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

# FORM 10-K/A
**(Amendment No. 1)**

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the Fiscal Year Ended December 31, 2018**

OR

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

For the transition period from _____________ to _______________

Commission File Number: **000-55898**

# SSB Bancorp, Inc.
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Maryland** | **82-2776224** |
| (State or other jurisdiction of incorporation or organization | (I.R.S. Employer Identification Number) |
| **8700 Perry Highway, Pittsburgh, Pennsylvania** | **15237** |
| (Address of principal executive offices) | (Zip code) |

**(412) 837-6955**
(Registrant's telephone number, including area code)

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

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

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

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

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 reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] 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 (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 [ ] Accelerated filer [ ] Non-accelerated filer [X] Smaller reporting company [X] Emerging growth company [X]

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

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

As of June 30, 2018, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was $7,465,872.

As of May 17, 2019, there were 2,248,250 outstanding shares of the registrant's common stock, of which 1,236,538 shares are owned by SSB Bancorp, MHC.

## EXPLANATORY NOTE

Effective January 24, 2018, SSB Bancorp, Inc. (the "Company") became the holding company for SSB Bank upon the reorganization of SSB Bank into the mutual holding company structure. On March 29, 2019, the Company filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the "Original Filing"). The Original Filing includes the Company's audited consolidated financial statements at and for the year ended December 31, 2018 and the audit report rendered by the Company's independent registered public accounting firm thereon, and SSB Bank's audited financial statements at and for the year ended December 31, 2017. The sole purpose of this Form 10-K/A is to file the audit report rendered by the independent registered public accounting firm that audited the financial statements of SSB Bank at and for the year ended December 31, 2017.

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**PART II**

**ITEM 8.** **Financial Statements and Supplementary Data**

SSB Bancorp, Inc.

PITTSBURGH, PENNSYLVANIA

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

SSB Bancorp, Inc.
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

## Report of Independent Registered Public Accounting Firm

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

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of SSB Bancorp, Inc. and subsidiary (the Company) as of December 31, 2018, the related consolidated statements of net income, comprehensive income, change in stockholders' equity and cash flows, for the year then ended, and the related notes (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

*/s/ Zeno, Pockl, Lilly and Copeland, A.C.*

We have served as the Company's auditor since 2018.

Wheeling, West Virginia
March 29, 2019

WOLF
& COMPANY, P.C.

**Report of Independent Registered Public Accounting Firm**

To the Board of Trustees of SSB Bank:

Opinion on the Financial Statements

We have audited the accompanying balance sheet of SSB Bank (the "Bank") as of December 31, 2017, the related statements of net income, comprehensive income, changes in net worth and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2017, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the Bank's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Bank in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

We served as the Bank's auditor from 2017 to 2018.

Wolf & Company, P.C.

Boston, Massachusetts
April 17, 2018

SSB Bancorp, Inc.
CONSOLIDATED BALANCE SHEETS

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 2,428,542 | $ 2,558,134 |
| Interest-bearing deposits with other financial institutions | 6,605,528 | 13,919,932 |
| Cash and cash equivalents | 9,034,070 | 16,478,066 |
| | | |
| Certificates of deposit | 846,000 | 943,000 |
| Securities available for sale | 9,068,101 | 2,616,350 |
| Securities held to maturity (fair value of $6,478, and $9,494, respectively) | 6,394 | 9,797 |
| Loans | 159,654,582 | 141,615,982 |
| Allowance for loan losses | (1,124,925) | (1,041,445) |
| Net loans | 158,529,657 | 140,574,537 |
| Accrued interest receivable | 639,474 | 476,417 |
| Federal Home Loan Bank stock, at cost | 2,651,400 | 2,162,600 |
| Premises and equipment, net | 4,335,514 | 4,358,006 |
| Bank-owned life insurance | 2,429,014 | 2,358,519 |
| Deferred tax asset, net | 312,623 | 328,169 |
| Prepaid reorganization and stock issuance costs | - | 837,944 |
| Other assets | 940,098 | 762,086 |
| TOTAL ASSETS | $ 188,792,345 | $ 171,905,491 |
| | | |
| LIABILITIES | | |
| Deposits: | | |
| Noninterest-bearing demand | $ 5,698,782 | $ 440,871 |
| Interest-bearing demand | 8,386,431 | 23,167,923 |
| Money market | 16,020,446 | 14,597,811 |
| Savings | 12,883,970 | 12,524,304 |
| Time | 93,119,137 | 81,699,115 |
| Total deposits | 136,108,766 | 132,430,024 |
| | | |
| Federal Home Loan Bank advances | 31,374,500 | 26,416,200 |
| Advances by borrowers for taxes and insurance | 685,195 | 688,451 |
| Accrued interest payable | 255,486 | 206,597 |
| Other liabilities | 49,311 | 52,621 |
| TOTAL LIABILITIES | 168,473,258 | 159,793,893 |
| | | |
| STOCKHOLDERS’ EQUITY | | |
| 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 2,248,250 shares issued and outstanding at $0.01 par value | 22,483 | - |
| Paid-in capital | 8,692,971 | - |
| Retained earnings | 12,515,501 | 12,135,085 |
| Unearned Employee Stock Ownership Plan (ESOP) | (837,245) | - |
| Accumulated other comprehensive loss | (74,623) | (23,487) |
| TOTAL STOCKHOLDERS’ EQUITY | 20,319,087 | 12,111,598 |
| | | |
| TOTAL LIABILITIES AND STOCKHOLERS’ EQUITY | $ 188,792,345 | $ 171,905,491 |

See accompanying notes to the consolidated financial statements.

SSB Bancorp, Inc.
CONSOLIDATED STATEMENTS OF NET INCOME

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| INTEREST INCOME | | |
| Loans, including fees | $ 6,634,017 | $ 6,010,306 |
| Interest-bearing deposits with other financial institutions | 83,195 | 46,443 |
| Certificates of deposit | 14,783 | 23,189 |
| Investment securities: | - | - |
| Taxable | 252,895 | 106,867 |
| Exempt from federal income tax | 33,298 | 36,747 |
| Total interest income | 7,018,188 | 6,223,552 |
| INTEREST EXPENSE | | |
| Deposits | 2,199,932 | 1,772,755 |
| Federal Home Loan Bank advances | 700,026 | 543,722 |
| Total interest expense | 2,899,958 | 2,316,477 |
| NET INTEREST INCOME | 4,118,230 | 3,907,075 |
| Provision for loan losses | 150,000 | 247,042 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 3,968,230 | 3,660,033 |
| NONINTEREST INCOME | | |
| Securities gains, net | - | 547 |
| Provision for loss on loans held for sale | - | - |
| Gain on sale of loans | 182,175 | 347,617 |
| Loan servicing fees | 143,236 | 96,503 |
| Earnings on bank-owned life insurance | 70,495 | 51,612 |
| Other | 64,370 | 30,848 |
| Total noninterest income | 460,276 | 527,127 |
| NONINTEREST EXPENSE | | |
| Salaries and employee benefits | 1,733,102 | 1,452,447 |
| Occupancy | 375,251 | 261,360 |
| Professional fees | 700,927 | 359,602 |
| Federal deposit insurance | 157,500 | 126,500 |
| Data processing | 331,556 | 280,947 |
| Director fees | 139,570 | 86,748 |
| Contributions and donations | 71,257 | 55,902 |
| Other | 475,663 | 390,477 |
| Total noninterest expense | 3,984,826 | 3,013,983 |
| Income before income taxes | 443,680 | 1,173,177 |
| Provision for income taxes | 63,264 | 584,079 |
| NET INCOME | $ 380,416 | $ 589,098 |
| EARNINGS PER COMMON SHARE | | |
| Basic | $ 0.18 | $ N/A |
| Diluted | $ 0.18 | $ N/A |
| AVERAGE COMMON SHARES OUTSTANDING | | |
| Basic | 2,162,322 | N/A |
| Diluted | 2,162,322 | N/A |
| DIVIDENDS DECLARED PER COMMON SHARE | - | $ N/A |
| COMPREHENSIVE INCOME | $ 329,280 | $ 616,859 |

See accompanying notes to the consolidated financial statements.

