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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2020

OR

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

For the transition period from _______________ to _______________

Commission File No. 00055817

Heritage NOLA Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**82-0688069**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
205 North Columbia Street Covington, Louisiana	**70433**
(Address of Principal Executive Offices)	(Zip Code)

(985) 8924565
(Registrant's telephone number)

N/A
(Former name or former address, if changed since last report)

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b2 of the Exchange Act.:

Large accelerated filer	Accelerated filer
Non-accelerated filer ☒	Smaller reporting company ☒
	Emerging growth company ☒

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 Act). YES ´ NO ☒

As of May 5, 2020, 1,525,209 shares of the Company's common stock, par value $0.01 per share, were issued and outstanding.

Heritage NOLA Bancorp, Inc. and Subsidiary
Form 10-Q

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Item 1. Consolidated Financial Statements

Heritage NOLA Bancorp, Inc. and Subsidiary
Consolidated Statements of Financial Condition
March 31, 2020 (Unaudited) and December 31, 2019
(In Thousands, Except Share and Per Share Data)

	March 31, 2020	December 31, 2019
ASSETS		
Cash and Due from Banks	$ 1,495	$ 806
Interest Earning Deposits in Banks	5,346	5,351
Total Cash and Cash Equivalents	6,841	6,157
Interest Earning Time Deposits in Banks	5,578	6,076
Securities Available for Sale, at Fair Value	5,892	6,210
Securities Held to Maturity	357	389
Mortgage Loans Held for Sale	1,489	284
Loans Receivable, Net of Unearned Income	105,031	102,954
Allowance for Loan Losses	(778)	(769)
Total Loans, Net	105,742	102,469
Premises and Equipment	6,532	5,857
Federal Home Loan Bank Stock	832	827
Bank Owned Life Insurance	2,166	2,153
Foreclosed Real Estate	—	—
Prepaid Expenses and Other Assets	1,341	1,294
Total Assets	$135,281	$ 131,432
LIABILITIES AND EQUITY		
Interest Bearing Deposits	$ 84,742	$ 83,734
Noninterest Bearing Deposits	6,631	5,205
Total Deposits	91,373	88,939
Borrowed Funds	19,221	18,041
Advances from Borrowers for Taxes and Insurance	407	302
Accrued Expenses and Other Liabilities	1,084	966
Total Liabilities	112,085	108,248
Shareholders' Equity		
Preferred Stock, $0.01 Par Value, 1,000,000 Shares Authorized, None Issued	—	—
Common Stock, $0.01 Par Value, 9,000,000 Shares Authorized, 1,530,209 and 1,543,309 Shares Issued and Outstanding on March 31, 2020 and December 31, 2019	15	15
Additional Paid-in Capital	13,457	13,561
Unallocated common stock held by:		
Employee Stock Ownership Plan (ESOP)	(1,164)	(1,164)
Retained Earnings	10,816	10,750
Accumulated Other Comprehensive Income (Loss)	72	22
Total Shareholders' Equity	23,196	23,184
Total Liabilities and Shareholders' Equity	$135,281	$ 131,432

The accompanying notes are an integral part of these financial statements.

Heritage NOLA Bancorp, Inc. and Subsidiary
Consolidated Statements of Income
For the Three Months Ended March 31, 2020 and 2019 (Unaudited)
(In Thousands, except for Earnings Per Share)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Interest Income		
Loans, including Fees	$ 1,373	$ 1,233
Investment Securities	37	30
Other Interest Earning Assets	66	65
Total Interest Income	1,476	1,328
Interest Expense		
Deposits	346	280
Borrowed Funds	94	105
Total Interest Expense	440	385
Net Interest Income	1,036	943
Provision for Loan Losses	10	—
Net Interest Income after Provision for Loan Losses	1,026	943
Noninterest Income		
Gain on Sale of Loans Originated for Sale	31	19
Loan Servicing Income	51	51
Other Income	35	28
Total Noninterest Income	117	98
Noninterest Expense		
Salaries and Employee Benefits	656	576
Occupancy and Equipment	154	108
Data Processing	53	46
FDIC Insurance and Examination Fees	13	21
Director Compensation	16	18
Legal, Accounting and Professional Fees	50	66
Advertising	20	25
Telephone and Communications	14	17
Other	93	90
Total Noninterest Expense	1,069	967
Income Before Income Tax Expense	74	74
Income Tax Expense	8	17
Net Income	$ 66	$ 57
Earnings per share: Basic	$ 0.05	$ 0.04
Diluted	$ 0.05	$ 0.04

The accompanying notes are an integral part of these financial statements.

Heritage NOLA Bancorp, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income (Loss)
For the Three Months Ended March 31, 2020 and 2019 (Unaudited)
(In Thousands)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net Income	$ 66	$ 57
Other Comprehensive Income (Loss):		
Unrealized Holding Gains (Losses) on Securities Available for Sale	63	25
Income Tax Effect	(13)	(5)
Total Other Comprehensive Income (Loss)	50	20
Comprehensive Income	$ 116	$ 77

The accompanying notes are an integral part of these financial statements.

Heritage NOLA Bancorp, Inc. and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity
For the Three months Ended March 31, 2020 and 2019 (Unaudited)
(In Thousands)

	Common Stock	Additional Paid In Capital	Unallocated ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2019	$ 17	$ 14,953	$ (1,217)	$ 10,395	$ (31)	$24,117
Compensation Expense related to restricted shares	—	39	—	—	—	39
Compensation Expense related to stock options	—	25	—	—	—	25
Stock Shares Repurchased	—	(230)	—	—	—	(230)
Net Income	—	—	—	57	—	57
Other Comprehensive Income (Loss)	—	—	—	—	20	20
Balance at March 31, 2019	$ 17	$ 14,787	$ (1,217)	$ 10,452	$ (11)	$24,028
Balance at January 1, 2020	$ 15	$ 13,561	$ (1,164)	$ 10,750	$ 22	$23,184
Compensation Expense related to restricted shares	—	39	—	—	—	39
Compensation Expense related to stock options	—	26	—	—	—	26
Stock Shares Repurchased	—	(169)	—	—	—	(169)
Net Income	—	—	—	66	—	66
Other Comprehensive Income (Loss)	—	—	—	—	50	50
Balance at March 31, 2020	$ 15	$ 13,457	$ (1,164)	$ 10,816	$ 72	$23,196

The accompanying notes are an integral part of these financial statements.

