

OFFICE OF THE COMPTROLLER OF THE CURRENCY  
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, 2019 OR

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

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

OCC Certificate Number: 703360

Sidney Federal Savings and Loan Association

(Exact name of registrant as specified in its charter)

Federal

(State or other jurisdiction of  
incorporation or organization)

47-0298080

(I.R.S. Employer  
Identification Number)

1045 10<sup>th</sup> Avenue, Sidney, Nebraska

(Address of Principal Executive Offices)

69162

Zip Code

(308) 254-2401

(Registrant's telephone number)

N/A

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

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, or a smaller reporting 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. (Check one)

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 Exchange Act). YES  NO

As of March 31, 2019 there were 132,250 shares outstanding of the registrant's Common Stock with a par value of \$0.01 per share.

**Sidney Federal Savings and Loan Association**  
**FORM 10-Q**  
**Index**

	<u>Page</u>
<b>Part I. Financial Information</b>	
Item 1. Condensed Financial Statements	
Condensed Balance Sheets as of March 31, 2019 (Unaudited) and December 31, 2018	2
Condensed Statements of Operations for the Three Months Ended March 31, 2019 and 2018 (Unaudited)	3
Condensed Statements of Comprehensive Loss for the Three Months Ended March 31, 2019 and 2018 (Unaudited)	4
Condensed Statements of Stockholders' Equity for the Three Months Ended March 31, 2019 and 2018 (Unaudited)	5
Condensed Statements of Cash Flows for the Three Months Ended March 31, 2019 and 2018 (Unaudited)	6
Notes to Condensed Financial Statements (Unaudited)	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3. Quantitative and Qualitative Disclosures about Market Risk	36
Item 4. Controls and Procedures	36
<b>Part II. Other Information</b>	
Item 1. Legal Proceedings	36
Item 1A. Risk Factors	37
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 3. Defaults upon Senior Securities	37
Item 4. Mine Safety Disclosures	37
Item 5. Other Information	37
Item 6. Exhibits	37
Signatures	38

**SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**  
**Part 1. Financial Information**  
**Item 1. Condensed Financial Statements**

**Condensed Balance Sheets**

**March 31, 2019 (Unaudited) and December 31, 2018**  
**(Amounts in thousands, except share amounts)**

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>Assets</b>		
Cash	\$ 101	\$ 127
Interest-bearing deposits in other banks:		
Federal Home Loan Bank of Topeka ("FHLBT") demand account	403	371
FHLBT overnight deposit account	900	300
Cash and cash equivalents	<u>1,404</u>	<u>798</u>
Securities available for sale, at market value (amortized cost of \$4,478 and \$5,078, respectively)	4,495	5,075
Stock in FHLBT and Midwest Independent Bank ("MIB")	97	97
Loans receivable, net of allowance for loan losses of \$122 and \$122, respectively	11,025	10,777
Premises and equipment, net	42	44
Accrued interest receivable:		
Securities and certificates of deposit	15	19
Loans receivable	32	28
Other assets	131	155
Total assets	<u>\$ 17,241</u>	<u>\$ 16,993</u>
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	\$ 1,186	\$ 1,131
Interest-bearing	14,165	14,032
Total deposits	<u>15,351</u>	<u>15,163</u>
Advances from borrowers for taxes and insurance	218	147
Other liabilities	148	114
Total liabilities	<u>15,717</u>	<u>15,424</u>
Commitments and contingencies		

**SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

**Condensed Statements of Operations  
Three Months Ended March 31, 2019 and 2018 (Unaudited)  
(Amounts in thousands, except share and per share data)**

	<b>Three Months Ended March 31,</b>	
Interest income:		
Loans receivable	\$ 118	\$ 135
Securities-taxable	32	11
Securities-nontaxable	-	3
Other interest-earning assets	7	5
Total interest income	157	154
Interest expense:		
Deposits	21	17
Net interest income	136	137
Provision for loan losses	-	-
Net interest income after provision for loan losses	136	137
Noninterest income:		
Service charges on deposit accounts	3	3
Gain on sale of loans	11	6
Gain on called securities	3	-
Other	-	1
Total noninterest income	17	10
Noninterest expense:		
Compensation and benefits	114	130
Occupancy expense	7	5
Equipment and data processing expense	26	32
FDIC premium expense	3	4
Professional and regulatory fees	33	48
Insurance expense	7	5
Debit card expense, net	7	6
Correspondent bank service charges	3	3
Other	14	16
Total noninterest expense	214	249
Loss before income taxes	(61)	(102)
Income taxes	-	-
Net loss	\$ (61)	\$ (102)
Basic net loss per share	\$ (0.46)	N/A
Weighted average common shares outstanding	132,250	N/A

See accompanying notes to condensed financial statements.

**SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

**Condensed Statements of Comprehensive Loss  
Three Months Ended March 31, 2019 and 2018 (Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(In thousands)</b>	
Net loss	\$ <u>(61)</u>	\$ <u>(102)</u>
Other comprehensive (loss) income, net of tax:		
Reclassification adjustment for gains on securities AFS included in operations	(3)	-
Unrealized (losses) gains on securities available for sale during the period	<u>23</u>	<u>(4)</u>
Other comprehensive (loss) income before taxes	20	(4)
Income tax benefit (expense)	<u>(4)</u>	<u>1</u>
Other comprehensive (loss) income, net of tax	<u>16</u>	<u>(3)</u>
Comprehensive loss	<u><u>\$ (45)</u></u>	<u><u>\$ (105)</u></u>

See accompanying notes to condensed financial statements.

**SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

**Condensed Statements of Stockholders' Equity  
Three Months Ended March 31, 2019 and 2018 (Unaudited)**

	<u>Common Stock</u>	<u>Additional Paid In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss), Net</u>	<u>Total Stockholders' Equity</u>
Balance at December 31, 2017	\$ -	\$ -	\$ 1,051	\$ (3)	\$ 1,048
Net loss	-	-	(102)	-	(102)
Other comprehensive loss, net of taxes	-	-	-	(3)	(3)
Balance at March 31, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 949</u>	<u>\$ (6)</u>	<u>\$ 943</u>
Balance at December 31, 2018	\$ 1	\$ 811	\$ 759	\$ (2)	\$ 1,569
Net loss	-	-	(61)	-	(61)
Other comprehensive income, net of taxes	-	-	-	16	16
Balance at March 31, 2019	<u>\$ 1</u>	<u>\$ 811</u>	<u>\$ 698</u>	<u>\$ 14</u>	<u>\$ 1,524</u>

See accompanying notes to condensed financial statements.

**SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**  
**Condensed Statements of Cash Flows**  
**Three Months Ended March 31, 2019 and 2018 (Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<u><b>2019</b></u>	<u><b>2018</b></u>
	<b>(In thousands)</b>	
Cash flows from operating activities:		
Net loss	\$ (61)	\$ (102)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation expense	2	4
Amortization of premiums, net	5	4
FHLBT stock dividends	(1)	(1)
Gain on called securities	(3)	-
Gain on sale of loans	(11)	(6)
Loan originations for sale	(317)	(57)
Proceeds from sale of loans	328	63
Decrease (increase) in:		
Accrued interest receivable	-	(1)
Other assets	24	(154)
(Decrease) increase in other liabilities	32	(16)
Net cash (used for) operating activities	<u>(2)</u>	<u>(266)</u>
Cash flows from investing activities:		
Net decrease (increase) in loans receivable	(248)	522
Proceeds from maturities, paydowns and calls of securities available for sale	596	93
Purchases of securities available for sale	-	(371)
Certificates of deposit - proceeds from maturity	-	245
Redemption of FHLBT stock	1	1
Purchases of premises and equipment	-	(2)
Net cash provided by investing activities	<u>\$ 349</u>	<u>\$ 488</u>

(Continued)

**SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

**Condensed Statements of Cash Flows  
Three Months Ended March 31, 2019 and 2018 (Unaudited)**

(Continued)

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(In thousands)</b>	
Cash flows from financing activities:		
Net increase in deposits	\$ 188	\$ 336
Net increase in advances from borrowers for taxes and insurance	71	60
Proceeds from issuance of common stock	-	-
Net cash provided by financing activities	<u>259</u>	<u>396</u>
Net increase (decrease) in cash and cash equivalents	606	618
Cash and cash equivalents at beginning of period	798	594
Cash and cash equivalents at end of period	<u>\$ 1,404</u>	<u>\$ 1,212</u>
Cash paid during the period for:		
Interest on deposits	\$ 21	\$ 17

See accompanying notes to condensed financial statements.



# **SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

## **Notes to Condensed Financial Statements**

**March 31, 2019 (Unaudited) and December 31, 2018**

**Three Months Ended March 31, 2019 and 2018 (Unaudited)**

**(Dollars in thousands)**

### **Note 1. Significant Accounting Policies**

#### **General**

On October 17, 2017, the Association's Board of Directors adopted a Plan of Conversion to convert from a federally-chartered mutual savings association to a capital stock form of organization ("Conversion"). The transaction was subject to certain conditions, including the required regulatory approvals and approval of the Plan of Conversion by the Association.

Shares of the Association's common stock were offered in a subscription offering pursuant to non-transferable subscription rights at a predetermined and uniform price in the following order of preference: (1) to the eligible account holders of record of the Association as of September 30, 2016; (2) if applicable, to supplemental eligible account holders of record as of the last day of the calendar quarter preceding regulatory approval of the Conversion; and (3) any person other than an eligible account holder or a supplemental eligible account holder, holding a qualifying deposit on the voting record date and borrowers of the Association as of January 16, 2018 who maintained such borrowings as of the voting record date. Concurrently with the subscription offering, shares not subscribed for in the subscription offering were offered to the general public in a direct community offering with preference given first to natural persons residing in the State of Nebraska; and thereafter to other members of the general public. The Conversion was completed on July 26, 2018 and resulted in the issuance of 132,250 shares of common stock by the Association. Conversion costs were \$511. As a result, net proceeds from sale of Association common stock was \$812.

Subsequent to the Conversion, voting rights are held and exercised exclusively by the stockholders' of the Association. Deposit account holders will continue to be insured by the FDIC. A liquidation account was established in an amount equal to the Association's total equity as of the latest balance sheet date in the final offering circular used in the Conversion. Each eligible account holder or supplemental account holder will be entitled to a proportionate share of this account in the event of a complete liquidation of the Association, and only in such event. This share will be reduced if the eligible account holder's or supplemental account holder's deposit balance falls below the amounts on the date of record and will cease to exist if the account is closed. The liquidation account will never be increased despite any increase after Conversion in the related deposit balance.

The Association may not pay a dividend on its capital stock, if the effect thereof would cause retained earnings to be reduced below the liquidation account amount or regulatory capital requirements.

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

## **SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

### **Notes to Condensed Financial Statements**

**March 31, 2019 (Unaudited) and December 31, 2018**

**Three Months Ended March 31, 2019 and 2018 (Unaudited)**

**(Dollars in thousands)**

### **Basis of Presentation**

The accompanying condensed balance sheet of the Association as of December 31, 2018, which has been derived from audited financial statements, and unaudited condensed financial statements of the Association as of March 31, 2019 for the three months ended March 31, 2019 and 2018, were prepared in accordance with instructions for Form 10-Q and Article 8 of Regulation S-X and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these condensed financial statements should be read in conjunction with the financial statements and notes thereto of the Association for the year ended December 31, 2018 included in the Form 10-K. Reference is made to the accounting policies of the Association described in the Notes to Financial Statements contained in the Form 10-K.

In the opinion of management, all adjustments (consisting only of normal recurring adjustments) which are necessary for a fair presentation of the unaudited condensed financial statements have been included to present fairly the financial position as of March 31, 2019 and the results of operations and cash flows for the three months ended March 31, 2019 and 2018. All interim amounts have not been audited and the results of operations for the three months ended March 31, 2019, herein are not necessarily indicative of the results of operations to be expected for the entire year.

### **Use of Estimates**

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

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

### **Loans receivable, net**

Loans receivable, net are carried at unpaid principal balances, less allowance for loan losses and net deferred loan fees. Loan origination fees and certain direct loan origination costs are deferred and amortized to interest income over the contractual life of the loan using the interest method.