SSB Bancorp, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net income | $ 380,416 | $ 589,098 |
| Other comprehensive income (loss): | | |
| Net change in unrealized gain (loss) on available-for-sale securities | (65,130) | 42,617 |
| Income tax effect | 13,994 | (14,493) |
| | | |
| Reclassification adjustment for net securities (gains) losses recognized in income | - | (547) |
| Income tax effect included in provision for income taxes | - | 184 |
| Other comprehensive income (loss), net of tax | (51,136) | 27,761 |
| Total comprehensive income | $ 329,280 | $ 616,859 |

See accompanying notes to the consolidated financial statements.

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

| | Common Stock | Paid-in capital | Retained earnings | Unearned Employee Stock Ownership Plan | Accumulated other comprehensive loss | Total |
|---|---|---|---|---|---|---|
| Balance as of January 1, 2017 | $ - | $ - | $ 11,542,127 | $ - | $ (47,388) | $ 11,494,739 |
| Reclassification of certain income tax effects from accumulated other comprehensive loss | - | - | 3,860 | - | (3,860) | - |
| Net income | - | - | 589,098 | - | - | 589,098 |
| Other comprehensive income | - | - | - | - | 27,761 | 27,761 |
| 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) |
| Amortizaton of ESOP | - | (3,073) | - | 44,065 | - | 40,992 |
| Balance as of December 31, 2018 | $ 22,483 | $ 8,692,971 | $ 12,515,501 | $ (837,245) | $ (74,623) | $ 20,319,087 |

See accompanying notes to the consolidated financial statements.

SSB Bancorp, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| OPERATING ACTIVITIES | | |
| Net income | $ 380,416 | $ 589,098 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 150,000 | 247,042 |
| Depreciation | 156,968 | 57,753 |
| Net amortization of investment securities | 19,398 | 11,416 |
| Origination of loans held for sale | (9,542,543) | (14,467,060) |
| Proceeds from sale of loans | 9,724,718 | 14,814,677 |
| Gain on sale of loans | (182,175) | (347,617) |
| Deferred income tax provision (benefit) | (15,546) | 255,291 |
| Investment securities gains, net | - | (547) |
| Increase in accrued interest receivable | (163,057) | (63,362) |
| Decrease in accrued interest payable | 48,889 | 39,170 |
| Amortization of ESOP | 40,992 | - |
| Increase in bank owned life insurance | (70,495) | (51,612) |
| Other, net | (58,068) | (329,148) |
| Net cash provided by (used in) operating activities | 489,497 | 755,101 |
| INVESTING ACTIVITIES | | |
| Purchase of certificates of deposit | (248,000) | - |
| Redemption of certificates of deposit | 345,000 | 447,000 |
| Investment securities available for sale: | | |
| Purchases | (6,900,211) | - |
| Proceeds from sales | - | 314,190 |
| Proceeds from principal repayments, calls, and maturities | 363,932 | 327,068 |
| Investment securities held to maturity: | | |
| Proceeds from principal repayments, calls, and maturities | 3,403 | 4,333 |
| Redemption of Federal Home Loan Bank stock | 182,000 | 254,000 |
| Purchase of Federal Home Loan Bank stock | (670,800) | (1,067,300) |
| Purchases of loans | (5,841,464) | (12,213,156) |
| Increase in loans receivable, net | (12,341,824) | (11,854,375) |
| Proceeds from sale of portfolio loans | - | 6,934,868 |
| Proceeds from sale of other real estate owned | - | - |
| Purchases of premises and equipment | (134,476) | (2,738,553) |
| Proceeds from sale of premise and equipment | | 2,000 |
| Purchase of bank-owned life insurance | - | (750,000) |
| Net cash (used for) provided by investing activities | (25,242,440) | (20,339,925) |
| FINANCING ACTIVITIES | | |
| Increase in deposits, net | 3,678,742 | 23,059,140 |
| Decrease in advances by borrowers for taxes and insurance | (3,256) | (281,485) |
| Net proceeds from stock offering | 8,718,527 | - |
| Purchase of ESOP shares | (881,310) | - |
| Repayment of Federal Home Loan Bank advance | (9,291,700) | (2,000,000) |
| Proceeds from Federal Home Loan Bank advances | 14,250,000 | 9,291,700 |
| Decrease (increase) in prepaid reorgainization and stock issuance costs | 837,944 | (837,944) |
| Net cash provided by (used in) financing activities | 17,308,947 | 29,231,411 |
| Increase (decrease) in cash and cash equivalents | (7,443,996) | 9,646,587 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 16,478,066 | 6,831,479 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 9,034,070 | $ 16,478,066 |
| SUPPLEMENTAL CASH FLOW DISCLOSURES | | |
| Cash paid during the year for: | | |
| Interest | $ 2,851,069 | $ 2,277,307 |

| | | |
|---|---|---|
| Income taxes | 117,368 | 766,917 |
| | | |
| Noncash investing activities: | | |
| Loans held for sale transferred to loans held for investment | - | 12,556,452 |

See accompanying notes to the consolidated financial statements.

SSB Bancorp, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

**SSB Bancorp, Inc.**

SSB Bancorp, Inc. 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, SSB Bancorp, Inc. sold 1,011,712 shares of common stock at an offering price of $10 per share. The common stock is quoted on the OTC Bulletin Board under the symbol "SSBP". Also, in connection with the Reorganization, SSB Bank established an employee stock ownership plan (the "ESOP"), which purchased 88,131 shares of common stock at a price of $10 per share. In the Reorganization SSB Bancorp, Inc. 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 consolidated financial statements include the accounts of SSB Bancorp, Inc. and SSB Bank (collectively, the "Company"). 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Use of Estimates

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.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of the deferred tax assets.

In connection with the determination of the allowance for loan losses, management periodically obtains independent appraisals for significant properties. A majority of the Bank's loan portfolio consists of commercial mortgage loans and single-family residential loans in the Pittsburgh area. Real estate prices in this market have been generally stable; however, the ultimate collectability of the Bank's loan portfolio is susceptible to changes in local market conditions. While management currently uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for losses on loans. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowance for loan losses may change materially in the near term.

In connection with deferred tax assets, the Bank uses an estimate of future earnings to support the position that the benefit of deferred tax assets will be realized. If future income should prove non-existent or less than the amount of the deferred tax assets within the tax years to which they may be applied, the asset may not be realized and the Bank's net income will be reduced.