Heritage NOLA Bancorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows
For the Three months Ended March 31, 2020 and 2019 (Unaudited)
(In Thousands)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Cash Flows from Operating Activities		
Net Income	$ 66	$ 57
Adjustments to Reconcile Net Income (Loss) to Net Cash from Operating Activities		
Provision for Loan Losses	10	—
Provision for Depreciation	55	56
Deferred Income Tax Expense (Benefit)	(25)	(1)
Change in Mortgage Servicing Rights	(1)	(12)
(Accretion) Amortization of Premiums and Discounts on Securities	8	6
(Accretion) Amortization of Deferred Loan Origination Fees	14	9
Gain on Sale of Loans Originated for Sale	(31)	(19)
Originations of Loans Held for Sale	(3,084)	(552)
Stock dividends on FHLB Stock	(5)	(6)
Compensation Expense related to Stock Benefit Plans	65	64
Proceeds from Loans Held for Sale	1,910	1,075
Change in Assets and Liabilities:		
(Increase) Decrease in Accrued Interest Receivable	21	7
(Increase) Decrease in Bank Owned Life Insurance	(13)	(13)
(Increase) Decrease in Prepaid Expenses and Other Assets	(55)	(59)
Increase (Decrease) in Accrued Expenses and Other Liabilities	118	98
Net Cash provided by (used in) Operating Activities	(947)	710
Cash Flows from Investing Activities		
Principal Collected on Securities Available for Sale	375	254
Principal Collected on Securities Held to Maturity	31	26
Net Change in Interest-earning Time Deposits at Banks	498	(1,245)
Net (Increase) Decrease in Loans	(2,093)	518
Purchases of Premises and Equipment	(730)	(92)
Net Cash provided by (used in) Investing Activities	(1,919)	(539)
Cash Flows from Financing Activities		
Net Increase (Decrease) in Deposits	2,434	1,582
Shares Repurchased	(169)	(230)
Advances from Borrowers for Taxes and Insurance	105	123
Borrowed Funds	5,800	2,800
Repayments of Borrowed Funds	(4,620)	(2,480)
Net Cash provided by (used in) Financing Activities	3,550	1,795
Net Change in Cash and Cash Equivalents	684	1,966
Cash and Cash Equivalents - Beginning of Period	6,157	4,415
Cash and Cash Equivalents - End of Period	$ 6,841	$ 6,381
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest Paid on Deposits	$ 347	$ 275
Interest Paid on Borrowed Funds	$ 97	$ 104
Income Taxes Paid	$ 8	$ 17

The accompanying notes are an integral part of these financial statements.

Heritage NOLA Bancorp, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)

Note A – Basis of Presentation

The accompanying unaudited consolidated financial statements of Heritage NOLA Bancorp, Inc. and Subsidiary (the "Company") were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, comprehensive income, changes in equity and cash flows in conformity with accounting principles generally accepted in the United States of America.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the three-month period ended March 31, 2020 is not necessarily indicative of the results which may be expected for the entire year. These statements should be read in conjunction with the Financial Statements and notes thereto for the year ended December 31, 2019 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission ("SEC"). Reference is made to the accounting policies of the Company described in the Notes to the Financial Statements contained in the Annual Report.

In preparing the financial statements, the Company is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the Company's financial condition, results of operations, comprehensive income, changes in shareholders' equity and cash flows for the interim periods presented. These adjustments are of a normal recurring nature and include appropriate estimated provisions.

The consolidated financial statements include Heritage NOLA Bancorp, Inc. and its wholly-owned subsidiary, Heritage Bank of St. Tammany (the "Bank"), together referred to as the Company. Intercompany transactions and balances have been eliminated in consolidation.

Certain reclassifications may have been made to the 2019 financial information in order to conform to the 2020 financial statement presentation. Such reclassifications had no effect on previously reported net income.

Note B – Recent Accounting Pronouncements

Emerging Growth Company Status

The Company qualifies as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). For as long as the Company is an emerging growth company, it may choose to take advantage of exemptions from various reporting requirements applicable to other public companies. An emerging growth company may elect to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies, but must make such election when the company is first required to file a registration statement. The Company has elected to use the extended transition period described above and intends to maintain its emerging growth company status as allowed under the JOBS Act.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), Conforming Amendments Related to Leases. This ASU amends the codification regarding leases in order to increase transparency and comparability. The ASU requires companies to recognize lease assets and liabilities on the statement of condition and disclose key information about leasing arrangements. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the leased asset for the lease term. For emerging growth companies ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2020. On April 8, 2020, the FASB proposed to defer the effective date of this ASU until annual periods beginning after December 15, 2021. The adoption of this ASU is not expected to have a material effect on the Company's Consolidated Financial Statements.

In June 2016, the FASB issued ASU 201613, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The amendments introduce an impairment model that is based on expected credit losses (“ECL”), rather than incurred losses, to estimate credit losses on certain types of financial instruments (ex. loans and held to maturity securities), including certain off-balance sheet financial instruments (ex. commitments to extend credit and standby letters of credit that are not unconditionally cancellable). The ECL should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments, over the contractual term. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. Financial instruments with similar risk characteristics may be grouped together when estimating the ECL. The ASU also amends the current available for sale security impairment model for debt securities whereby credit losses relating to available for sale debt securities should be recorded through an allowance for credit losses. On October 18, 2019, the FASB approved an effective date delay applicable to emerging growth companies until January 2023. The amendments will be applied through a modified retrospective approach, resulting in a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently planning for the implementation of this accounting standard. It is too early to assess the impact this guidance will have on our Consolidated Financial Statements.

In December 2019, the FASB issued ASU No. 2019-12, "Simplifying the Accounting for Income Taxes (Topic 740)." The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve the consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. For an emerging growth company, the amendments in the ASU are effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 31, 2022. The Company is currently assessing the impact of adoption of this guidance.

Note C – Investment Securities

The amortized costs and estimated fair values of investment securities classified as available for sale and held to maturity as of March 31, 2020 and December 31, 2019 is as follows:

	March 31, 2020			
(in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
Available for Sale:				
U.S. Government Agency - SBA pools	$ 2,148	$ 6	$ (9)	$2,145
U.S. Agency Mortgage-Backed Securities	3,653	101	(7)	3,747
Total Available for Sale	$ 5,801	$ 107	$ (16)	$5,892
Held to Maturity:				
U.S. Agency Mortgage-Backed Securities	$ 357	$ 5	$ (1)	$ 361

	December 31, 2019			
(in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
Available for Sale:				
U.S. Government Agency - SBA pools	$ 2,274	$ 6	$ (10)	$2,270
U.S. Agency Mortgage-Backed Securities	$ 3,908	48	(16)	3,940
Total Available for Sale	$ 6,182	$ 54	$ (26)	$6,210

Held to Maturity:				
U.S. Agency Mortgage-Backed Securities	$ 389	$ 2	$ (3)	$ 388

There were no securities sold during the three months ended March 31, 2020 or in 2019.

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The amortized cost and fair value of investment securities at March 31, 2020 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.

