our contractual obligations as of December 31, 2016.

(In thousands)	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Contractual obligations:					
Certificates of deposit	$56,548	$22,966	$19,480	$14,102	$ —
Operating lease obligations	545	107	198	179	61
Federal Home Loan Bank of Atlanta advances and other borrowings	7,000	7,000	—	—	
Severance Payments	430	210	220	—	—
Post-retirement benefits	228	21	42	42	123
Total	$64,751	$30,304	$19,940	$14,323	$184

Our primary investing activities are the origination of loans and the purchase of investment securities. Our primary financing activity is activity in deposit accounts. Deposit flows are affected by the overall level of interest rates, the interest rates and product offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive. Occasionally, we offer promotional rates on certain deposit products to attract deposits.

Financing and Investing Activities

Capital Management. We are subject to various regulatory capital requirements administered by the Office of the Comptroller of the Currency, 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 exceeded all of our regulatory capital requirements and were considered "well capitalized" under regulatory guidelines. See *"Item 1. Business — Regulation and Supervision — Federal Banking Regulation — Capital Requirements,"* and note 12 of the Notes to Consolidated Financial Statements.

The capital from the offering will significantly increase our liquidity and capital resources. Over time, the initial level of liquidity will be reduced as net proceeds from the stock offering are used for general corporate purposes, including the funding of lending activities. Our financial condition and results of operations will be enhanced by the capital from the offering, resulting in increased net interest-earning assets and income. However, the large increase in equity resulting from the capital raised in the offering will, initially, have an adverse impact on our return on equity. Following the offering, we may use capital management tools such as cash dividends and common share repurchases. However, under Office of the Comptroller of the Currency regulations, we will not be allowed to repurchase any shares during the first year following the offering, except to fund the restricted stock awards under the equity benefit plan after its approval by shareholders, unless extraordinary circumstances exist and we receive regulatory approval.

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded in our 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, unused lines of credit and letters of credit.

For the years ended December 31, 2016 and 2015, we did not engage in any off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Effect of Inflation and Changing Prices

The consolidated financial statements and related financial data presented in this Annual Report on Form 10-K have been prepared according to generally accepted accounting principles in the United States, which require the measurement of financial positions and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

This item is not applicable as the Company is a smaller reporting company.

Item 8. Financial Statements and Supplementary Data

The information required by this item is included herein beginning on F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The Company's independent registered public accounting firm, Stegman & Company, announced that effective June 1, 2016 substantially all directors and employees of Stegman & Company joined Dixon Hughes Goodman. As a result, effective June 1, 2016, Stegman resigned as the Company's independent registered public accounting firm. The Audit Committee of the Company's Board of Directors engaged Dixon Hughes Goodman to serve as the Company's independent registered public accounting firm effective June 1, 2016.

The reports of Stegman & Company on the audits of the consolidated financial statements of the Company as of and for the years ended December 31, 2015 and 2014 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company's fiscal years ended December 31, 2015 and 2014 and the subsequent interim period through June 1, 2016, there were (i) no disagreements (as such term is used in Item 304(a)(1)(iv) of Regulation S-K) between the Company and Stegman & Company on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreement(s), if not resolved to the satisfaction of Stegman & Company, would have caused Stegman & Company to make reference to the subject matter of the disagreement(s) in connection with its report on the Company's financial statements and (ii) no reportable events within the meaning set forth in Item 304(a)(1)(v) of Regulation S-K.

During the Company's fiscal years ended December 31, 2015 and 2014 and the subsequent interim period through June 1, 2016, the Company did not consult with Dixon Hughes Goodman regarding any of the matters set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

On March 30, 2017, the Company dismissed Dixon Hughes Goodman based on the recommendation of the Audit Committee of the Board of the Directors.

The report of Dixon Hughes Goodman on the audit of the consolidated financial statements of the Company as of and for the year ended December 31, 2016 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company's fiscal year ended December 31, 2016 and the subsequent interim period through March 30, 2017, there were (i) no disagreements (as such term is used in Item 304(a)(1)(iv) of Regulation S-K) between the Company and Dixon Hughes Goodman on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreement(s), if not resolved to the satisfaction of Dixon Hughes Goodman, would have caused Dixon Hughes Goodman to make reference to the subject matter of the disagreement(s) in connection with its report on the Company's financial statements and (ii) no reportable events within the meaning set forth in Item 304(a)(1)(v) of Regulation S-K.

On March 30, 2017, based on the recommendation of the Audit Committee of the Board of Directors, the Company engaged TGM Group LLC ("TGM") as the Company's independent registered public accounting firm. During the Company's fiscal year ended December 31, 2016 and the subsequent interim period through March 30, 2017, the Company did not consult with TGM regarding any of the matters set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

Item 9A. Controls and Procedures

(a) Disclosure Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) Internal Control Over Financial Reporting

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, utilizing the framework established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2016 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements are prevented or timely detected.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Philip P. Phillips	/s/ John M. Wright
Philip P. Phillips President and Chief Executive Officer	John M. Wright Vice President and Chief Financial Officer

(c) Changes to Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Board of Directors

For information concerning MB Bancorp's Board of Directors, the information contained under the section captioned *"Items to be Voted on by Shareholders — Item 1 — Election of Directors"* in MB Bancorp's Proxy Statement for the 2017 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference.

Executive Officers

For information relating to officers of MB Bancorp, the information contained under Part I, Item 1, captioned *"Business — Executive Officers Who Are Not Directors"* in this Annual Report on Form 10-K is incorporated herein by reference.

Audit Committee and Audit Committee Financial Expert

For information regarding the audit committee and audit committee financial expert of MB Bancorp, the section captioned *"Corporate Governance and Board Matters"* in the Proxy Statement is incorporated herein by reference.

Section 16(a) Beneficial Ownership Reporting Compliance

For information regarding compliance with Section 16(a) of the Exchange Act, the information contained under the section captioned *"Other Information Related to Directors and Executive Officers — Section 16(a) Beneficial Ownership Reporting Compliance"* in the Proxy Statement is incorporated herein by reference.

Code of Ethics

The Company has adopted a code of ethics and business conduct which applies to all of the Company's and the Bank's directors, officers and employees. A copy of the code of ethics and business conduct is available to stockholders on the Investor Relations portion of the Bank's website at http://www.mbofmd.com/stockholder-information.aspx.

Item 11. Executive Compensation

The information regarding executive compensation is set forth under the sections captioned *"Director Compensation"* and *"Executive Compensation"* in the Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) and (b) Security Ownership of Certain Beneficial Owners and Management.

Information required by this item is incorporated herein by reference to the section captioned *"Stock Ownership"* in the Proxy Statement.

(c) Changes in Control. Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

(d) Equity Compensation Plans.

Not applicable.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information relating to certain relationships and related transactions and director independence is set forth under the sections captioned *"Other Information Related to Directors and Executive Officers — Transactions with Related Persons"* and *"Corporate Governance and Board Matters"* in the Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information relating to the principal accountant fees and services is set forth under the section captioned *"Items to be Voted on by Shareholders — Item 3 — Ratification of the Independent Registered Public Accounting Firm"* in the Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) List of Documents Filed as Part of this Report

(1) *Financial Statements.* The following consolidated financial statements are incorporated by reference from Item 8 hereof:

Reports of Independent Registered Public Accounting Firms
Consolidated Balance Sheets as of December 31, 2016 and 2015
Consolidated Statements of Operations for the Years Ended December 31, 2016 and 2015
Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2016 and 2015
Consolidated Statements of Equity for the Years Ended December 31, 2016 and 2015
Consolidated Statements of Cash Flows for the Years Ended December 31, 2016 and 2015
Notes to Consolidated Financial Statements

(b) Exhibits. The following is a list of exhibits filed as part of this Annual Report on Form 10-K and is also the Exhibit Index.

No.	Description
3.1	Articles of Incorporation of MB Bancorp, Inc.(1)
3.2	Bylaws of MB Bancorp, Inc.(1)
4.1	Common Stock Certificate of MB Bancorp, Inc.(1)
10.1	Employment Agreement between MB Bancorp, Inc. and Philip P. Phillips +(2)
10.2	Employment Agreement between Madison Bank of Maryland and Philip P. Phillips +(2)
10.3	Two-Year Change in Control Agreement between Madison Bank of Maryland and Lisa M. McGuire-Dick +(2)
10.4	Two-Year Change in Control Agreement between Madison Bank of Maryland and John M. Wright +(3)
10.5	MB Bancorp, Inc. 2016 Equity Incentive Plan +(4)
10.6	Supplemental Life Insurance Agreement entered into by and between Madison Bank of Maryland and Phil Phillips effective February 2017.
10.7	Supplemental Life Insurance Agreement entered into by and between Madison Bank of Maryland and John M. Wright effective February 2017.
10.8	Supplemental Life Insurance Agreement entered into by and between Madison Bank of Maryland and Lisa M. McGuire-Dick effective February 2017.
10.9	Director Emeritus Plan
21.1	Subsidiaries
23.1	Consent of Dixon Hughes Goodman LLP
23.2	Consent of Stegman & Company
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certifications
101.1	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income (Loss); (iv) the Consolidated Statements of Equity, (v) the Consolidated Statements of Cash Flows; and (vi) the Notes to the Consolidated Financial Statements

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\+ Management contract or compensatory agreement or arrangement.

(1) Incorporated herein by reference to the Company's Registration Statement on Form S-1 (File No. 333-198700), as amended, initially filed with the Securities and Exchange Commission on September 12, 2014.

(2) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the Year Ended December 31, 2014 (File No. 000-55341).

(3) Incorporated herein by reference to the Company Form 8-K filed with the Securities and Exchange Commission on December 23, 2016 (File No. 000-55341)

(4) Incorporated herein by reference to Appendix A to the Company's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 19, 2016.

(c) Financial Statement Schedules. All schedules for which this provision is made in the applicable accounting regulations of the Securities and Exchange Commission are omitted because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements and related notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MB BANCORP, INC.