## **SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

### **Notes to Condensed Financial Statements**

**March 31, 2019 (Unaudited) and December 31, 2018**

**Three Months Ended March 31, 2019 and 2018 (Unaudited)**

**(Dollars in thousands)**

#### **Loans Held for Sale and Loan Sales**

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed surrendered when the assets have been isolated from the Association-put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership; transferee obtains the right, free of conditions that constrain it from taking advantage of that right, to pledge or exchange the transferred assets; and the Association does not maintain effective control over the transferred assets through an agreement that both entitles and obligates the Association to repurchase the transferred assets before their maturity or the ability to unilaterally cause the holder to return specific assets. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

#### **Allowance for Loan Losses**

Allowance for loan losses are established for impaired loans for the difference between the loan amount and the present value of expected future cash flows discounted at the original contractual interest rate, or as a practical expedient if the loan is deemed collateral dependent, the fair value of collateral less estimated selling costs. The Association considers a loan to be impaired when, based on current information and events, it is probable that the Association will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. The types of loans for which impairment is measured under FASB ASC 310-10-35, "Receivables," include nonaccrual real estate loans and troubled debt restructurings ("TDRs"), where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Such loans are placed on nonaccrual status at the point deemed uncollectible. Impairment losses are recognized through an increase in the allowance for loan losses. A loan is considered delinquent when a payment has not been made by the contractual due date.

Allowances for loan losses are available to absorb losses incurred on loans receivable and represents additions charged to expense, less net charge-offs. Loans are charged-off in the period deemed uncollectible. Recoveries of loans previously charged-off are recorded when received. The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired, for which the carrying value of the loan exceeds the fair value of the collateral or the present value of expected future cash flows, or loans otherwise adversely classified. The general component covers non-impaired loans and is based on the historical loan loss experience, including adjustments to historical loss experience maintained to cover uncertainties that affect the Association's estimate of probable losses for each loan type. The Association's period of loan loss experience is three years. The adjustments to historical loss experience are based on evaluation of several factors, including primarily changes in lending policies and procedures; changes in collection, charge-off and recovery practices; changes in the nature and volume of the loan portfolio; changes in the volume and severity of nonperforming loans; the existence and effect of any concentrations of credit and changes in the level of such concentrations; and changes in current, national and local economic and business conditions.

## **SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

### **Notes to Condensed Financial Statements**

**March 31, 2019 (Unaudited) and December 31, 2018**

**Three Months Ended March 31, 2019 and 2018 (Unaudited)**

**(Dollars in thousands)**

Management believes that all known and inherent losses in the loan portfolio that are probable and reasonable to estimate have been recorded as of each balance sheet date

### **Earnings (Loss) Per Share**

Earnings (loss) per share represents income (loss) available to common stockholders divided by the weighted-average number of common shares outstanding during each period.

### **Recent Accounting Pronouncements**

The Association is an “emerging growth company,” as defined in Section 2(a) of the Securities Act of 1933 (the “Securities Act”), as modified by the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”).

As an “emerging growth company,” the Association has elected 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. Accordingly, the financial statements of the Association may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards

The impact of recent accounting pronouncements are summarized as follows:

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers.” The provisions of ASU 2014-09 requires an entity to recognize revenue that depicts the transfer of promised goods or services in an amount that reflects the consideration the entity expects to be entitled in exchange for those goods or services. In August 2015, ASU 2015-14 delayed the effective date for emerging growth companies to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The adoption of this ASU is not expected to have a material impact on the Association’s financial position and results of operations.

In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” The provisions of ASU 2016-01 require certain equity investments to be measured at fair value with changes in fair value recognized in net income and simplify the impairment assessment of such investments; eliminate the requirement for public entities to disclose the methods and significant assumptions used to estimate fair value that is required to be disclosed for financial instruments measured at amortized cost; require public entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; clarify 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 and require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements.

## **SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

### **Notes to Condensed Financial Statements**

**March 31, 2019 (Unaudited) and December 31, 2018**

**Three Months Ended March 31, 2019 and 2018 (Unaudited)**

**(Dollars in thousands)**

For emerging growth companies, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. ASU 2016-01 is not expected to have a material impact on the Association's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." ASU 2016-02 was issued to increase transparency and comparability among entities by requiring lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020. The Association is currently evaluating the impact of ASU 2016-02 on its financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326)." ASU 2016-13 was issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis and reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets.

For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination ("PCD assets") that are measured at amortized cost, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Subsequent changes in the allowance for credit losses on PCD assets are recognized through the statement of income as a credit loss expense.

Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security.

Since the Association is an emerging growth company, ASU 2016-13 is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The Association is currently evaluating the impact of ASU 2016-13 on its financial statements.

**SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

**Notes to Condensed Financial Statements**  
**March 31, 2019 (Unaudited) and December 31, 2018**  
**Three Months Ended March 31, 2019 and 2018 (Unaudited)**  
**(Dollars in thousands)**

**Note 2. Securities Available for Sale**

Securities available for sale are summarized as follows:

	<b>March 31, 2019</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Market Value</b>
	<b>(In thousands)</b>			
Debt securities:				
MBS: Government-sponsored enterprise ("GSE") residential	\$ 4,393	\$ 32	\$ (14)	\$ 4,411
Collateralized mortgage obligations	16	-	(1)	15
SBA pools	69	-	-	69
Total	<u>\$ 4,478</u>	<u>\$ 32</u>	<u>\$ (15)</u>	<u>\$ 4,495</u>
	<b>December 31, 2018</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Market Value</b>
	<b>(In thousands)</b>			
Debt securities:				
MBS: Government-sponsored enterprise ("GSE") residential	\$ 4,740	\$ 27	\$ (32)	\$ 4,735
Collateralized mortgage obligations	18	-	(1)	17
SBA pools	72	-	-	72
Municipal obligations maturing in 2022	248	3	-	251
Total	<u>\$ 5,078</u>	<u>\$ 30</u>	<u>\$ (33)</u>	<u>\$ 5,075</u>

# SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

## Notes to Condensed Financial Statements

March 31, 2019 (Unaudited) and December 31, 2018

Three Months Ended March 31, 2019 and 2018 (Unaudited)

(Dollars in thousands)

Securities having a continuous unrealized loss position for less than twelve months and twelve months or longer at March 31, 2019 and December 31, 2018 are summarized as follows:

March 31, 2019	Number of Positions	Less than 12 Months		12 Months or Longer		Total	
		Market Value	Unrealized loss	Market Value	Unrealized loss	Market Value	Unrealized loss
(Dollars in thousands)							
MBS	26	\$ 527	\$ 1	\$ 820	\$ 13	\$ 1,347	\$ 14
CMOs	1	-	-	15	1	15	1
	<u>27</u>	<u>\$ 527</u>	<u>\$ 1</u>	<u>\$ 835</u>	<u>\$ 14</u>	<u>\$ 1,362</u>	<u>\$ 15</u>
December 31, 2018	Number of Positions	Less than 12 Months		12 Months or Longer		Total	
		Market Value	Unrealized loss	Market Value	Unrealized loss	Market Value	Unrealized loss
(Dollars in thousands)							
MBS	29	\$ 1,759	\$ 15	\$ 837	\$ 17	\$ 2,596	\$ 32
CMOs	1	-	-	17	1	17	1
	<u>30</u>	<u>\$ 1,759</u>	<u>\$ 15</u>	<u>\$ 854</u>	<u>\$ 18</u>	<u>\$ 2,613</u>	<u>\$ 33</u>

The unrealized losses on the securities were due to changes in market interest rates and not the credit quality of the issuer. The Association did not consider the unrealized losses on those securities to be other-than-temporarily impaired credit related losses at the above dates. Total fair value of these securities at March 31, 2019 and December 31, 2018, was \$1,362 and \$2,613, respectively, which is approximately 30% and 51%, respectively, of the Association's available for sale securities portfolio.

### Note 3. Loans Receivable, Net

Loans receivable, net are summarized as

	March 31, 2019	December 31, 2018
(In thousands)		
Real estate loans:		
One-to-four family, owner occupied	\$ 9,327	\$ 9,483
One-to-four family, non-owner occupied	941	963
Commercial	700	235
Consumer loans	215	256
	<u>11,183</u>	<u>10,937</u>
Allowance for losses	(122)	(122)
Deferred loan fees, net	(36)	(38)
Total	<u>\$ 11,025</u>	<u>\$ 10,777</u>

## SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

### Notes to Condensed Financial Statements

March 31, 2019 (Unaudited) and December 31, 2018

Three Months Ended March 31, 2019 and 2018 (Unaudited)

(Dollars in thousands)

During the quarter ended March 31, 2019, the Association purchased commercial loans of \$507.

At March 31, 2019, a blanket lien on certain loans totaling \$9,893 exists for FHLBT lending value of \$8,013.

The risk characteristics of each loan portfolio segment are as follows:

One-to-four family loans are underwritten based on the applicant's employment and credit history and the appraised value of the property. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

#### One-to-four family, non-owner occupied

One-to-four family, non-owner occupied loans carry greater inherent risks than one-to-four family, owner occupied loans, since the repayment ability of the borrower is generally reliant on the success of the income generated from the property.

#### Commercial Including Commercial Real Estate

Commercial and industrial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short term loans may be made on an unsecured basis. In the case of loans by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are secured primarily by various income-producing properties. Commercial real estate loans are underwritten based on the economic viability of the property and creditworthiness of the borrower, with emphasis given to projected cash flow as a percentage of debt service requirements. These loans carry increased risks as they involve larger balances concentrated with single borrowers or groups of related borrowers. Repayment of loans secured by income-producing properties depends on the successful operation of the real estate and the economy.

#### Consumer

Consumer loans include automobile and other consumer loans. Potential credit risks include rapidly depreciable assets, such as automobiles, which could adversely affect the value of the collateral.



**SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

**Notes to Condensed Financial Statements**

**March 31, 2019 (Unaudited) and December 31, 2018**

**Three Months Ended March 31, 2019 and 2018 (Unaudited)**

**(Dollars in thousands)**

The following presents by portfolio segment, the activity in the allowance for loan losses:

	Allowance for Loan Losses				
	<u>Beginning Balance</u>	<u>Provision for Losses</u>	<u>Charge-offs</u> (In thousands)	<u>Recoveries</u>	<u>Ending Balance</u>
<b>Three Months Ended March 31, 2019:</b>					
Real estate loans:					
One-to-four family, owner occupied	\$ 104	\$ (2)	\$ -	\$ -	\$ 102
One-to-four family, non-owner occupied	12	(2)	-	-	10
Commercial	3	5	-	-	8
Consumer loans	3	(1)	-	-	2
	<u>\$ 122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122</u>

	Allowance for Loan Losses				
	<u>Beginning Balance</u>	<u>Provision for Losses</u>	<u>Charge-offs</u> (In thousands)	<u>Recoveries</u>	<u>Ending Balance</u>
<b>Three Months Ended March 31, 2018:</b>					
Real estate loans:					
One-to-four family, owner occupied	\$ 104	\$ 2	\$ -	\$ -	\$ 106
One-to-four family, non-owner occupied	12	-	-	-	12
Commercial	3	(1)	-	-	2
Consumer loans	3	(1)	-	-	2
	<u>\$ 122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122</u>

**SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

**Notes to Condensed Financial Statements**

**March 31, 2019 (Unaudited) and December 31, 2018**

**Three Months Ended March 31, 2019 and 2018 (Unaudited)**

**(Dollars in thousands)**

The following tables present impaired loans and allowance for loan losses and nonperforming loans based on class level:

	Allowance for Loan Losses			Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
<b>At March 31, 2019:</b>	(In thousands)					
Real estate loans:						
One-to-four family, owner occupied	\$ -	\$ 102	\$ 102	\$ 21	\$ 9,306	\$ 9,327
One-to-four family, non-owner occupied	-	10	10	-	941	941
Commercial	-	8	8	-	700	700
Consumer loans	-	2	2	-	215	215
	<u>\$ -</u>	<u>\$ 122</u>	<u>\$ 122</u>	<u>\$ 21</u>	<u>\$ 11,162</u>	<u>\$ 11,183</u>

	Allowance for Loan Losses			Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
<b>At December 31, 2018:</b>	(In thousands)					
Real estate loans:						
One-to-four family, owner occupied	\$ -	\$ 104	\$ 104	\$ 65	\$ 9,418	\$ 9,483
One-to-four family, non-owner occupied	-	12	12	-	963	963
Commercial	-	3	3	-	235	235
Consumer loans	-	3	3	-	256	256
	<u>\$ -</u>	<u>\$ 122</u>	<u>\$ 122</u>	<u>\$ 65</u>	<u>\$ 10,872</u>	<u>\$ 10,937</u>

**SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

**Notes to Condensed Financial Statements**  
**March 31, 2019 (Unaudited) and December 31, 2018**  
**Three Months Ended March 31, 2019 and 2018 (Unaudited)**  
**(Dollars in thousands)**

	Impaired Loans				
	With Allowance for Loan Losses	With no Allowance for Loan Losses	Total	Unpaid Principal Balance	Allowance for Loan Losses
	(In thousands)				
<b>At March 31, 2019:</b>					
Real estate loans:					
One-to-four family, owner occupied	\$ -	\$ 21	\$ 21	\$ 21	\$ -
One-to-four family, non-owner occupied	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer loans	-	-	-	-	-
	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ -</u>