(in thousands)	Amortized Cost	Fair Value
Available for Sale:		
Within One Year	$ —	$ —
After One Year Through Five Years	101	97
After Five Years Through Ten Years	1,300	1,338
After Ten Years	4,400	4,457
	$ 5,801	$ 5,892
Held to Maturity:		
After Five Years Through Ten Years	$ 207	$ 210
After Ten Years	150	151
	$ 357	$ 361

The following tables reflect gross unrealized losses, fair values, and length of time in a continued unrealized loss position for all securities with fair values below amortized cost at March 31, 2020 and December 31, 2019:

	March 31, 2020					
	Less Than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for Sale:						
U.S. Government Agency - SBA pools	$ 1,166	$ 9	$ —	$ —	$ 1,166	$ 9
U.S. Agency Mortgage-Backed Securities	96	3	324	4	420	7
Total Available for Sale	$ 1,262	$ 12	$ 324	$ 4	$ 1,586	$ 16
Held to Maturity:						
U.S. Agency Mortgage-Backed Securities	$ —	$ —	$ 94	$ 1	$ 94	$ 1

	December 31, 2019					
	Less Than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for Sale:						
U.S. Government Agency - SBA pools	$ 1,277	$ 10	$ —	$ —	$ 1,277	$ 10
U.S. Agency Mortgage-Backed Securities	—	—	1,043	16	1,043	16
Total Available for Sale	$ 1,277	$ 10	$ 1,043	$ 16	$ 2,320	$ 26
Held to Maturity:						
U.S. Agency Mortgage-Backed Securities	$ —	$ —	$ 103	$ 3	$ 103	$ 3

On a quarterly basis (and more frequently when economic or market conditions warrant), management evaluates the investment securities portfolio on an individual security basis for other-than- temporary impairment (“OTTI”). If a security is in a loss position, management will determine if OTTI exists and will consider the following. First, if it is probable that the issuer of the security will be unable to pay all amounts due according to the contractual terms of the debt security, OTTI will be recognized. Second, if management intends to sell the security and does not expect to recover the loss before the anticipated sale date, OTTI will be recognized. In both instances, OTTI will be recognized for the affected security equal to the difference between the fair value and amortized cost through a charge to earnings. Third, if a security does not meet either of the criteria above and is both in a loss position for greater than one year and at a current loss of 10% or more, management will evaluate its ability and intent to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Declines in the fair value of individual held to maturity and available for sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. No declines at March 31, 2020 and December 31, 2019, were deemed to be other-than-temporary. The unrealized losses on the securities available for sale generally result from changes in market interest rates and not credit quality. The Company does not intend to sell any such investments before recovery of their amortized cost bases, which may be at maturity.

Note D - Loans Receivable and Allowance for Loan Losses

A selection of the loan and allowance for loan losses policies are as follows:

Loans Receivable

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred loan fees or costs on originated loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of direct loan origination costs, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on the loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Loans are typically charged off not later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The performing one-to-four family residential, commercial real estate, and commercial loans are pledged, under a blanket lien, as collateral securing advances from the Federal Home Loan Bank of Dallas, (“FHLB”) at March 31, 2020 and December 31, 2019.

Loans receivable at March 31, 2020 and December 31, 2019 are summarized as follows:

(in thousands)	March 31, 2020	December 31, 2019
Real Estate:		
Secured by one-to four family residential properties		
Owner-occupied	$ 55,043	$ 53,158
Non-owner-occupied	15,101	15,257
Home Equity Lines of Credit	4,491	3,858
Commercial (Nonresidential) Properties	21,976	22,349
Land	2,390	2,200
Construction	4,848	4,259
Multi-family	2,069	2,086
Commercial	3,145	2,335
Consumer Loans	355	246
Total Loans	109,418	105,748
Less: Net Deferred Loan Fees	(336)	(349)
Loans in Process	(2,562)	(2,161)
Allowance for Loan Losses	(778)	(769)
Net Loans	$ 105,742	$ 102,469

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience. Other adjustments may be made to the allowance for pools of loans after an assessment of internal and external influence on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based upon current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls are considered on a case by case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

The tables below provide a summary of activity in the allowance for loan losses by loan type as of and for the three months ended March 31, 2020 and the year ended December 31, 2019. The allocation of a portion of the allowance to one category does not preclude its availability to absorb losses in other categories.

The effects of the COVID-19 pandemic are not determinable at this time, but the effects to certain estimates, including the Allowance for Loan Losses and the fair value of assets and liabilities could be material.

Allowance for Credit Losses and Recorded Investment in Loans Receivable
For the Period Ended March 31, 2020
(in thousands)

	Real Estate							
	Commercial	Land	One-to-Four Family	Construction	Multi-Family	Consumer	Commercial	Total
Allowance for Credit Losses:								
Beginning Balance	$ 96	$ 18	$ 516	$ 20	$ 6	$ 26	$ 87	$ 769
Charge-offs	—	—	—	—	—	(1)	—	(1)
Recoveries	—	—	—	—	—	—	—	—
Provision	—	1	(13)	3	1	6	12	10
Ending Balance	$ 96	$ 19	$ 502	$ 23	$ 7	$ 31	$ 99	$ 778
Ending Balance: Individually Evaluated for Impairment	$ —	$ 1	$ 112	$ —	$ —	$ —	$ —	$ 113
Ending Balance: Collectively Evaluated for Impairment	$ 96	$ 18	$ 390	$ 23	$ 7	$ 31	$ 99	$ 665
Loans Receivable:								
Ending Balance	$ 21,976	$2,390	$74,635	$ 4,848	$2,069	$ 355	$ 3,145	$109,418
Ending Balance: Individually Evaluated for Impairment	$ —	$ 12	$ 1,102	$ —	$ —	$ —	$ —	$ 1,114
Ending Balance: Collectively Evaluated for Impairment	$ 21,976	$2,378	$73,533	$ 4,848	$2,069	$ 355	$ 3,145	$108,304

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Allowance for Credit Losses and Recorded Investment in Loans Receivable
For the Year Ended December 31, 2019
(in thousands)

	Real Estate Commercial	Land	One-to-Four Family	Construction	Multi-Family	Consumer	Commercial	Total
Allowance for Credit Losses:								
Beginning Balance	$ 113	$ 23	$ 519	$ 16	$ 5	$ 9	$ 83	$ 768
Charge-offs	—	—	—	—	—	(18)	—	(18)
Recoveries	5	—	—	—	—	1	—	6
Provision	(22)	(5)	(3)	4	1	34	4	13
Ending Balance	$ 96	$ 18	$ 516	$ 20	$ 6	$ 26	$ 87	$ 769
Ending Balance: Individually Evaluated for Impairment	$ —	$ —	$ 85	$ —	$ —	$ —	$ —	$ 85
Ending Balance: Collectively Evaluated for Impairment	$ 96	$ 18	$ 431	$ 20	$ 6	$ 26	$ 87	$ 684
Loans Receivable:								
Ending Balance	$ 22,349	$2,200	$72,273	$ 4,259	$2,086	$ 246	$ 2,335	$105,748
Ending Balance: Individually Evaluated for Impairment	$ —	$ —	$ 828	$ —	$ —	$ —	$ —	$ 828
Ending Balance: Collectively Evaluated for Impairment	$ 22,349	$2,200	$71,445	$ 4,259	$2,086	$ 246	$ 2,335	$104,920

Credit quality indicators as of March 31, 2020 and December 31, 2019:

Pass - A pass asset is properly approved, documented, collateralized, and performing. It does not reflect an abnormal amount of risk.

Special mention - A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special mention assets are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard - An asset classified as substandard has a well-defined weakness or weaknesses. A substandard asset is inadequately protected by the current net worth or paying capacity of the obligor or pledged collateral, if any. It is characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful - Assets classified as doubtful have all the weaknesses inherent in those classified as substandard. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions, and values.