March 30, 2017

By: /s/ Philip P. Phillips
Philip P. Phillips
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Philip P. Phillips Philip P. Phillips	President, Chief Executive Officer and Director (principal executive officer)	March 30, 2017
/s/ John M. Wright John M. Wright	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	March 30, 2017
/s/ Douglas S. Wilson Douglas S. Wilson	Chairman of the Board	March 30, 2017
/s/ David A. Klunk David A. Klunk	Director	March 30, 2017
/s/ Barry A. Kuhne Barry A. Kuhne	Director	March 30, 2017
/s/ Michael Nobile Michael Nobile	Director	March 30, 2017
/s/ Randall S. Pace Randall S. Pace	Director	March 30, 2017
/s/ William D. Schmidt, Sr. William D. Schmidt, Sr.	Director	March 30, 2017
/s/ Nicole N. Glaeser Nicole N. Glaeser	Director	March 30, 2017
/s/ Louis J. Vigliotti Louis J. Vigliotti	Director	March 30, 2017

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of MB Bancorp, Inc. and Subsidiary

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Report of Independent Registered Public Accounting Firm

The Board of Directors
MB Bancorp, Inc.
Forest Hill, Maryland

We have audited the accompanying consolidated balance sheet of MB Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2016, and the related consolidated statements of operations, comprehensive loss, changes in shareholders' equity, and cash flows for the year 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

/s/ Dixon Hughes Goodman LLP

Baltimore, Maryland
March 30, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
MB Bancorp, Inc.
Forest Hill, Maryland

We have audited the accompanying consolidated balance sheet of MB Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2015, and the related statements of operations, comprehensive loss, equity, and cash flows for the year ended December 31, 2015. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Stegman & Company

Baltimore, Maryland
March 29, 2016

Suite 200, 809 Glen Eagles Court Baltimore, Maryland 21286 • 410-823-8000 • 1-800-686-3883 • Fax: 410-296-4815 • www.stegman.com

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MB BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS (Dollars in thousands)	As of December 31, 2016	As of December 31, 2015
Cash and due from banks	$ 5,399	$ 2,924
Interest bearing deposits in other banks	3,868	797
Total cash and cash equivalents	9,267	3,721
Other interest-bearing deposits in other banks	7,222	18,310
Investment securities available-for-sale – at fair value	3,698	8,480
Investment securities held to maturity – amortized cost	18,818	9,145
Loans, net of unearned fees	87,248	94,686
Less allowance for loan losses	(1,218)	(1,561)
Loans, net	86,030	93,125
Real estate ground rents	829	831
Less allowance for credit losses	(141)	(136)
Ground rents, net	688	695
Federal Home Loan Bank stock, at cost	418	688
Property and equipment – net	3,677	3,793
Deferred income taxes	—	793
Bank-owned life insurance	931	896
Accrued interest receivable and other assets	562	543
TOTAL ASSETS	$131,311	$140,189
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits	$ 93,015	$ 92,692
Federal Home Loan Bank advances	7,000	12,000
Deferred compensation liability	170	246
Accounts payable and other liabilities	802	370
Total liabilities	100,987	105,308
STOCKHOLDERS' EQUITY:		
Common stock $0.01 par value; authorized 19,000,000 shares; issued 1,902,900 and 2,116,000 shares at December 31, 2016 and December 31, 2015, respectively	19	21
Additional paid-in capital	18,132	20,158
Retained earnings – substantially restricted	13,770	16,284
Accumulated other comprehensive loss	(139)	(11)
Unearned ESOP shares	(1,458)	(1,571)
Total stockholders' equity	30,324	34,881
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$131,311	$140,189

See accompanying notes to consolidated financial statements.

MB BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amount)	For the Years Ended December 31, 2016	2015
INTEREST INCOME:		
Interest and fees on loans	$ 3,735	$ 4,133
Interest on federal funds sold and other investments	135	184
Interest and dividends on investment securities	672	446
Total interest income	4,542	4,763
INTEREST EXPENSE:		
Interest on deposits	769	723
Interest on short-term borrowings	1	3
Interest on long term borrowings	435	506
Total interest expense	1,205	1,232
NET INTEREST INCOME	3,337	3,531
(REVERSAL) PROVISION FOR LOAN LOSSES	(258)	1
NET INTEREST INCOME AFTER (REVERSAL) PROVISION FOR LOAN LOSSES	3,595	3,530
NON-INTEREST INCOME:		
Service charges on deposit accounts	10	12
Fees and charges on loans	35	46
Increase in cash surrender value of life insurance	35	49
Gain on sale of other real estate owned	—	13
Gain on sale of real estate held for sale	—	8
Loss on disposal of equipment	—	(8)
Gain on investment securities	—	2
Loss on early extinguishment of debt	(140)	—
Ground rent fees	43	43
Other income	56	23
Total non-interest income	39	188
NON-INTEREST EXPENSE:		
Salaries and employee benefits	2,811	2,446
Occupancy expenses	398	407
Furniture and equipment expenses	42	50
Legal and professional expenses	414	356
Data processing and other outside services	292	242
FDIC insurance premiums	76	101
Advertising and marketing related expenses	30	67
Provision for loss on other real estate owned	—	158
Benefit for loss on ground rents	(2)	(8)
Other expenses	553	599
Total non-interest expenses	4,614	4,418
LOSS BEFORE INCOME TAXES	(980)	(700)
INCOME TAX EXPENSE	771	334
NET LOSS	$(1,751)	$(1,034)
Basic earnings per share	$ (0.96)	$ (0.53)
Diluted earnings per share	$ (0.96)	$ (0.53)

See accompanying notes to consolidated financial statements.

MB BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Dollars in thousands)	For the Years Ended December 31, 2016	For the Years Ended December 31, 2015
NET LOSS	$(1,751)	$(1,034)
OTHER COMPREHENSIVE INCOME (LOSS) ON AVAILABLE-FOR-SALE INVESTMENT SECURITIES:		
Unrealized losses arising during the period	(128)	(40)
Reclassification of gain included in net loss	—	(2)
Unrealized losses arising during the period	(128)	(42)
Income taxes on unrealized losses arising during the period	—	16
	(128)	(26)
COMPREHENSIVE LOSS	$(1,879)	$(1,060)

See accompanying notes to consolidated financial statements.

MB BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Dollars in thousands)	Common Stock	Additional Paid In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCES AT JANUARY 1, 2015	$21	$20,144	$17,318	$(1,684)	$ 15	$35,814
Net loss	—	—	(1,034)	—	—	(1,034)
Net unrealized loss on available-for sale securities, net of tax of $16	—	—	—	—	(26)	(26)
Stock-based compensation	—	14	—	113	—	127
BALANCES AT DECEMBER 31, 2015	$21	$20,158	$16,284	$(1,571)	$ (11)	$34,881
BALANCES AT JANUARY 1, 2016	$21	$20,158	$16,284	$(1,571)	$ (11)	$34,881
Net loss	—	—	(1,751)	—	—	(1,751)
Net unrealized loss on available-for sale securities, net of tax of $0	—	—	—	—	(128)	(128)
Stock-based compensation	—	26	—	113	—	139
Repurchase of shares	(2)	(2,052)	(763)	—	—	(2,817)
BALANCES AT DECEMBER 31, 2016	$19	$18,132	$13,770	$(1,458)	$(139)	$30,324

See accompanying notes to consolidated financial statements.

MB BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	For the Years Ended December 31, 2016	December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,751)	$ (1,034)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation expense	133	140
Increase in cash surrender value of life insurance	(35)	(49)
Net amortization/accretion of premiums and discounts	(40)	(10)
(Reversal) Provision for loan losses	(258)	1
Reversal for ground rent losses	(8)	(8)
Decrease in deferred income taxes	786	343
Provision for loss on other real estate owned	—	158
Non-cash compensation under stock-based benefit plan	139	127
Gain on sale of other real estate owned	—	(13)
(Increase) Decrease in accrued interest and other assets	(19)	45
Gain on redemption of investment securities	—	(2)
Loss on disposal of equipment	—	8
Gain on sale of real estate held for sale	—	(8)
Loss on early extinguishment of debt	140	—
Decrease in deferred compensation liability	(76)	(72)
Increase in accounts payable and other liabilities	432	51
Net cash used in operating activities	(557)	(323)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease (increase) in other interest bearing deposits in other banks	11,088	(7,865)
Purchase of available-for-sale investments	(2,499)	(9,112)
Proceeds from calls/repayments of available-for-sale investments	7,185	1,095
Purchase of held-to-maturity investments	(31,596)	(1,000)
Proceeds from maturity/repayments of held-to-maturity investments	21,938	6,004
Net decrease in loans	7,353	8,852
Proceeds from sale of ground rents	15	15
Proceeds from sale of other real estate owned	—	180
Proceeds from sale of real estate held for sale	—	8
Purchase of property, plant and equipment	(17)	(34)
Redemption of Federal Home Loan Bank stock	270	241
Net cash provided by (used in) investing activities	13,737	(1,616)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in deposits	323	(5,780)
Federal Home Loan Bank advances	7,000	4,750
Federal Home Loan Bank repayments	(12,140)	(8,500)
Repurchase of common stock	(2,817)	—
Net cash used in financing activities	(7,634)	(9,530)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,546	(11,469)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,721	15,190
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,267	$ 3,721
Supplemental cash flow information:		
Interest paid	$ 1,267	$ 1,232
Income taxes paid	$ —	$ —
Noncash:		
Transfer of other real estate owned to loans	$ —	$ 41

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In 2002, Bohemian American Federal Savings and Loan Association, Inc., incorporated in 1899 in the State of Maryland, merged with Madison & Bradford Federal Savings & Loan Association, incorporated in 1904 in the State of Maryland, to form Madison Bohemian Savings Bank. On September 1, 2009 Madison Bohemian Savings Bank changed its name to Madison Bank of Maryland (the "Bank"). The Bank's principal business is providing mortgage and consumer loans in Baltimore and Harford County. The Bank also provides construction and lot loans. Significant accounting policies followed by the Bank are presented below.

On August 26, 2014, the Bank's Board of Directors approved a plan (the "Plan") to convert from a federally-chartered mutual savings bank to a federally-chartered stock savings bank form of organization, which was subsequently approved by the Bank's members. The Plan included the formation of MB Bancorp, Inc. (the "Company") to own all of the outstanding capital stock of the Bank. On December 29, 2014, the Bank completed its mutual-to-stock conversion. On that date, the Bank became the wholly owned subsidiary of the Company and the Company sold 2,116,000 shares of its common stock for gross offering proceeds of $21,160,000.

