

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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2019

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File No. 000-55898**

**SSB Bancorp, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

**Maryland**

(State or Other Jurisdiction of  
Incorporation or Organization)

**82-2776224**

(I.R.S. Employer  
Identification No.)

**8700 Perry Highway  
Pittsburgh, Pennsylvania**

(Address of Principal Executive Offices)

**15237**

(Zip Code)

**(412) 837-6955**

(Registrant's Telephone Number, Including Area Code)

**N/A**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
---------------------	-------------------	---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

YES  NO

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

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

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

As of November 13, 2019, there were 2,259,265 outstanding shares of the registrant's common stock, of which 1,236,538 shares are owned by SSB Bancorp, MHC.

---

---

**SSB Bancorp, Inc.**  
**Form 10-Q**

Table of Contents

	Page
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. <a href="#">Financial Statements (unaudited)</a>	3
<a href="#">Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018</a>	3
<a href="#">Consolidated Statements of Net Income for the Three Months Ended September 30, 2019 and 2018, and the Nine Months Ended September 30, 2019 and 2018</a>	4
<a href="#">Consolidated Statements of Comprehensive Income for the Three Months Ended September 30, 2019 and 2018, and the Nine Months Ended September 30, 2019 and 2018</a>	5
<a href="#">Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2019</a>	6
<a href="#">Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2019 and 2018</a>	7
<a href="#">Notes to Consolidated Financial Statements</a>	8
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	35
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	48
Item 4. <a href="#">Controls and Procedures</a>	48
<b>PART II. OTHER INFORMATION</b>	
Item 1. <a href="#">Legal Proceedings</a>	50
Item 1A. <a href="#">Risk Factors</a>	50
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	50
Item 3. <a href="#">Defaults Upon Senior Securities</a>	50
Item 4. <a href="#">Mine Safety Disclosures</a>	50
Item 5. <a href="#">Other Information</a>	50
Item 6. <a href="#">Exhibits</a>	51
<a href="#">SIGNATURES</a>	52

**Item 1. Financial Statements**

SSB Bancorp, Inc.  
CONSOLIDATED BALANCE SHEETS

	September 30, 2019 (unaudited)	December 31, 2018
<b>ASSETS</b>		
Cash and due from banks	\$ 4,446,227	\$ 2,428,542
Interest-bearing deposits with other financial institutions	14,787,332	6,605,528
Cash and cash equivalents	19,233,559	9,034,070
Certificates of deposit	2,715,000	846,000
Securities available for sale	8,534,477	9,068,101
Securities held to maturity (fair value of \$4,576, and \$6,478, respectively)	4,516	6,394
Loans	160,367,383	159,654,582
Allowance for loan losses	(1,159,457)	(1,124,925)
Net loans	159,207,926	158,529,657
Accrued interest receivable	676,076	639,474
Federal Home Loan Bank stock, at cost	2,845,700	2,651,400
Premises and equipment, net	4,273,736	4,335,514
Bank-owned life insurance	2,478,126	2,429,014
Deferred tax asset, net	289,357	312,623
Other assets	924,655	940,098
<b>TOTAL ASSETS</b>	<b>\$ 201,183,128</b>	<b>\$ 188,792,345</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing demand	\$ 6,195,773	\$ 5,698,782
Interest-bearing demand	17,545,696	8,386,431
Money market	29,327,879	16,020,446
Savings	1,470,317	12,883,970
Time	93,489,172	93,119,137
<b>Total deposits</b>	<b>148,028,837</b>	<b>136,108,766</b>
Federal Home Loan Bank advances	31,374,500	31,374,500
Advances by borrowers for taxes and insurance	392,224	685,195
Accrued interest payable	286,541	255,486
Other liabilities	349,082	49,311
<b>TOTAL LIABILITIES</b>	<b>180,431,184</b>	<b>168,473,258</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred Stock: \$0.01 par value per share: 5,000,000 shares authorized and no shares issued or outstanding	-	-
Common Stock: 20,000,000 shares authorized and 2,249,168 shares issued and outstanding at \$0.01 par value	22,492	22,483
Paid-in capital	8,698,407	8,692,971
Retained earnings	12,822,337	12,515,501
Unearned Employee Stock Ownership Plan (ESOP)	(804,196)	(837,245)
Accumulated other comprehensive loss	12,904	(74,623)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>20,751,944</b>	<b>20,319,087</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 201,183,128</b>	<b>\$ 188,792,345</b>

See accompanying notes to the consolidated financial statements.



SSB Bancorp, Inc.  
CONSOLIDATED STATEMENTS OF NET INCOME

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(unaudited)		(unaudited)	
<b>INTEREST INCOME</b>				
Loans, including fees	\$ 1,927,847	\$ 1,683,360	\$ 5,599,418	\$ 4,771,307
Interest-bearing deposits with other financial institutions	64,691	25,985	225,805	59,892
Certificates of deposit	18,795	3,801	29,993	11,295
Investment securities:		-		-
Taxable	88,971	66,977	284,799	153,804
Exempt from federal income tax	6,880	8,202	22,389	25,081
Total interest income	<u>2,107,184</u>	<u>1,788,325</u>	<u>6,162,404</u>	<u>5,021,379</u>
<b>INTEREST EXPENSE</b>				
Deposits	738,586	578,042	2,155,630	1,551,743
Federal Home Loan Bank advances and other bank obligations	225,762	177,220	647,510	486,861
Total interest expense	<u>964,348</u>	<u>755,262</u>	<u>2,803,140</u>	<u>2,038,604</u>
<b>NET INTEREST INCOME</b>	1,142,836	1,033,063	3,359,264	2,982,775
Provision for loan losses	53,000	50,000	148,500	115,000
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<u>1,089,836</u>	<u>983,063</u>	<u>3,210,764</u>	<u>2,867,775</u>
<b>NONINTEREST INCOME</b>				
Securities gains, net	-	-	50,593	-
Gain on sale of loans	85,485	62,873	221,946	157,552
Loan servicing fees	42,485	35,047	122,162	103,876
Earnings on bank-owned life insurance	16,549	18,110	49,112	53,368
Other	13,862	18,632	45,409	46,327
Total noninterest income	<u>158,381</u>	<u>134,662</u>	<u>489,222</u>	<u>361,123</u>
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	518,544	458,104	1,579,202	1,285,699
Occupancy	94,440	93,123	294,278	280,232
Professional fees	167,427	144,514	430,712	557,113
Federal deposit insurance	44,500	41,000	153,500	129,500
Data processing	119,227	93,487	326,123	243,573
Director fees	33,194	41,153	97,142	111,441
Contributions and donations	16,750	23,027	53,469	55,877
Other	133,963	110,114	399,295	347,937
Total noninterest expense	<u>1,128,045</u>	<u>1,004,522</u>	<u>3,333,721</u>	<u>3,011,372</u>
Income before income taxes	120,172	113,203	366,265	217,526
Provision for income taxes	30,619	18,369	59,429	19,137
<b>NET INCOME</b>	<u>\$ 89,553</u>	<u>\$ 94,834</u>	<u>\$ 306,836</u>	<u>\$ 198,389</u>
<b>EARNINGS PER COMMON SHARE</b>				
Basic	\$ 0.04	\$ 0.04	\$ 0.14	\$ N/A
Diluted	\$ 0.04	\$ 0.04	\$ 0.14	\$ N/A
<b>AVERAGE COMMON SHARES OUTSTANDING</b>				

Basic	2,167,659	2,162,873	2,166,221	N/A
Diluted	2,167,659	2,162,873	2,166,442	N/A
DIVIDENDS DECLARED PER COMMON SHARE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ N/A</u>
COMPREHENSIVE INCOME	<u>\$ 49,448</u>	<u>\$ 38,802</u>	<u>\$ 394,363</u>	<u>\$ 119,122</u>

See accompanying notes to the unaudited financial statements.

SSB Bancorp, Inc.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(unaudited)		(unaudited)	
Net income	\$ 89,553	\$ 94,834	\$ 306,836	\$ 198,389
Other comprehensive income (loss):				
Net change in unrealized gain (loss) on available-for-sale securities	(50,766)	(30,195)	161,387	(60,008)
Income tax effect	10,661	(25,837)	(33,891)	(19,259)
Reclassification adjustment for net securities (gains) losses recognized in income	-	-	(50,593)	-
Income tax effect included in provision for income taxes	-	-	10,624	-
Other comprehensive income (loss), net of tax	(40,105)	(56,032)	87,527	(79,267)
Total comprehensive income	\$ 49,448	\$ 38,802	\$ 394,363	\$ 119,122

See accompanying notes to the unaudited financial statements.



SSB Bancorp, Inc.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(unaudited)

	Common Stock	Paid-in capital	Retained earnings	Unearned Employee Stock Ownership Plan	Accumulated other comprehensive (gain) loss	Total
Balance as of January 1, 2018	\$ -	\$ -	\$ 12,135,085	\$ -	\$ (23,487)	\$ 12,111,598
Net income	-	-	380,416	-	-	380,416
Other comprehensive loss	-	-	-	-	(51,136)	(51,136)
Net proceeds from stock offering (2,248,250 shares issued)	22,483	8,696,044	-	-	-	8,718,527
Purchase of ESOP shares (88,131 shares purchased)	-	-	-	(881,310)	-	(881,310)
Amortization of ESOP	-	(3,073)	-	44,065	-	40,992
Balance as of January 1, 2019	22,483	8,692,971	12,515,501	(837,245)	(74,623)	20,319,087
Net income	-	-	306,836	-	-	306,836
Other comprehensive income	-	-	-	-	87,527	87,527
Refund on offering expenses	-	1,005	-	-	-	1,005
Stock compensation plan	9	9,653	-	-	-	9,662
Amortization of ESOP	-	(5,222)	-	33,049	-	27,827
Balance as of September 30, 2019	<u>\$ 22,492</u>	<u>\$ 8,698,407</u>	<u>\$ 12,822,337</u>	<u>\$ (804,196)</u>	<u>\$ 12,904</u>	<u>\$ 20,751,944</u>

See accompanying notes to the unaudited financial statements.

SSB Bancorp, Inc.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,	
	2019	2018
	(unaudited)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 306,836	\$ 198,389
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	148,500	115,000
Depreciation	127,543	115,201
Net amortization of investment securities	30,163	11,489
Loss on sale of portfolio loans	12,178	-
Origination of loans held for sale	(8,340,950)	(8,134,750)
Proceeds from sale of loans	8,575,074	8,292,303
Gain on sale of loans	(234,124)	(157,553)
Gain on other real estate owned	(380)	-
Amortization of net deferred loan origination costs	52,832	-
Deferred income tax provision	-	(14,646)
Gain on sale of investments	(50,593)	-
Increase in accrued interest receivable	(36,602)	(80,874)
Increase in accrued interest payable	31,055	38,501
Stock compensation expense	9,662	-
Amortization of ESOP	27,827	30,945
Increase in bank owned life insurance	(49,112)	(53,369)
Other, net	255,282	729,640
Net cash provided by (used in) operating activities	<u>865,191</u>	<u>1,090,276</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(2,217,000)	(248,000)
Redemption of certificates of deposit	348,000	345,000
Investment securities available for sale:		
Purchases	(3,582,107)	(6,651,661)
Proceeds from sales	2,943,675	-
Proceeds from principal repayments, calls, and maturities	1,303,279	232,898
Investment securities held to maturity:		
Proceeds from principal repayments, calls, and maturities	1,878	2,688
Redemption of Federal Home Loan Bank stock	168,200	174,400
Purchase of Federal Home Loan Bank stock	(362,500)	(626,700)
Purchases of loans	(2,388,950)	-
Increase in loans receivable, net	(2,072,356)	(16,154,301)
Proceeds from sale of portfolio loans	3,569,527	-
Proceeds from sale of other real estate owned	60,312	-
Purchases of premises and equipment	(65,765)	(128,408)
Net cash (used for) provided by investing activities	<u>(2,293,807)</u>	<u>(23,054,084)</u>
<b>FINANCING ACTIVITIES</b>		
Increase (decrease) in deposits, net	11,920,071	(1,063,652)
Increase in advances by borrowers for taxes and insurance	(292,971)	(370,707)
Net proceeds from stock offering	-	8,718,527
Refund on offering expenses	1,005	-
Purchase of ESOP shares	-	(881,310)
Repayment of Federal Home Loan Bank advances	-	(9,291,700)
Proceeds from Federal Home Loan Bank advances	-	14,250,000
Decrease in prepaid reorganization and stock issuance costs	-	-
Net cash provided by (used in) financing activities	<u>11,628,105</u>	<u>11,361,158</u>