Loss - Assets classified as loss are considered uncollectible or of such little value that the continuance of the loan or other asset on the books of the Company is not warranted. Some recovery of funds could be possible in the future, but the amount and probability of this recovery are not determinable thus providing little justification for the assets to remain on the books.

The following tables represent the Company's credit exposure by credit quality indicator as of March 31, 2020 and December 31, 2019:

Credit Risk Profile by Internally Assigned Grade
(in thousands)

	March 31, 2020							
	Real Estate							
	Commercial Real Estate	Land	One-to-Four Family	Construction	Multi-Family	Consumer	Commercial	Total
Pass	$ 21,976	$2,378	$73,533	$ 4,848	$2,069	$ 355	$ 3,145	$108,304
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	12	1,102	—	—	—	—	1,114
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
	$ 21,976	$2,390	$74,635	$ 4,848	$2,069	$ 355	$ 3,145	$109,418

	December 31, 2019							
	Real Estate							
	Commercial Real Estate	Land	One-to-Four Family	Construction	Multi-Family	Consumer	Commercial	Total
Pass	$ 22,349	$2,200	$71,203	$ 4,259	$2,086	$ 246	$ 2,335	$104,678
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	1,070	—	—	—	—	1,070
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
	$ 22,349	$2,200	$72,273	$ 4,259	$2,086	$ 246	$ 2,335	$105,748

The following tables are an aging analysis of loans as of March 31, 2020 and December 31, 2019:

Aged Analysis of Past Due Loans Receivable
(in thousands)

	March 31, 2020					
	Accruing					
	30-89 Days Past Due	90 Days and Over Past Due	Total Past Due	Current	Nonaccrual Status	Total Loans Receivable
Real Estate:						
Residential	$806	$ —	$806	$ 72,917	$ 912	$ 74,635

Commercial	—	—	—	21,976	—	21,976
Land	78	—	78	2,300	12	2,390
Construction	—	—	—	4,848	—	4,848
Multi-family	—	—	—	2,069	—	2,069
Consumer	—	—	—	355	—	355
Commercial	—	—	—	3,145	—	3,145
	$884	$ —	$884	$107,610	$ 924	$109,418

Aged Analysis of Past Due Loans Receivable
(in thousands)

	December 31, 2019					
	Accruing					
	30-89 Days Past Due	90 Days and Over Past Due	Total Past Due	Current	Nonaccrual Status	Total Loans Receivable
Real Estate:						
Residential	$2,366	$ —	$2,366	$ 69,079	$ 828	$ 72,273
Commercial	—	—	—	22,349	—	22,349
Land	34	—	34	2,166	—	2,200
Construction	—	—	—	4,259	—	4,259
Multi-family	—	—	—	2,086	—	2,086
Consumer	—	—	—	246	—	246
Commercial	—	—	—	2,335	—	2,335
	$2,400	$ —	$2,400	$102,520	$ 828	$105,748

The following tables below present impaired loans disaggregated by class as of and for the three months ended March 31, 2020 and the year ended December 31, 2019:

Impaired Loans
(in thousands)

	As Of And For The Three Months Ended March 31, 2020				
	Recorded Investment	Unpaid Principal Balance	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
Loans with an allowance recorded:					
Real estate					
Commercial	$ —	$ —	$ —	$ —	$ —
Land	—	—	—	—	—
1-4 family residential	924	924	113	620	—
Multi-Family	—	—	—	—	—
Construction	—	—	—	—	—
Consumer and Commercial	—	—	—	—	—
Loans with no allowance recorded:					
Real estate					
Commercial	—	—	—	—	—
Land	—	—	—	—	—
1-4 family residential	—	—	—	—	—
Multi-Family	—	—	—	—	—
Construction	—	—	—	—	—
Consumer and Commercial	—	—	—	—	—
Totals	$ 924	$ 924	$ 113	$ 620	$ —

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Impaired Loans
(in thousands)

	As Of And For The Year Ended December 31, 2019				
	Recorded Investment	Unpaid Principal Balance	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
Loans with an allowance recorded:					
Real estate					
Commercial	$ —	$ —	$ —	$ —	$ —
Land	—	—	—	—	—
1-4 family residential	828	828	85	769	—
Multi-Family	—	—	—	—	—
Construction	—	—	—	—	—
Consumer and Commercial	—	—	—	—	—
Loans with no allowance recorded:					
Real estate					
Commercial	—	—	—	—	—
Land	—	—	—	—	—
1-4 family residential	—	—	—	—	—
Multi-Family	—	—	—	—	—
Construction	—	—	—	—	—
Consumer and Commercial	—	—	—	—	—
Totals	$ 828	$ 828	$ 85	$ 769	$ —

Troubled Debt Restructuring

The Company's troubled debt restructurings are generally due to a modification of terms allowing the customer to make interest-only payments for an amount of time, an extension of the loan term, and/or a reduction in interest rate to obtain a lower payment for the customer. The Company is not committed to lend additional funds to debtors whose loans have been modified.

Troubled Debt Restructuring
(in thousands)

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Modifications as of March 31, 2020:			
Residential - modified amortization	—	$ —	$ —
Modifications as of December 31, 2019:			
Residential - modified amortization	2	$ 668	$ 668

Prior loan modifications have been performing in compliance with their modified terms.

Note E - Fair Value of Financial Statements

Fair Value Disclosures

The Company groups its financial assets and liabilities measured at fair value in three levels. Fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the inputs used to develop those assumptions and measure fair value. The hierarchy requires companies to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Includes the most reliable sources, and includes quoted prices in active markets for identical assets or liabilities.
- Level 2 - Includes observable inputs. Observable inputs include inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates) as well as inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).
- Level 3 - Includes unobservable inputs and should be used only when observable inputs are unavailable.

Recurring Basis

Fair values of investment securities available for sale were primarily measured using information from a third-party pricing service. This pricing service provides information by utilizing evaluated pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and reference data from market research publications.

The following tables present the balance of assets and liabilities measured on a recurring basis as of March 31, 2020 and December 31, 2019. The Company did not record any liabilities at fair value for which measurement of the fair value was made on a recurring basis.

		Fair Value Measurement Using		
(In thousands) Description	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
March 31, 2020				
U.S. Government Agency - SBA pools	$2,145	$ —	$ 2,145	$ —
U.S. Agency Mortgage-Backed Securities	3,747	—	3,747	—
Total Investment Securities	$5,892	$ —	$ 5,892	$ —
December 31, 2019				
U.S. Government Agency - SBA pools	$2,270	$ —	$ 2,270	$ —
U.S. Agency Mortgage-Backed Securities	3,940	—	3,940	—
Total Investment Securities	$6,210	$ —	$ 6,210	$ —

Nonrecurring Basis

The Company has segregated all financial assets and liabilities that are measured at fair value on a nonrecurring basis into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below. The Company did not record any liabilities at fair value for which measurement of the fair value was made on a non-recurring basis.