The cost of conversion and issuing and selling the capital stock was deducted from the proceeds of the offering. At the time of conversion, the Bank established a liquidation account in an amount equal to its retained earnings as reflected in the latest balance sheet used in the final conversion prospectus. The liquidation account will be maintained for the benefit of eligible account holders who continue to maintain their deposit accounts in the Bank after conversion. The liquidation account will be reduced annually to the extent that eligible depositors have reduced their qualifying deposits. In the event of a complete liquidation of the Bank, eligible depositors who continue to maintain accounts in accordance with Office of the Comptroller of the Currency ("OCC") regulations will be entitled to receive a distribution from the liquidation account before any liquidation may be made with respect to the Company's common stock. The conversion will be accounted for as change in corporate form with the historic base of the Bank's assets, liabilities and equity unchanged as a result. The Bank may not declare or pay a cash dividend if the effect thereof would cause its net worth to be reduced below either the amount required for the liquidation account discussed below or the regulatory capital requirements imposed by the OCC.

Principles of Consolidation

The consolidated financial statements include the accounts of MB Bancorp, Inc. (the "Company") and its wholly owned subsidiaries, Madison Bank of Maryland (the "Bank"), 1920 Rock Spring Road, LLC formed in 1998 to own and hold real estate and Mutual, LLC formed in 2011 to hold other real estate owned. All significant intercompany accounts and transactions have been eliminated. The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles and to general practices in the banking industry.

Use of Estimates

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

Cash and Cash Equivalents

The Company has included cash and due from banks, interest-bearing deposits in other banks with original maturities of 90 days or less, and federal funds sold and other overnight investments as cash and cash equivalents for the purpose of reporting cash flows.

Investments Securities

As securities are purchased, management determines if the securities should be classified as held to maturity or available for sale. Securities which management has the intent and ability to hold to maturity are recorded at amortized cost. Securities which may be sold before maturity are classified as available for sale and carried at fair value with unrealized gains and losses included in accumulated other comprehensive income, a separate component of equity, on an after-tax basis. Realized gains and losses, using the specific identification method, are included as a separate component of noninterest income. Premiums and discounts on investment securities are amortized/accreted to the earlier of call or maturity. Investments in Federal Home Bank stock are excluded from securities classified as available for sale and are carried at cost.

Declines in the fair value of individual available for sale or held to maturity securities below their cost that are other than temporary, result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether another-than-temporary impairment has occurred include, among others, a downgrading of the security by the rating agency or a significant deterioration in the financial condition of the issuer.

Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers and (3) the structure of the security.

An impairment loss is recognized in earnings only when (1) the Bank intends to sell the debt security; (2) it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis; or (3) the Company does not expect to recover the entire amortized cost basis of the security. In situations where the Bank intends to sell or when it is more likely than not that the Company will be required to sell the security, the entire impairment loss must be recognized in earnings. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining portion being recognized in stockholders' equity as a component of other comprehensive income, net of deferred taxes.

Loans

Loans are stated at the principal amount outstanding net of any deferred fees and costs. Interest income on loans is accrued at the contractual rate on the principal amount outstanding. It is the Company's policy to discontinue the accrual of interest when circumstances indicate that collection is doubtful. Direct loan origination fees, net of direct loan origination costs, are amortized or accreted over the contractual life of the loan using the interest method.

Loans are considered impaired when, based on current information; it is probable that the Company will not collect all principal and interest payments according to contractual terms. Generally, loans are considered impaired once principal and interest payments are past due and they are placed on non-accrual. Management also considers the financial condition of the borrower, cash flows of the loan and the value of the related collateral. Impaired loans do not include large groups of smaller balance homogeneous credits such as residential real estate and consumer installment loans, which are evaluated collectively for impairment. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (usually ninety days or less) provided eventual collection of all amounts due is expected. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, the Company may measure impairment based on a loan's observable market price or the fair value of the collateral, if the loan is collateral dependent. The Company recognizes interest income on impaired loans on a cash basis if the borrower demonstrates the ability to meet the contractual obligation and collateral is sufficient. If there is doubt regarding the borrower's ability to make payments or the collateral is not sufficient, payments received are accounted for as a reduction in principal.

A loan is considered to be a troubled debt restructured loan ("TDR") when the Company grants a concession to the borrower that the Company would not otherwise consider to a borrower of comparable risk and placed on non-accrual status. Such concessions include the reduction of interest rates, forgiveness of all or a portion of principal or interest, extension of loan term or other modifications at interest rates

that are less than the current market rate for new obligations with similar risk. If a loan is in nonaccrual status at the time we restructure it and classify the restructure as a troubled debt restructuring, it is our policy to maintain the loan as nonaccrual until we receive six consecutive monthly payments under the restructured terms. TDR loans that are in compliance with their modified terms and that yield a market rate may be removed from the TDR status after a period of one year.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense or reversal for loan losses which is credited to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The Company maintains an allowance for loan losses at an amount estimated to equal all loan losses incurred in our loan portfolio that are both probable and reasonable to estimate at a balance sheet date. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions and trends that may affect the borrowers' ability to pay.

The allowance for loan losses represents an estimation done pursuant to either Accounting Standards Codification ("ASC") Topic 450 "*Contingencies*" or Topic 310 "*Receivables*." The Company uses a loan grading system where loans are graded based on management's evaluation of the risk associated with each loan. A factor, based on the loan grading is applied to the loan allowance to provide for losses. In addition, management judgmentally establishes an additional nonspecific reserve. The nonspecific portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlates perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. The adequacy of the allowance is determined through careful and continuous evaluation of the loan portfolio, which involves the consideration of a number of factors to establish a prudent level. Determination of the allowance is inherently subjective and requires significant estimates, including estimated losses on pools of homogeneous loans based on historical loss experience and consideration of current economic trends, which may be susceptible to significant change.

While management believes it has established the allowance for loan losses in accordance with generally accepted accounting principles and has taken into account the views of its regulators and the current economic environment, there can be no assurance that in the future the Bank's regulators or the economic environment will not require further increases in the allowance.

Real Estate Ground Rents

Ground rents are a form of real estate ownership where the land is owned by one entity, but the improved property located on the land is owned by the homeowner. The Company's ground rents are supported by deeds that have been registered with Maryland State Department of Assessments and Taxation. Under Maryland law, homeowners are required to pay the ground rent owner an annual fee that is stated in the original ground rent deed. The fee is typically 6% of the original value of the land as stipulated in the deed and is paid biannually. In addition, Maryland law stipulates that ground rent owners are required to sell or redeem the ground rent to the homeowner when requested. The redemption price on the ground rent is the lesser of the annual ground rent fee divided by a statutory redemption rate, which ranges from 6% to 12%, or the contractual sales price. Maryland also limits the collection of ground rent fees to amounts due for three years or less.

Ground rents are recorded at the lower of cost or fair value. Fair value is estimated based on the contractual value of the unconsummated redemption or sales agreements. Ground rent fees are recognized upon receipt and included in non-interest income. At December 31, 2016 and 2015, the Company's investment includes individual ground rents ranging from $600 to $3,000, totaling $829,000 and $831,000 respectively. An allowance for losses is established when the collectability of ground rent payments becomes uncertain, typically when the ground rent payment becomes three years delinquent. At December 31, 2016 and 2015, the Company had $141,000 and $136,000 respectively, of ground rents that were three years or more delinquent and were reserved at 100%.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization computed using the straight-line method. Premises and equipment are depreciated over the useful lives of the assets. Useful lives range from five to ten years for furniture, fixtures, and equipment; three to five years for software, hardware, and data handling equipment. Maintenance and repairs are charged to expense as incurred, while improvements, which extend the useful life, are capitalized and depreciated over the estimated remaining life of the asset.

Long-lived depreciable assets are evaluated periodically for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment exists when the expected undiscounted future cash flows of a long-lived asset are less than its carrying value. In that event, the Company recognizes a loss for the difference between the carrying amount and the estimated fair value of the asset based on a quoted market price, if applicable, or a discounted cash flow analysis.

Bank-Owned Life Insurance

The Bank purchased single-premium life insurance policies on certain former officers and directors of the Bank. The net cash surrender value of those policies is classified in other assets. Appreciation in the value of the insurance policies is classified in non-interest income.

Other Real Estate Owned

Real estate acquired in satisfaction of a debt is carried at fair value net of estimated selling costs. Costs incurred in maintaining foreclosed real estate and write-downs to reflect declines in the fair value of the properties after acquisition are included in noninterest expenses.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Earnings Per Share

Basic per share amounts are based on the weighted average shares of common stock outstanding. Unearned ESOP shares are not included in outstanding shares. Diluted earnings per share assume the conversion, exercise or issuance of all potential common stock instruments such as options, warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share.

Advertising Costs

Advertising costs are generally expensed as incurred.

Income Taxes

The Bank uses the liability method of accounting for income taxes. Under the liability method, deferred-tax assets and liabilities are determined based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities (*i.e.,* temporary differences) and are measured at the enacted rates that will be in effect when these differences reverse. Deferred income taxes are recognized when it is deemed more likely than not that the benefits of such deferred income taxes will be realized. The Bank recognizes interest and/or penalties related to income tax matters in income tax expense. Tax years subsequent to December 31, 2013 remain subject to examination by Federal and State of Maryland jurisdictions.

ASC Topic 740, "*Income Taxes,*" provides clarification on accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Bank has not identified any income tax uncertainties.

Recognition of Deferred Tax Valuation Allowance

During 2014, management established a valuation allowance for the net operating loss component of the Bank's deferred tax assets as the Bank had remained in a cumulative loss position for three consecutive years and consequently management reevaluated the need for a valuation allowance of the deferred tax asset balance. Management's evaluation included: management's ability to fully implement our strategic plan and the ability to generate sufficient taxable income to fully realize the Bank's net operating loss carryforwards. Management concluded that it is more likely than not the Bank will be unable to generate sufficient taxable income in the foreseeable future to fully utilize the cumulative net operating loss carryforward and, therefore, established a valuation allowance to offset the net operating loss carryforward related deferred tax asset. As of December 31, 2016, management concluded that it is more likely than not the Bank will be unable to generate sufficient taxable income in the foreseeable future to fully utilize the deferred tax assets and placed a full valuation allowance on all net deferred tax assets.