Increase (decrease) in cash and cash equivalents	10,199,489	(10,602,650)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>9,034,070</u>	<u>16,478,066</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 19,233,559</u>	<u>\$ 5,875,416</u>

**SUPPLEMENTAL CASH FLOW DISCLOSURES**

Cash paid during the year for:

Interest	\$ 2,772,085	\$ 2,000,103
Income taxes	-	135,241

Noncash investing activities:

Loans held for investment transferred to loans held for sale	3,581,705	-
--	-----------	---

**See accompanying notes to the unaudited financial statements.**

**SSB Bancorp, Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

**SSB Bancorp, Inc.**

SSB Bancorp, Inc. (the “Company”) was incorporated on August 17, 2017 to serve as the subsidiary stock holding company for SSB Bank upon the reorganization of SSB Bank into a mutual holding company structure (the “Reorganization”). The Reorganization was completed effective January 24, 2018, with SSB Bank becoming the wholly-owned subsidiary of SSB Bancorp, Inc., and SSB Bancorp, Inc. becoming the majority-owned subsidiary of SSB Bancorp, MHC. In connection with the Reorganization, the Company sold 1,011,712 shares of common stock at an offering price of \$10 per share. The Company’s stock began being quoted for listing on the OTC Pink Market on January 25, 2018, under the symbol “SSBP”. Also, in connection with the Reorganization, the Bank established an employee stock ownership plan (the “ESOP”), which purchased 88,131 shares of the Company’s common stock at a price of \$10 per share. In the Reorganization, the Company also issued 1,236,538 shares of its common stock to SSB Bancorp, MHC.

**SSB Bank**

SSB Bank (the “Bank”) provides a variety of financial services to individuals and corporate customers through its offices in Pittsburgh, Pennsylvania. The Bank’s primary deposit products are passbook savings accounts, money market accounts, and certificates of deposit. Its primary lending products are commercial mortgage loan and single-family residential loans. The Bank is subject to regulation and supervision by the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking and Securities.

The interim consolidated financial statements at September 30, 2019, and for the three and nine months ended September 30, 2019 and 2018, are unaudited and reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Such adjustments are the only adjustments reflected in the accompanying interim financial statements. The results of operations for the three and nine months ended September 30, 2019, are not necessarily indicative of the results to be achieved for the remainder of the year ending December 31, 2019, or any other period. The financial statements at December 31, 2018, are derived from the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, as amended.

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

For further information, refer to the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, as amended.

The consolidated financial statements include the accounts of SSB Bancorp, Inc. and SSB Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Financial information for the periods before the Reorganization on January 24, 2018 is that of SSB Bank only.

## 2. RECENT ACCOUNTING STANDARDS

On April 5, 2012, the Jumpstart Our Business Startups Act (the “JOBS Act”) was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies and define an “emerging growth company.” As an emerging growth company, the Company has opted to delay adoption of new or revised financial accounting standards until such date that the standards are required to be adopted by non-issuer companies. If such standards would not apply to non-issuer companies, no deferral would be applicable. The Company has elected to take advantage of the benefits of extended transition periods. Accordingly, the Company’s consolidated financial statements may not be comparable to those of public companies that adopt new or revised financial accounting standards as of an earlier date. The effective dates of the following recent accounting standards reflect those that relate to non-issuer companies.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this Update create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. The core principle of Topic 606 is that an entity recognizes 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. To achieve the core principle, a company should apply a five-step approach to revenue recognition. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Update has not had a significant impact on the Company’s consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) 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; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Update has not had a significant impact on the Company’s consolidated financial statements.

## 2. RECENT ACCOUNTING STANDARDS (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. The amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Update is not expected to have a significant impact on the Company's consolidated financial statements.

In September 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. For public business entities that meet the definition of a "smaller reporting company" under the rules and regulations of the SEC, ASU 2016-13 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the financial statements, as any adjustment will be dependent on the composition of the loan portfolio at the time of adoption. The Company is currently in the early stages of implementing processes to comply with the requirements of the Update.

In January 2017, the FASB issued ASU 2017-03, *Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323)*, *Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings*. This Update adds an SEC paragraph to the Codification following an SEC Staff Announcement about applying Staff Accounting Bulletin Topic 11.M. Specifically, this announcement applies to ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*; ASU 2016-02, *Leases (Topic 842)*; and ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. A registrant should evaluate Updates that have not yet been adopted to determine the appropriate financial statement disclosures about the potential material effects of those Updates on the financial statements when adopted. If a registrant does not know or cannot reasonably estimate the impact that adoption of the Updates referenced in this announcement are expected to have on the financial statements, then in addition to making a statement to that effect, that registrant should consider additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact that the standard will have on the financial statements of the registrant when adopted. In this regard, the SEC staff expects the additional qualitative disclosures to include a description of the effect of the accounting policies that the registrant expects to apply, if determined, and a comparison to the registrant's current accounting policies. Also, a registrant should describe the status of its process to implement the new standards and the significant implementation matters yet to be addressed. The amendments in this Update are effective immediately.

## 2. RECENT ACCOUNTING STANDARDS (Continued)

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20)*. The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. The Update is not expected to have a significant impact on the Company's consolidated financial statements.

In February 2018, the FASB issued *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. ASU 2018-02 provides the option to reclassify certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017 (Tax Reform Act), enacted on December 22, 2017. ASU 2018-02 was issued in response to concerns regarding current guidance in GAAP that requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date, even in situations in which the related income tax effects were originally recognized in other comprehensive income, rather than net income, and as a result the stranded tax effects would not reflect the appropriate tax rate. The amendments of ASU 2018-02 allow an entity to make a reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effects, which is the difference between the historical corporate income tax rate of 34.0 percent and the newly enacted corporate income tax rate of 21.0 percent. ASU 2018-02 is effective for fiscal years, and interim periods within those years, beginning after December 31, 2018; however, entities are allowed to early adopt the amendments of ASU 2018-02 in any interim period for which the financial statements have not yet been issued. The amendments of ASU 2018-02 may be applied either at the beginning of the period (annual or interim) of adoption or retrospectively to each of the period(s) in which the effect of the change in the U.S. federal corporate tax rate in the Tax Reform Act is recognized. The Company chose to early adopt the new standard for the year ended December 31, 2017, as allowed. The amount of the reclassification for the Company was \$3,860.

### 3. SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses, and fair values of securities available for sale are as follows:

	September 30, 2019 (unaudited)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities in government-sponsored entities	\$ 6,014,770	\$ 20,206	\$ (23,351)	\$ 6,011,625
Obligations of state and political subdivisions	1,394,969	1,941	(13)	1,396,897
Corporate bonds	1,108,805	17,150	-	1,125,955
Total	<u>\$ 8,518,544</u>	<u>\$ 39,297</u>	<u>\$ (23,364)</u>	<u>\$ 8,534,477</u>

  

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities in government-sponsored entities	\$ 3,883,220	\$ 495	\$ (18,635)	\$ 3,865,080
Obligations of state and political subdivisions	1,540,053	153	(38,244)	1,501,962
Corporate bonds	3,547,246	-	(38,511)	3,508,735
U.S. treasury securities	192,443	5	(124)	192,324
Total	<u>\$ 9,162,962</u>	<u>\$ 653</u>	<u>\$ (95,514)</u>	<u>\$ 9,068,101</u>

The amortized cost and fair value of investment securities available for sale by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities provide for periodic payments of principal and interest and have contractual maturities ranging from less than 1 year to 30 years. Due to expected repayment terms being significantly less than the underlying mortgage pool contractual maturities, estimated lives of these securities could be significantly shorter.

	September 30, 2019 (unaudited)	
	Amortized Cost	Fair Value
Due within one year or less	\$ 104,198	104,491
Due after one year through five years	1,146,016	1,157,807
Due after five years through ten years	1,301,982	1,308,276
Due after ten years	5,966,348	5,963,903
Total	<u>\$ 8,518,544</u>	<u>\$ 8,534,477</u>



### 3. SECURITIES AVAILABLE FOR SALE (Continued)

For the three months ended September 30, 2019, there were no sales of investments available for sale. For the nine months ended September 30, 2019, there were 6 corporate bonds sold with a total amortized cost of \$2,751,221 and an associated gain on sale of \$49,454. The proceeds of the sale were \$2,800,675. There was also 1 municipal bond sold with an amortized cost of \$141,861 and an associated gain on sale of \$1,139. The proceeds of the sale were \$143,000. There were no sales of investment securities in the three or nine months ended September 30, 2018.

### 4. SECURITIES HELD TO MATURITY

The amortized cost, gross unrealized gains and losses, and fair values of securities held to maturity are as follows:

	September 30, 2019 (unaudited)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities in government-sponsored entities	\$ 4,516	\$ 60	\$ -	\$ 4,576
Total	\$ 4,516	\$ 60	\$ -	\$ 4,576
	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities in government-sponsored entities	\$ 6,394	\$ 84	\$ -	\$ 6,478
Total	\$ 6,394	\$ 84	\$ -	\$ 6,478

The amortized cost and fair value of mortgage-backed securities by contractual maturity are shown below. Mortgage-backed securities provide for periodic payments of principal and interest and have contractual maturities ranging up to 9 years. Due to expected repayment terms being less than the underlying mortgage pool contractual maturities, estimated lives of these securities could be significantly shorter.

	September 30, 2019 (unaudited)	
	Amortized Cost	Fair Value
Due within one year or less	\$ -	\$ -
Due after one year through five years	3,177	3,193
Due after five years through nine years	1,339	1,383
Total	\$ 4,516	\$ 4,576

## 5. UNREALIZED LOSSES ON SECURITIES

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

	September 30, 2019 (unaudited)					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed securities in government-sponsored entities	\$3,484,451	\$ (21,181)	\$292,421	\$ (2,170)	\$3,776,872	\$ (23,351)
Obligations of state and political subdivisions	24,987	(13)	-	-	24,987	(13)
<b>Total</b>	<b>\$3,509,438</b>	<b>\$ (21,194)</b>	<b>\$292,421</b>	<b>\$ (2,170)</b>	<b>\$3,801,859</b>	<b>\$ (23,364)</b>

  

	December 31, 2018					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed securities in government-sponsored entities	\$3,458,555	\$ (7,806)	\$ 341,423	\$ (10,829)	\$3,799,978	\$ (18,635)
Obligations of state and political subdivisions	55,708	(34)	1,397,740	(38,210)	1,453,448	(38,244)
Corporate bonds	3,309,271	(37,959)	199,464	(552)	3,508,735	(38,511)
U.S. treasury securities	159,275	(124)	-	-	159,275	(124)
<b>Total</b>	<b>\$6,982,809</b>	<b>\$ (45,923)</b>	<b>\$1,938,627</b>	<b>\$ (49,591)</b>	<b>\$8,921,436</b>	<b>\$ (95,514)</b>

Management reviews the Company's investment positions monthly. There were 8 investments that were temporarily impaired as of September 30, 2019, with aggregate depreciation of less than 1 percent of the Company's amortized cost basis. There were 25 investments that were temporarily impaired as of December 31, 2018, with aggregate depreciation of less than 2 percent from the Company's amortized cost basis. Management has asserted that at September 30, 2019 and December 31, 2018, the declines outlined in the above table represent temporary declines and the Company does not intend to sell and does not believe it will be required to sell these securities before recovery of their cost basis, which may be at maturity.