The fair value of the impaired loans is measured at the fair value of the collateral for collateral-dependent loans. Impaired loans are Level 2 assets measured using appraisals from external parties of the collateral less any prior liens. Repossessed assets are initially recorded at fair value less estimated costs to sell. The fair value of repossessed assets is based on property appraisals and an analysis of similar properties available. As such, the Company records repossessed assets as Level 2.

		Fair Value Measurement Using		
(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2020				
Assets				
Impaired Loans	$ 811	$ —	$ 811	$ —
Repossessed Assets	—	—	—	—
Total	$ 811	$ —	$ 811	$ —
December 31, 2019				
Assets				
Impaired Loans	$ 743	$ —	$ 743	$ —
Repossessed Assets	—	—	—	—
Total	$ 743	$ —	$ 743	$ —

Fair values of financial instruments

In cases where quoted market prices of financial instruments are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. The fair values of certain financial instruments and all non-financial instruments are not required to be disclosed. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The following methods and assumptions were used by the Company in estimating fair values of financial instruments:

Cash, due from banks, federal funds sold and interest-earning deposits with banks - The carrying amount is a reasonable estimate of fair value.

Securities - Fair value is based on quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans Receivable - Fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Cash Value of Life Insurance - The carrying amount approximates its fair value.

Deposits - The fair value of demand, savings, NOW and money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity time deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowings - The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values. Fair values of other borrowings are estimated using discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements.

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Commitments to extend credit and standby letters of credit - The fair values of commitments to extend credit and standby letters of credit do not differ significantly from the commitment amount and are therefore omitted from this disclosure.

The carrying amounts and estimated fair values of the Company's financial instruments at March 31, 2020 and December 31, 2019, are as follows:

(In thousands)	Carrying Amount	Fair Value	Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2020					
Financial Assets:					
Cash, Short-Term Investments and Federal Funds Sold	$ 12,419	$ 12,419	$12,419	$ —	$ —
Securities-Available for Sale	5,892	5,892	—	5,892	—
Securities-Held to Maturity	357	361	—	361	—
Other Equity Securities	832	832	—	—	832
Cash Value of Life Insurance	2,166	2,166	—	2,166	—
Loans Held for Sale	1,489	1,489	—	—	1,489
Loans Held -Net	105,031	114,764	—	—	114,764
	$128,186	$137,923	$12,419	$ 8,419	$ 117,085
Financial Liabilities:					
Deposits	$ 91,373	$ 93,436	$ —	$ —	$ 93,436
Borrowed Funds	19,221	18,130	—	18,130	—
	$110,594	$111,566	$ —	$ 18,130	$ 93,436

(In thousands)	Carrying Amount	Fair Value	Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019					
Financial Assets:					
Cash, Short-Term Investments and Federal Funds Sold	$ 12,233	$ 12,233	$12,233	$ —	$ —
Securities-Available for Sale	6,210	6,210	—	6,210	—
Securities-Held to Maturity	389	388	—	388	—
Other Equity Securities	827	827	—	—	827
Cash Value of Life Insurance	2,153	2,153	—	2,153	—
Loans Held for Sale	284	—	—	—	—
Loans-Net	102,185	107,807	—	—	107,807
	$124,281	$129,618	$12,233	$ 8,751	$ 108,634
Financial Liabilities:					
Deposits	$ 88,939	$ 89,986	$ —	$ —	$ 89,986

Borrowed Funds	18,041	18,130	—	18,130	—
	$106,980	$108,116	$ —	$ 18,130	$ 89,986

NOTE F – Change in Corporate Form

On July 12, 2017, Heritage Bank of St. Tammany (the "Bank") converted to the stock form of ownership, and issued all of its stock to Heritage NOLA Bancorp, Inc., (the "Company"). The Bank became the wholly owned subsidiary of the Company, and the Company issued and sold shares of its capital stock pursuant to an independent valuation appraisal of the Bank and the Company. The stock was priced at $10.00 per share. In addition, the Bank's board of directors adopted an employee stock ownership plan (ESOP) which subscribed for 8% of the common stock sold in the offering. The Conversion was completed on July 12, 2017 and resulted in the issuance of 1,653,125 common shares by the Company. The cost of the Conversion and stock offering totaled $1.1 million and was deducted from the proceeds of the offering.

In accordance with OCC regulations, at the time of the Conversion, the Bank substantially restricted retained earnings by establishing a liquidation account. The liquidation account will be maintained for the benefit of eligible account holders who continue to maintain their accounts at the Bank after the Conversion. The liquidation account will be reduced annually to the extent that eligible holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation by the Bank, and only in such event, each eligible account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the adjusted qualifying account balances then held. The Bank may not pay dividends if those dividends would reduce equity capital below the required liquidation account amount.

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

NOTE G – Earnings Per Share

Basic earnings per share ("EPS") represents income available to common shareholders divided by the weighted average number of common shares outstanding; no dilution for any potentially convertible shares is included in the calculation. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

Earnings per common share were computed as follows:

	Three Months Ended March 31,	
(in thousands, except share and per share data)	2020	2019
Numerator:		
Net income available to common shareholders	$ 66	$ 57
Denominator:		
Weighted average common shares outstanding	1,540,286	1,662,436
Less: Average unallocated ESOP shares	116,380	121,670
Weighted average shares	1,423,906	1,540,766
Effect of dilutive securities:		
Restrictive Stock	17,121	6,931
Stock Options	—	—
Weighted average common shares outstanding - assuming dilution	1,441,027	1,547,697
Basic earnings per common share	$ 0.05	$ 0.04

Diluted earnings per common share	$ 0.05	$ 0.04

NOTE H – Employee Stock Ownership Plan

As part of the Company's stock conversion, shares were purchased by the ESOP with a loan from Heritage NOLA Bancorp, Inc. All employees of the Bank meeting certain requirements are entitled to participate in the ESOP. Compensation expense related to the ESOP for the three month period ended March 31, 2020 was $22,000.

NOTE I – Equity Incentive Plan

In August 2018, the Company's stockholders authorized the adoption of the 2018 Heritage NOLA Bancorp, Inc. Equity Incentive Plan (the "Plan"). No more than 231,437 shares of the Company's common stock may be issued under the Plan, of which a maximum of 165,312 may be issued pursuant to the exercise of stock options and 66,125 may be issued pursuant to restricted stock awards, restricted stock units and unrestricted share awards. Stock options awarded to employees may be incentive stock options or non-qualified stock options. The shares that may be issued may be authorized but unissued shares. The Plan permits the grant of incentive awards in the form of options, stock appreciation rights, restricted share and share unit awards, and performance share awards. The Plan contains limits on certain types of awards to individual participants.

Awards may vest or become exercisable only upon the achievement of performance measures or based solely on the passage of time after award. Stock options and restricted stock awards provide for accelerated vesting upon death, disability or if there is an involuntary termination of service following a change in control (as defined in the Plan).

On August 16, 2018, the Company made grants of restricted shares and stock options for 16,530 and 41,325 shares, respectively, to non-employee members of the Board of Directors. The awards vest over a five-year period and the stock options have a ten-year period to expiration. Each option has an exercise price of $12.48, as determined on the grant date.