Stock-Based Compensation

The Company has stock-based incentive arrangements to attract and retain key personnel in order to promote the success of the business. In May 2016, the 2016 Equity Incentive Plan (the "2016 plan") was approved by shareholders, which authorizes the issuance of restricted stock and stock options to the Board of Directors and key employees.

Compensation cost for all stock-based awards is measured at fair value on date of grant and recognized over the vesting period on a straight-line basis. Such value is recognized as expense over the service period, net of estimated forfeitures. The estimation of stock awards that ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class and historical experience.

Supplemental Executive Retirement Plans ("SERP")

The Bank has SERP's with various former officers and directors of the Bank. The liabilities under the majority of the agreements are capped at the cash values of insurance policies that have been purchased to fund the policies. The liability for a director who has already attained retirement age has been calculated on the present value of payments under the plan. There is also life insurance to protect the Bank under this director's plan.

2. INVESTMENT SECURITIES

The carrying amount and estimated fair market value of investment securities classified as available-for-sale are summarized as follows:

	December 31, 2016			
(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Investments available-for-sale:				
U.S. Government securities	$1,000	$—	$ (67)	$ 933
Mortgage-backed securities	2,837	10	(82)	2,765
Total investments available-for-sale	$3,837	$10	$(149)	$3,698

	December 31, 2015			
(Dollars in thousands)	**Amortized Costa**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Investments available-for-sale:				
U.S. Government securities	$6,974	$ 3	$(33)	$6,944
Mortgage-backed securities	1,525	15	(4)	1,536
Total investments available-for-sale	$8,499	$18	$(37)	$8,480

The carrying amount and estimated fair market value of investment securities classified as held-to-maturity are summarized as follows:

(Dollars in thousands)	December 31, 2016 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investments held-to-maturity:				
U.S. Government securities	$12,500	$ —	$(612)	$11,888
Mortgage-backed securities	6,318	183	(118)	6,383
Total investments held-to-maturity	$18,818	$183	$(730)	$18,271

(Dollars in thousands)	December 31, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investments held-to-maturity:				
U.S. Government securities	$4,998	$ —	$(88)	$4,910
Mortgage-backed securities	4,147	238	—	4,385
Total investments held-to-maturity	$9,145	$238	$(88)	$9,295

Below are schedules of both available-for-sale and held-to-maturity securities with unrealized losses as of December 31, 2016 and 2015 and the length of time the individual security has been in a continuous unrealized loss position. Unrealized losses are the result of interest rate levels differing from those existing at the time of purchase of the securities and as to mortgage-backed securities, estimated prepayment speeds. At December 31, 2016 and 2015, these unrealized losses are considered temporary as they reflect changes in fair values and are subject to change daily as interest rates fluctuate and the Bank has the ability and intent to hold the securities until the earlier of maturity or recovery.

	December 31, 2016					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 5,369	$(200)	$—	$—	$ 5,369	$(200)
U.S. Government securities	12,821	(679)	—	—	12,821	(679)
Total temporarily impaired securities	$18,190	$(879)	$—	$—	$18,190	$(879)

	December 31, 2015					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$—	$—	$ 1,117	$ (4)	$ 1,117	$ (4)
Government securities	—	—	10,852	(121)	10,852	(121)
Total temporarily impaired securities	$—	$—	$11,969	$(125)	$11,969	$(125)

The scheduled maturities of debt securities at December 31, 2016 were as follows:

	Amortized Cost	Fair Value
	(in thousands)	(in thousands)
Due over one year through five years	$ —	$ —
Due over five years through ten years	3,000	2,902
Due after ten years	10,500	9,919
Mortgage-backed securities	9,155	9,148
Total	$22,655	$21,969

3. LOANS RECEIVABLE

Loans receivable consist of the following:

(Dollars in thousands)	December 31, 2016	December 31, 2015
Secured by real estate:		
Residential:		
One- to four-family	$71,266	$76,632
Multi-family	2,038	2,100
Total	73,304	78,732
Non-residential	7,021	8,290
Construction and land loans	5,104	4,835
Home equity line of credit (“HELOC”)	3,473	3,695
Consumer and other loans:		
Loans to depositors, secured by savings	18	27
	88,920	95,579
Add:		
Net discount on purchased loans	10	(9)
Unamortized net deferred costs	16	26
Less:		
Undisbursed portion of construction loans	(1,650)	(871)
Unearned net loan origination fees	(48)	(39)
Less allowance for loan losses	(1,218)	(1,561)
Loans receivable, net	$86,030	$93,125

The risks associated with lending activities differ among the various loan types and are subject to the impact of changes in interest rates, market conditions of collateral securing the loans, and general economic conditions. All of these factors may adversely impact the borrower’s ability to repay its loans and impact the associated collateral.

Residential real estate includes mortgage loans with the underlying one- to four-family or multi-family residential property (primarily owner-occupied) securing the debt. The Bank’s attempt to minimize risk exposure is minimized in these types of loans through the evaluation of the credit worthiness of the borrower, including debt-to-income ratios and underwriting standards which limit the loans-to-value ratio at origination to generally no more than 80% unless the borrower obtains private mortgage insurance.

Residential real estate also includes home equity loans and lines of credit. These present a slightly higher risk to the Bank than one-to four-family first lien mortgages as they can be first or second liens on the underlying property. These loans are generally limited with respect to loan-to-value ratios and the credit worthiness of the borrower is considered including debt-to-income ratios.

Non-residential real estate includes various types of loans which have differing levels of credit risk associated with them. Owner-occupied commercial real estate loans are generally dependent upon the successful operation of the borrower’s business, with cash flows generated from the business being the

primary source of loan repayment. If the business suffers a downturn in sales or profitability, the borrower's ability to repay the loan could be in jeopardy. The Bank, attempts to minimize this credit risk through its underwriting standards which include the credit worthiness of the borrower, a limitation on loan amounts to the value of the property securing the loan, and an evaluation of debt service coverage ratios. Non-owner occupied commercial real estate loans present a different credit risk to the Bank than owner-occupied commercial real estate, as the repayment of the loan is dependent upon the borrower's ability to generate a sufficient level of occupancy to produce rental income that exceeds debt service requirement and operating expenses. Lower occupancy or lease rates may result in a reduction in cash flows, which hinder the ability of the borrower to meet debt service requirements, and may result in lower collateral values. The Bank generally follows the same underwriting standards for these loans as with owner occupied commercial real estate, but recognizes the greater risk inherent in these credit relationships in its loan pricing.

Construction and land loans consist of one- to four-family residential construction and land development loans. The risk of loss on these loans is largely dependent on the Bank's ability to assess the property's value at the completion of the project. During the construction phase, a number of factors could potentially negatively impact the collateral value, including cost overruns, delays in completing the project, competition and real estate market conditions which may change based on the supply of similar properties in the area. In the event the collateral value at the completion of the project is not sufficient to cover the outstanding loan balance, the Bank must rely upon other repayment sources, including the borrowers and/or guarantors of the project or other collateral securing the loan. The Bank attempts to mitigate credit risk through strict underwriting standards including evaluation of the credit worthiness of the borrowers and their success in other projects, adequate loan-to-value ratios and continual monitoring of the project during its construction phase.

Consumer loans consist primarily of loans secured by the borrower's deposit balance at the Bank. As these loans are typically 100% secured by savings and certificate of deposits, the risk of credit loss is not deemed significant.

The Bank maintains an allowance for loan losses at an amount estimated to equal all loan losses incurred in our loan portfolio that are both probable and reasonable to estimate at a balance sheet date. Our determination as to the classification of our assets is subject to review by the OCC and the FDIC. We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulatory guidelines.

The Bank provides for loan losses based upon the consistent application of our documented allowance for loan loss methodology. All loan losses are charged to the allowance for loan losses and all recoveries are credited to it. Additions to the allowance for loan losses are provided by charges to income and reductions in the allowance result in credits to income based on various factors which, in our judgment, deserve current recognition is estimating probable losses. We regularly review the loan portfolio and make provisions or reversals for loan losses in order to maintain the allowance for loan losses in accordance with Generally Accepted Accounting Principles ("GAAP"). The allowance for loan losses consists of two components:

- **Specific allowances** are only established for non-collateral dependent troubled-debt restructured loans and are established at the modification date of the troubled loan. The specific valuation allowance is computed as the excess of the loan's expected cash flow based on the remaining original loan terms and the expected cash flow of the corresponding modified loan discounted at the original loan rate. As long as the borrower performs under the terms of the modification agreement, on a monthly basis we recalculate the specific valuation using the discounted cash-flow method described above. If the borrower fails to perform under the modification agreement, we will treat the loan as a collateral dependent and measure the loss by using the fair value of the collateral less disposition costs.

  Losses on non-modified loans are charged-off in the month the loss is measured. Non-modified loans are measured for loss at the point the loan becomes 90 to 120 days delinquent or at maturity if an extension is requested. We obtain a third party appraisal to determine the fair value of the

collateral. We measure these loans for loss by using the fair value of collateral less disposition costs method and if any loss is determined it is charged off directly. Subsequently, these loans are re-evaluated at least annually by obtaining an updated third party appraisal to determine if there should be any further loss recognition.

- **General allowances** are established for loan losses on a portfolio basis for loans that do not meet the definition of impaired loans. The portfolio is grouped into similar risk characteristics, primarily loan type and regulatory classification. We apply an estimated loss rate to each loan group. The loss rates applied are based upon our loss experience adjusted, as appropriate, for the qualitative factors discussed below.

Management's periodic evaluation of the adequacy of the allowance is based on the Bank's historical loan loss experience, known and inherent losses in the portfolio, adverse situations that may affect the borrower's ability to repay, and the estimated value of any underlying collateral. The historical loss experience is further adjusted for qualitative factors which include: changes in composition of the loan portfolio, current economic conditions, trends of past due and classified loans, quality of loan review system and Board oversight, existence and effect of concentrations and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

A loan is considered past due or delinquent when a contractual payment is not paid on the day it is due. Loans are generally placed on non-accrual status when they become 120 days delinquent. We may choose to consider loans from 90 to 119 days delinquent to be non-accrual, and generally do so except where a borrower has a history of periodically bringing a loan current after being 90 days or more delinquent. If the loan is less than 90 days delinquent, but information is brought to our attention that indicates the collection of interest is doubtful, the loan will immediately be considered non-accrual. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis. If the loan is deemed collateral dependent, the impairment is measured on the net realizable value of the collateral. If loan repayment is not deemed collateral dependent, impairment is measured on the net present value of the expected discounted future cash flows.