	Nonperforming Loans			
	Nonaccrual	Past Due 90 Days and More Still Accruing	Accruing Troubled Debt Restructurings	Total
	(In thousands)			
<b>At March 31, 2019:</b>				
Real estate loans:				
One-to-four family, owner occupied	\$ 21	\$ -	\$ -	\$ 21
One-to-four family, non-owner occupied	-	-	-	-
Commercial	-	-	-	-
Consumer loans	-	-	-	-
	<u>\$ 21</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21</u>

	Impaired Loans				
	With Allowance for Loan Losses	With no Allowance for Loan Losses	Total	Unpaid Principal Balance	Allowance for Loan Losses
	(In thousands)				
<b>At December 31, 2018:</b>					
Real estate loans:					
One-to-four family, owner occupied	-	\$ 65	\$ 65	\$ 65	\$ -
One-to-four family, non-owner occupied	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer loans	-	-	-	-	-
	<u>-</u>	<u>\$ 65</u>	<u>\$ 65</u>	<u>\$ 65</u>	<u>\$ -</u>

	Nonperforming Loans			
	Nonaccrual	Past Due 90 Days and More Still Accruing	Accruing Troubled Debt Restructurings	Total
	(In thousands)			
<b>At December 31, 2018:</b>				
Real estate loans:				
One-to-four family, owner occupied	\$ 65	\$ -	\$ -	\$ 65
One-to-four family, non-owner occupied	-	-	-	-
Commercial	-	-	-	-
Consumer loans	1	-	-	1
	<u>\$ 66</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66</u>

# SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

## Notes to Condensed Financial Statements March 31, 2019 (Unaudited) and December 31, 2018 Three Months Ended March 31, 2019 and 2018 (Unaudited) (Dollars in thousands)

The average recorded investment in impaired loans for the three months ended March 31, 2019 and 2018 as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands)	
Real estate loans:		
One-to-four family, owner occupied	\$ 22	\$ 68
One-to-four family, non-owner occupied	-	-
Commercial	-	-
Consumer loans	-	-
	<u>\$ 22</u>	<u>\$ 68</u>

Interest income recognized on impaired loans for the three months ended March 31, 2019 and 2018 was \$0 and \$1, respectively.

There were no loans modified as troubled debt restructurings during the three months ended March 31, 2019 or March 31, 2018.

The Association does not have any commitments to lend additional funds to borrowers whose loans are on nonaccrual.

There were no troubled debt restructurings at March 31, 2019 and December 31, 2018.

At March 31, 2019 and December 31, 2018, there were no residential real estate loans in the process of foreclosure.

The following tables present the Association's loan portfolio aging analysis:

	<b>Days Past Due</b>				
	<b>30-59</b>	<b>60-89</b>	<b>90 or more</b>	<b>Current</b>	<b>Total</b>
<b>At March 31, 2019:</b>	(In thousands)				
Real estate loans:					
One-to-four family, owner occupied	\$ 139	\$ -	\$ 21	\$ 9,167	\$ 9,327
One-to-four family, non-owner occupied	-	-	-	941	941
Commercial	-	-	-	700	700
Consumer loans	9	-	-	206	215
	<u>\$ 148</u>	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ 11,014</u>	<u>\$ 11,183</u>
<b>At December 31, 2018:</b>	(In thousands)				
Real estate loans:					
One-to-four family, owner occupied	\$ -	\$ 56	\$ 65	\$ 9,362	\$ 9,483
One-to-four family, non-owner occupied	-	-	-	963	963
Commercial	-	-	-	235	235
Consumer loans	10	-	1	245	256
	<u>\$ 10</u>	<u>\$ 56</u>	<u>\$ 66</u>	<u>\$ 10,805</u>	<u>\$ 10,937</u>

## **SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

### **Notes to Condensed Financial Statements**

**March 31, 2019 (Unaudited) and December 31, 2018**

**Three Months Ended March 31, 2019 and 2018 (Unaudited)**

**(Dollars in thousands)**

The Association classifies 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. Generally, smaller dollar consumer loans are excluded from this process and are reflected in the Pass category. The delinquency trends of these consumer loans are monitored on a homogeneous basis.

The Association uses the following definitions for risk ratings:

The Pass asset quality rating encompasses assets that have generally performed as expected. With the exception of some smaller consumer and residential loans, these assets generally do not have delinquency. Loans assigned this rating include loans to borrowers possessing solid credit quality with acceptable risk.

The Special Mention asset quality rating encompasses assets that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. This grade is intended to include loans to borrowers whose credit quality has clearly deteriorated and where risk of further decline is possible unless active measures are taken to correct the situation.

The Substandard asset quality rating encompasses assets that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any; assets having a well-defined weakness based upon objective evidence; assets characterized by the distinct possibility that the Association will sustain some loss if the deficiencies are not corrected; or the possibility that liquidation will not be timely. Loans categorized in this grade possess a well-defined credit weakness and the likelihood of repayment from the primary source is uncertain. Significant financial deterioration has occurred and very close attention is warranted to ensure the full repayment without loss. Collateral coverage may be marginal.

Doubtful asset quality rating encompasses assets that have all of the weaknesses of those classified as substandard. In addition, these weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

The Loss asset quality rating encompasses assets that are considered uncollectible and of such little value that their continuance as assets is not warranted. A loss classification does not mean that an asset has no recovery or salvage value; instead, it means that it is not practical or desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be realized in the future.

# SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

## Notes to Condensed Financial Statements

March 31, 2019 (Unaudited) and December 31, 2018

Three Months Ended March 31, 2019 and 2018 (Unaudited)

(Dollars in thousands)

The following tables present the credit risk profile of the Association's loan portfolio based on rating category and payment activity:

	Credit Quality Indicator-Credit Risk Profile by Grade or Classification					
	Special Mention	Substandard	Doubtful	Loss	Pass	Total
	(In thousands)					
<b>At March 31, 2019:</b>						
Real estate loans:						
One-to-four family, owner occupied	\$ -	\$ 21	\$ -	\$ -	\$ 9,306	\$ 9,327
One-to-four family, non-owner occupied	-	-	-	-	941	941
Commercial	-	-	-	-	700	700
Consumer loans	-	-	-	-	215	215
	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,162</u>	<u>\$ 11,183</u>

	Credit Quality Indicator-Credit Risk Profile by Grade or Classification					
	Special Mention	Substandard	Doubtful	Loss	Pass	Total
	(In thousands)					
<b>At December 31, 2018:</b>						
Real estate loans:						
One-to-four family, owner occupied	\$ -	\$ 65	\$ -	\$ -	\$ 9,418	\$ 9,483
One-to-four family, non-owner occupied	-	-	-	-	963	963
Commercial	-	-	-	-	235	235
Consumer loans	-	1	-	-	255	256
	<u>\$ -</u>	<u>\$ 66</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,871</u>	<u>\$ 10,937</u>

### Note 4. Equity and Regulatory Capital

The Association is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Association's financial statements. Under capital adequacy guidelines, the Association must meet specific guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices.