The Company has concluded that any impairment of its investment securities portfolio outlined in the above table is not other-than-temporary and the declines are the result of interest rate changes, sector credit rating changes, or company-specific rating changes that are not expected to result in the non-collection of principal and interest during the period.

## 6. LOANS

The Company's loan portfolio summarized by category is as follows:

	September 30, 2019 (unaudited)	December 31, 2018
Mortgage loans:		
One-to-four family	\$ 69,415,053	\$ 75,520,850
Commercial	62,486,946	59,494,384
	<u>131,901,999</u>	<u>135,015,234</u>
Commercial and industrial	22,628,993	19,166,207
Consumer	5,826,158	5,404,216
	<u>160,357,150</u>	<u>159,585,657</u>
Third-party loan acquisition and other net origination costs	186,172	268,101
Discount on loans previously held for sale	(175,939)	(199,176)
Allowance for loan losses	(1,159,457)	(1,124,925)
	<u>(1,159,457)</u>	<u>(1,124,925)</u>
Total	<u>\$ 159,207,926</u>	<u>\$ 158,529,657</u>

The Company's primary business activity is with customers located in Pittsburgh and surrounding communities. The Company's loan portfolio consists predominantly of one-to-four family mortgage and commercial mortgage loans. These loans are typically secured by first-lien positions on the respective real estate properties and are subject to the Company's underwriting policies.

During the normal course of business, the Company may sell a portion of a loan as a participation loan in order to manage portfolio risk. In order to be eligible for sales treatment, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties, and no loan holder can have the right to pledge or exchange the entire loan. The Company had transferred \$10.7 million and \$7.5 million in participation loans as of September 30, 2019 and December 31, 2018, respectively, to other financial institutions. As of September 30, 2019, and December 31, 2018, all these loans were being serviced by the Company.

## 7. ALLOWANCE FOR LOAN LOSSES

The allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The following tables present, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans for the three months ended September 30, 2019 (unaudited) and 2018 (unaudited), respectively:

Three months ended September 30, 2019:	Mortgage One-to-Four Family	Mortgage Commercial	Commercial and Industrial	Consumer and HELOC	Total
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 446,697	\$ 386,720	\$ 276,496	\$ 47,196	\$ 1,157,109
Charge-offs	-	-	(50,652)	-	(50,652)
Recoveries	-	-	-	-	-
Provision	(28,069)	106,147	(4,155)	(20,923)	53,000
Ending balance	<u>\$ 418,628</u>	<u>\$ 492,867</u>	<u>\$ 221,689</u>	<u>\$ 26,273</u>	<u>\$ 1,159,457</u>
<b>Three months ended September 30, 2018:</b>					
Three months ended September 30, 2018:	Mortgage One-to-Four Family	Mortgage Commercial	Commercial and Industrial	Consumer and HELOC	Total
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 471,438	\$ 437,619	\$ 134,880	\$ 46,079	\$ 1,090,016
Charge-offs	-	-	(9,270)	(29,146)	(38,416)
Recoveries	-	-	-	-	-
Provision (credit)	(33,194)	(46,940)	104,987	25,147	50,000
Ending balance	<u>\$ 438,244</u>	<u>\$ 390,679</u>	<u>\$ 230,597</u>	<u>\$ 42,080</u>	<u>\$ 1,101,600</u>
<b>Nine months ended September 30, 2019:</b>					
Nine months ended September 30, 2019:	Mortgage One-to-Four Family	Mortgage Commercial	Commercial and Industrial	Consumer and HELOC	Total
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 422,539	\$ 393,900	\$ 263,721	\$ 44,765	\$ 1,124,925
Charge-offs	(28,268)	(22,932)	(50,652)	(13,189)	(115,041)
Recoveries	-	-	1,073	-	1,073
Provision	24,357	121,899	7,547	(5,303)	148,500
Ending balance	<u>\$ 418,628</u>	<u>\$ 492,867</u>	<u>\$ 221,689</u>	<u>\$ 26,273</u>	<u>\$ 1,159,457</u>
<b>Nine months ended September 30, 2018:</b>					
Nine months ended September 30, 2018:	Mortgage One-to-Four Family	Mortgage Commercial	Commercial and Industrial	Consumer and HELOC	Total
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 513,846	\$ 383,535	\$ 80,854	\$ 63,210	\$ 1,041,445
Charge-offs	(16,429)	-	(9,270)	(29,146)	(54,845)
Recoveries	-	-	-	-	-
Provision (credit)	(59,173)	7,144	159,013	8,016	115,000
Ending balance	<u>\$ 438,244</u>	<u>\$ 390,679</u>	<u>\$ 230,597</u>	<u>\$ 42,080</u>	<u>\$ 1,101,600</u>

## 7. ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables summarize the loan portfolio and allowance for loan losses by the primary segments of the loan portfolio as of September 30, 2019 (unaudited), and December 31, 2018.

	Mortgage One-to-Four Family	Mortgage Commercial	Commercial and Industrial	Consumer and HELOC	Total
September 30, 2019					
<b>Allowance for loan losses:</b>					
Loans deemed impaired	\$ 43,180	\$ -	\$ -	\$ -	\$ 43,180
Loans not deemed impaired	<u>375,448</u>	<u>492,867</u>	<u>221,689</u>	<u>26,273</u>	<u>1,116,277</u>
Ending Balance	<u>\$ 418,628</u>	<u>\$ 492,867</u>	<u>\$ 221,689</u>	<u>\$ 26,273</u>	<u>\$ 1,159,457</u>
September 30, 2019					
<b>Loans:</b>					
Loans deemed impaired	\$ 3,862,536	\$ 2,322,992	\$ 1,404,568	\$ 6,195	\$ 7,596,291
Loans not deemed impaired	<u>65,552,517</u>	<u>60,163,954</u>	<u>21,224,425</u>	<u>5,819,963</u>	<u>152,760,859</u>
Ending Balance	<u>\$69,415,053</u>	<u>\$62,486,946</u>	<u>\$22,628,993</u>	<u>\$ 5,826,158</u>	<u>\$160,357,150</u>
December 31, 2018					
<b>Allowance for loan losses:</b>					
Loans deemed impaired	\$ 28,136	\$ -	\$ -	\$ -	\$ 28,136
Loans not deemed impaired	<u>394,403</u>	<u>393,900</u>	<u>263,721</u>	<u>44,765</u>	<u>1,096,789</u>
Ending Balance	<u>\$ 422,539</u>	<u>\$ 393,900</u>	<u>\$ 263,721</u>	<u>\$ 44,765</u>	<u>\$ 1,124,925</u>
December 31, 2018					
<b>Loans:</b>					
Loans deemed impaired	\$ 2,486,210	\$ 1,768,845	\$ 155,660	\$ 1,195	\$ 4,411,910
Loans not deemed impaired	<u>73,034,640</u>	<u>57,725,539</u>	<u>19,010,547</u>	<u>5,403,021</u>	<u>155,173,747</u>
Ending Balance	<u>\$75,520,850</u>	<u>\$59,494,384</u>	<u>\$19,166,207</u>	<u>\$ 5,404,216</u>	<u>\$159,585,657</u>

## 7. ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present impaired loans by class as of September 30, 2019, and December 31, 2018, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary.

	September 30, 2019 (unaudited)			December 31, 2018		
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>
<b>With no allowance recorded:</b>						
<b>Mortgage loans:</b>						
One-to-four family	\$3,701,676	\$3,725,924	\$ -	\$2,211,525	\$2,211,525	\$ -
Commercial	2,322,992	\$2,335,759	-	1,768,845	\$1,768,845	-
Commercial and Industrial	1,404,568	\$1,455,220	-	155,660	\$ 155,660	-
Consumer and HELOC	6,195	\$ 6,195	-	1,195	\$ 1,195	-
<b>With an allowance recorded:</b>						
<b>Mortgage loans:</b>						
One-to-four family	160,860	160,923	43,180	274,685	274,685	28,136
Commercial	-	-	-	-	-	-
Commercial and Industrial	-	-	-	-	-	-
Consumer and HELOC	-	-	-	-	-	-
<b>Total mortgage loans:</b>						
One-to-four family	3,862,536	3,886,847	43,180	2,486,210	2,486,210	28,136
Commercial	2,322,992	2,335,759	-	1,768,845	1,768,845	-
Commercial and Industrial	1,404,568	1,455,220	-	155,660	155,660	-
Consumer and HELOC	6,195	6,195	-	1,195	1,195	-
<b>Total</b>	<b><u>\$7,596,291</u></b>	<b><u>\$7,684,021</u></b>	<b><u>\$ 43,180</u></b>	<b><u>\$4,411,910</u></b>	<b><u>\$4,411,910</u></b>	<b><u>\$ 28,136</u></b>

## 7. ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the average recorded investment in impaired loans and related interest income recognized for the periods indicated.

	Three Months Ended September 30, 2019 (unaudited)		Three Months Ended September 30, 2018 (unaudited)	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>With no allowance recorded:</b>				
<b>Mortgage loans:</b>				
One-to-four family	\$ 3,592,680	\$ 12,468	\$ 2,051,434	\$ 8,881
Commercial	2,292,069	13,511	1,555,260	5,125
Commercial and industrial	541,458	-	142,033	-
Consumer and HELOC	6,195	-	23,461	298
<b>With an allowance recorded:</b>				
<b>Mortgage loans:</b>				
One-to-four family	161,372	766	355,222	1,902
Commercial	-	-	-	-
Commercial and industrial	-	-	-	-
Consumer and HELOC	-	-	-	-
<b>Total mortgage loans:</b>				
One-to-four family	3,754,052	13,234	2,406,656	10,783
Commercial	2,292,069	13,511	1,555,260	5,125
Commercial and industrial	541,458	-	142,033	-
Consumer and HELOC	6,195	-	23,461	298
<b>Total</b>	<b>\$ 6,593,774</b>	<b>\$ 26,745</b>	<b>\$ 4,127,410</b>	<b>\$ 16,206</b>

	Nine Months Ended September 30, 2019 (unaudited)		Nine Months Ended September 30, 2018 (unaudited)	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>With no allowance recorded:</b>				
<b>Mortgage loans:</b>				
One-to-four family	\$ 2,655,914	\$ 42,401	\$ 1,961,587	\$ 9,313
Commercial	2,044,432	37,417	1,262,149	6,669
Commercial and industrial	284,259	-	105,142	-
Consumer and HELOC	6,195	-	38,063	505
<b>With an allowance recorded:</b>				
<b>Mortgage loans:</b>				
One-to-four family	163,879	2,372	374,613	7,622
Commercial	-	-	-	-
Commercial and industrial	-	-	-	-
Consumer and HELOC	-	-	-	-
<b>Total mortgage loans:</b>				
One-to-four family	2,819,793	44,773	2,336,200	16,935

Commercial	2,044,432	37,417	1,262,149	6,669
Commercial and industrial	284,259	-	105,142	-
Consumer and HELOC	6,195	-	38,063	505
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$ 5,154,679</u>	<u>\$ 82,190</u>	<u>\$ 3,741,554</u>	<u>\$ 24,109</u>



## 7. ALLOWANCE FOR LOAN LOSSES (Continued)

### Aging Analysis of Past-Due Loans by Class

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the aging categories at the dates indicated:

	September 30, 2019 (unaudited)						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans Receivable	90 Days or Greater Still Accruing
<b>Mortgage loans:</b>							
One-to-four family	\$ 660,001	1,443,947	1,990,438	4,094,386	\$ 65,320,667	\$ 69,415,053	\$ -
Commercial	730,396	636,147	199,362	1,565,905	60,921,041	62,486,946	-
Commercial and industrial	1,863,458	951,863	50,652	2,865,973	19,763,020	22,628,993	-
Consumer and HELOC	2,535	65,456	6,195	74,186	5,751,972	5,826,158	-
Total	<u>\$3,256,390</u>	<u>\$3,097,413</u>	<u>\$2,246,647</u>	<u>\$8,600,450</u>	<u>\$151,756,700</u>	<u>\$160,357,150</u>	<u>\$ -</u>
December 31, 2018							
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans Receivable	90 Days or Greater Still Accruing
<b>Mortgage loans:</b>							
One-to-four family	\$ 305,412	624,784	1,701,044	2,631,240	\$ 72,889,610	\$ 75,520,850	\$ -
Commercial	-	-	1,094,376	1,094,376	58,400,008	59,494,384	-
Commercial and industrial	-	-	155,660	155,660	19,010,547	19,166,207	-
Consumer and HELOC	-	-	1,195	1,195	5,403,021	5,404,216	-
Total	<u>\$ 305,412</u>	<u>\$ 624,784</u>	<u>\$2,952,275</u>	<u>\$3,882,471</u>	<u>\$155,703,186</u>	<u>\$159,585,657</u>	<u>\$ -</u>

## 7. ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the loans on nonaccrual status, by class:

	<u>September 30, 2019</u> (unaudited)	<u>December 31, 2018</u>
<b>Mortgage loans:</b>		
One-to-four family	\$ 2,445,442	\$ 2,302,267
Commercial	1,378,589	1,094,376
Commercial and industrial	1,404,568	155,660
Consumer and HELOC	6,195	1,195
<b>Total</b>	<u>\$ 5,234,794</u>	<u>\$ 3,553,498</u>

### **Credit Quality Information**

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes commercial loans individually by classifying the loans as to their credit risk. The Company uses a nine-grade internal loan rating system for commercial mortgage loans and commercial and industrial loans as follows:

- *Loans rated 1, 2, 3, 4, and 5:* Loans in these categories are considered “pass” rated loans with low to average risk.
- *Loans rated 6:* Loans in this category are considered “special mention.” These loans have a potential weakness that deserves management’s close attention. If left uncorrected, these weaknesses may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date.
- *Loans rated 7:* Loans in this category are considered “substandard.” These loans have a well-defined weakness based on objective evidence that jeopardize the liquidation of the debt. These loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
- *Loans rated 8:* Loans in this category are considered “doubtful” and have all the weaknesses inherent in a loan rated 7. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.
- *Loans rated 9:* Loans in this category are considered “loss” and are considered to be uncollectible or of such value that continuance as an asset is not warranted.

## 7. ALLOWANCE FOR LOAN LOSSES (Continued)

### Credit Quality Information (Continued)

The risk category of loans by class is as follows:

	September 30, 2019 (unaudited)		December 31, 2018	
	Mortgage Commercial	Commercial and Industrial	Mortgage Commercial	Commercial and Industrial
Loans rated 1 - 5	\$ 60,749,409	\$ 18,667,148	\$ 57,773,482	\$ 15,028,078
Loans rated 6	25,262	3,961,845	-	3,982,469
Loans rated 7	1,712,275	-	1,720,902	155,660
Ending balance	<u>\$ 62,486,946</u>	<u>\$ 22,628,993</u>	<u>\$ 59,494,384</u>	<u>\$ 19,166,207</u>

There were no loans classified as doubtful or loss at September 30, 2019, or December 31, 2018.

For one-to-four family mortgage and consumer and HELOC loans, the Company evaluates credit quality based on whether the loan is considered to be performing or nonperforming. Loans are generally considered to be nonperforming when they are placed on nonaccrual or become 90 days past due. The following table presents the balances of loans by class based on payment performance:

	September 30, 2019 (unaudited)		December 31, 2018	
	Mortgage One-to-Four Family	Consumer and HELOC	Mortgage One-to-Four Family	Consumer and HELOC
Performing	\$ 66,969,611	\$ 5,819,963	\$ 73,218,583	\$ 5,403,021
Nonperforming	2,445,442	6,195	2,302,267	1,195
Total	<u>\$ 69,415,053</u>	<u>\$ 5,826,158</u>	<u>\$ 75,520,850</u>	<u>\$ 5,404,216</u>

### Troubled Debt Restructurings

There was one loan modified as a troubled debt restructuring during the three months ended September 30, 2019 (unaudited). The loan was a one-to-four family mortgage and had a pre- and post-modification balance of \$920,943. The concession granted by the Company was a deferment of a portion of interest to the maturity date of the loan. There were no additional loans modified as troubled debt restructurings in the nine months ended September 30, 2019.

There was one loan modified as a troubled debt restructuring during the three months ended September 30, 2018 (unaudited). The loan was a one-to-four family mortgage and had a pre- and post-modification balance of \$146,053. The concession granted by the Company was an extension of the maturity date. There were no additional loans modified as troubled debt restructurings in the nine months ended September 30, 2018.

As of September 30, 2019, and December 31, 2018, the Company allocated \$43,180 and \$1,980, respectively, within the allowance for loan losses related to all loans modified as troubled debt restructurings.

The Company did not have any loans modified as a troubled debt restructuring in the preceding 12 months that subsequently defaulted in the current reporting period.

## 8. EMPLOYEE STOCK OWNERSHIP PLAN

The Bank established a tax qualified Employee Stock Ownership Plan (“ESOP”) for the benefit of its employees in conjunction with the Reorganization effective on January 24, 2018. Eligible employees become 20% vested in their accounts after two years of service, 40% after three years of service, 60% after four years of service, 80% after five years of service, and 100% after six years of service, or earlier, upon death, disability or attainment of normal retirement age.

The ESOP purchased 88,131 shares of Company common stock, which was funded by a loan from the Company. Unreleased ESOP shares collateralize the loan payable, and the cost of the shares is recorded as a contra-equity account in the stockholders’ equity of the Company. Shares are to be released as debt payments are made by the ESOP to the loan. The ESOP’s sources of repayment of the loan can include dividends, if any, on the unallocated stock held by the ESOP and discretionary contributions from the Company to the ESOP and earnings thereon.

Compensation expense is equal to the fair value of the shares committed to be released and unallocated ESOP shares are excluded from outstanding shares for purposes of computing earnings per share. During the three and nine months ended September 30, 2019, the Company recognized \$8,697 and \$27,827, respectively, in compensation expense.

## 9. STOCK COMPENSATION PLAN

In May 2019, the Company’s board adopted, and its shareholders approved, the SSB Bancorp, Inc. 2019 Equity Incentive Plan (the Plan) authorizing the grant of options or restricted stock covering 154,229 shares of common stock. The maximum number of shares of stock that may be delivered under the Plan pursuant to the exercise of stock options is 110,164 and the maximum number of shares of stock that may be issued as restricted stock awards, restricted stock units, and performance shares is 44,065. Under the Plan, options or restricted stock can be granted to directors, officers, and employees that provide services to the Company, as selected by the compensation committee of the Board. The option price at which a granted stock option may be exercised will not be less than 100% of the fair market value per share of common stock on the grant date. The maximum term of any option granted under the Plan cannot exceed 10 years.

On May 23, 2019, 11,015 shares of restricted stock and 27,540 stock options were awarded to directors under the Plan. The shares of restricted stock and stock options vest at a rate of 20% per year commencing on May 23, 2020, and the related expense is being recognized straight-line over the 60-month period. At September 30, 2019, there were 33,050 shares of stock and 82,624 stock options available to be issued under the Plan.

The following tables summarize transactions regarding the restricted stock under the Plan for the three and nine months ended September 30, 2019.

	Number of restricted shares	Weighted average grant date price per share
Non-vested shares at June 30, 2019	11,015	\$ 8.35
Granted	-	-
Vested	-	-
Forfeited	-	-
Non-vested shares at September 30, 2019	11,015	8.35

## 9. STOCK COMPENSATION PLAN (Continued)

	Number of restricted shares	Weighted average grant date price per share
Non-vested shares at December 31, 2018	-	\$ -
Granted	11,015	8.35
Vested	-	-
Forfeited	-	-
Non-vested shares at September 30, 2019	<u>11,015</u>	<u>8.35</u>

A summary of the status of the awarded stock options at September 30, 2019, and changes during the three and nine months ended September 30, 2019 is presented in the tables and narrative following:

	<b>Three months ended September 30, 2019</b>		
	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Fair Value</b>
Outstanding at July 1, 2019	27,540	\$ 8.35	\$ 0.97
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at September 30, 2019	<u>27,540</u>	8.35	0.97
Exercisable at September 30, 2019	-	-	-
Weighted average of options granted in current year		\$ 8.35	0.97

	<b>Nine months ended September 30, 2019</b>		
	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Fair Value</b>
Outstanding at January 1, 2019	-	\$ -	\$ -
Granted	27,540	8.35	0.97
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at June 30, 2019	<u>27,540</u>	8.35	0.97
Exercisable at June 30, 2019	-	-	-
Weighted average of options granted in current year		\$ 8.35	0.97

## 9. STOCK COMPENSATION PLAN (Continued)

At September 30, 2019, none of the 27,540 options outstanding are exercisable. The 27,540 options that are not yet exercisable all have an exercise price of \$8.35 and a weighted average remaining contractual life of 10 years. The fair value of each option grant is estimated on the date of grant using the Binomial or Black-Scholes option pricing model with the following assumptions used for grants in the three and nine months ended September 30, 2019.

<b>Pricing model assumption ranges</b>	<b>Three months ended September 30, 2019</b>
Risk-free interest rate	2.00%
Expected lives in years	10
Expected volatility	8.86%
Expected forfeiture rate	10.00%
Expected dividend rate	1.50%

<b>Pricing model assumption ranges</b>	<b>Nine months ended September 30, 2019</b>
Risk-free interest rate	2.00%
Expected lives in years	10
Expected volatility	8.86%
Expected forfeiture rate	10.00%
Expected dividend rate	1.50%

The Company uses the modified prospective method for accounting for stock-based compensation. For the three months ended September 30, 2019, the Company recognized \$5,000 and \$1,000 of pretax compensation expense related to restricted stock awards and stock option awards, respectively. For the nine months ended September 30, 2019, the company recognized \$8,000 and \$2,000 of pretax compensation expense related to restricted stock awards and stock option awards, respectively. As of September 30, 2019, there was \$84,000 of unrecognized compensation expense related to restricted stock awards, and \$22,000 of unrecognized compensation expense related to stock option awards that will be recognized over the remaining vesting periods.

No stock options have been exercised as of September 30, 2019.

## 10. REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by federal and state 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 measure 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.

The regulations require a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%, a minimum ratio of Tier 1 capital to risk-weighted assets of 6%, a minimum total capital ratio of 8%, and a minimum leverage ratio of 4% for all banking organizations. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses. The capital conservation buffer and certain deductions from and adjustments to regulatory capital and risk-weighted assets were phased in over several years. The required minimum conservation buffer was 1.875% as of January 1, 2018 and it increased to 2.5% on January 1, 2019.

## 10. REGULATORY CAPITAL REQUIREMENTS (Continued)

As of September 30, 2019, the most recent notification from the FDIC 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 capital ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. Management believes that the Bank meets all capital adequacy requirements to which it is subject. The Bank's actual capital amounts and ratios are also presented in the table below.

	September 30,		December 31,	
	2019		2018	
	Amount	Ratio	Amount	Ratio
	(unaudited)			
<b>Common Equity Tier 1 capital</b>				
<u>(to risk-weighted assets)</u>				
Actual	\$ 20,739,040	14.38%	\$ 20,393,710	14.22%
For capital adequacy purposes	6,489,540	4.50%	6,453,270	4.50%
To be well capitalized	9,373,780	6.50%	9,321,390	6.50%
<b>Tier 1 capital</b>				
<u>(to risk-weighted assets)</u>				
Actual	\$ 20,739,040	14.38%	\$ 20,393,710	14.22%
For capital adequacy purposes	8,652,720	6.00%	8,604,360	6.00%
To be well capitalized	11,536,960	8.00%	11,472,480	8.00%
<b>Total capital</b>				
<u>(to risk-weighted assets)</u>				
Actual	\$ 21,898,497	15.18%	\$ 21,518,635	15.01%
For capital adequacy purposes	11,536,960	8.00%	11,472,480	8.00%
To be well capitalized	14,421,200	10.00%	14,340,600	10.00%
<b>Tier 1 capital</b>				
<u>(to average assets)</u>				
Actual	\$ 20,739,040	10.68%	\$ 20,393,710	11.59%
For capital adequacy purposes	7,765,535	4.00%	7,036,287	4.00%
To be well capitalized	9,706,918	5.00%	8,795,358	5.00%

## 11. COMMITMENTS

In the normal course of business, the Company makes various commitments that are not reflected in the Company's consolidated financial statements. The Company offers such products to enable its customers to meet their financing objectives. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheets. The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments is represented by the contractual amounts as disclosed. The Company minimizes its exposure to credit loss under these commitments by subjecting them to credit approval and review procedures and collateral requirements as deemed necessary.