### Concentrations of Credit Risk

The majority of the loans and commitments to extend credit have been granted to customers in the Pittsburgh market and surrounding communities. The Bank does not have any significant concentrations in any one industry or customer. Although the Bank has a diversified loan portfolio at December 31, 2018 and 2017, its debtors' ability to honor their contracts is influenced by the region's economy.

### Cash and Cash Equivalents

The Bank considers all cash and amounts due from banks and interest-bearing deposits with other financial institutions with original maturities of 90 days or less to be cash equivalents for purposes of the statements of cash flows. From time to time, the Bank may invest funds with other financial institutions through certificates of deposit. Certificates of deposit are carried at cost and have original maturities of greater than ninety days.

### Investment and Mortgage-Backed Securities

Investment and mortgage-backed securities are classified at the time of purchase, based upon management's intentions and ability, as securities held to maturity or securities available for sale. Debt securities, including mortgage-backed securities acquired with the intent and ability to hold to maturity are stated at cost adjusted for the amortization of premiums and accretion of discounts, which are computed using the level yield interest method and recognized as adjustments of interest income over the contractual terms of the securities. Unrealized holding gains and losses for available-for-sale securities are reported as a separate component of net worth, net of tax, until realized. Realized securities gains and losses are recognized on the trade date and computed using the specific identification method. Interest and dividends on investment securities are recognized as income when earned.

**Investment and Mortgage-Backed Securities (continued)**

Securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the length of time and extent to which the fair value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its fair value, and whether or not the Bank intends to sell the security or whether it is more likely than not that the Bank would be required to sell the security before its anticipated recovery in fair value. For securities evaluated for impairment, management will determine what portion of the unrealized valuation loss is attributed to projected or known loss of principal, and what portion is attributed to market pricing based on current cash flow analysis. Management will generally record impairment equivalent to the projected or known loss of principal, known as the credit loss. The other portion of the fair market value loss is attributed to market factors and it is management's opinion that these fair value losses are temporary and not permanent. A decline in value that is considered to be other than temporary is recorded as a loss within noninterest income in the statements of net income.

**Federal Home Loan Bank Stock**

As a member of the Federal Home Loan Bank of Pittsburgh (FHLB) the Bank is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding from the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment as necessary. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

**Loans Held for Sale**

Loans held for sale are carried at the lower of aggregate cost or fair value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. As of December 31, 2016, there were $6.1 million in commercial mortgage and $14.2 million in residential mortgage loans held for sale with a related valuation allowance of $371,780. In 2017, management sold $7.3 million of these loans and made a determination to transfer the remaining $12.6 million in loans as held for investment. The loans were transferred to the portfolio at fair value and the remaining valuation allowance of approximately $255,000 is being amortized into interest income utilizing the effective interest method. There were no loans held for sale as of December 31, 2018 or 2017.

In addition, management sells certain fixed-rate residential mortgage loans periodically through the FHLB's Mortgage Partnership Finance Program. There were no loans held for sale outstanding under this program as of December 31, 2018 or 2017.

**Loans and Allowance for Loan Losses**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at unpaid principal balances, less the allowance for loan losses and as adjusted for third-party loan acquisition costs, deferred origination fees and costs, and discounts on loans previously held for sale. Beginning in 2017, the Bank began deferring all loan origination fees and costs. Prior to 2017, loan origination fees and costs are generally recognized as incurred and were not material for the periods presented.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Loans and Allowance for Loan Losses (continued)**

Interest income is recognized using the level yield method related to principal amounts outstanding. The Bank discontinues the accrual of interest income generally when loans become 90 days past due in either principal or interest. However, these determinations are made on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. In addition, if circumstances warrant, the accrual of interest may be discontinued prior to 90 days. A non-accrual loan will generally be placed back on accrual status after the borrower has become current and has demonstrated continued ability to service the loan.

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses that is charged to operations. The provision is based on management’s evaluation of the adequacy of the allowance for loan losses which encompasses the overall risk characteristics of the various portfolio segments, past experience with losses, the impact of economic conditions on borrowers, and other relevant factors.

Impaired loans are those for which it is probable the Bank will not be able to collect scheduled payments when due according to the contractual terms of the loan agreement. The Bank individually evaluates such loans for impairment and does not aggregate them by major risk classifications. The definition of “impaired loans” is not the same as the definition of “nonaccrual loans,” although the two categories overlap. The Bank may choose to classify a loan as impaired due to payment delinquency or uncertain collectability while not placing the loan on nonaccrual. Factors considered by management in determining impairment include payment status and the financial condition of the borrower. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value or, as a practical expedient in the case of collateral dependent loans, the difference between the fair value of the collateral net of estimated selling costs, if applicable, and the recorded amount of the loans.

Loans which have undergone a significant modification are considered for potential troubled debt restructuring status. A troubled debt restructuring is a loan where management has granted a concession from the original terms to a borrower that is experiencing financial difficulties. A concession is generally granted in order to improve the financial condition of the borrower and improve the likelihood of full collection by the lender. A concession is generally defined as more favorable payment or credit terms granted to a borrower in an effort to improve the likelihood of the Bank collecting principal in its entirety. All loans modified and determined to be a troubled debt restructuring are considered to be impaired.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Large groups of smaller-balance homogenous loans are collectively evaluated for impairment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Loans and Allowance for Loan Losses (continued)**

In reviewing risk within the Bank's loan portfolio, management has determined there to be several different risk categories within the loan portfolio. The allowance for loan losses consists of amounts applicable to: (i) the one-to-four family mortgage portfolio; (ii) the commercial mortgage portfolio; (iii) the commercial and industrial portfolio; and (iv) the consumer portfolio. Factors considered in this process included general loan terms, collateral, and availability of historical data to support the analysis. Risk characteristics within the portfolios are noted as follows:

One-to-four family residential real estate – All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment. To a lesser extent, the Bank originates construction loans on residential properties, which have an increased risk attributable to possible construction delays or costs over-runs.

Commercial real estate – Loans in this segment are primarily income-producing properties in the Pittsburgh area. The underlying cash flows generated by the properties can be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, could have an effect on the credit quality in this segment. Management continually monitors the cash flows of these loans.

Commercial and industrial – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, could have an effect on the credit quality in this segment.

Consumer and HELOC – Loans in this segment are generally unsecured except for home equity lines of credit, which are secured by residential real estate. Repayment on unsecured consumer loans is dependent on the credit quality of the individual borrower.

In terms of the Bank's loan portfolio, the commercial and industrial loans and commercial mortgage loans are deemed to have more risk than the one-to-four family mortgage loans and other consumer loans in the portfolio. The commercial and industrial loans are highly dependent on the borrowers' financial condition and therefore are more dependent on economic conditions. The commercial mortgage loans are also dependent on economic conditions but generally have stronger forms of collateral.

Management's assessment of historical loss experience is used as the basis for the general reserve component. Certain qualitative factors are then added to adjust the historical allocation percentage to get the total factor to be applied to performing loans. The following qualitative factors are analyzed:

- Quality of lending policies and procedures and other credit quality indicators
- Levels of and trends in delinquencies
- Trends in volume and terms
- Trends in credit quality ratings
- Changes in management and lending staff
- Economic trends
- Concentrations of credit

The Bank analyzes its loan portfolio each month to determine the appropriateness of its allowance for loan losses.