Minimum capital level requirements applicable to the Association are: (i) a common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital to risk-weighted assets ratio of 6% (iii) a total capital to risk-weighted assets ratio of 8% and (iv) a Tier 1 leverage ratio of 4%. The rules also establish a "capital conservation buffer" of 2.5% above the regulatory minimum capital ratios, and resulting in the following ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital to risk-weighted assets ratio of 8.5%; (iii) a total capital to risk-weighted assets ratio of 10.5%; and, a Tier 1 leverage ratio of 6.5%. The new capital conservation buffer requirement was phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution will be subject to further limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions.

## SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

### Notes to Condensed Financial Statements

March 31, 2019 (Unaudited) and December 31, 2018

Three Months Ended March 31, 2019 and 2018 (Unaudited)

(Dollars in thousands)

The Association's capital amounts and classifications are also subject to judgments by the regulators about components, risk-weightings and other factors. At March 31, 2019 and December 31, 2018, the Association believes all capital adequacy requirements were met.

The Association is also subject to the regulatory framework for prompt corrective action. On July 20, 2017, the OCC established minimum capital ratios for the Association that are higher than existing banking regulations. The Association was required to achieve and maintain a higher Tier 1 leverage capital ratio at December 31, 2017, June 30, 2018 and December 31, 2018 of 7.5%, 8.0% and 8.5%, respectively, and a total risk-based capital ratio of 12.0%. The requirements to have and maintain specific capital levels prevent the Association from being classified as well-capitalized. Accordingly, the Association was categorized as adequately capitalized under the regulatory framework for prompt corrective action at September 30, 2018 and December 31, 2017. As summarized in the following tables at March 31, 2019 the Association's reported Tier 1 leverage capital ratio of 8.9% is higher than the imposed capital requirement of 8.5%. As of December 31, 2018, the Association's reported Tier 1 leverage capital ratio of and 9.2%, was higher than the imposed capital requirement of 8.5%. As of March 31, 2019 and December 31, 2018, total risk-based capital ratios of 19.2% and 17.3%, respectively, exceeds the higher imposed capital requirement of 12.0%. The Association increased its regulatory capital ratios and exceeded all such higher imposed capital requirements as a result of the conversion from a mutual savings association to a stock savings association, which was completed in July 2018. See note 1.

The Association's actual and required capital amounts and ratios at March 31, 2019 are as follows:

	Actual		Minimum Required			
			for Capital Adequacy		to be "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
Equity	\$ 1,524					
Unrealized gain on securities AFS, net	(14)					
Tangible capital	1,510					
General valuation allowance - limited	105					
Total capital to risk-weighted assets	\$ <u>1,615</u>	19.2%	\$ 672	8.0%	\$ 840	10.0%
Tier 1 capital to risk-weighted assets	\$ 1,510	18.0%	\$ 504	6.0%	\$ 672	8.0%
Common equity Tier 1 capital to risk-weighted assets	\$ 1,510	18.0%	\$ 378	4.5%	\$ 546	6.5%
Tier 1 capital to total assets	\$ 1,510	8.9%	\$ 678	4.0%	\$ 848	5.0%

The general valuation allowance is limited to 1.25% of risk-weighted assets.

## SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

### Notes to Condensed Financial Statements

March 31, 2019 (Unaudited) and December 31, 2018

Three Months Ended March 31, 2019 and 2018 (Unaudited)

(Dollars in thousands)

The Association's actual and required capital amounts and ratios at December 31, 2018 are as follows:

	<u>Actual</u>		<u>Minimum Required</u>			
			<u>for Capital Adequacy</u>		<u>to be "Well Capitalized"</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	(Dollars in Thousands)					
Equity	\$ 1,569					
Unrealized loss on securities AFS, net	<u>2</u>					
Tangible capital	1,571					
General valuation allowance - limited	<u>122</u>					
Total capital to risk-weighted assets	\$ <u>1,693</u>	17.3%	\$ 781	8.0%	\$ 976	10.0%
Tier 1 capital to risk-weighted assets	\$ 1,571	16.1%	\$ 586	6.0%	\$ 781	8.0%
Common equity Tier 1 capital to risk-weighted assets	\$ 1,571	16.1%	\$ 439	4.5%	\$ 634	6.5%
Tier 1 capital to total assets	\$ 1,571	9.2%	\$ 680	4.0%	\$ 850	5.0%

The general valuation allowance is limited to 1.25% of risk-weighted assets.

#### Note 5. Financial Instruments with Off-Balance Sheet Risk

The Association is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments generally include commitments to originate mortgage loans. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The maximum exposure to credit loss in the event of nonperformance by the borrower is represented by the contractual amount and related accrued interest receivable of those instruments.

The Association minimizes this risk by evaluating each borrower's creditworthiness on a case-by-case basis. Collateral held by the Association consists of a first or second mortgage on the borrower's property. The amount of collateral obtained is based upon an appraisal of the property.

Commitments to originate mortgage loans are legally binding agreements to lend to the Association's customers. Commitments for mortgages at March 31, 2019 and December 31, 2018 to originate fixed-rate loans were \$359 and \$323, respectively. Commitments to originate commercial loans were \$167 and \$0 as of March 31, 2019 and December 31, 2018.