On September 18, 2018, the Company made grants of restricted shares and stock options for 49,581 and 104,500 shares, respectively, to certain members of management and staff. The awards vest over either a five- or seven-year period and the stock options have a ten-year period to expiration. Each option has an exercise price of $12.45, as determined on the grant date.

Stock Options

The table below represents the stock option activity for the period shown:

	Options	Weighted Average Exercise Price
Options outstanding at January 1, 2020	145,825	$ 12.46
Granted	—	—
Exercised	—	—
Forfeited	—	—
Expired	—	—
Options outstanding at March 31, 2020	145,825	$ 12.46

As of March 31, 2020, the Company had $384,000 of unrecognized compensation expense related to stock options, having recognized $26,000 of compensation expense for the three month period ended March 31, 2020. The cost of stock options will be amortized in monthly installments over the five-year and seven-year vesting periods. The aggregate grant date fair value of the stock options granted in 2018 was $544,000. The options outstanding at March 31, 2020 were granted on August 16, 2018 and September 18, 2018. There are 27,537 options currently exercisable.

The fair value of the Company’s stock options granted in 2018 were $3.69 and $3.75 for the options granted on August 16, 2018 and September 18, 2018, respectively, and they were determined using the Black-Scholes option pricing formula. The following assumptions were used in the formula:

	Stock Options Granted August 16, 2018	Stock Options Granted September 18, 2018
Expected volatility	12.44 %	11.94 %
Risk-free interest rate	2.87 %	3.05 %
Expected dividend yield	— %	— %
Expected life (in years)	10	10
Exercise price for the stock options	$ 12.48	$ 12.45

Expected volatility - Based on the historical volatility of share price for the Company.

Risk-free interest rate - Based on the U.S. Treasury yield curve and expected life of the options at the time of grant.

Dividend yield - Heritage NOLA Bancorp, Inc. does not anticipate a quarterly dividend per share.

Expected life - Based on the average of the vesting period and the ten year contractual term of the stock option plan.

Exercise price for the stock options - Based on the closing price of the Company’s stock on the date of grant.

Restricted Shares

Restricted shares are accounted for as fixed grants using the fair value of the Company’s stock at the time of the grant. Unvested restricted shares may not be disposed of or transferred during the vesting period.

The table below presents the restricted stock award activity for the period shown:

	Restricted Stock Awards	Weighted Average Fair Value at Grant Date
Non-vested at January 1, 2020	53,692	$ 12.46
Granted	—	—
Vested	—	—
Forfeited	—	—
Non-vested at March 31, 2020	53,692	$ 12.46

As of March 31, 2020, the Company had $582,000 of unrecognized compensation expense related to restricted shares, having recognized $39,000 of compensation expense for the three month period ending March 31, 2020. The cost of the restricted shares will be amortized in monthly installments over the five and seven-year vesting periods.

NOTE J – Subsequent Events

Loan Modifications

Heritage Bank is working with customers affected by COVID-19 through payment accommodations on their loans. In accordance with FDIC guidance, borrowers who were current prior to becoming affected by COVID-19, that received payment accommodations as a result of the pandemic, generally are not reported as past due. Effects of COVID-19 may negatively impact management assumptions and estimates, such as the allowance for loan losses. The Bank is evaluating all payment accommodations to customers to identify and quantify any impact they might have on the Bank. However, it is difficult to assess or predict how and to what extent COVID-19 will affect the Company in the future.

Paycheck Protection Program (PPP)
As part of the CARES Act, approved by the President on March 27, 2020, the Small Business Administration (SBA) has been authorized to guarantee loans under the PPP through June 30, 2020 for small businesses who meet the necessary eligibility requirements in order to keep their workers on the payroll. Heritage Bank became an SBA approved lender, and as of May 8th, 2020, we have received approximately 31 applications for up to $1.4 million of loans under the PPP.

In accordance with FASB ASC 855, *Subsequent Events*, the Company has evaluated subsequent events through the date that the financial statements were available to be issued.

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

General

Management's discussion and analysis of the financial condition at March 31, 2020 and results of operations for the three months ended March 31, 2020 and 2019 is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited financial statements and the notes thereto, appearing on Part I, Item 1 of this quarterly report on Form 10‑Q.

During the quarter ended March 31, 2020, the novel coronavirus ("COVID-19") had spread world-wide, led to businesses temporarily closing, severe unemployment, and is impacting individuals, households and businesses in a multitude of ways. We have been deemed an essential service and exempted from the shutdowns across the country. In following state and national guidelines for social distancing, we have temporarily closed our lobbies, but we continue to operate through our drive-up windows, night drops, and digital channels, as well as making appointments available for customers to come inside our offices to conduct business. While COVID-19 has resulted in some of our staff operating remotely, we believe that our established internal control structure is not impacted. As we continue to monitor and adapt to the changing environment due to COVID-19, we will continue to evaluate our internal controls over financial reporting.

Federal and state governments have enacted various stay at home strategies to contain the spread of the virus. The result of these containment strategies has had an enormous impact on the economy and will have a negative impact on borrowers' ability to make timely loan payments. The Federal Reserve System along with the other various regulatory agencies have issued joint guidance to financial institutions who are working with borrowers affected by the coronavirus. The Company is working with borrowers, instituting a loan deferment program whereby short-term deferral of payments will be provided. As of April 30, 2020, we have modified 55 loans aggregating $31.4 million, primarily consisting of the deferral of principal and/or interest payments. We will not report these loans as delinquent and will continue to recognize interest income during the deferral period. These loans will be closely monitored to determine collectability and accrual and delinquency status will be updated as deemed appropriate.

The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law on March 27, 2020, and provides over $2.0 trillion in emergency economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES act authorized the Small Business Administration ("SBA") to temporarily guarantee loans under a new 7(a) loan program called the Paycheck Protection Program ("PPP"). Although we were not already a qualified SBA lender, on April 8, 2020, we enrolled in the PPP by completing the required documentation. An eligible business can apply for a PPP loan up to the greater of: (1) 2.5 times its average monthly "payroll costs"; or (2) $10.0 million. PPP loans will have: (a) an interest rate of 1.0%, (b) a two-year loan term to maturity, and (c) principal and interest payments deferred for six months from the date of disbursement. The SBA will guarantee 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower's PPP loan, including any accrued interest, is eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and at least 75% of the loan proceeds are used for payroll expenses, with the remaining 25% or less of the loan proceeds used for other qualifying expenses. As of May 8, 2020, we had received approximately, 31 applications for up to $1.4 million of loans under the PPP.