In calculating the allowance, management will begin by compiling the balance of loans by credit quality for each loan segment in order that allocations can be made in aggregate based on historic losses and qualitative factors. Prior to calculating these aggregate allocations, management will individually evaluate commercial and industrial and commercial mortgage loans for impairment. One-to-four family mortgages and consumer loans are not individually evaluated for impairment and are therefore allocated for in aggregate, unless the loan was subject to a modification or is nonperforming. The loans measured in aggregate are considered to be large groups of smaller-balance homogenous loans and are measured for impairment collectively.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Other Real Estate Owned**

Other real estate owned acquired in settlement of foreclosed loans is carried as a component of other assets at fair value, less estimated costs to sell. Prior to foreclosure, the estimated collectible value of the collateral is evaluated to determine whether a partial charge-off of the loan balance is necessary. After transfer to other real estate owned, any subsequent write-downs are charged against other operating expenses. Direct costs incurred in the foreclosure process and subsequent holding costs incurred on such properties are recorded as expenses of current operations. As of December 31, 2018 and 2017, included with other assets are $138,100, and $59,932, respectively, of property from one-to-four family residential mortgages that were foreclosed on. As of December 31, 2018, there were no foreclosures in process for residential real estate. Additionally, foreclosure proceedings have started on one additional one-to-four family residential mortgage with a balance of $76,552.

**Mortgage Servicing Rights (MSRs)**

The Bank recognizes, as separate assets, rights to service mortgage loans for others, whether the rights are acquired through purchase or after origination and sale of mortgage loans. The Bank initially measures MSRs at fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively is based on the present value of estimated future net servicing income. Servicing assets are subsequently measured using the amortization method, which requires servicing rights to be amortized into noninterest income. The Bank amortizes these assets on a straight-line basis over the estimated life of the loan which does not differ materially from the proportional amortization method. The Bank performs a periodic review for impairment in the carrying value of mortgage servicing rights. Any impairment is recognized through a valuation allowance with a corresponding charge in the statements of net income.

**Premises and Equipment**

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 10 years for furniture, fixtures, and equipment and 40 years for buildings. Expenditures for maintenance and repairs are charged against income as incurred.

**Bank-Owned Life Insurance**

The Bank invests in bank-owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance policies by the Bank on a chosen group of employees. The Bank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies, as well as proceeds received in excess of cash surrender values, are included in other income in the statement of net income, and are not subject to income taxes.

**Transfers of Financial Assets**

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Income Taxes**

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws in the period of enactment. Accordingly, changes resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017 have been recognized in the financial statements as of and for the year ended December 31, 2017. A valuation allowance is established against deferred tax assets when, based upon the available evidence including historical and projected taxable income, it is more likely than not that some or all of the deferred tax assets will not be realized.

**Comprehensive Income**

Comprehensive income or loss consists of net income or loss and other comprehensive income or loss that includes changes in the unrealized gains and losses on securities available for sale. Additionally, the unrealized gains and losses at the end of the period are recorded in accumulated other comprehensive income (loss) on the balance sheets, net of tax.

On February 14, 2018, the Financial Accounting Standards Board (FASB) finalized Accounting Standards Update (ASU) 2018-02 - *Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated other Comprehensive Income*. This accounting standard allows companies to reclassify the “stranded” tax effects in accumulated other comprehensive income that resulted from the Tax Cuts and Jobs Act, which requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws, to retained earnings.

The Bank has elected to early adopt this accounting standard, which provides a benefit to the financial statements by more accurately aligning the impacts of the items carried in accumulated other comprehensive income with the associated tax effect. The adoption resulted in a one-time cumulative effect adjustment of $3,860 between retained earnings and accumulated other comprehensive income. The adjustment had no impact on net income or any prior periods presented.

**Advertising Costs**

Advertising costs are expensed as incurred. When applicable, a contract is amortized over its term.

**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 and “emerging growth company.” As an emerging growth company, the Bank may 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. We intend to take advantage of the benefits of extended transition periods. Accordingly, our financial statements may not be comparable to those of public companies that adopt the 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 FASB issued 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. Early adoption is permitted, but only for annual reporting periods beginning after December 15, 2016. The Update is not expected to have a significant impact on the Company’s consolidated financial statements, as substantially all of the Company’s revenues are outside the scope of the guidance.

**Recent Accounting Standards (Continued)**

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. Entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Update is not expected to have a significant impact on the Company's consolidated financial statements.

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. As of December 31, 2018, the Company had no contractual lease payments under operating lease agreements based on current guidance.

**Reclassification of Certain Accounts**

Certain deposit account types have been reclassified as of December 31, 2018. The amount reclassified from interest-bearing demand deposits to noninterest-bearing demand deposits totaled $8.7 million. The reclassification is for presentation purposes and does not impact earnings.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Recent Accounting Standards (Continued)**

In June 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. ASU 2016-13 is effective for public business entities that meet the definition of a Securities and Exchange Commission (SEC) filer, for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For public business entities that do not meet the definition of an SEC filer, for fiscal years beginning after December 15, 2020, 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 Bank 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 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 Bank chose to early adopt the new standard for the year ended December 31, 2017, as allowed. The amount of the reclassification for the Bank was $3,860, as shown in the Company's consolidated statement of changes in stockholders' equity.

## 3. SECURITIES AVAILABLE FOR SALE

The amortized cost and fair values of securities available for sale are as follows:

| | 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 | $ 9,162,962 | $ 653 | $ (95,514) | $ 9,068,101 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Mortgage-backed securities in government-sponsored entities | $ 524,873 | $ - | $ (5,615) | $ 519,258 |
| Obligations of state and political subdivisions | 1,626,608 | 852 | (27,582) | 1,599,878 |
| Corporate bonds | 300,952 | 1,399 | (453) | 301,898 |
| U.S. treasury securities | 193,647 | 1,669 | - | 195,316 |
| Total | $ 2,646,080 | $ 3,920 | $ (33,650) | $ 2,616,350 |

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 a year to 25 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.

| | December 31, 2018 | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Due within one year or less | $ 422,899 | $ 422,195 |
| Due after one year through five years | 2,658,432 | 2,633,090 |
| Due after five years through ten years | 2,263,017 | 2,212,837 |
| Due after ten years | 3,818,614 | 3,799,979 |
| Total | $ 9,162,962 | $ 9,068,101 |

In 2017, proceeds from sales of investment securities available for sale were $314,190 with a gross realized gain of $547. There were no sales of investment securities in 2018.