## **SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

### **Notes to Condensed Financial Statements**

**March 31, 2019 (Unaudited) and December 31, 2018**

**Three Months Ended March 31, 2019 and 2018 (Unaudited)**

**(Dollars in thousands)**

#### **Note 6. Loans Sold to FHLB of Topeka**

The Association sells fixed-rate single-family, residential loans with servicing released to the FHLB of Topeka under primarily the Mortgage Partnership Finance (“MPF”) Original program. Under the MPF Original program, any loan losses due to default are shared by the FHLB and the Association, which provides a credit enhancement recourse obligation. At March 31, 2019, the outstanding balance of loans sold under the MPF Original program was \$2,107 and the maximum credit enhancement obligation was \$151. The breach of any representation or warranty related to the loans sold under the MPF Original program could increase the losses associated with such loans.

In order to determine whether any loss exposure exists under the MPF Original program, the Association considers the FHLB loss sharing obligation, borrower equity, any private mortgage insurance, delinquency status, if any, and other credit risk factors. As a result of this evaluation, no recourse loss liability was recorded as of March 31, 2019 and December 31, 2018.

#### **Note 7. Fair Value Measurements and Fair Value of Financial Instruments**

##### **Fair Value Measurements**

The fair value hierarchy prioritizes the assumptions that market participants would use in pricing the assets or liabilities (the “inputs”) into three broad levels.

The fair value hierarchy gives the highest priority (Level 1) to quoted prices in active markets for identical assets and liabilities and the lowest priority (Level 3) to unobservable inputs in which little, if any, market activity exists, requiring entities to develop their own assumptions and data.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in market areas that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

##### **Valuation Techniques**

Available for sale securities are carried at fair value utilizing Level 2 inputs. For debt securities, the Association obtains fair value measurements from an independent pricing service. Debt securities include MBSs, CMOs, SBA pools and municipal obligations. The fair value measurements consider observable data that may include dealer quotes, live trading levels, trade execution data, cash flows, market consensus prepayment speeds, market spreads, credit information and the U.S. Treasury yield curve.

Impaired loans are carried at fair value utilizing Level 3 inputs, consisting of appraisals of underlying collateral (collateral method) adjusted for selling costs (unobservable input), which generally approximate 6% of the sales prices and discounted cash flow analysis. See note 3.

**SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**

**Notes to Condensed Financial Statements**

**March 31, 2019 (Unaudited) and December 31, 2018**

**Three Months Ended March 31, 2019 and 2018 (Unaudited)**

**(Dollars in thousands)**

**Measured at Fair Value on a Recurring Basis**

The following table summarizes financial assets measured at fair value on a recurring basis at March 31, 2019 and December 31, 2018, segregated by the level of the inputs within the hierarchy used to measure fair value:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
	(In thousands)			
<b>March 30, 2019:</b>				
MBS: GSE residential	\$ -	\$ 4,411	\$ -	\$ 4,411
Collateralized mortgage obligations	-	15	-	15
SBA pools	-	69	-	69
Municipals	-	-	-	-
	<u>\$ -</u>	<u>\$ 4,495</u>	<u>\$ -</u>	<u>\$ 4,495</u>
<b>December 31, 2018:</b>				
MBS: GSE residential	\$ -	\$ 4,735	\$ -	\$ 4,735
Collateralized mortgage obligations	-	17	-	17
SBA pools	-	72	-	72
Municipals	-	251	-	251
	<u>\$ -</u>	<u>\$ 5,075</u>	<u>\$ -</u>	<u>\$ 5,075</u>

There were no transfers between Level 1 and Level 2 categorizations for the periods presented.

**Assets Measured at Fair Value on a Nonrecurring Basis**

Assets measured at fair value on a non-recurring basis include impaired loans. Impaired loans are collateral dependent. At March 31, 2019 and December 31, 2018, there were no impaired loans, which were adjusted to fair value utilizing Level 3 inputs during such periods. In addition, there were no fair value adjustments, consisting of charge-offs, on impaired loans during three months ended March 31, 2019 and 2018.

## SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

### Notes to Condensed Financial Statements

March 31, 2019 (Unaudited) and December 31, 2018

Three Months Ended March 31, 2019 and 2018 (Unaudited)

(Dollars in thousands)

### Fair Value of Financial Instruments

Fair values of financial instruments have been estimated by the Association based on available market information with the assistance of an independent consultant:

	Carrying Amount	Fair Value	Fair Value Measurements Using		
			Level 1	Level 2	Level 3
<b>March 31, 2019:</b>					
Cash and cash equivalents	\$ 1,404	\$ 1,404	\$ 1,404	\$ -	\$ -
Stock in FHLBT and MIB	97	97	-	97	-
Loans receivable, net	11,025	11,283	-	-	11,283
Accrued interest receivable	47	47	-	47	-
Deposits	15,351	15,219	8,859	6,360	-
<b>December 31, 2018:</b>					
Cash and cash equivalents	\$ 798	\$ 798	\$ 798	\$ -	\$ -
Stock in FHLBT and MIB	97	97	-	97	-
Loans receivable, net	10,777	10,806	-	-	10,806
Accrued interest receivable	47	47	-	47	-
Deposits	15,163	15,068	8,541	6,527	-

The following methods and assumptions were used in estimating the fair values shown above:

Cash and cash equivalents are valued at their carrying amounts due to the relatively short period to maturity of the instruments.

Stock in FHLBT and MIB is valued at cost, which represents redemption value and approximates fair value.

The carrying amount of loans held for sale approximates fair value due to the insignificant time between origination and date of sale.

Fair values are computed for each loan category using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amounts of accrued interest receivable and accrued interest payable approximate fair value.

Deposits with no defined maturities, such as checking accounts, savings accounts and money market deposit accounts are, by definition, equal to the amount payable on demand at the balance sheet date.

The fair values of certificate accounts are computed using interest rates currently being offered to deposit customers.

## SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

### Notes to Condensed Financial Statements

March 31, 2019 (Unaudited) and December 31, 2018

Three Months Ended March 31, 2019 and 2018 (Unaudited)

(Dollars in thousands)

Off-balance sheet assets include the commitments to extend credit for which fair values were estimated based on interest rates and fees currently charged for similar transactions. Due to the short-term nature of the outstanding commitments, the fair values of fees on those commitments approximates the amount collected and the Association's has not assigned a value to such instruments for purposes of this disclosure.

#### Note 8. Other Noninterest Expense

Other noninterest expense in the Statements of Operations is summarized as follows:

	Three Months Ended	
	March 31,	
	2019	2018
	(In thousands)	
Contract services	\$ 4	\$ 3
Advertising	3	3
Office supplies	1	1
Telephone expense	2	2
Dues and subscriptions	3	3
Other	1	4
	<u>\$ 14</u>	<u>\$ 16</u>

#### Note 9. Regulatory Agreement

On June 7, 2017, the Association entered into a Memorandum of Understanding ("MOU") with the OCC. Under the MOU, the Association agreed to develop and implement a three-year strategic and capital plan; improve its interest rate risk position and limit asset and liability concentrations. The Board of Directors and management are currently taking action to comply with the MOU.