The Bank charges off loans after the loan, or a portion of the loan is deemed to be a loss and the loss amount has been determined. The loss amount is charged to the established allowance for loan losses. Each loss is evaluated on its specific facts regarding the appropriate timing to recognize the loss.

Allowance for loan losses and recorded investment in loans for the year ended December 31, 2016 is as follows:

(Dollars in thousands)	Residential Real Estate, HELOC, and Consumer	Non-residential Real Estate	Construction and Land	Unallocated	Total
Allowance for loan losses:					
Beginning balance	$ 960	$ 194	$ 157	$ 250	$ 1,561
Charge-offs	(4)	—	(81)	—	(85)
Recoveries	—	—	—	—	—
Provisions (Reversal)	17	(36)	11	(250)	(258)
Ending balance	$ 973	$ 158	$ 87	$ —	$ 1,218
Allowance for loan losses: Ending balance: individually evaluated for impairment	$ 38	$ —	$ —	$ —	$ 38
Ending balance: collectively evaluated for impairment	$ 935	$ 158	$ 87	$ —	$ 1,180
Loans:					
Ending balance: individually evaluated for impairment	$ 3,772	$1,451	$2,346	$ —	$ 7,569
Ending balance: collectively evaluated for impairment	$73,023	$5,570	$2,758	$ —	$81,351

Allowance for loan losses and recorded investment in loans for the year ended December 31, 2015 is as follows:

(Dollars in thousands)	Residential Real Estate, HELOC, and Consumer	Non-residential Real Estate	Construction and Land	Unallocated	Total
Allowance for loan losses:					
Beginning balance	$ 1,228	$ 79	$ 174	$250	$ 1,731
Charge-offs	(22)	(247)	(106)	—	(375)
Recoveries	29	5	170	—	204
Provisions (Reversal)	(275)	357	(81)	—	1
Ending balance	$ 960	$ 194	$ 157	$250	$ 1,561
Allowance for loan losses: Ending balance: individually evaluated for impairment	$ 46	$ —	$ —	$ —	$ 46
Ending balance: collectively evaluated for impairment	$ 914	$ 194	$ 157	$250	$ 1,515
Loans:					
Ending balance: individually evaluated for impairment	$ 3,189	$1,299	$1,971	$ —	$ 6,459
Ending balance: collectively evaluated for impairment	$79,265	$6,991	$2,864	$ —	$89,120

Credit risk profile by internally assigned classification as of December 31, 2016 is as follows:

(Dollars in thousands)	Residential Real Estate, HELOC, and Consumer	Non-residential Real Estate	Construction and Land	Total
Non-classified	$71,147	$5,653	$2,791	$79,591
Special mention	3,005	159	87	3,251
Substandard	2,643	1,209	2,226	6,078
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	$76,795	$7,021	$5,104	$88,920

Credit risk profile by internally assigned classification as of December 31, 2015 is as follows:

(Dollars in thousands)	Residential Real Estate, HELOC, and Consumer	Non-residential Real Estate	Construction and Land	Total
Non-classified	$79,697	$7,156	$2,863	$89,716
Special mention	1,481	—	94	1,575
Substandard	1,276	1,134	1,878	4,288
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	$82,454	$8,290	$4,835	$95,579

- **Special Mention** — A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not considered adversely classified in accordance with regulatory guidelines and do not expose an institution to sufficient risk to warrant adverse classification.

- **Substandard** — Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. These loans include non-accrual loans between 90 to 180 days that may not be individually evaluated for impairment.

- **Doubtful** — Loans classified Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

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

Impaired loans as of and for the year ended December 31, 2016 is as follows:

(Dollars in thousands)	Residential Real Estate, HELOC, and Consumer	Non-residential Real Estate	Construction and Land	Total
With no related allowance recorded:				
Recorded investment	$2,633	$1,451	$2,346	$6,430
Unpaid principal balance	2,971	1,665	3,512	8,148
Average recorded investment, for the twelve months ended December 31, 2016	2,522	1,353	2,309	6,184
Interest income recognized	166	45	122	333
Interest income foregone	11	18	7	36
With an allowance recorded:				
Recorded investment	1,139	—	—	1,139
Unpaid principal balance	1,140	—	—	1,140
Related allowance	38	—	—	38
Average recorded investment, for the twelve months ended December 31, 2016	1,151	—	—	1,151
Interest income recognized	792	—	—	792
Interest income foregone	50	—	—	50
Total				
Recorded investment	3,772	1,451	2,346	7,569
Unpaid principal balance	4,111	1,665	3,512	9,288
Related allowance	38	—	—	38
Average recorded investment, for the twelve months ended December 31, 2016	3,673	1,353	2,309	7,335
Interest income recognized	958	45	122	1,125
Interest income foregone	61	18	7	86

Impaired loans as of and for the year ended December 31, 2015 is as follows:

(Dollars in thousands)	Residential Real Estate, HELOC, and Consumer	Non-residential Real Estate	Construction and Land	Total
With no related allowance recorded:				
Recorded investment	$2,199	$1,299	$1,971	$5,469
Unpaid principal balance	2,528	1,570	3,048	7,146
Average recorded investment, for the twelve months ended December 31, 2015	3,321	1,766	2,176	7,263
Interest income recognized	270	44	104	418
Interest income foregone	39	28	7	74
With an allowance recorded:				
Recorded investment	990	—	—	990
Unpaid principal balance	990	—	—	990
Related allowance	46	—	—	46
Average recorded investment, for the twelve months ended December 31, 2015	880	—	—	880
Interest income recognized	33	—	—	33
Interest income foregone	—	—	—	—
Total				
Recorded investment	3,189	1,299	1,971	6,459
Unpaid principal balance	3,518	1,570	3,048	8,136
Related allowance	46	—	—	46
Average recorded investment, for the twelve months ended December 31, 2015	4,201	1,766	2,176	8,143
Interest income recognized	303	44	104	451
Interest income foregone	39	28	7	74

An aged analysis of past due loans as of December 31, 2016 are as follows:

(Dollars in thousands)	Residential Real Estate, HELOC, and Consumer	Non-residential Real Estate	Construction and Land	Total
Current	$74,773	$6,912	$3,312	$84,997
30 – 59 days past due	908	—	1,792	2,700
60 – 89 days past due	433	—	—	433
Greater than 90 day past due and still accruing	—	—	—	—
Greater than 90 days past due	681	109	—	790
Total past due	2,022	109	1,792	3,923
Total	$76,795	$7,021	$5,104	$88,920

An aged analysis of past due loans as of December 31, 2015 are as follows:

(Dollars in thousands)	Residential Real Estate, HELOC, and Consumer	Non-residential Real Estate	Construction and Land	Total
Current	$81,278	$8,187	$4,796	$94,261
30 – 59 days past due	910	—	39	949
60 – 89 days past due	6	—	—	6
Greater than 90 day past due and still accruing	—	—	—	—
Greater than 90 days past due	260	103	—	363
Total past due	1,176	103	39	1,318
Total	$82,454	$8,290	$4,835	$95,579

Non-performing loans as of December 31, 2016 are as follows:

(Dollars in thousands)	Residential Real Estate, HELOC, and Consumer	Non-residential Real Estate	Construction and Land	Total
Non-accruing troubled debt restructured loans	$ 565	$1,020	$ 33	$1,618
Other non-accrual loans	541	—	—	541
Total non-accrual loans	1,106	1,020	33	2,159
Accruing troubled debt restructured loans	1,172	348	1,760	3,280
Total	$2,278	$1,368	$1,793	$5,439

Non-performing loans as of December 31, 2015 are as follows:

(Dollars in thousands)	Residential Real Estate, HELOC, and Consumer	Non-residential Real Estate	Construction and Land	Total
Non-accruing troubled debt restructured loans	$ 430	$1,097	$ 39	$1,566
Other non-accrual loans	294	—	—	294
Total non-accrual loans	724	1,097	39	1,860
Accruing troubled debt restructured loans	1,657	202	1,838	3,697
Total	$2,381	$1,299	$1,877	$5,557

Troubled debt restructurings ("TDRs") are modifications of loans to assist borrowers who are unable to meet the original terms of their loans, in an effort to minimize the potential loss on the loan. Modifications of the loan terms includes but is not necessarily limited to: reduction of interest rates, forgiveness of all or a portion of principal or interest, extension of loan term or other modifications at interest rates that are less than the current market rate for new obligations with similar risk. If a loan is in non-accrual status at the time we restructure it and classify the restructure as a troubled debt restructuring, it is our policy to maintain the loan as nonaccrual until we receive six consecutive payments under the restructured terms. TDR loans that are in compliance with their modified terms and that yield a market rate may be removed from the TDR status after a period of one year.

The following includes loans classified as troubled debt restructurings during the year ended December 31, 2016.

(Dollars in thousands)	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Residential real estate and consumer	2	$347	$347
Non-residential real estate	—	—	—
Construction and land	—	—	—
Total	2	$347	$347

The following includes loans classified as troubled debt restructurings during the year ended December 31, 2015.

(Dollars in thousands)	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Residential real estate and consumer	9	$1,328	$1,328
Non-residential real estate	—	—	—
Construction and land	—	—	—
Total	9	$1,328	$1,328

During the years ended December 31, 2016 and 2015, no loans classified as troubled debt restructurings subsequently defaulted.

Loans serviced by the Bank for the benefit of others totaled $422,000 and $434,000 at December 31, 2016 and 2015, respectively.

Consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure totaled $0 and $230,000 as of December 31, 2016 and 2015.

4. PROPERTY AND EQUIPMENT

Property and equipment is summarized by major classification as follows at:

(Dollars in thousands)	December 31, 2016	December 31, 2015
Land	$1,018	$1,018
Buildings	4,346	4,346
Furniture, fixtures and equipment	983	966
	6,347	6,330
Less accumulated depreciation and amortization	2,670	2,537
Total property and equipment	$3,677	$3,793

Depreciation expense for the years ended December 31, 2016 and 2015 was $133,000 and $140,000, respectively.