## 4. SECURITIES HELD TO MATURITY

The amortized cost and fair values of securities held to maturity are as follows:

| | 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 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Mortgage-backed securities in government-sponsored entities | $ 9,797 | $ - | $ (303) | $ 9,494 |
| Total | $ 9,797 | $ - | $ (303) | $ 9,494 |

The amortized cost and fair value of mortgage-backed securities held to maturity at December 31, 2018, by contractual maturity, are shown below. Mortgage-backed securities provide for periodic payments of principal and interest and have contractual maturities ranging from less than a year to 9 years. Due to expected repayment terms being significantly less than the underlying mortgage pool contractual maturities, actual lives of these securities could be significantly shorter.

| | December 31, 2018 | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Due within one year or less | $ 18 | $ 18 |
| Due after one year through five years | 4,879 | 4,913 |
| Due after five years through nine years | 1,497 | 1,547 |
| Total | $ 6,394 | $ 6,478 |

## 5. UNREALIZED LOSSES ON SECURITIES

The following tables show the Bank'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:

| | 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 |
| U.S. treasury securities | $ 159,275 | $ (124) | $ - | $ - | $ 159,275 | $ (124) |
| 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) |
| Total | $ 6,982,809 | $ (45,923) | $ 1,938,627 | $ (49,591) | $ 8,921,436 | $ (95,514) |

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 519,258 | $ (5,615) | $ 9,494 | $ (303) | $ 528,752 | $ (5,918) |
| Obligations of state and political subdivisions | 1,044,275 | (7,238) | 405,521 | (20,344) | 1,449,796 | (27,582) |
| Corporate bonds | 199,898 | (453) | - | - | 199,898 | (453) |
| Total | $ 1,763,431 | $ (13,306) | $ 415,015 | $ (20,647) | $ 2,178,446 | $ (33,953) |

Management reviews the Bank's securities positions quarterly. There were 25 investments that were temporarily impaired as of December 31, 2018, with aggregate depreciation of less than 2 percent from the Bank's amortized cost basis. At December 31, 2018, the declines outlined in the above table represent temporary declines and the Bank 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 Bank 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 noncollection of principal and interest during the period.

## 6. LOANS

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

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Mortgage loans: | | |
| One-to-four family | $ 75,520,850 | $ 75,858,226 |
| Commercial | 59,494,384 | 50,122,058 |
| | 135,015,234 | 125,980,284 |
| | | |
| Commercial and industrial | 19,166,207 | 11,455,554 |
| Consumer | 5,404,216 | 4,014,258 |
| | 159,585,657 | 141,450,096 |
| | | |
| Third-party loan acquisition and other net origination costs | 268,101 | 385,883 |
| Discount on loans previously held for sale | (199,176) | (219,997) |
| Allowance for loan losses | (1,124,925) | (1,041,445) |
| | | |
| Total | $ 158,529,657 | $ 140,574,537 |

The Bank's primary business activity is with customers located in Pittsburgh and surrounding communities. The Bank'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 Bank's underwriting policies. Included in consumer loans is $3,552,786 and $2,165,745 of home equity lines of credit as of December 31, 2018 and 2017, respectively.

During the normal course of business, the Bank may transfer 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 Bank transferred $7,508,671 and $8,129,670 in participation loans, as of December 31, 2018 and 2017, respectively, to other financial institutions. As of December 31, 2018 and 2017, all of these loans were being serviced by the Bank.

In the ordinary course of business, loans are extended to directors, principal officers, and their affiliates. In management's opinion, all of these loans are substantially on the same terms and conditions as loans to other individuals and businesses of comparable credit worthiness. A summary of loan activity for these principal officers, directors, and their affiliates, is as follows:

| | Years Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Balance, beginning of year | $ 917,968 | $ 1,312,925 |
| Additions | 484,223 | 50,226 |
| Repayments | (271,801) | (445,183) |
| Balance, end of year | $ 1,130,390 | $ 917,968 |

## 7. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses 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:

| Year ended December 31, 2018: | Mortgage One-to-Four Family | Mortgage Commercial | Commercial and Industrial | Consumer and HELOC | Total |
|---|---|---|---|---|---|
| **Allowance for loan losses:** | | | | | |
| Beginning balance | $ 513,846 | $ 383,535 | $ 80,854 | $ 63,210 | $ 1,041,445 |
| Charge-offs | (16,429) | - | (9,270) | (40,821) | (66,520) |
| Recoveries | - | - | - | - | - |
| Provision (credit) | (74,878) | 10,365 | 192,137 | 22,376 | 150,000 |
| Ending balance | $ 422,539 | $ 393,900 | $ 263,721 | $ 44,765 | $ 1,124,925 |

| Year ended December 31, 2017: | Mortgage One-to-Four Family | Mortgage Commercial | Commercial and Industrial | Consumer and HELOC | Total |
|---|---|---|---|---|---|
| **Allowance for loan losses:** | | | | | |
| Beginning balance | $ 498,410 | $ 228,763 | $ 59,439 | $ 34,127 | $ 820,739 |
| Charge-offs | - | - | - | (26,336) | (26,336) |
| Recoveries | - | - | - | - | - |
| Provision (credit) | 15,436 | 154,772 | 21,415 | 55,419 | 247,042 |
| Ending balance | $ 513,846 | $ 383,535 | $ 80,854 | $ 63,210 | $ 1,041,445 |

**7. ALLOWANCE FOR LOAN LOSSES (Continued)**

The following tables present the composition of the allowance for loan losses as of December 31, 2018 and 2017, by loan class and segregated by those loans that deemed impaired and those that are not deemed impaired:

| | Mortgage One-to-Four Family | Mortgage Commercial | Commercial and Industrial | Consumer and HELOC | Total |
|---|---|---|---|---|---|
| December 31, 2018 | | | | | |
| **Allowance for loan losses:** | | | | | |
| Loans deemed impaired | $ 28,136 | $ - | $ - | $ - | $ 28,136 |
| Loans not deemed impaired | 394,403 | 393,900 | 263,721 | 44,765 | 1,096,789 |
| Ending Balance | $ 422,539 | $ 393,900 | $ 263,721 | $ 44,765 | $ 1,124,925 |
| December 31, 2018 | | | | | |
| **Loans:** | | | | | |
| Loans deemed impaired | $ 2,486,210 | $ 1,768,845 | $ 155,660 | $ 1,195 | $ 4,411,910 |
| Loans not deemed impaired | 73,034,640 | 57,725,539 | 19,010,547 | 5,403,021 | 155,173,747 |
| Ending Balance | $ 75,520,850 | $ 59,494,384 | $ 19,166,207 | $ 5,404,216 | $ 159,585,657 |

| | Mortgage One-to-Four Family | Mortgage Commercial | Commercial and Industrial | Consumer and HELOC | Total |
|---|---|---|---|---|---|
| December 31, 2017 | | | | | |
| **Allowance for loan losses:** | | | | | |
| Loans deemed impaired | $ 23,870 | $ - | $ - | $ - | $ 23,870 |
| Loans not deemed impaired | 489,976 | 383,535 | 80,854 | 63,210 | 1,017,575 |
| Ending Balance | $ 513,846 | $ 383,535 | $ 80,854 | $ 63,210 | $ 1,041,445 |
| December 31, 2017 | | | | | |
| **Loans:** | | | | | |
| Loans deemed impaired | $ 2,508,658 | $ 1,122,740 | $ 8,251 | $ 29,245 | $ 3,668,894 |
| Loans not deemed impaired | 73,349,568 | 48,999,318 | 11,447,303 | 3,985,013 | 137,781,202 |
| Ending Balance | $ 75,858,226 | $ 50,122,058 | $ 11,455,554 | $ 4,014,258 | $ 141,450,096 |