Off-balance sheet commitments consist of the following:

	<u>September 30, 2019</u> (unaudited)
Commitments to extend credit	\$ 1,980,750
Construction unadvanced funds	4,470,336
Unused lines of credit	7,035,443
Letters of credit	3,161,135
	<u>\$ 16,647,664</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. These commitments consisted primarily of mortgage loan commitments. The Company uses the same credit policies in making loan commitments and conditional obligations as it does for on-balance sheet instruments. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, as deemed necessary, is based upon management's credit evaluation in compliance with the Company's lending policy guidelines.

The Company and certain executives are parties to employment agreements that provide for a base salary and certain other benefits. The initial terms of the agreements are for three years with annual renewals thereafter. In the event of the executive's termination without cause, as defined, the executive will receive a lump-sum cash payment equal to the amount remaining under the contract. Additional benefits are payable upon a change in control, as defined.



## 12. FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad pricing levels are as follows:

- Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.
- Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.
- Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data, when available.

Fair values for securities are determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique that is widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark-quoted securities. Fair values of securities determined by quoted prices in active markets, when available, are classified as Level I. At September 30, 2019 and December 31, 2018, fair value measurements were obtained from a third-party pricing service and not adjusted by management. Transfers are recognized at the end of the reporting period, as applicable.

## 12. FAIR VALUE MEASUREMENTS (Continued)

The following tables present the assets reported on the balance sheets at their fair value by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	September 30, 2019 (unaudited)			
	Level I	Level II	Level III	Total
Fair value measurements on a recurring basis:				
Mortgage-backed securities in government-sponsored entities	\$ -	\$ 6,011,626	\$ -	\$ 6,011,626
Obligations of state and political subdivisions	-	1,396,897	-	1,396,897
Corporate bonds	-	1,125,955	-	1,125,955
Mortgage servicing rights	-	-	279,697	279,697
Impaired loans with reserve	-	-	117,743	117,743

	December 31, 2018			
	Level I	Level II	Level III	Total
Fair value measurements on a recurring basis:				
Mortgage-backed securities in government-sponsored entities	\$ -	\$ 3,865,080	\$ -	\$ 3,865,080
Obligations of state and political subdivisions	-	1,501,962	-	1,501,962
Corporate bonds	-	3,508,735	-	3,508,735
U.S. treasury securities	192,324	-	-	192,324
Mortgage servicing rights	-	-	234,344	234,344
Impaired loans with reserve	-	-	246,549	246,549

	September 30, 2019 (unaudited)			
	Level I	Level II	Level III	Total
Fair value measurements on a nonrecurring basis:				
Other real estate owned	\$ -	\$ -	\$ 49,900	\$ 49,900

	December 31, 2018			
	Level I	Level II	Level III	Total
Fair value measurements on a nonrecurring basis:				
Other real estate owned	\$ -	\$ -	\$ 138,100	\$ 138,100

## 12. FAIR VALUE MEASUREMENTS (Continued)

### Other Real Estate Owned

Other real estate owned is measured at fair value, less estimated cost to sell, at the date of foreclosure, which establishes a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management. The assets are carried at fair value, less estimated cost to sell. Income and expense from operations and changes in valuation allowance are included in other noninterest expense.

### Level III Inputs

The following table provides the significant unobservable inputs used in the fair value measurement process for items valued using Level III techniques:

	Fair Value at September 30, 2019 (unaudited)	Valuation Techniques	Valuation Unobservable Inputs	Range (Weighted Average)
Other real estate owned	\$ 49,900	Appraised collateral values	Discount for time since appraisal	10% (10)%
			Selling costs	10% (10)%
Impaired loans with reserve	117,743	Discounted cash flows	Discount for evaluation	10% (10)%
			Selling costs	10% (10)%
Mortgage servicing rights	279,697	Discounted cash flows	Loan prepayment speeds	8.49% - 10.52% (9.44)%
	Fair Value at December 31, 2018	Valuation Techniques	Valuation Unobservable Inputs	Range (Weighted Average)
Other real estate owned	\$ 138,100	Appraised collateral values	Discount for time since appraisal	10% (10)%
			Selling costs	10% (10)%
Impaired loans with reserve	246,549	Discounted cash flows	Discount for evaluation	10% (10)%
			Selling costs	10% (10)%
Mortgage servicing rights	234,344	Discounted cash flows	Loan prepayment speeds	8.49%-10.52% (9.69)%

## 12. FAIR VALUE MEASUREMENTS (Continued)

The estimated fair values of the Company's financial instruments are as follows:

	September 30, 2019 (unaudited)				
	Carrying Value	Fair Value	Level I	Level II	Level III
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 19,233,559	\$ 19,233,559	\$ 19,233,559	\$ -	\$ -
Certificates of deposit	2,715,000	2,841,615	-	2,841,615	-
<b>Investment securities:</b>					
Available for sale	8,534,477	8,534,477	-	8,534,477	-
Held to maturity	4,516	4,576	-	4,576	-
Loans, net	159,207,926	168,805,926	-	-	168,805,926
Accrued interest receivable	676,076	676,076	-	676,076	-
FHLB Stock	2,845,700	2,845,700	-	-	2,845,700
<b>Financial liabilities:</b>					
Deposits	148,028,837	150,276,837	54,539,665	-	95,737,172
FHLB advances	31,374,500	32,073,500	-	32,073,500	-
Accrued interest payable	286,541	286,541	-	286,541	-
	December 31, 2018				
	Carrying Value	Fair Value	Level I	Level II	Level III
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 9,034,070	\$ 9,034,070	\$ 9,034,070	\$ -	\$ -
Certificates of deposit	846,000	837,828	-	837,828	-
<b>Investment securities:</b>					
Available for sale	9,068,101	9,068,101	192,324	8,875,777	-
Held to maturity	6,394	6,478	-	6,478	-
Loans, net	158,529,657	159,275,657	-	-	159,275,657
Accrued interest receivable	639,474	639,474	-	639,474	-
FHLB Stock	2,651,400	2,651,400	-	-	2,651,400
<b>Financial liabilities:</b>					
Deposits	136,108,766	134,639,766	42,989,629	-	91,650,137
FHLB advances	31,374,500	31,242,500	-	31,242,500	-
Accrued interest payable	255,486	255,486	-	255,486	-

Financial instruments are defined as cash, evidence of an ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

### 13. FAIR VALUE OF FINANCIAL INSTRUMENTS

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or simulation modeling. Since many of these assumptions result from judgments made by management based upon estimates which are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in the assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

Since certain assets, such as deferred tax assets and premises and equipment, are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Bank.

#### **Cash and Cash Equivalents, Accrued Interest Receivable, FHLB Stock, and Accrued Interest Payable**

The fair value is equal to the current carrying value.

#### **Certificates of Deposit**

The fair values of certificates of deposit are based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities.

#### **Securities**

Fair values for securities are determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique that is widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark-quoted securities. Fair values of securities determined by quoted prices in active markets, when available, are classified as Level I.

#### **Loans, Net**

The fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Certain collateral dependent impaired loans have been adjusted to fair value based on the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, along with management's assumptions in various factors, such as selling costs and discounts for time since last appraised.

#### **FHLB Advances**

The fair value of FHLB advances is based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities.

#### **Deposits**

The fair values of certificates of deposit are based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of the period end.

### 13. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

#### Commitments

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments are presented in Note 11.

### 14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in accumulated other comprehensive income (loss) by component, net of tax:

	Net Unrealized Gain (Loss) on Securities	
	Three months ended September 30,	
	2019	2018
Accumulated other comprehensive income (loss), beginning of period	\$ 53,009	\$ (46,722)
Other comprehensive income (loss) on securities before reclassification, net of tax	(40,105)	(56,032)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	-	-
Net other comprehensive income (loss)	(40,105)	(56,032)
Accumulated other comprehensive income (loss), end of period	\$ 12,904	\$ (102,754)

  

	Net Unrealized Gain (Loss) on Securities	
	Nine months ended September 30,	
	2019	2018
	(unaudited)	
Accumulated other comprehensive income (loss), beginning of period	\$ (74,623)	\$ (23,487)
Other comprehensive income (loss) on securities before reclassification, net of tax	127,496	(79,267)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	(39,969)	-
Net other comprehensive income (loss)	87,527	(79,267)
Accumulated other comprehensive income (loss), end of period	\$ 12,904	\$ (102,754)

## 15. EARNINGS PER SHARE

Earnings per common share for the three and nine months ended September 30, 2019, and the three months ended September 30, 2018, are represented in the following table.

Earnings per common share for the nine months ended September 30, 2018 is not presented because the Company's initial public offering was completed on January 24, 2018; therefore, per share results would not be meaningful.

	Three months ended September 30, 2019 (unaudited)	Three months ended September 30, 2018 (unaudited)
Net Income	\$ 89,553	\$ 94,834
Shares outstanding for basic EPS:		
Average shares outstanding	2,248,805	2,248,250
Less: Average unearned ESOP shares	<u>81,146</u>	<u>85,377</u>
Shares outstanding for basic EPS	2,167,659	2,162,873
Additional dilutive shares	<u>-</u>	<u>-</u>
Shares outstanding for diluted EPS	<u>2,167,659</u>	<u>2,162,873</u>
Basic income per share	\$ 0.04	\$ 0.04
Diluted income per share	\$ 0.04	\$ 0.04

	Nine months ended September 30, 2019 (unaudited)
Net Income	<u>\$ 306,836</u>
Shares outstanding for basic EPS:	
Average shares outstanding	2,248,458
Less: Average unearned ESOP shares	<u>82,237</u>
Shares outstanding for basic EPS	2,166,221
Additional dilutive shares	<u>221</u>
Shares outstanding for diluted EPS	<u>2,166,442</u>
Basic income per share	\$ 0.14
Diluted income per share	\$ 0.14

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

### General

Management's discussion and analysis of financial condition at September 30, 2019 and December 31, 2018 and results of operations for the three and nine months ended September 30, 2019 and 2018 is intended to assist in understanding the consolidated financial condition and consolidated results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited financial statements and the notes thereto appearing in Part I, Item 1, of this Quarterly Report on Form 10-Q. Financial information for the periods before the Reorganization on January 24, 2018 is that of SSB Bank only.

### Cautionary Note Regarding Forward-Looking Statements

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

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

These forward-looking statements are based on current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

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

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and charge-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to continue to implement our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, reduce the fair value of financial instruments or reduce the origination levels in our lending business, or increase the level of defaults, losses and prepayments on loans we have made and make whether held in portfolio or sold in the secondary markets;



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

### Cautionary Note Regarding Forward-Looking Statements (Continued)

- adverse changes in the credit and/or securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements, including as a result of Basel III;
- our ability to manage market risk, credit risk and operational risk in the current economic conditions;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board or the Securities and Exchange Commission;
- our ability to retain key employees;
- our compensation expense associated with equity allocated or awarded to our employees;
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own;
- political instability;
- changes in the quality or composition of our loan or investment portfolios;
- technological changes that may be more difficult or expensive than expected;
- failures or breaches of our IT security systems;
- the inability of third-party providers to perform as expected; and
- our ability to successfully introduce new products and services, enter new markets, and capitalize on growth opportunities.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. The Company is not obligated to update any forward-looking statements, except as may be required by applicable law or regulation.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

### Critical Accounting Policies

Critical accounting estimates are necessary in the application of certain accounting policies and procedures and are particularly susceptible to significant change. Critical accounting policies are defined as those involving significant judgments and assumptions by management that could have a material impact on the carrying value of certain assets or on income under different assumptions or conditions. Management believes the accounting policies discussed below to be the most critical accounting policies, which involve the most complex or subjective decisions or assessments.