On September 18, 2015, the Bank sold the property located at Old Eastern Avenue, Essex, MD 21221 for $10,000. Upon settlement, the Bank realized a gain of $8,000.

The Bank is obligated under long-term operating leases for one of its branches. Rental expense under these agreements was approximately $92,000 and $87,000 for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016, the minimum rental commitments under the non-cancelable operating leases are as follows:

Year Ending December 31:	
2017	$ 79,967
2018	82,366
2019	84,837
2020	87,383
2021	90,004
2022	61,346
	$485,903

5. OTHER REAL ESTATE OWNED

The balance in other real estate owned at December 31, 2016 and 2015 was $0.

The activity in residential other real estate owned is as follows:

(Dollars in thousands)	December 31, 2016	December 31, 2015
Beginning balance	$ —	$ 379
Additions	—	—
Transfers from Loans	—	—
Transfers to Loans	—	(41)
Sales	—	(180)
Provisions	—	(158)
Ending balance	$ —	$ —

6. DEPOSITS

Deposits are summarized as follows:

(Dollars in thousands)	December 31, 2016	December 31, 2015
Non-interest-bearing deposits	$ 1,415	$ 1,758
NOW and Money market	21,241	20,591
Savings	13,811	14,721
Certificates of deposit	56,548	55,622
Total deposits	$93,015	$92,692

The aggregate amount of time deposits in denominations of $250,000 or more as of December 31, 2016 and 2015 was $2,724,000 and $1,575,000, respectively. Deposit amounts in excess of $250,000 generally are not insured by the Federal Deposit Insurance Corporation.

At December 31, 2016, the schedule maturities of certificates of deposit are as follows:

(Dollars in thousands)	
2017	$22,966
2018	12,046
2019	7,433
2020	6,576
2021	7,527
2022	—
Total	$56,548

Executive officers' and directors' deposits were $237,000 and $609,000 at December 31, 2016 and 2015, respectively.

7. INCOME TAXES

The sources of deferred tax assets and liabilities and the tax effect of each are as follows:

(Dollars in thousands)	December 31, 2016	December 31, 2015
Deferred tax assets:		
Deferred loan fees and costs, net	$ 12	$ 5
Allowance for credit losses	481	616
Deferred compensation	67	97
Severance payments	170	—
Restricted stock awards	2	—
Allowance for ground rents	56	54
Allowance for delinquent mortgage interest	141	149
Contribution carryforward	2	2
Net operating loss carryforward	1,831	1,442
Unrealized loss on available-for-sale securities	—	7
Total deferred tax assets	2,762	2,372
Valuation allowance	(2,608)	(1,442)
Deferred tax assets after valuation allowance	154	930
Deferred tax liabilities:		
Depreciation	130	128
ESOP	24	9
Total deferred tax liabilities	154	137
Net deferred tax assets	$ —	$ 793

Management evaluates deferred tax assets annually.

The provision for income taxes is comprised of the following:

	Year Ended December 31	
(Dollars in thousands)	2016	2015
Tax expense (benefit):		
Current federal and state	$ (15)	$ (9)
Deferred tax	786	343
Total	$771	$334

A reconciliation of the provision for income taxes at the statutory federal tax rates to the Bank's actual provision for income taxes is as follows:

	12 Months Ended December 31, 2016	12 Months Ended December 31, 2015
Computed at federal statutory rates	(34.0)%	(34.0)%
State income taxes, net of federal tax benefit	0.0	0.0
Bank-owned life insurance income	(1.2)	(2.4)
Nondeductibles	0.9	1.3
Valuation allowance	111.7	81.6
Other	1.3	1.1
Total	78.7%	47.6%

The amount of loss carryforwards available for any one year may be limited if the Bank is subject to the alternative minimum tax.

At December 31, 2016, the Bank had approximately $4,600,000 in federal and state net operating loss carryforwards. These net operating loss carryforwards begin to expire in 2032. Realization depends on generating sufficient taxable income before the expiration of the loss carryforward period. The amount of the loss carryforward available for any one year may be limited if the Bank is subject to the alternative minimum tax.

Valuation allowance for deferred taxes for the years ended December 31, 2016 and 2015 is as follows:

(Dollars in thousands)	Valuation Allowance
Balance of January 1, 2015	$ (843)
Expiration of capital loss carryforwards	2
Increase in valuation allowance	(601)
Balance of December 31, 2015	$(1,442)
Expiration of capital loss carryforwards	—
Increase in valuation allowance	(1,166)
Balance of December 31, 2016	$(2,608)

As of December 31, 2015 and December 31, 2016, the Bank had remained in a cumulative loss position for three consecutive years and consequently management reevaluated the need for a valuation allowance of the deferred tax asset balance. Management's evaluation included: management's ability to fully implement our strategic plan, which included the ability to raise capital through the proposed public stock offering; additional expenses expected to be incurred as the result of becoming a public company; and the ability to generate sufficient taxable income to fully realize the Bank's net operating loss carryforwards. As of December 31, 2016, management concluded that it is more likely than not the Bank will be unable to generate sufficient taxable income in the foreseeable future to fully utilize the cumulative net operating loss carryforward and, therefore, established a valuation allowance to offset the entire deferred tax asset.

8. FEDERAL HOME LOAN BANK ADVANCES

Fixed-rate borrowings from the Federal Home Loan Bank are as follows:

(Dollars in thousands)	Interest Rate	December 31, 2016	December 31, 2015
July 27, 2016	5.07%	$ —	$ 2,000
October 3, 2016	4.30	—	2,000
January 20, 2017	0.61	6,000	—
February 27, 2017	4.397	1,000	1,000
August 1, 2017	4.2675	—	2,000
September 14, 2017	3.65	—	5,000
		$7,000	$12,000

All advances are collateralized by a blanket-floating lien on one-to four-family residential mortgage loans.

The Bank has a $2,500,000 line of credit with a correspondent bank and access to the Federal Reserve Bank Discount Window. As of December 31, 2016 and 2015, there was nothing outstanding on the credit facility.

9. RETIREMENT PLANS

In 2005, the Bank instituted a 401(k) Plan covering substantially all of its employees. The Bank recorded expense of $45,000 and $52,000 for the years ended December 31, 2016 and December 31, 2015, respectively. The amounts contributed to the 401(k) were included in expense for the periods reported. The Board of Directors authorizes the 3% Safe Harbor contributed annually. The Board may also authorize a discretionary profit sharing contribution, but has not done so since 2005.

10. EMPLOYEE STOCK OWNERSHIP PLAN

In connection with the Bank's mutual to stock conversion, the Bank established the Madison Bank of Maryland Employee Stock Ownership Plan ("ESOP") effective January 1, 2014. The ESOP is a tax-qualified defined contribution plan that is designed to invest primarily in employer stock. All employees who are age 18 or older and were employed by the Bank as of December 29, 2014 (the closing date of the Company's initial public offering) became participants in the ESOP as of the later of January 1, 2014 or their date of hire. Individuals employed by the Bank after December 29, 2014, must complete one year of service with the Bank before they can commence participation in the ESOP.

The ESOP purchased 169,280 shares of Company common stock in the Company's initial public offering at $10.00 per share with the proceeds of a fifteen (15) year loan from the Company. The outstanding loan principal balance was $1.5 million and $1.6 million at December 31, 2016 and 2015. The Bank makes annual contributions to the ESOP equal to the principal and interest due on the loan. Any dividends declared on Company common stock held by the ESOP and not allocated to the account of a participant can be used to repay the loan. As the ESOP loan is repaid, shares of Company common stock pledged as collateral for the loan are released from the loan suspense account for allocation to Plan participants on the basis of each active participant's proportional share of compensation. Participants vest in their ESOP allocations at the rate of 20% per year over a five-year period. However, in connection with the implementation of the ESOP, participants were given credit for past service with the Bank for vesting purposes. Participants will become fully vested upon age 65, death or disability, a change in control, or termination of the ESOP. Generally, participants will receive distributions from the ESOP upon separation from service. The plan reallocates any unvested shares of common stock forfeited upon termination of employment among the remaining participants in the plan.

The ESOP compensation expense for the years ended December 31, 2016 and 2015 was $150,000 and $136,000, respectively. This amount represents the average fair market value of the shares of Company common stock allocated or committed to be released as of that date. Dividends, if any, on allocated shares are recorded as a reduction of retained earnings and dividends, if any, on unallocated shares are recorded as a reduction of the debt service.

The ESOP shares were as follows as of December 31, 2016 and 2015:

(Dollars in thousands, except per share amount)	December 31, 2016	December 31, 2015
Shares released and allocated	23,510	12,225
Unearned shares	145,770	157,055
	169,280	169,280
Fair value of unearned shares	$ 2,157	$ 2,117

11. STOCK-BASED COMPENSATION

In May 2016, the Company's shareholders approved a new Equity Incentive Plan (the "2016 Equity Incentive Plan"). The 2016 Equity Incentive Plan allows for up to 84,640 shares to be issued to employees, executive officers or Directors in the form of restricted stock, and up to 211,600 shares to be issued to employees, executive officers or Directors in the form of stock options. At December 31, 2016, there were 2,500 restricted stock awards issued and outstanding and no stock option awards granted under the 2016 Equity Incentive Plan.

Permissible Awards:

Under the above plan, the following are permissible awards:

- Options to purchase shares of the Company common stock, which may either be non-qualified stock options or incentive stock options under Section 422 of the U.S. Internal Revenue Code of 1986, as amended;
- Restricted stock grants, which may be subject to restrictions on transferability and forfeiture; and
- All awards may be granted with time-based or performance-based vesting.

Restricted Stock:

The specific terms of each restricted stock award are determined by the Compensation Committee at the date of the grant. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at the grant date.

A summary of changes in the Company's nonvested shares for the year is as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2016	—	$ —
Granted	2,500	13.40
Vested	—	—
Forfeited	—	—
Nonvested at December 31, 2016	2,500	$13.40
Fair Value of shares vested		$ —

The following table outlines the vesting schedule of the nonvested restricted stock awards as of December 31, 2016:

Year Ending December 31,	Number of restricted shares
2017	1,250
2018	1,250
	2,500

The Company recorded restricted stock awards expense of $4,188 for the year ended December 31, 2016. As of December 31, 2016, there was $29,312 of total unrecognized compensation cost related to nonvested shares granted under the 2016 stock incentive plan. The cost is expected to be recognized over a weighted-average period of 1.75 years.