## 7. ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present the recorded investment of impaired loans by class as of December 31, 2018 and 2017, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary:

| | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| With no allowance recorded: | | | | | | |
| Mortgage loans: | | | | | | |
| One-to-four family | $ 2,211,525 | $ 2,211,525 | $ - | $ 2,356,007 | $ 2,356,007 | $ - |
| Commercial | 1,768,845 | 1,768,845 | - | 1,122,740 | 1,122,740 | - |
| Commercial and Industrial | 155,660 | 155,660 | - | 8,251 | 8,251 | - |
| Consumer and HELOC | 1,195 | 1,195 | - | 29,245 | 29,245 | - |
| With an allowance recorded: | | | | | | |
| Mortgage loans: | | | | | | |
| One-to-four family | 274,685 | 274,685 | 28,136 | 152,651 | 152,651 | 23,870 |
| Commercial | - | - | - | - | - | - |
| Commercial and Industrial | - | - | - | - | - | - |
| Consumer and HELOC | - | - | - | - | - | - |
| Total mortgage loans: | | | | | | |
| One-to-four family | 2,486,210 | 2,486,210 | 28,136 | 2,508,658 | 2,508,658 | 23,870 |
| Commercial | 1,768,845 | 1,768,845 | - | 1,122,740 | 1,122,740 | - |
| Commercial and Industrial | 155,660 | 155,660 | - | 8,251 | 8,251 | - |
| Consumer and HELOC | 1,195 | 1,195 | - | 29,245 | 29,245 | - |
| Total | $ 4,411,910 | $ 4,411,910 | $ 28,136 | $ 3,668,894 | $ 3,668,894 | $ 23,870 |

## 7. ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables presents the average recorded investment and interest income recognized for impaired loans by class for the years ended December 31, 2018 and 2017, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary:

| | Year Ended December 31, 2018 | | Year Ended December 31, 2017 | |
|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| With no allowance recorded: | | | | |
| Mortgage loans: | | | | |
| One-to-four family | $ 1,978,510 | $ 13,292 | $ 2,009,563 | $ 25,968 |
| Commercial | 1,335,330 | 14,372 | 277,799 | 1,000 |
| Commercial and industrial | 116,534 | - | 2,292 | - |
| Consumer and HELOC | 30,502 | 540 | 42,352 | - |
| With an allowance recorded: | | | | |
| Mortgage loans: | | | | |
| One-to-four family | 356,259 | 8,844 | 156,754 | 4,444 |
| Commercial | - | - | - | - |
| Commercial and industrial | - | - | - | - |
| Consumer and HELOC | - | - | - | - |
| Total mortgage loans: | | | | |
| One-to-four family | 2,334,769 | 22,136 | 2,166,317 | 30,412 |
| Commercial | 1,335,330 | 14,372 | 277,799 | 1,000 |
| Commercial and industrial | 116,534 | - | 2,292 | - |
| Consumer and HELOC | 30,502 | 540 | 42,352 | - |
| Total | $ 3,817,135 | $ 37,048 | $ 2,488,760 | $ 31,412 |

7. **ALLOWANCE FOR LOAN LOSSES (Continued)**

**Credit Quality Information**

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

Management further monitors the performance and credit quality of the loan portfolio by analyzing 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:

| | 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 |
| Mortgage loans: | | | | | | | |
| 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 | $ 305,412 | $ 624,784 | $2,952,275 | $3,882,471 | $155,703,186 | $159,585,657 | $ - |

| | December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Das or Greater Past Due | Total Past Due | Current | Total Loans Receivable | 90 Days or Greater Still Accruing |
| Mortgage loans: | | | | | | | |
| One-to-four family | $ 982,168 | $ 399,992 | $1,900,116 | $3,282,276 | $ 72,575,950 | $ 75,858,226 | $ - |
| Commercial | 656,640 | - | 1,122,740 | 1,779,380 | 48,342,678 | 50,122,058 | - |
| Commercial and industrial | 301,783 | - | 8,251 | 310,034 | 11,145,520 | 11,455,554 | - |
| Consumer and HELOC | 662 | 14,386 | 29,245 | 44,293 | 3,969,965 | 4,014,258 | - |
| Total | $1,941,253 | $ 414,378 | $3,060,352 | $5,415,983 | $136,034,113 | $141,450,096 | $ - |

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

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Mortgage loans: | | |
| One-to-four family | $ 2,302,267 | $ 2,108,086 |
| Commercial | 1,094,376 | 1,122,740 |
| Commercial and industrial | 155,660 | 8,251 |
| Consumer and HELOC | 1,195 | 29,245 |
| Total | $ 3,553,498 | $ 3,268,322 |

**Credit Quality Information**

The Bank 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 Bank analyzes commercial loans individually by classifying the loans as to their credit risk. The Bank uses a seven grade internal loan rating system for commercial

- *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.

The risk category of loans by class of loans is as follows:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Mortgage Commercial | Commercial and Industrial | Mortgage Commercial | Commercial and Industrial |
| Loans rated 1 - 5 | $ 57,773,482 | $ 15,028,078 | $ 48,764,928 | $ 11,434,756 |
| Loans rated 6 | - | 3,982,469 | 234,390 | 20,798 |
| Loans rated 7 | 1,720,902 | 155,660 | 1,122,740 | - |
| Total | $ 59,494,384 | $ 19,166,207 | $ 50,122,058 | $ 11,455,554 |

There were no loans classified as doubtful or loss at December 31, 2018 or 2017.

For one-to-four family mortgage and consumer loans, the Bank 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 classes of the loan portfolio based on payment performance:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Mortgage One-to-Four Family | Consumer and HELOC | Mortgage One-to-Four Family | Consumer and HELOC |
| Performing | $ 73,218,583 | $ 5,403,021 | $ 73,750,140 | $ 3,985,013 |
| Nonperforming | 2,302,267 | 1,195 | 2,108,086 | 29,245 |
| Total | $ 75,520,850 | $ 5,404,216 | $ 75,858,226 | $ 4,014,258 |

**Troubled Debt Restructurings**

During the year ended December 31, 2018, the Bank modified three loans as troubled debt restructurings. The three loans were comprised of one one-to-four family mortgage and two commercial mortgages. The one-to-four family mortgage has a balance of $145,279 as of December 31, 2018. It had a pre- and post-modification balance of $146,053 and the concession granted by the Bank was an extension of the maturity date. This loan defaulted in the current reporting period. The two commercial mortgages have an aggregate balance of $674,468 as of December 31, 2018. They had an aggregate pre- and post-modification balance of $678,263 and the concessions granted by the Bank, in both cases, was an extended interest-only period Troubled debt restructurings totaled $1.9 million at December 31, 2018.

During the year ended December 31, 2017, the Bank modified three loans as troubled debt restructurings. In each of these instances, the pre- and post-modified balances were the same. The concession granted by the Bank was an extension of the maturity date for all three of the loans noted. Troubled debt restructurings totaled $1.4 million at December 31, 2017.

As of December 31, 2018 and 2017, the Bank allocated $1,980 and $23,870, respectively, within the allowance for loan losses to loans modified as troubled debt restructurings.

**8. PREMISES AND EQUIPMENT**

Premises and equipment are summarized as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Land | $ 678,000 | $ 678,000 |
| Buildings | 3,924,853 | 3,568,436 |
| Furniture and equipment | 932,353 | 1,154,295 |
| | 5,535,206 | 5,400,731 |
| Accumulated depreciation | (1,199,692) | (1,042,725) |
| Total | $ 4,335,514 | $ 4,358,006 |

Depreciation expense on premises and equipment was $156,968 and $57,573 for the years ended December 31, 2018 and 2017, respectively.