**Allowance for Loan Losses.** The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes that specific loans, or portions of loans, are uncollectible. The allowance for loan losses is evaluated on a regular basis, and at least quarterly, by management. Management reviews the nature and volume of the loan portfolio, local and national conditions that may adversely affect the borrower's ability to repay, loss experience, the estimated value of any underlying collateral, and other relevant factors. The evaluation of the allowance for loan losses is characteristically subjective as estimates are required that are subject to continual change as more information becomes available.

The allowance consists of general and specific reserve components. The specific reserves are related to loans that are considered impaired. Loans that are classified as impaired are measured in accordance with accounting guidance (ASC 310-10-35). The general reserve is allocated for non-impaired loans and includes evaluation of changes in the trend and volume of delinquency, our internal risk rating process and external conditions that may affect credit quality.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and the financial condition of the borrower. Loans that experience payment shortfalls and insignificant payment delays are typically not considered impaired. Management looks at each loan individually and considers all the circumstances around the shortfall or delay including the borrower's prior payment history, borrower contact regarding the reason for the delay or shortfall and the amount of the shortfall. Collateral dependent loans are measured against the fair value of the collateral, while other loans are measured by the present value of expected future cash flows discounted at the loan's effective interest rate. All loans are measured individually.

Loan segments are reviewed and evaluated for impairment based on the segment's characteristic loss history and local economic conditions and trends within the segment that may affect the repayment of the loans.

From time to time, we may choose to restructure the contractual terms of certain loans either at the borrower or the Company's request. We review all scenarios to determine the best payment structure with the borrower to improve the likelihood of repayment. Management reviews modified loans to determine if the loan should be classified as a trouble debt restructuring. A trouble debt restructuring is when a creditor, for economic or legal reasons related to a debtor's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Management considers the borrower's ability to repay when a request to modify existing loan terms is presented. A transfer of assets to repay the loan balance, a modification of loan terms or a combination of these may occur. If an appropriate arrangement cannot be made, the loan is referred to legal counsel, at which time foreclosure will begin. If a loan is accruing at the time of restructuring, we review the loan to determine if it should be placed on non-accrual. It is our policy to keep a troubled debt restructured loan on non-accrual status for at least six months to ensure the borrower can repay, at that time management may consider its return to accrual status. Troubled debt restructured loans are classified as impaired loans.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

### Critical Accounting Policies (Continued)

**Income Taxes.** The Company accounts for income taxes in accordance with accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. U.S. GAAP requires that we use the Balance Sheet Method to determine the deferred income, which affects the differences between the book and tax bases of assets and liabilities, and any changes in tax rates and laws are recognized in the period in which they occur. Deferred taxes are based on a valuation model and the determination on a quarterly basis whether all or a portion of the deferred tax asset will be recognized.

**Fair Value Measurements.** The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Company estimates the fair value of a financial instrument and any related asset impairment using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. When observable market prices do not exist, we estimate fair value. These estimates are subjective in nature and imprecision in estimating these factors can impact the amount of revenue or loss recorded. A more detailed description of the fair values measured at each level of the fair value hierarchy and the methodology utilized by the Company can be found in Note 16 to the 2018 Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

**Investment Securities.** Available for sale and held to maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and our intent and ability to hold the security to recovery. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the statements of income. At September 30, 2019, we believe the unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the fair value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

### Comparison of Financial Condition at September 30, 2019 and December 31, 2018

**Total Assets.** Total assets increased by \$12.4 million, or 6.6%, from \$188.8 million at December 31, 2018 to \$201.2 million at September 30, 2019. There was an increase in cash and cash equivalents of \$10.2 million and an increase in certificates of deposit of \$1.9 million when comparing September 30, 2019, with December 31, 2018. The increase in assets was primarily driven by an increase in total deposits of \$11.9 million from \$136.1 million at December 31, 2018 to \$148.0 million at September 31, 2019.

**Cash and Cash Equivalents.** Cash and cash equivalents increased by \$10.2 million, or 112.9%, to \$19.2 million at September 30, 2019 from \$9.0 million at December 31, 2018. The increase in cash was caused by an \$8.2 million increase in interest-bearing deposits with other financial institutions. The increase was primarily driven by an increase in total deposits of \$11.9 million.

**Net Loans.** Net loans increased \$678,000, or 0.4%, to \$159.2 million at September 30, 2019, from \$158.5 million at December 31, 2018. This was caused primarily by increases in commercial mortgage loans and commercial and industrial loans of \$3.0 million and \$3.5 million, respectively. These increases were offset by a decrease in one-to-four family mortgages of \$6.1 million. The decrease in one-to-four mortgage loans was due to payoffs and repayments outpacing originations as well as a sale of \$3.6 million in one-to-four loans, servicing retained.

**Available for Sale Securities.** Securities available for sale decreased by \$534,000 or 5.9%, to \$8.5 million at September 30, 2019, from \$9.1 million at December 31, 2018. The decrease is primarily due the sale of \$2.9 million in securities including \$2.8 million in corporate bonds and \$143,000 in municipal bonds. Also contributing to the decrease was the maturity of \$200,000 in corporate bonds and \$192,000 in U.S. treasury securities. These decreases were offset by the purchases of \$3.0 million in mortgage-backed securities and \$500,000 in investment grade corporate bonds.

**Deposits.** Total deposits increased to \$148.0 million at September 30, 2019 from \$136.1 million at December 31, 2018. The increase of \$11.9 million, or 8.8%, was primarily due to an increase in interest-bearing demand deposits of \$9.2 million. The increase was due to the gain of several high-balance deposit relationships. As part of its strategic plan, SSB Bank is focused on growing core deposits and decreasing brokered time deposits. There was a reclassification of certain account types from savings to money market accounts in 2019 that affected \$12.4 million in deposits, however, this reclassification did not affect total deposits.

**Federal Home Loan Bank Advances.** Federal Home Loan Bank advances remained unchanged at \$31.4 million at both September 30, 2019 and December 31, 2018.

**Stockholders' Equity.** Stockholders' equity increased by \$433,000, or 2.1%, to \$20.8 million at September 30, 2019 from \$20.3 million at December 31, 2018. The increase was primarily due to net income of \$307,000 over the nine month period. Contributing to the increase in stockholders' equity was an increase in accumulated other comprehensive income of \$88,000. The increase in accumulated other comprehensive income was due to the increases of the fair values of the securities available for sale due to a decline in market interest rates.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

### Comparison of Operating Results for the Three Months Ended September 30, 2019 and 2018

**Net Income.** Net income decreased by \$5,000, or 5.6% to \$90,000 for the three months ended September 30, 2019, from \$95,000 for the three months ended September 30, 2018. The decrease was primarily due to an increase in interest expense of \$209,000, or 27.7%, from \$755,000 for the three months ended September 30, 2018 to \$964,000 for the three months ended September 30, 2019. Noninterest expense increased by \$124,000, or 12.3%, to \$1.1 million for the three months ended September 30, 2019, from \$1.0 million for the three months ended September 30, 2018. Offsetting these increases was an increase in interest income of \$319,000, or 17.8% from \$1.8 million for the three months ended September 30, 2018, to \$2.1 million for the three months ended September 30, 2019.

**Interest and Dividend Income.** Interest and dividend income increased \$319,000, or 17.8%, to \$2.1 million for the three months ended September 30, 2019, from \$1.8 million for the three months ended September 30, 2018. Interest income on loans increased \$244,000, or 14.5%. This increase is attributable to an increase in the average balance of net loans of \$6.3 million, or 4.1%, from \$153.0 million in the three months ended September 30, 2018, to \$159.2 million in the three months ended September 30, 2019. Further, the yield on net loans increased 45 basis points from 4.41% for the three months ended September 30, 2018 to 4.86% for the three months ended September 30, 2019, primarily due to a rise in adjustable rate loan indexes and higher rates on new loans. Interest-income on interest bearing deposits increased by \$39,000 due to a rise in both volume and rate in interest-bearing deposits with other financial institutions. Also, interest income from investment securities increased by \$21,000 due to a \$1.8 million increase in average investments.

**Interest Expense.** Total interest expense increased \$209,000, or 27.7%, to \$964,000 for the three months ended September 30, 2019, compared to \$755,000 for the three months ended September 30, 2018. Interest expense on deposit accounts increased \$161,000, or 27.8%, to \$739,000 for the three months ended September 30, 2019, compared to \$578,000 for the three months ended September 30, 2018. The increase was primarily due to an increase in the average balance of interest-bearing deposits of \$13.3 million, or 11.1%, from \$120.3 million for the three months ended September 30, 2018, to \$133.6 million for the three months ended September 30, 2019. The total average cost of deposits increased by 29 basis points from 1.93% for the three months ended September 30, 2018, to 2.22% for the three months ended September 30, 2019, due to an increase in market interest rates.

Interest expense on Federal Home Loan Bank advances increased \$49,000 or 27.4%, to \$226,000 for the three months ended September 30, 2019, from \$177,000 for the three months ended September 30, 2018. The increase was primarily due to an increase in the average balance of advances of \$2.0 million, or 6.6%, from \$29.4 million for the three months ended September 30, 2018 to \$31.3 million for the three months ended September 30, 2019. The average cost of these borrowings increased 47 basis points from 2.42% for the three months ended September 30, 2018 to 2.89% for the three months ended September 30, 2019. The increase in cost is due to higher interest rates on new borrowings and borrowings that repriced within the two periods.

**Net Interest Income.** Net interest income increased \$110,000, or 10.6%, when comparing the two periods. This was due to an increase in interest income of \$319,000 when comparing the two periods, while interest expense increased only by \$209,000 when comparing the two periods. Average interest-earning assets for the three months ended September 30, 2018 was \$168.4 million, and it increased \$14.1 million to \$182.5 million for the three months ended September 30, 2019, an increase of 8.4%. Net interest earning assets decreased \$1.1 million, or 6.0%, to \$17.6 million for the three months ended September 30, 2019, from \$18.7 million for the three months ended September 30, 2018.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

### Comparison of Operating Results for the Three Months Ended September 30, 2019 and 2018 (Continued)

**Provision for Loan Losses.** The provision for loan losses increased \$3,000, or 6.0%, to \$53,000 for the three months ended September 30, 2019, from \$50,000 for the three months ended September 30, 2018. The small increase in provision for loan losses can be attributed to the increase in the size of the loan portfolio. Average net loans for the three months ended September 30, 2018 was \$153.0 million and it increased \$6.3 million to \$159.2 million for the three months ended September 30, 2019.

The allowance for loan losses reflects the estimate we believe adequate to cover inherent probable losses. While we believe the estimates and assumptions used in our determination of the adequacy of the allowance are reasonable, such estimates and assumptions could change based upon the risk characteristics of the various portfolio segments, experience with losses, the impact of economic conditions on borrowers and other relevant factors.

**Non-Interest Income.** Non-interest income increased \$24,000, or 17.6% to \$158,000 for the three months ended September 30, 2019, from \$135,000 for the comparable three months ended September 30, 2018. The increase was primarily due to an increase in gain on sale of loans from \$63,000 for the three months ended September 30, 2018 to \$85,000 for the three months ended September 30, 2019.