Under Section 4013 of the CARES Act, loans less than 30 days past due as of December 31, 2019 will be considered current for COVID-19 modifications. A financial institution can then suspend the requirements under GAAP for loan modifications related to COVID-19 that would otherwise be categorized as a troubled debt restructuring ("TDR"), and suspend any determination of a loan modified as a result of COVID-19 as being a TDR, including the requirement to determine impairment for accounting purposes. Financial institutions wishing to utilize this authority must make a policy election, which applies to any COVID-19 modification made between March 1, 2020 and the earlier of either December 31, 2020 or the 60th day after the end of the COVID-19 national emergency. Similarly, the Financial Accounting Standards Board has confirmed that short-term modifications made on a good-faith basis in response to COVID-19 to loan customers who were current prior to any relief are not TDRs. Lastly, prior to the enactment of the CARES Act, the banking regulatory agencies provided guidance as to how certain short-term modifications would not be considered TDRs, and have subsequently confirmed that such guidance could be applicable for loans that do not qualify for favorable accounting treatment under Section 4013 of the CARES Act. Based on this guidance, the Company does not believe that TDRs will significantly change as a result of the modifications granted.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

- our ability to manage our operations under the economic conditions in our market area;
- adverse changes in the financial industry, securities, credit and national and local real estate markets (including real estate values);
- economic and/or policy changes related to the COVID-19 pandemic;
- significant increases in our loan losses, including as a result of our inability to resolve classified and non-performing assets or reduce risks associated with our loans, and management's assumptions in determining the adequacy of the allowance for loan losses;

- credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and in our allowance for loan losses and provision for loan losses;
- the use of estimates in determining fair value of certain of our assets, which may prove to be incorrect and result in significant declines in valuations;
- competition among depository and other financial institutions;

- our success in increasing our one- to four-family residential real estate lending and commercial real estate lending;
- our ability to attract and maintain deposits and to grow our core deposits, and our success in introducing new financial products;
- our ability to maintain our asset quality even as we continue to grow our commercial real estate and commercial business loan portfolios;
- changes in interest rates generally, including changes in the relative differences between short-term and long-term interest rates and in deposit interest rates, that may affect our net interest margin and funding sources;
- fluctuations in the demand for loans;
- changes in consumer spending, borrowing and savings habits;
- declines in the yield on our assets resulting from the current low interest rate environment;
- risks related to a high concentration of loans secured by real estate located in our market area;
- the results of examinations by our regulators, including the possibility that our regulators may, among other things, require us to increase our allowance for loan losses, write down assets, change our regulatory capital position, limit our ability to borrow funds or maintain or increase deposits, or prohibit us from paying dividends, which could adversely affect our dividends and earnings;
- changes in the level of government support of housing finance;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- changes in laws or government regulations or policies affecting financial institutions, including the Dodd-Frank Act and the JOBS Act, which could result in, among other things, increased deposit insurance premiums and assessments, capital requirements, regulatory fees and compliance costs, particularly the new capital regulations, and the resources we have available to address such changes;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;
- changes in our compensation and benefit plans, and our ability to retain key members of our senior management team and to address staffing needs in response to product demand or to implement our strategic plans;
- loan delinquencies and changes in the underlying cash flows of our borrowers;
- our ability to control costs and expenses, particularly those associated with operating as a publicly traded company;
- the failure or security breaches of computer systems on which we depend;
- the ability of key third-party service providers to perform their obligations to us;

- changes in the financial condition or future prospects of issuers of securities that we own; and

- other economic, competitive, governmental, regulatory and operational factors affecting our operations, pricing, products and services.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Critical Accounting Policies

There are no material changes to the critical accounting policies disclosed in Heritage NOLA Bancorp, Inc.'s Annual Report in Form 10-K as filed with the Securities and Exchange Commission on March 27, 2020.

Comparison of Financial Condition at March 31, 2020 and December 31, 2019

Total Assets. Total assets were $135.3 million at March 31, 2020, an increase of $3.9 million, or 2.9%, compared to $131.4 million at December 31, 2019. The increase in assets was due to an increase of $3.2 million in total loans, net, and a $675,000 increase in premises and equipment.

Loans, net. Loans, net increased $3.2 million, or 3.1%, to $105.7 million at March 31, 2020 from $102.5 million at December 31, 2019. Owner-occupied one- to four-family residential real estate loans increased $1.9 million, or 3.6%, to $55.0 million and commercial loans increased $810,000, or 35.2% to $3.1 million. The increase in owner-occupied one- to four-family residential real estate loans was primarily due to $1.5 million loans that were pending sales to Freddie Mac. The second half of the quarter saw a large increase in refinances of single-family residence loans, the majority of which were sold to Freddie Mac. This trend is due to historically low mortgage loan rates.

Changes in loan balances reflect our strategy to maximize our income by growing and diversifying our loan portfolio, with an emphasis on increasing our commercial real estate and commercial business loans, and continually reviewing our existing portfolio for income, liquidity and interest rate risk mitigation opportunities consistent with our strategic objectives. Recent loan originations have been achieved amid strong competition for commercial real estate and residential real estate loans in our market area in the current low interest rate environment. Most recent loan purchases have been related to the opportunity to find quality loans in our local market area. We will continue to look for quality loan purchase opportunities to augment our portfolio of loans.

Securities. Securities totaled $6.2 million at March 31, 2020, a decrease of $350,000, or 5.3%, from $6.6 million at December 31, 2019. This decrease reflects normal repayments and maturities of the mortgage backed and Small Business Administration securities.

Deposits. Deposits increased $2.4 million, or 2.7%, to $91.4 million at March 31, 2020 from $89.0 million at December 31, 2019. Checking accounts increased $2.5 million or 11.8%, and savings accounts increased $1.2 million or 9.0%, while certificates of deposit decreased $1.3 million, or 2.4%.

Borrowings. Borrowings, consisting of Federal Home Loan Bank advances, increased $1.2 million, or 6.5%, to $19.2 million at March 31, 2020 from $18.0 million at December 31, 2019. Advances are utilized to help fund loan growth.

Total Shareholders' Equity. Total shareholders' equity remained virtually unchanged due to stock repurchases totaling $169,000, offset by net income of $66,000, an increase of $65,000 in additional paid-in capital for the equity incentive plans, and an increase in accumulated other comprehensive income of $50,000 for the three months ended March 31, 2020.

Comparison of Operating Results for the Three Months Ended March 31, 2020 and 2019

General. Net income for the three months ended March 31, 2020 was $66,000, compared to $57,000 for the three months ended March 31, 2019, an increase of $9,000, or 15.8%.

Interest Income. Interest income increased $148,000, or 11.1%, for the three months ended March 31, 2020 from the three months ended March 31, 2019. The increase was primarily attributable to a $140,000 increase in interest on loans receivable. The average balance of loans during the three months ended March 31, 2020 increased $6.9 million, or 7.1%, to $103.5 million from $96.6 million for the three months ended March 31, 2019, while the average yield on loans increased 21 basis points to 5.31% for the three months ended March 31, 2020. The average balance of investment securities increased $1.9 million to $6.5 million from $4.6 million, while the average balance of other interest-earning assets increased $2.0 million to $12.3 million for the three months ended March 31, 2020 from $10.3 million for the three months ended March 31, 2019. The average yield on investment securities decreased 31 basis points and the average yield on other interest-earning assets decreased 38 basis points for the three months ended March 31, 2020 compared to the quarter ended March 31, 2019.