**9. DEPOSITS**

Time deposits include certificates of deposit and other time deposits in denominations of $250,000 or greater aggregating to $13.9 million and $11.6 million at December 31, 2018 and 2017, respectively. The aggregate maturities of time deposits in years 2019 through 2023 and thereafter are as follows at December 31, 2018:

| | |
|---|---|
| 2019 | $ 31,261,950 |
| 2020 | 20,733,210 |
| 2021 | 12,015,017 |
| 2022 | 9,940,388 |
| 2023 | 3,891,657 |
| Thereafter | 15,276,915 |
| | $ 93,119,137 |

Brokered certificates of deposits amounted to $30.7 million and $21.8 million at December 31, 2018, and 2017, respectively.

## 10. BORROWINGS

Pursuant to collateral agreements with the FHLB advances are secured by all stock in the FHLB and a blanket lien on qualifying first mortgage loans. The Bank had a maximum borrowing capacity of $91,876,000 as of December 31 2018. The following table shows the Bank's fixed rate FHLB borrowings:

| | December 31, 2018 | |
|---|---|---|
| Maturing in | Amount | Weighted-Average Rate |
| 2019 | $ 6,250,000 | 2.49% |
| 2020 | 7,124,500 | 2.37 |
| 2021 | 8,000,000 | 2.87 |
| 2025 and thereafter | 10,000,000 | 2.93 |
| Total | $ 31,374,500 | 2.70% |

| | December 31, 2017 | |
|---|---|---|
| Maturing in | Amount | Weighted-Average Rate |
| 2018 | $ 9,291,700 | 1.40% |
| 2019 | 2,000,000 | 2.01 |
| 2020 | 5,124,500 | 2.16 |
| 2023 and thereafter | 10,000,000 | 2.93 |
| Total | $ 26,416,200 | 2.17% |

## 11. INCOME TAXES

Income tax expense is summarized as follows:

| | Years Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Currently payable: | | |
| Federal | $ 32,408 | $ 313,857 |
| State | 1,317 | 14,931 |
| | 33,725 | 328,788 |
| | | |
| Deferred: | | |
| Change in federal corporate tax rate | - | 203,152 |
| Federal | 29,539 | 52,139 |
| | 29,539 | 255,291 |
| | | |
| Total | $ 63,264 | $ 584,079 |

## 11. INCOME TAXES (Continued)

The components of the net deferred tax asset are as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for loan losses | $ 236,234 | $ 221,155 |
| Premises and equipment | - | 1,590 |
| Accrued interest payable | 53,652 | 43,385 |
| Nonaccrual loan interest | 74,936 | 58,311 |
| Write-down on loans held for sale | 41,827 | 46,199 |
| Net unrealized loss on securities | 20,237 | 6,244 |
| Gross deferred tax assets | 426,886 | 376,884 |
| | | |
| Deferred tax liabilities: | | |
| Mortgage servicing rights | (49,212) | (48,715) |
| Premises and equipment | (57,754) | - |
| Other | (7,297) | - |
| Gross deferred tax liabilities | (114,263) | (48,715) |
| Net deferred tax asset | $ 312,623 | $ 328,169 |

The Tax Cuts and Jobs Act, enacted on December 22, 2017, lowered the Bank's federal corporate income tax rate from 34 percent to 21 percent effective January 1, 2018. As a result, the carrying value of the net deferred tax asset was reduced and income tax expense increased by $203,152 for the year ended December 31, 2017.

No valuation allowance was established at December 31, 2018 and 2017, in view of the Bank's ability to recover taxes paid in previous years, to execute certain tax strategies and to anticipate future taxable income as evidenced by the Bank's earnings potential.

Reconciliations of the federal statutory rate to the Bank's effective income tax rate are as follows:

| | Years Ended December 31, 2018 | | 2017 | |
|---|---|---|---|---|
| | Amount | % of Pretax Income | Amount | % of Pretax Income |
| Provision of statutory rate | $ 93,208 | 21.0% | $ 398,879 | 34.0% |
| Tax-exempt interest | (6,993) | (1.6) | (12,494) | (1.1) |
| State income tax | 1,040 | 0.2 | 7,815 | 0.7 |
| Change in corporate tax rate | - | - | 203,152 | 17.3 |
| Other, net | (23,991) | (5.4) | (13,273) | (1.1) |
| Actual tax expense and effective rate | $ 63,264 | 14.2% | $ 584,079 | 49.8% |

U.S. generally accepted accounting principles prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full

## 11. INCOME TAXES (Continued)

knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

The Company did not have any uncertain tax positions at December 31, 2018 or 2017 which would have required accrual or disclosure. The Bank records interest and penalties as part of income tax expense. No interest or penalties were recorded for the years ended December 31, 2018 and 2017.

The Bank’s income tax returns are subject to review and examination by federal and state taxing authorities. With few exceptions, the Bank is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2015.

## 12. 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. All employees who are not union employees, leased employees, or non-resident alien employees are eligible. As of December 31, 2018, all employees were eligible. 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 SSB Bancorp common stock, which was funded by a loan from SSB Bancorp. 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 year ended December 31, 2018, the Company recognized $40,992 in compensation expense.

## 13. 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 1.25% as of December 31, 2017, increased to 1.875% on January 1, 2018, and increased to 2.5% on January 1, 2019. Management believes that the Bank’s capital levels will remain characterized as “well-capitalized” throughout the phase-in periods.

## 13. REGULATORY CAPITAL REQUIREMENTS (Continued)

As of December 31 2018 the most recent notification from the Federal Deposit Insurance Corporation 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.

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio |
| Common Equity Tier 1 capital | | | | |
| (to risk-weighted assets) | | | | |
| Actual | $ 20,393,710 | 14.22% | $ 12,135,085 | 9.47% |
| For capital adequacy purposes | 6,453,270 | 4.50 | 5,718,465 | 4.50 |
| To be well capitalized | 9,321,390 | 6.50 | 8,325,005 | 6.50 |
| Tier 1 capital | | | | |
| (to risk-weighted assets) | | | | |
| Actual | $ 20,393,710 | 14.22% | $ 12,135,085 | 9.47% |
| For capital adequacy purposes | 8,604,360 | 6.00 | 7,684,620 | 6.00 |
| To be well capitalized | 11,472,480 | 8.00 | 10,246,160 | 8.00 |
| Total capital | | | | |
| (to risk-weighted assets) | | | | |
| Actual | $ 21,518,635 | 15.01% | $ 13,176,530 | 10.29% |
| For capital adequacy purposes | 11,472,480 | 8.00 | 10,246,160 | 8.00 |
| To be well capitalized | 14,340,600 | 10.00 | 12,807,700 | 10.00 |
| Tier 1 capital | | | | |
| (to average assets) | | | | |
| Actual | $ 20,393,710 | 11.59% | $ 12,135,085 | 7.85% |
| For capital adequacy purposes | 7,036,287 | 4.00 | 6,186,160 | 4.00 |
| To be well capitalized | 8,795,358 | 5.00 | 7,732,700 | 5.00 |

## 14. EMPLOYEE BENEFIT PLANS

The Bank has a 401(k) plan that covers substantially all employees. The plan provides for employer-matching contributions on employee contributions of up to 3 percent of compensation, plus 50 percent matching up to the next 2 percent of compensation. The Bank paid required employer-matching contributions of $52,608 and $37,686 for the years ended December 31, 2018 and 2017, respectively.