**Non-Interest Expense.** Non-interest expense increased \$124,000, or 12.3%, to \$1.1 million for the three months ended September 30, 2019, compared to \$1.0 million for the three months ended September 30, 2018. Salaries and employee benefits increased \$60,000, or 13.2%, to \$519,000 for the three months ended September 30, 2019 from \$458,000 for the three months ended September 30, 2018. The increase was associated with a severance accrual as well as the addition of staff and yearly pay raises. Data processing increased by \$26,000 due to expanded capabilities with our core processor. There were also increases in professional fees, federal deposit insurance, occupancy, and other non-interest expenses of \$23,000, \$4,000, \$1,000, and \$24,000, respectively. Offsetting the increases were decreases in director fees and contributions and donations of \$8,000 and \$6,000, respectively.

**Income Taxes.** The Company has recorded an income tax provision of \$31,000 for the three months ended September 30, 2019, an increase of \$12,000, or 66.7%, from the tax provision of \$18,000 recorded in the 3 months ended September 30, 2018. The effective tax rate for the three months ended September 30, 2019 was 25.5% compared to 16.3% for the three months ended September 30, 2018. The higher effective tax rate was due to tax credits recognized in 2018.

### Comparison of Operating Results for the Nine Months Ended September 30, 2019 and 2018

**Net Income.** Net income was \$307,000 for the nine months ended September 30, 2019, compared to net income of \$198,000 for the nine months ended September 30, 2018, an increase of \$108,000 or 54.7%. The increase was primarily due to an increase in interest income of \$1.1 million, or 22.7%, from \$5.0 million for the nine months ended September 30, 2018, to \$6.2 million for the nine months ended September 30, 2019. Non-interest income increased \$128,000, or 35.5%, to \$489,000 for the nine months ended September 30, 2019 from \$361,000 for the nine months ended September 30, 2018. Offsetting these increases was an increase in interest expense of \$765,000, or 37.5%, and an increase in non-interest expense of \$322,000, or 10.7%.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

### Comparison of Operating Results for the Nine Months Ended September 30, 2019 and 2018 (Continued)

**Interest and Dividend Income.** Interest and dividend income increased \$1.1 million, or 22.7%, to \$6.1 million for the nine months ended September 30, 2019, from \$5.0 million for the nine months ended September 30, 2018. Interest income on loans increased \$828,000, or 17.4%. This increase is attributable to an increase in the average balance of net loans of \$9.8 million, or 6.6%. The average balances increased to \$157.5 million from \$147.8 million when comparing the nine months ended September 30, 2019 with the nine months ended September 30, 2018. The weighted average yield on net loans increased 43 basis points from 4.32% for the nine months ended September 30, 2018 to 4.75% for the nine months ended September 30, 2019, primarily due to a rise in adjustable rate loan indexes and higher rates on new loans. Interest-income on interest bearing deposits increased by \$166,000, or 277.0%, due to an increase in average balance of interest-bearing deposits of \$6.7 million. Additionally, yield on interest-bearing deposits increased 114 basis points due to a general rise in interest rates. Also, interest from investment securities (not including Federal Home Loan Bank stock dividends) increased by \$128,000 both due to a \$4.0 million increase in average investments and a 5-basis point increase in yield from investment securities.

**Interest Expense.** Total interest expense increased \$765,000, or 37.5%, to \$2.8 million for the nine months ended September 30, 2019, compared to \$2.0 million for the nine months ended September 30, 2018. Interest expense on deposit accounts increased \$604,000, or 38.9%, to \$2.2 million for the nine months ended September 30, 2019, compared to \$1.6 million for the nine months ended September 30, 2018. The increase was primarily due to an increase in the average balance of interest-bearing deposits of \$16.6 million, or 14.1%, from \$118.2 million for the nine months ended September 30, 2018, to \$134.9 million for the nine months ended September 30, 2019. The total average cost of deposits increased by 39 basis points, from 1.75% for the nine months ended September 30, 2018 to 2.14% for the nine months ended September 30, 2019 due to an increase in market interest rates.

Interest expense on Federal Home Loan Bank advances increased \$161,000 or 33.0%, to \$648,000 for the nine months ended September 30, 2019, from \$487,000 for the nine months ended September 30, 2018. The increase was primarily due to an increase in the average balance of advances of \$4.0 million, or 14.7%, from \$27.3 million for the nine months ended September 30, 2018 to \$31.4 million for the nine months ended September 30, 2019. The average cost of these borrowings increased 38 basis points from 2.38% for the nine months ended September 30, 2018 to 2.76% for the nine months ended September 30, 2019 primarily due to a rise in advance interest rates when comparing the two periods and the repricing of advances since September 30, 2018.

**Net Interest Income.** Net interest income increased \$376,000, or 12.6%, when comparing the two periods. This was due to an increase in interest income of \$1.1 million when comparing the two periods, while interest expense increased by only \$765,000 over the two periods. Average interest-earning assets for the nine months ended September 30, 2018 were \$161.4 million, and it increased \$21.6 million to \$182.9 million for the nine months ended September 30, 2019, an increase of 13.4%. Net interest earning assets increased \$930,000, or 5.9%, to \$16.7 million for the nine months ended September 30, 2019, from \$15.8 million for the nine months ended September 30, 2018. There was also a decrease in net interest margin of 1 basis point from 2.47% for the nine months ended September 30, 2018, to 2.46% for the nine months ended September 30, 2019. The decrease in net interest margin is primarily due to the rises in short-term interest rates causing the yield curve to flatten.

**Provision for Loan Losses.** The provision for loan losses increased \$34,000, or 29.1%, to \$149,000 for the nine months ended September 30, 2019, from \$115,000 for the nine months ended September 30, 2018. The increase in provision for loan losses can be attributed to the increase in the size of the total loan portfolio as well as the shift in loan mix when comparing the two periods. Most of the loan growth is in commercial mortgage loans and commercial and industrial loans while the one-to-four mortgage portfolio has decreased in size over the two periods. Average net loans for the nine months ended September 30, 2018 was \$147.8 million and it increased \$9.8 million to \$157.5 million for the nine months ended September 30, 2019.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

### Comparison of Operating Results for the Nine Months Ended September 30, 2019 and 2018 (Continued)

The allowance for loan losses reflects the estimate we believe adequate to cover inherent probable losses. While we believe the estimates and assumptions used in our determination of the adequacy of the allowance are reasonable, such estimates and assumptions could change based upon the risk characteristics of the various portfolio segments, experience with losses, the impact of economic conditions on borrowers and other relevant factors.

**Non-Interest Income.** Non-interest income increased \$128,000, or 35.5% to \$489,000 for the nine months ended September 30, 2019, from \$361,000 for the nine months ended September 30, 2018. The increase was primarily due to increases in gains on sale of loans of \$64,000, from \$158,000 for the nine months ended September 30, 2018 to \$222,000 for the nine months ended September 30, 2019. There was also an increase in gains on sales of securities of \$51,000 for the nine months ended September 30, 2019. There were no securities sold in the nine months ended September 30, 2018. There was also an increase in loan servicing fees of \$18,000, due to the increase in the size of the servicing portfolio.

**Non-Interest Expense.** Non-interest expense increased \$322,000, or 10.7%, to \$3.3 million for the nine months ended September 30, 2019, compared to \$3.0 million for the nine months ended September 30, 2018. Salaries and employee benefits increased \$294,000, or 22.8%, to \$1.6 million for the nine months ended September 30, 2019 from \$1.3 million for the nine months ended September 30, 2018. The increase was associated with a severance accrual as well as the addition of staff and yearly pay raises. Data processing increased by \$83,000 due to expanded capabilities with our core processor. There were also increases in occupancy, federal deposit insurance, and other noninterest expense of \$14,000, \$24,000, and \$51,000, respectively. These increases were offset by a decrease of \$126,000 in professional fees, from \$557,000 in the nine months ended September 30, 2018 to \$431,000 in the nine months ended September 30, 2019, and a decrease in director fees of \$14,000, from \$111,000 for the nine months ended September 30, 2018 to \$97,000 for the nine months ended September 30, 2019. The decrease in professional fees is primarily due to a change in auditing firms.

**Income Taxes.** The income tax provision increased by \$40,000 to \$59,000 for the nine months ended September 30, 2019 from \$19,000 for the nine months ended September 30, 2018. The effective tax rate for the nine months ended September 30, 2019 was 16.2% compared to 8.8% for the nine months ended September 30, 2018. The higher effective tax was due to tax credits recognized in 2018.



**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)****Revision of Prior Period Financial Statements**

During the 4th quarter of 2018, the Company identified and corrected an error related to its accounting treatment of accrued interest on investor sold loans and loan participations affecting the 3<sup>rd</sup> quarter of 2018. Prior period accrued interest receivable accounts were overstated at September 30, 2018 by \$335,000. The Company was able to identify the sources of the issues and it resulted in the Company correcting interest income and the provision for income taxes for the 3<sup>rd</sup> quarter of 2018. On the corresponding balance sheet, the Company's accrued interest receivable was overstated and income taxes receivable was understated. The net effect was an overstatement of total assets and total liabilities and stockholders' equity at September 30, 2018.

Since the errors happened in the 3<sup>rd</sup> quarter of 2018, the Company has revised its financial statements as of and for the nine months and three months ended September 30, 2018. As a result, the comparative data that is presented for the three and nine months ended September 30, 2018, contains the revised information. The tables below show the originally reported and revised income and balance sheet information.

	At or For the Three Months Ended September 30, 2018			
	As Initially Reported		As Revised	
	(In thousands)			
<b>Statement of income information:</b>				
Interest income from loans, including fees	\$	1,818	\$	1,683
Total interest income	\$	1,923	\$	1,788
Net interest income	\$	1,167	\$	1,033
Net interest income after provision for loan losses	\$	1,117	\$	983
Income before income taxes	\$	247	\$	113
Provision (benefit) for income taxes	\$	58	\$	18
Net income	\$	189	\$	95
<b>Balance sheet information:</b>				
Accrued interest receivable	\$	892	\$	557
Other assets	\$	894	\$	977
Total assets	\$	183,770	\$	183,518
Retained earnings	\$	12,586	\$	12,333
Total net worth	\$	20,351	\$	20,099
Total liabilities and stockholders' equity	\$	183,770	\$	183,518

	At or For the Nine Months Ended September 30, 2018			
	As Initially Reported		As Revised	
	(In thousands)			
<b>Statement of income information:</b>				
Interest income from loans, including fees	\$	5,106	\$	4,771
Total interest income	\$	5,356	\$	5,021
Net interest income	\$	3,318	\$	2,983
Net interest income after provision for loan losses	\$	3,203	\$	2,868
Income before income taxes	\$	552	\$	218
Provision (benefit) for income taxes	\$	102	\$	19
Net income	\$	450	\$	198
<b>Balance sheet information:</b>				
Accrued interest receivable	\$	892	\$	557
Other assets	\$	894	\$	977
Total assets	\$	183,770	\$	183,518
Retained earnings	\$	12,586	\$	12,333
Total net worth	\$	20,351	\$	20,099
Total liabilities and stockholders' equity	\$	183,770	\$	183,518



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

### Management of Market Risk

**General.** Our most significant form of market risk is interest rate risk because, as a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of our financial condition and results of operations to changes in market interest rates. Our Asset/Liability Management Committee is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the policy and guidelines approved by our board of directors. We currently utilize a third-party modeling program, prepared on a quarterly basis, to evaluate our sensitivity to changing interest rates, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the board of directors.

Our interest rate risk profile is considered liability-sensitive, which means that if interest rates rise our deposits and other interest-bearing liabilities would be expected to reprice to higher interest rates faster than would our loans and other interest-earning assets. We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. In recent years, we have implemented the following strategies to manage our interest rate risk:

- increasing lower cost core deposits and limiting our reliance on higher cost funding sources, such as time deposits; and
- diversifying our loan portfolio by adding more commercial and industrial loans, which typically have shorter maturities and/or balloon payments, and selling one- to four-family residential mortgage loans, which have fixed interest rates and longer terms.

By following these strategies, we believe that we are well positioned to react to increases in market interest rates.

We do not engage in hedging activities, such as engaging in futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligation residual interests, real estate mortgage investment conduit residual interests or stripped mortgage backed securities.