Interest Expense. Total interest expense increased $55,000, or 14.3%, to $440,000 for the three months ended March 31, 2020 from $385,000 for the three months ended March 31, 2019. Interest expense on deposits increased $66,000, or 23.6%, to $346,000 for the three months ended March 31, 2020 from $280,000 for the three months ended March 31, 2019, while interest expense on borrowed funds decreased $11,000, or 10.5%, to $94,000 for the three months ended March 31, 2020. The increase in interest expense on deposits was primarily due to the increase in the average balance of interest-bearing transaction accounts of $13.7 million to $18.0 million for the three months ended March 31, 2020 compared to $4.3 million for the three months ended March 31, 2019. This increase was due to a new municipal deposit relationship acquired mid-year in 2019. The average cost of these deposits increased 90 basis points to 1.18% from 0.28%. The average balance of FHLB advances decreased $800,000 for the three months ended March 31, 2020 compared to the same period ended March 31, 2019, while the average cost of those advances decreased 15 basis points due to declining rates for new or renewed advances.

Net Interest Income. Net interest income increased $93,000, or 9.9%, to $1.0 million for the three months ended March 31, 2020 compared to $943,000 for the three months ended March 31, 2019. This increase reflects the increase in the average balances of interest-earning assets of $10.7 million, and an increase in the average yield of those assets of seven basis points, offset by the increase in the average balances of interest-bearing liabilities of $12.4 million for the 2020 quarter compared to the 2019 quarter.

Our net interest margin was 3.39% for the three months ended March 31, 2020 compared to 3.38% for the three months ended March 31, 2019. Net interest rate spread increased to 3.12% for the 2020 quarter compared to 3.06% for the 2019 quarter reflecting the increase in the total loan portfolio.

Provision for Loan Losses. We made a $10,000 provision for loan losses for the three months ended March 31, 2020 compared to none for the three months ended March 31, 2019. The allowance for loan losses was $778,000, or 0.71% of total loans, at March 31, 2020, compared to $769,000, or 0.73% of total loans, at December 31, 2019. Total nonperforming loans were $924,000 at March 31, 2020, compared to $828,000 at December 31, 2019. Classified (substandard, doubtful and loss) loans remained at $1.1 million at March 31, 2020, and at December 31, 2019.

The allowance for loan losses reflects the estimate we believe to be appropriate to cover incurred probable losses which were inherent in the loan portfolio at the applicable balance sheet date. While we believe the estimates and assumptions used in our determination of the adequacy of the allowance are reasonable, the actual amount of future provisions may exceed the amount of past provisions, and the increase in future provisions that may be required may adversely impact our financial condition and results of operations.

Noninterest Income. Noninterest income increased $19,000, or 19.4%, to $117,000 for the three months ended March 31, 2020 from $98,000 for the three months ended March 31, 2019. The increase was due to an increase of $12,000 in gain on sale of loans, and an increase of $7,000 in other income for the three months ended March 31, 2020, compared to the same three-month period in 2019. With home mortgage rates trending down in the first quarter of 2020, the number of mortgages refinanced into loans to be sold to Freddie Mac have increased.

Noninterest Expense. Noninterest expense increased $102,000, or 10.5%, to $1.1 million for the three months ended March 31, 2020 compared to $967,000 for the three months ended March 31, 2019. The increase was due primarily to an $80,000 increase in salaries and employee benefits, and a $46,000 increase in occupancy and equipment. The increase in salaries and employee benefits is due to an increase in the number of employees, and the incentive compensation for loan officer's production.

Income Tax Expense. We recorded a net income tax expense of $8,000 for the three months ended March 31, 2020 compared to $17,000 for the three months ended March 31, 2019. The decrease was due to taxes being under accrued for the quarter ended March 31, 2020 due to timing differences on deferred assets.

Liquidity and Capital Resources. Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, principal and interest payments on loans and securities, proceeds from the sale of loans, and borrowings. We have the ability to borrow from the FHLB-Dallas. At March 31, 2020, we had $19.2 million outstanding in advances from the FHLB-Dallas, and had the capacity to borrow approximately an additional $17.1 million more from the FHLB-Dallas, and an additional $6.4 million on a line of credit with First National Bankers' Bank, Baton Rouge, Louisiana at this date.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and short-term investments including interest-bearing demand deposits. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash provided by (used in) operating activities was ($948,000) and $710,000 for the three months ended March 31, 2020 and 2019, respectively. Net cash resulting from investing activities, which consists primarily of net change in loans receivable and net change in investment securities, was ($1.9 million) and ($539,000) for the three months ended March 31, 2020 and 2019, respectively. Net cash provided by financing activities, consisting primarily of the activity in deposit accounts and Federal Home Loan Bank advances, was $3.6 million and $1.8 million for the three months ended March 31, 2020 and 2019, respectively.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Based on our deposit retention experience and current pricing strategy, we anticipate that a significant portion of maturing time deposits will be retained.

At March 31, 2020, Heritage Bank of St. Tammany exceeded all regulatory capital requirements with a Tier 1 leverage capital level of $19.2 million, or 14.46% of adjusted average total assets, which is above the well-capitalized required level of $6.6 million, or 5.0%; and total risk-based capital of $20.0 million, or 23.56% of risk-weighted assets, which is above the well-capitalized required level of $8.5 million, or 10.0%; and common equity Tier 1 capital of $19.2 million or 22.64% of risk weighted assets, which is above the well-capitalized required level of $5.5 million, or 6.5% of risk weighted assets. Accordingly, Heritage Bank of St. Tammany was categorized as well capitalized at March 31, 2020. Management is not aware of any conditions or events since the most recent notification that would change our category.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a‑15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2020. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Registrant's disclosure controls and procedures were effective.

During the quarter ended March 31, 2020, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

(a) There were no sales of unregistered securities during the period covered by this Report.

(b) Not applicable.

(c) The Company's purchases of its common stock made during the quarter consisted of stock repurchases under the Company's approved plans and are set forth in the following table.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs [1]
January 1 through January 31, 2020	—	$ —	—	56,729
February 1 through February 29, 2020	—	$ —	—	56,729
March 1 through March 31, 2020	13,100	$ 12.90	13,100	43,629
Total	13,100	$ 12.68	13,100	43,629

(1) On July 24, 2018, the Board of Directors of the Company authorized a stock repurchase program under which it may repurchase up to 82,656 shares, or 5.0%, of the Company's outstanding common stock. On May 9, 2019, and again on August 30, 2019, the Board of Directors of the Company authorized the repurchase of an additional 50,000 shares. These repurchase programs will continue until they are completed or terminated by the Company's Board of Directors.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(a) Not applicable.

(b) There were no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors during the period covered by this Form 10-Q.

Item 6. Exhibits

3.1	Articles of Incorporation (1)
3.2	Bylaws (1)
4	Form of Common Stock Certificate (1)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference to the Registration Statement on Form S-1 (file no. 333-216613, filed on March 10, 2017.

SIGNATURES

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

	HERITAGE NOLA BANCORP, INC.
Date: May 15, 2020	/s/W. David Crumhorn W. David Crumhorn President and Chief Executive Officer
Date: May 15, 2020	/s/Lisa B. Hughes Lisa B. Hughes Senior Vice President/Chief Financial Officer