## 15. COMMITMENTS

In the normal course of business, the Bank makes various commitments that are not reflected in the Bank's financial statements. The Bank 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 Bank'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 Bank minimizes its exposure to credit loss under these commitments by subjecting them to credit approval, review procedures and collateral requirements as deemed necessary.

Off-balance sheet commitments consisted of the following:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Commitments to extend credit | $ 2,736,500 | $ 12,123,427 |
| Construction unadvanced funds | 3,711,319 | 4,110,849 |
| Unused lines of credit | 8,186,512 | 3,608,851 |
| | $ 14,634,331 | $ 19,843,127 |

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 Bank uses the same credit policies in making loan commitments and conditional obligations as it does for on-balance sheet instruments. The Bank 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 Bank's lending policy guidelines.

The Bank incurred $2,736 and $69,488 in rent expense in 2018 and 2017, respectively, which is included in occupancy expense on the statements of net income. The decrease is due to the lease of 8150 Perry Highway ending in January 2018.

In August 2017, the Bank entered into employment agreements with three executives 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.

## 16. 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 December 31, 2018 and 2017, 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.

The following tables present the assets reported on the balance sheets at their fair value by level within the fair value hierarchy. Financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. No liabilities were reported at fair value on a recurring basis.

| | 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 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Fair value measurements on a recurring basis: | | | | |
| Mortgage-backed securities in government-sponsored entities | $ - | $ 519,258 | $ - | $ 519,258 |
| Obligations of state and political subdivisions | - | 1,599,878 | - | 1,599,878 |
| Corporate bonds | - | 301,898 | - | 301,898 |
| U.S. treasury securities | 195,316 | - | - | 195,316 |
| Mortgage servicing rights | - | - | 231,977 | 231,977 |
| Impaired loans with reserve | - | - | 112,139 | 112,139 |

## 16. FAIR VALUE MEASUREMENTS (Continued)

| | 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 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Fair value measurements on a nonrecurring basis: | | | | |
| Other real estate owned | $ - | $ - | $ 59,932 | $ 59,932 |

**Loans Held For Sale**

Fair values are estimated based on the discounted value of contractual cash flows adjusted for current market inputs including interest rates and prepayment speeds, as well as adjustments for the credit quality of the borrowers.

**Impaired Loans**

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.

**Other Real Estate Owned**

Other real estate owned (OREO) is measured at fair value, less estimated cost to sell at the date of foreclosure, establishing 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.

The following tables present information related to the assets measured on a nonrecurring basis on the balance sheets at their fair value as of December 31, 2018 and 2017, respectively, by level within the fair value hierarchy. No liabilities were measured at fair value on a nonrecurring basis.

## 16. FAIR VALUE MEASUREMENTS (Continued)

The following table provides the significant unobservable inputs used in the fair value measurement process for items valued using Level III techniques at December 31, 2018 and 2017:

| | 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%) |

| | Fair Value at December 31, 2017 | Valuation Techniques | Valuation Unobservable Inputs | Range (Weighted Average) |
|---|---|---|---|---|
| Other real estate owned | $ 59,932 | Appraised collateral values | Discount for time since appraisal | 10% (10%) |
| | | | Selling costs | 10% (10%) |
| Impaired loans with reserve | 112,139 | Discounted cash flows | Discount for evaluation | 10% (10%) |
| | | | Selling costs | 10% (10%) |
| Mortgage servicing rights | 231,977 | Discounted cash flows | Loan prepayment speeds | 8.67% (8.67%) |

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

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Fair Value | Level I | Level II | Level III |
| Financial assets: | | | | | |
| Cash and cash equivalents | $ 9,034,070 | $ 9,034,070 | $ 9,034,070 | $ - | $ - |
| Certificates of deposit | 846,000 | 837,828 | - | 837,828 | - |
| Investment securities: | | | | | |
| 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 |
| Financial liabilities: | | | | | |
| 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 | - |

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Fair Value | Level I | Level II | Level III |
| Financial assets: | | | | | |
| Cash and cash equivalents | $ 16,478,066 | $ 16,478,066 | $ 16,478,066 | $ - | $ - |
| Certificates of deposit | 943,000 | 946,497 | - | 946,497 | - |
| Investment securities: | | | | | |
| Available for sale | 2,616,350 | 2,616,350 | 195,316 | 2,421,034 | - |
| Held to maturity | 9,797 | 9,494 | - | 9,494 | - |
| Loans, net | 140,574,537 | 139,784,862 | - | - | 139,784,862 |
| Accrued interest receivable | 476,417 | 476,417 | - | 476,417 | - |
| FHLB Stock | 2,162,600 | 2,162,600 | - | - | 2,162,600 |
| Financial liabilities: | | | | | |
| Deposits | 132,430,024 | 132,189,024 | 50,730,909 | - | 81,458,115 |
| FHLB advances | 26,416,200 | 25,602,500 | - | 25,602,500 | - |
| Accrued interest payable | 206,597 | 206,597 | - | 206,597 | - |

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.

## 17. 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 Held For Sale**

Fair values are estimated using current market inputs including interest rates and prepayment speeds, as well as adjustments for the credit quality of the borrowers.

**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 year-end.

## 17. 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 15.

## 18. 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 | |
|---|---|---|
| | Year ended December 31, | |
| | 2018 | 2017 |
| Accumulated other comprehensive income (loss), beginning of period | $ (23,487) | $ (47,388) |
| Other comprehensive income (loss) on securities before reclassification, net of tax | (51,136) | 28,124 |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | - | (363) |
| Net other comprehensive income (loss) | (51,136) | 27,761 |
| Reclassification of certain income tax effects from accumulated other comprehensive loss | | (3,860) |
| Accumulated other comprehensive income (loss), end of period | $ (74,623) | $ (23,487) |

## 19. LEGAL PROCEEDINGS

The Bank is involved in certain claims and legal actions arising in the ordinary course of business. The outcome of these claims and actions is not presently determinable; however, the opinion of the Bank's management, after consulting legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the financial statements.

## 20. EARNINGS PER SHARE

Earnings per common share for the year ended December 31, 2018 are presented in the following table:

| | | Year ended December 31, 2018 |
|---|---|---|
| Net Income | $ | 380,416 |
| | | |
| Shares outstanding for basic EPS: | | |
| Average shares outstanding | | 2,248,250 |
| Less: Average unearned ESOP shares | | 85,928 |
| | | 2,162,322 |
| Additional dilutive shares | | - |
| | | |
| Shares oustanding for basic and diluted EPS | | 2,162,322 |
| | | |
| Basic and diluted income per share | $ | 0.18 |

## 21. SUBSEQUENT EVENTS

The Company has assessed events occurring subsequent to December 31, 2018, through March 29, 2019, for potential recognition and disclosure in the financial statements. No events have occurred that would require adjustment to, or disclosure in, the financial statements which were available to be issued on March 29, 2019.

## PART IV

**ITEM 15. Exhibits and Financial Statement Schedules**

| | |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

## SIGNATURES

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

**SSB BANCORP, INC.**

Date: May 21, 2019

By: */s/ J. Daniel Moon, IV*

J. Daniel Moon, IV
President and Chief Executive Officer
(Duly Authorized Representative)