12. RELATED PARTY TRANSACTIONS

Certain directors and executive officers have loan transactions with the Bank. Such loans were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with outsiders. The following schedule summarizes changes in amounts of loans outstanding, both direct and indirect, to these persons during 2016 and 2015:

(Dollars in thousands)	12 Months Ended December 31, 2016	12 Months Ended December 31, 2015
Balance at beginning of period	$ 923	$955
Additions	—	—
Repayments	(38)	(32)
Change in status	(120)	—
Balance at end of period	$ 765	$923

13. REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory — and possibly additional discretionary — actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain amounts and ratios (set forth in the table below) of Total and Common Equity and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets. Management believes as of December 31, 2016 and 2015 that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events that management believes will adversely affect the Bank's ability to remain in the well-capitalized category.

The following table presents the Bank's capital position based on the December 31, 2016 and 2015 financial statements and the current capital requirements:

(Dollars in thousands)	Actual		Minimum Requirements for Capital Adequacy Purposes and to be Adequately Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio
As of December 31, 2016:				
Total risk-based capital (to risk-weighted assets)	$24,359	37.47%	$5,606	≥8.625%
Tier I capital (to risk-weighted assets)	23,541	36.22	4,306	≥6.625
Tier I capital (to adjusted total assets)	23,541	17.44	5,400	≥4.00
Common equity tier 1 capital (to risk weighted assets)	23,541	36.22	3,331	≥5.125
As of December 31, 2015:				
Total risk-based capital (to risk-weighted assets)	$25,897	36.11%	$5,737	≥8.0%
Tier I capital (to risk-weighted assets)	24,993	34.85	4,303	≥6.0
Tier I capital (to adjusted total assets)	24,993	17.94	5,573	≥4.0
Common equity tier 1 capital (to risk weighted assets)	24,993	34.85	3,227	≥4.5

The following table presents a reconciliation of the Bank's GAAP capital to each major category of regulatory capital for the dates indicated.

(Dollars in thousands)	December 31, 2016	December 31, 2015
Total Company equity capital	$30,324	$34,881
LESS: Parent Only Equity	6,922	9,899
LESS: Net unrealized (losses) gains on available-for-sale securities	(139)	(11)
Tier 1 Capital	$23,541	$24,993
Tier 1 Capital	$23,541	$24,993
Allowance for loan and lease losses includible in Tier 2 capital	818	904
Total risk-based capital	$24,359	$25,897

14. OTHER COMPREHENSIVE LOSS

The following table presents the components of other comprehensive gains and losses for the years ended December 31, 2016 and 2015.

(Dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Year Ended December 31, 2016			
Net unrealized loss on securities available-for-sale	$(121)	$—	$(121)
Other Comprehensive Loss	$(121)	$—	$(121)
Year Ended December 31, 2015			
Net unrealized loss on securities available-for-sale	$ (42)	$16	$ (26)
Other Comprehensive Loss	$ (42)	$16	$ (26)

The following table presents the changes in each components of accumulated other comprehensive loss, net of tax, for the years ended December 31, 2016 and 2015.

	Securities Available-for-Sale	Accumulated Other Comprehensive Loss
Year Ended December 31, 2016		
Balance at Beginning of Year	$ (11)	$(11)
Other comprehensive loss	(128)	(73)
Balance at End of Period	$(139)	$(84)

	Securities Available-for-Sale	Accumulated Other Comprehensive Loss
Year Ended December 31, 2015		
Balance at Beginning of Year	$ 15	$ 15
Other comprehensive gain	(26)	(26)
Balance at End of Period	$(11)	$(11)

The following table presents the amount reclassified out of accumulated other comprehensive income:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income Is Presented
(Dollars in thousands)	December 31, 2016	December 31, 2015	
Redemption of Investment Securities Available-for-sale	$—	$(2)	Realized gain on redemption of investment securities
	—	1	Provision for Income Tax
	$—	$(1)	Net of Tax
Total Reclassifications for the Period	$—	$(1)	Net of Tax

15. EARNINGS PER SHARE

Basic per share amounts are based on the weighted average shares of common stock outstanding. Unearned ESOP shares are not included in outstanding shares. Diluted earnings per share assume the conversion, exercise or issuance of all potential common stock instruments such as options, warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share. The basic and diluted weighted average shares outstanding for the twelve months ended December 31, 2016 and 2015 are as follows:

	December 31, 2016		
(Dollars in thousands, except per share amount)	Income (Loss) (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS			
Net loss available to shareholders	$(1,751)	1,816,933	$(0.96)
Diluted EPS			
Effect of dilutive shares	—	—	—
Net loss available to shareholders	$(1,751)	1,816,933	$(0.96)

(Dollars in thousands, except per share amount)	December 31, 2015 Income (Loss) (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS			
Net loss available to shareholders	$(1,034)	1,952,855	$(0.53)
Diluted EPS			
Effect of dilutive shares	—	—	—
Net loss available to shareholders	$(1,034)	1,952,855	$(0.53)

There were no common stock equivalents excluded from the December 31, 2016 and 2015 diluted earnings per share calculation.

16. SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Generally accepted accounting principles require disclosure of information about certain significant estimates and current vulnerabilities due to certain concentrations. These matters include the following:

Interest Rate Risk

The profitability of the Bank is subject to interest rate risk. This risk is based on the gap between interest earned on loans and the rate of interest paid on deposits and Federal Home Loan Bank advances. A significant decrease in this gap could result in a decline in earnings to the Bank.

Geographic Location of Customers

The Bank's principal business activity of providing mortgage loans is with customers located within its lending territory which is comprised mainly of Baltimore and Harford counties, Maryland. Substantially all of the Bank's loan receivable and related incomes are collateralized by property located in this area. The Bank's policy for owner-occupied residential collateral is to require that the loan amount not exceed 80% of the appraised value of the property at origination for conventional uninsured mortgages and 95% for insured loans. A significant decline in property values in this area could result in the Bank's loans being under collateralized.

17. COMMITMENTS

At December 31, 2016 and 2015, the Bank had outstanding commitments of $1.5 million and $634,000 to originate mortgage loans and $42,000 and $0 to originate home equity lines of credit loans, respectively. The rate on the home equity line of credit was 3.00% at December 31, 2016.

18. FAIR VALUE MEASUREMENTS

ASC Topic 820 which provides a framework for measuring and disclosing fair value under GAAP. ASC Topic 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or a nonrecurring basis (for example, impaired loans).

ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Bank utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available-for-sale is recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record at fair value all other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

ASC Topic 820 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

Level 1 Inputs — Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 Inputs — Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and the yield curves that are observable at commonly quoted intervals.

Level 3 Inputs — Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Investment Securities Available-for-Sale. Investment securities available-for-sale ("AFS") is recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in illiquid markets.

Loans. The Bank does not report loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for credit loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC Topic 450 "*Contingencies*". The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2015 and December 31, 2014, substantially all of the totally impaired loans were evaluated based upon the fair value of the collateral. In accordance with ASC Topic 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

Assets measured at fair value on a recurring basis are included in the table below:

Description (Dollars in thousands)	Fair Value December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Trading Gains and (Losses)	Total Changes in Fair Values Included in Period Earnings
	Fair Value Measurements at December 31, 2016 Using:					
Investments (available-for-sale):						
Obligations of U.S. Government agencies	$ 933	$—	$ 933	$—	$—	$—
Mortgage-backed securities	2,765	—	2,765	—	—	—
Total assets measured at fair value on a recurring basis	$3,698	$—	$3,698	$—	$—	$—

Description (Dollars in thousands)	Fair Value December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Trading Gains and (Losses)	Total Changes in Fair Values Included in Period Earnings
	Fair Value Measurements at December 31, 2015 Using:					
Investments (available-for-sale):						
Obligations of U.S. Government agencies	$6,944	$—	$6,944	$—	$—	$—
Mortgage-backed securities	1,536	—	1,536	—	—	—
Total assets measured at fair value on a recurring basis	$8,480	$—	$8,480	$—	$—	$—

The Bank may be required from time to time, to measure certain assets at fair value on a non-recurring basis in accordance with GAAP. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below:

Description (Dollars in thousands)	Fair Value December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Trading Gains and (Losses)	Total Changes in Fair Values Included in Period Earnings
	Fair Value Measurements at December 31, 2016 Using:					
Impaired loans:						
Residential	$3,734	$—	$2,633	$1,101	$—	$—
Commercial	1,451	—	1,451	—	—	—
Land	2,346	—	2,346	—	—	—
Construction	—	—	—	—	—	
Other real estate owned	—	—	—	—	—	—
Total assets measured at fair value on a non-recurring basis	$7,531	$—	$6,430	$1,101	$—	$—

The significant unobservable inputs (Level 3) are determined by using the net present value of the expected discounted future cash flows methodology. Loans were modified based on the expected cash flows with modified terms and rates ranging from 3.00% to 4.00% discounted at contractual rates ranging from 5.25% to 7.375%.

Description (Dollars in thousands)	Fair Value Measurements at December 31, 2015 Using:					
	Fair Value December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Trading Gains and (Losses)	Total Changes in Fair Values Included in Period Earnings
Impaired loans:						
Residential	$3,143	$—	$2,199	$944	$—	$ —
Commercial	1,299	—	1,299	—	—	—
Land	1,971	—	1,971	—	—	—
Construction	—	—	—	—	—	—
Other real estate owned	—	—	—	—	—	(158)
Total assets measured at fair value on a non-recurring basis	$6,413	$—	$5,469	$944	$—	$(158)

The significant unobservable inputs (Level 3) are determined by using the net present value of the expected discounted future cash flows methodology. Loans were modified based on the expected cash flows with modified terms and rates ranging from 3.00% to 4.00% discounted at contractual rates ranging from 5.00% to 7.375%.