**Economic Value of Equity.** We analyze our sensitivity to changes in interest rates through an economic value of equity ("EVE") model. EVE represents the difference between the present value of assets and the present value of liabilities. The EVE ratio represents the dollar amount of our EVE divided by the present value of our total assets for a given interest rate scenario. EVE attempts to quantify our economic value using a discounted cash flow methodology while the EVE ratio reflects that value as a form of capital ratio. We estimate what our EVE would be at a specific date. We then calculate what the EVE would be at the same date throughout a series of interest rate scenarios representing immediate and permanent, parallel shifts in the yield curve. We currently calculate EVE under the assumptions that interest rates increase 100, 200, 300 and 400 basis points from current market rates and that interest rates decrease 100 basis points from current market rates.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

### Management of Market Risk (Continued)

The following table presents the estimated changes in our EVE that would result from changes in market interest rates at September 30, 2019. All estimated changes presented in the table are within the policy limits approved by our board of directors.

Basis Point ("bp") Change in Interest Rates (1)	Estimated EVE	Estimated Increase (Decrease) in EVE		EVE as Percent of Economic Value of Assets	
		Dollar Change	Percent Change	EVE Ratio (2)	Change
+400bp	\$ 18,828	\$ (7,427)	(28.29)%	10.02%	(2.42)%
+300bp	20,927	(5,328)	(20.29)%	10.81%	(1.63)%
+200bp	23,020	(3,235)	(12.32)%	11.54%	(0.90)%
+100bp	24,933	(1,322)	(5.04)%	12.13%	(0.30)%
0	26,255	-	0.00%	12.43%	0.00%
-100bp	26,840	585	2.23%	12.42%	(0.01)%

(1) Assumes instantaneous parallel changes in interest rates.

(2) EVE ratio represents the EVE divided by the economic value of assets.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling requires making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The above table assumes that the composition of our interest-sensitive assets and liabilities existing at the date indicated remains constant uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our EVE and will differ from actual results.

### Liquidity and Capital Resources

**Liquidity.** Liquidity is the ability to meet current and future financial obligations of a short-term nature that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund investing activities and current and planned expenditures. Our primary sources of funds are deposits, principal and interest payments on loans and securities, proceeds from the sale of loans, and advances from the Federal Home Loan Bank of Pittsburgh. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and short-term investments including interest-bearing deposits in other financial institutions. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period. At September 30, 2019, the Company had cash and cash equivalents of \$19.2 million. As of September 30, 2019, SSB Bank had \$31.4 million in outstanding borrowings from the Federal Home Loan Bank of Pittsburgh and had \$96.8 million of total borrowing capacity.

At September 30, 2019, the Company had \$16.6 million of loan commitments outstanding which includes \$7.0 million of unused lines of credit, \$4.5 million of unadvanced construction funds, \$2.0 million of commitments to extend credit, and \$3.1 million in letters of credit. We have no other material commitments or demands that are likely to affect our liquidity. If loan demand was to increase faster than expected, or any unforeseen demand or commitment was to occur, we could access our borrowing capacity with the Federal Home Loan Bank of Pittsburgh.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

### Liquidity and Capital Resources (Continued)

Time deposits due within one year of September 30, 2019 totaled \$31.7 million. If these deposits do not remain with us, we may be required to seek other sources of funds, including other time deposits and Federal Home Loan Bank of Pittsburgh advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we paid on time deposits at September 30, 2019. We believe, however, based on past experience that a significant portion of our time deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

SSB Bancorp, Inc. is a separate legal entity from SSB Bank and must provide for its own liquidity to pay any dividends to its stockholders and for other corporate purposes. SSB Bancorp, Inc.'s primary source of liquidity is dividend payments it may receive from SSB Bank. SSB Bank's ability to pay dividends to SSB Bancorp, Inc. is governed by applicable laws and regulations. At September 30, 2019, SSB Bancorp, Inc. (on an unconsolidated basis) had liquid assets of \$3.5 million.

**Capital Resources.** At September 30, 2019, the Bank exceeded all regulatory capital requirements and it was categorized as "well capitalized." We are not aware of any conditions or events since the most recent notification that would change our category.

### Contractual Obligations and Off-Balance Sheet Arrangements

**Contractual Obligations.** In the ordinary course of our operations, we enter into certain contractual obligations. The following tables present our contractual obligations as of the dates indicated.

Contractual Obligations	Total	Payments Due by Period				
		Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years	
(In thousands)						
<b>At September 30, 2019:</b>						
Long-term debt obligations	\$ 31,375	\$ 7,125	\$ 8,000	\$ 6,250	\$ 10,000	
<b>At December 31, 2018:</b>						
Long-term debt obligations	\$ 31,375	\$ 6,250	\$ 15,125	\$ -	\$ 10,000	

**Off-Balance Sheet Arrangements.** We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and unused lines of credit, which involve elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. Our exposure to credit loss is represented by the contractual amount of the instruments. We use the same credit policies in making commitments as we do for on-balance sheet instruments.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The information required by this item is included in Item 2 of this quarterly report under “Management of Market Risk.”

### **Item 4. Controls and Procedures**

Under the supervision and with the participation of our senior management, including our principal executive officer and principal financial officer, SSB Bancorp, Inc. evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective because of the material weaknesses disclosed below. Discussed below are the circumstances and planned remediation efforts regarding material weaknesses related to (1) the allowance for loan losses and the identification and reporting of problem loans, and (2) the recognition of interest income on loans that have been sold or participated out to others.

With the oversight and participation of senior management, we have taken steps to remediate the underlying causes of these material weaknesses as follows:

**Allowance for loan losses and the identification and reporting of problem loans** – Historically, the bank has had very low charge off volume that is typically not representative of known risk levels in the industry. The lack of sufficient charge-off data to formulate qualitative factors by means of traditional methodology has left management to rely on peer group charge-off data. Management has identified that the use of such information and the lack of an abundance of data for use in determining qualitative factors, could impact the financial reporting process by inflating the estimate related to the allowance for loan losses. It is noted however, that the

Allowance was evaluated as of December 31, 2018 and it was determined that the stated financial statement amount at that time appeared reasonable in relation to the financial statements as whole.

To remediate this situation, Company management has had to look for alternative approaches to determining qualitative factors. On a quarterly basis the bank’s charge-off rate over the previous 3 years is calculated. That charge-off rate is multiplied by the Macaulay duration for each loan class to get the qualitative factor for the loans rated as pass. This factor is then multiplied by 25 for watch, 100 for substandard, and 200 for doubtful to determine the qualitative factors for ratings within each loan class. However, loans that are classified as substandard and doubtful will typically be tested for impairment individually, and thus removed from this part of the ALLL calculation. Qualitative factors are used to bolster each class with perceived risk for concentration, additional credit risk, and other perceived risks.

In addition to Management’s response to the material weakness identified, Management has instituted a quarterly review and updating of the qualitative factors used in determining the allowance for loan losses, instituted a monthly review of changes to classified loans (including those designated as nonaccrual or as troubled debt restructurings) for accuracy and completeness and required that any changes to the allowance for loan losses be approved by the chief executive officer and the chief financial officer, among other steps.

Loan ratings are now reviewed monthly by the chief executive officer, chief financial officer, commercial loan manager, and consumer loan manager. Each credit is discussed, and updates are provided to make any necessary adjustments to ratings or classifications. These updates are considered in the current quarter’s ALLL estimates as necessary and will provide for more relevant and timely adjustment, if required, for specific allowance amounts as well as potentially identify trends in the portfolio that should be considered in our qualitative or quantitative analysis for the quarter.

#### **Item 4. Controls and Procedures (Continued)**

As of September 30, 2019, Management has made the following progress in remediating this material weakness:

- Approved a methodology of determining qualitative factors;
- Held meetings shortly after each month-end to discuss problem loans and ensure that all problem loans have been identified and properly classified;
- Agreed upon qualitative factors for each loan class and rating; and
- Incorporated the new factors into the ALLL calculation.

As of September 30, 2019, there were no remediation steps remaining to be taken, but Management desires to see the process at work through December 31, 2019 to more thoroughly evaluate the impact of the remediation steps taken in 2019. The Company expects to completely remediate the material weakness no later than December 31, 2019 and will continue to monitor its process throughout 2019.

Future filings will include appropriate information necessary to report the status of our remediation plans including any steps remaining to be taken and the estimated time frame to completely remediate the weakness noted.

**Recognition of interest income on sold and participated loans** – The deficiency in internal control over financial reporting relates to shortcomings of the Bank's former core processor and incorrect adjusting entries made to correct the amounts recorded for accrued interest receivable. This deficiency impacted the financial reporting process by an overstatement of interest income. The impact of the errors on the year-end financial statements was evaluated and necessary adjustments were posted to correct the errors that resulted due to the material weakness identified by Management in the recognition of interest income on sold and participated loans.

To remediate this issue and prevent future overstatements of accrued interest income several changes and procedures have been instituted in 2019. We have created a contra-asset account to offset the daily accrual of interest income on sold and participated loans. We have implemented the use of an upgraded core processing system as of May 2019. Until resolved to our satisfaction or until we change core processing applications, all fields and accrual information will be monitored monthly and documented within our financial reporting package.

Enhancing disclosure controls and procedures includes developing and/or revising formal policies and improving relevant procedures. The material weaknesses identified above will not be considered fully remediated until the new or revised policies and procedures have been in place and in operation for a sufficient time so that they may be tested and determined by senior management to be effective.

The prior procedure consisted of breaking down the system accrued interest receivable by loan class and making a comparison to the general ledger. A series of adjustments was then necessary to bring each general ledger account to its proper level. SSB Bank has now converted to a new core processor and believes that this problem will no longer continue, as it has been linked to weaknesses within the old core processor. Even though core processors have been changed, the reconciliation process will remain in place to ensure that system reports are adequate and are reflected in the appropriate general ledger accounts. Reviews of the reconciliations will be properly documented and performed timely.

Below is our progress as of September 30, 2019:

**Item 4. Controls and Procedures (Continued)**

As of September 30, 2019, Management had made the following progress on remediating this material weakness:

- The core processor was upgraded;
- A monthly reconciliation process has been put in place.
- Ongoing month-end reconciliation between the general ledger and system loan accrued interest amounts; and
- Tested accuracy of auto-balancing function used for loan accrued interest receivable accounts by new core processor.

The Company has fully remediated the financial reporting weakness as of September 30, 2019.

Except as disclosed above, there were no other changes made in our internal control over financial reporting during the quarter ended September 30, 2019 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**PART II – OTHER INFORMATION****Item 1. Legal Proceedings**

We are not involved in any pending legal proceedings as a plaintiff or a defendant other than routine legal proceedings occurring in the ordinary course of business. At September 30, 2019, we were not involved in any legal proceedings the outcome of which we believe would be material to our financial condition or results of operations.

**Item 1A. Risk Factors**

Not applicable, as the Company is a “smaller reporting company.”

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

- (a) Not applicable.
- (b) Not applicable.
- (c) The Company did not repurchase any shares of its common stock during the quarter ended September 30, 2019.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.



**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#">Articles of Incorporation of SSB Bancorp, Inc. <sup>(1)</sup></a>
3.2	<a href="#">Bylaws of SSB Bancorp, Inc. <sup>(2)</sup></a>
10.1	<a href="#">SSB Bancorp, Inc. 2019 Equity Incentive Plan <sup>(3)</sup></a>
31.1	<a href="#">Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2	<a href="#">Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.0	The following materials for the quarter ended September 30, 2019, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Changes in Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements

---

(1) Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-220403).

(2) Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-220403).

(3) Incorporated by reference to Appendix A to the Revised Definitive Proxy Solicitation Materials for the 2019 Annual Meeting of Stockholders.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### **SSB BANCORP, INC.**

Date: November 14, 2019

*/s/ J. Daniel Moon, IV*

---

J. Daniel Moon, IV  
President and Chief Executive Officer

Date: November 14, 2019

*/s/ Benjamin A. Contrucci*

---

Benjamin A. Contrucci  
Chief Financial Officer