In accordance with the disclosure requirements of ASC Topic 825, the estimated fair values of financial instruments at December 31, 2016 and 2015 are as follows:

(Dollars in thousands)	Carrying Value December 31, 2016	Fair Value December 31, 2016	Quoted Prices In Active Markets For Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
ASSETS					
Cash, interest bearing deposits and federal funds sold	$ 5,399	$ 5,399	$—	$ 5,399	$ —
Other interest bearing deposits in other banks	11,090	11,090	—	11,090	—
Investment securities	22,516	21,969	—	21,969	—
Federal Home Loan Bank stock	418	418	—	418	—
Loans, net	86,030	85,525	—	6,430	79,095
Bank owned life insurance	931	931	—	931	—
Accrued interest receivable	356	356	—	356	—
LIABILITIES					
Deposits	$93,015	$90,912	$—	$ —	$90,912
FHLB advances	7,000	7,005	—	—	7,005

(Dollars in thousands)	Carrying Value December 31, 2015	Fair Value December 31, 2015	Quoted Prices In Active Markets For Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
ASSETS					
Cash, interest bearing deposits and federal funds sold	$ 2,924	$ 2,924	$—	$ 2,924	$ —
Other interest bearing deposits in other banks	19,107	19,128	—	19,128	—
Investment securities	17,625	17,775	—	7,775	—
Federal Home Loan Bank stock	688	688	—	688	—
Loans, net	93,125	90,004	—	5,469	84,535
Bank owned life insurance	896	896	—	896	—
Accrued interest receivable	324	324	—	324	—
LIABILITIES					
Deposits	$92,692	$89,354	$—	$ —	$89,354
FHLB advances	12,000	12,400	—	—	12,400

The following methods and assumptions were used to estimate the fair value disclosures for financial instruments as of December 31, 2016 and 2015:

Cash, Interest-Bearing Deposits and Federal Funds Sold and Other Interest-Bearing Deposits in Other Banks

The amounts reported in the balance sheet approximate the fair value of these assets.

Investment Securities

The fair values are based on the quoted market prices, if available. If quoted prices are not available, fair value is measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

Federal Home Loan Bank Stock

The par value of Federal Home Loan Bank stock report on the balance sheet is a reasonable estimate of fair value.

Accrued Interest Receivable

The amounts reported in the balance sheet approximate the fair value of these assets.

Loans, Deposits and Federal Home Loan Bank Advances

Loans receivable were discounted using a single discount rate, comparing the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of demand deposits, savings accounts and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered on deposits of similar remaining maturities. The fair value of Federal Home Loan Bank advances is estimated using rates currently offered on advances of similar remaining maturities.

Bank-Owned Life Insurance

The amounts reported in the balance sheet approximate the fair value of these assets.

Impact of Recent Accounting Pronouncements

In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any

entity that either enters into contract with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The amendments in this update are effective for interim and annual reporting periods beginning after December 15, 2016. In July 2015, the FASB voted to approve deferring the effective date by one year (i.e., interim and annual reporting periods beginning after December 15, 2017). We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

In January 2016, FASB issued *ASU 2016-1, "No. 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities".* ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-1 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

In February 2016, FASB issued ASU-2016-02, "*Leases (Topic 842).*" The guidance requires that a lessee recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right of use asset representing its right to use the underlying asset for the lease term. For finance leases: the right-of-use asset and a lease liability will be initially measured at the present value of the lease payments, in the statement of financial position; interest on the lease liability will be recognized separately from amortization of the right-of-use asset in the statement of comprehensive income; and repayments of the principal portion of the lease liability will be classified within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. For operating leases: the right-of-use asset and a lease liability will be initially measured at the present value of the lease payments, in the statement of financial position; a single lease cost will be recognized, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and all cash payments will be classified within operating activities in the statement of cash flows. Under Topic 842 the accounting applied by a lessor is largely unchanged from that applied under previous GAAP. The amendments in Topic 842 are effective for the Company beginning January 1, 2019, including interim periods within that fiscal year. We are currently evaluating the impact of adopting the new guidance of the consolidated financial statements.

In June 2016, FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU changed the credit loss model on financial instruments measured at amortized cost, available for sale securities and certain purchased financial instruments. Credit losses on financial instruments measured at amortized cost will be determined using a current expected credit loss model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts. This places the existing incurred loss model and is applicable to the

measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. Purchased financial assets with more-than-insignificant credit deterioration since origination ("PCD assets") measured at amortized cost will have an allowance for credit losses established at acquisition as part of the purchase price. Subsequent increases or decreases to the allowance for credit losses on PCD assets will be recognized in the income statement. Interest income should be recognized on PCD assets based on the effective interest rate, determined excluding the discount attributed to credit losses at acquisition. Credit losses relating to available-for-sale debt securities will be recognized through an allowance for credit losses. The amount of the credit loss is limited to the amount by which fair value is below amortized cost of the available-for-sale debt security. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted and if early adopted, all provisions must be adopted in the same period. The amendments should be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the period adopted. A prospective approach is required for securities with other-than-temporary impairment recognized prior to adoption. The Company is still reviewing the impact the adoption of this guidance, but expects the allowance for credit losses to increase upon adoption with a corresponding adjustment to retained earnings. The ultimate amount of the increase will depend on the portfolio composition, credit quality, economic conditions and reasonable and supportable forecasts at that time.

19. PARENT COMPANY ONLY FINANCIAL STATEMENTS

Presented below are the condensed balance sheets, statements of operations and statements of cash flows for MB Bancorp, Inc. for the years ended December 31, 2016 and 2015.

CONDENSED BALANCE SHEET

ASSETS

(Dollars in thousands)	As of December 31, 2016	As of December 31, 2015
ASSETS:		
Cash and due from banks	$ 3,360	$ 2,446
Other interest-bearing deposits in other banks	2,241	5,967
Loans receivable – ESOP	1,458	1,571
Investment in bank subsidiary	23,275	24,922
Other assets	1	2
TOTAL ASSETS	$30,335	$34,908
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Other liabilities	$ 11	$ 27
Total liabilities	11	27
STOCKHOLDERS' EQUITY:		
Common stock .01 par value; authorized 19,000,000 shares; issued 1,902,900 and 2,116,000 shares at December 31, 2016 and 2015, respectively	19	21
Additional paid-in capital	18,132	20,158
Retained earnings – substantially restricted	13,770	16,284
Accumulated other comprehensive (loss) income	(139)	(11)
Employee stock ownership plan	(1,458)	(1,571)
Total stockholders' equity	30,324	34,881
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$30,335	$34,908

CONDENSED STATEMENT OF OPERATIONS

(Dollars in thousands)	For the Years Ended December 31, 2016	2015
INCOME:		
Interest on ESOP loan	$ 51	$ 55
Interest and dividends on investment securities	39	49
Total income	90	104
EXPENSE:		
Interest on stock purchase refund	—	—
Salaries and employee benefits	11	7
Legal and professional expenses	77	116
Advertising and marketing related expenses	3	1
Other expenses	159	134
Total expenses	250	258
LOSS BEFORE EQUITY IN LOSS OF BANK SUBSIDIARY	(160)	(154)
Equity in net loss of bank subsidiary	(1,591)	(880)
NET LOSS	$(1,751)	$(1,034)

CONDENSED STATEMENT OF CASH FLOWS

(Dollars in thousands)	For the Years Ended December 31, 2016	December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(1,751)	$(1,034)
Adjustment to reconcile net loss to net cash used in operating activities:		
Equity in undistributed net loss	1,591	880
Increase in accrued interest and other assets	36	74
Decrease in accounts payable and other liabilities	(16)	(18)
Net cash used in operating activities	(108)	(98)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease (increase) in other interest bearing deposits in other banks	3,726	(5,967)
Net decrease in loan-ESOP	113	113
Investment in bank subsidiary	—	—
Net cash provided by (used in) investing activities	3,839	(5,854)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	(2,817)	—
Purchase of Employee Stock Ownership Plan	—	—
Net cash used in financing activities	(2,817)	—
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	914	(5,952)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,446	8,398
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,360	$ 2,446
Supplemental cash flow information:		
Interest paid	$ —	$ —
Income taxes paid	$ —	$ —

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BOARD OF DIRECTORS

Philip P. Phillips
President and
Chief Executive Officer
MB Bancorp, Inc. and
Madison Bank of Maryland

Douglas S. Wilson
Chairman of the Board
MB Bancorp, Inc. and
Madison Bank of Maryland
Certified Public Accountant
Douglas S. Wilson &
Company

David A. Klunk
President
Community Environmental
Laboratories and
R&T Technologies, Inc.

Barry A. Kuhne
Owner/President
Signature Healthcare, Inc. and
Owner
Benefit Systems Management

Michael Nobile
General Manager
Harley-Davidson of
Williamsport

Randall S. Pace
Executive Vice President
CallisonRTKL

William D. Schmidt, Sr.
Retired

Louis J. Vigliotti
Retired

Nicole N. Glaeser
Budget Director
Balt. County Police Department

EXECUTIVE OFFICERS

Philip P. Phillips
President and
Chief Executive Officer

Lisa M. McGuire-Dick
Senior Vice President and
Secretary

John M. Wright
Executive Vice President and
Chief Financial Officer

OFFICE LOCATIONS

Corporate Office
1920 Rock Spring Road
Forest Hill, Maryland 21050

Perry Hall Branch
8639 Belair Road
Baltimore, Maryland 21236

Aberdeen Branch
501 S. Stepney Road
Aberdeen, Maryland 21001

CORPORATE INFORMATION

Independent Registered Public Accounting Firm
Dixon Hughes Goodman LLP
Suite 100
405 East Joppa Road
Baltimore, MD 21286

Transfer Agent and Registrar
Computershare
Shareholder Services
P.O. Box 30170
College Station, TX 77842-3170
1-(866)-289-7521

Shareholder Website:
www.computershare.com/investor

Special Counsel
Kilpatrick Townsend &
Stockton LLP
607 14th Street, NW, Suite 900
Washington, DC 20005

Annual Meeting
The 2017 Annual Meeting of Shareholders will be held on Tuesday, May 23, 2017 at 12:00 p.m. at Madison Bank of Maryland's corporate office located at 1920 Rock Spring Road, Forest Hill, MD 21050.

Annual Report on Form 10-K

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission, will be furnished without charge to shareholders as of the record date for the 2017 Annual Meeting upon written request to Lisa M. McGuire-Dick, Corporate Secretary, MB Bancorp, Inc., 1920 Rock Spring Road, Forest Hill, MD 21050.

MB
Bancorp, Inc.