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's discussion and analysis of financial condition and results of operations at March 31, 2019 for the three months ended March 31, 2019 and 2018 is intended to assist in understanding the financial condition and results of operations of the Association. The information contained in this section should be read in conjunction with the Unaudited Condensed Financial Statements and the notes thereto, appearing in Part 1, Item 1 of this report.

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Form 10-Q contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect," "will," "may" and words of similar meaning. These forward-looking statements include, but are not limited to:

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

These forward-looking statements are based on our current beliefs and expectations 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. We do not take any obligation to update any forward-looking statements after the date of this Form 10-Q, except as required by law.

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

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the Securities and Exchange Commission, the Financial Accounting Standards Board and the Public Company Accounting Oversight Board;
- changes in our organization, compensation and benefit plans;

- changes in our financial condition or results of operations that reduce capital; and
- changes in the financial condition or future prospects of issuers of securities that we own.

Additional factors that may affect our results are discussed in Sidney Federal Savings and Loan Association's Form 10-K dated April 12, 2019 as filed with the Office of the Comptroller of the Currency, including under the section titled "Risk Factors". These factors and the other factors listed above should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements.

## **Overview**

Our profitability is highly dependent on our net interest income, which is the difference between our interest income on interest-earning assets, such as loans and securities, and our interest expense on interest-bearing liabilities, such as deposits and borrowed funds. Our principal business is accepting deposits from individuals and businesses in the communities surrounding our office, and using such deposits to fund loans. We focus on providing our products and services to two segments of customers: individuals and small businesses.

We experienced net losses of \$61,000 and \$102,000 for the three months ended March 31, 2019 and 2018 respectively. Our profitability has suffered due primarily to our continued elevated noninterest expense. The three largest components of our noninterest expense are generally our equipment and data processing expense, compensation and benefits expense, and professional and supervisory fees which were \$26,000, \$114,000, and \$33,000 respectively, for the three months ended March 31, 2019 and \$32,000, \$130,000, and \$48,000 respectively, for the three months ended March 31, 2018. We have been unable to meaningfully reduce our noninterest expense due to our lack of size, our increasing costs of compliance with banking and other regulations and our high data processing fixed costs.

## **Critical Accounting Policies**

The discussion and analysis of the financial condition and results of operations are based on our financial statements, which are prepared in conformity with U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. We consider the accounting policies discussed below to be critical accounting policies. The estimates and assumptions that we use are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards.

The following represent our critical accounting policies:

**Allowance for Loan Losses.** We consider the allowance for loan losses to be a critical accounting policy. The allowance for loan losses is the amount estimated by management as necessary to cover probable losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged to operations. Determining the amount of the allowance for loan losses involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance at least quarterly and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectability of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the OCC, as an integral part of its examination process, periodically reviews our allowance for loan losses. Such agency may require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would adversely affect results of operations.

**Income Taxes.** Income taxes are provided for the tax effects of certain transactions reported in the financial statements. Income taxes consist of taxes currently due plus deferred taxes related primarily to temporary differences between the financial reporting and income tax basis of the allowance for loan losses, premises and equipment, certain state tax credits, operating losses, and deferred loan origination costs. The deferred tax assets and liabilities represent the future tax return consequences of the temporary differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted into law, and includes among other items, a reduction in the federal corporate income tax structure to a flat rate of 21%, effective January 1, 2018. As a result, the Association's net deferred tax asset and related valuation allowance at December 31, 2017 were remeasured at the new tax rate.

**Estimation of Fair Values.** Securities classified as available for sale are reported at fair value, with unrealized gains and losses excluded from operations and reported as a separate component of equity. The Association does not purchase securities for trading purposes. The cost of securities sold is determined by specific identification. Declines in fair value of securities available for sale that are deemed to be other-than-temporary are charged to operations as a realized loss. In estimating other-than-temporary impairment losses, management of the Association considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, the Association's intent to sell the security or whether it is more likely than not that it will be required to sell the security before the anticipated recovery of its remaining amortized cost basis and evaluation of cash flows to determine if the securities have been adversely affected.

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

	March 31, 2019	December 31, 2018	Increase (Decrease)	% Change
(Dollars in thousands)				
Total assets	\$ 17,241	\$ 16,993	\$ 248	1.5 %
Cash and cash equivalents	1,404	798	606	75.9
Securities available for sale	4,495	5,075	(580)	(11.4)
Stock in FHLB of Topeka and MIB	97	97	-	-
Loans receivable, net	11,025	10,777	248	2.3
Premises and equipment, net	42	44	(2)	(4.5)
Other assets (1)	178	202	(24)	(11.9)
Deposits	15,351	15,163	188	1.2
Advances from borrowers for taxes and insurance	218	147	71	48.3
Other liabilities	148	114	34	29.8
Total stockholders equity	1,524	1,569	(45)	(2.9)

(1) Includes accrued interest receivable, prepaid income taxes, deferred tax asset, deferred conversion costs and other assets.

NM - Not Meaningful

**Total Assets.** Total assets increased \$248,000, or 1.5%, to \$17.2 million at March 31, 2019 from \$17.0 million at December 31, 2018. The increase in total assets was due primarily to an increase in interest bearing deposits.

**Loans Receivable, Net and Loan Held for Sale.** Net loans increased \$248,000, or 2.3%, to \$11.0 million at March 31, 2019 from \$10.8 million at December 31, 2018, due primarily to an increase in purchased loans. Loans originated for portfolio and sale during the three months ended March 31, 2019 and March 31, 2018 were \$653,000 and \$342,000, respectively. The one-to-four-family owner-occupied real estate loan portfolio decreased \$156,000, or 1.6%, to \$9.3 million at March 31, 2019 from \$9.5 million at December 31, 2018 due to principal repayments, which exceeded new loan originations for portfolio. Commercial loans at March 31, 2019 increased \$465,000 from \$235,000 at December 31, 2018 due primarily to the purchase of commercial loans. There were modest changes in the other loan segments. There were no loans held for sale at March 31, 2019 and December 31, 2018.

**Securities Available for Sale.** At March 31, 2019 and December 31, 2018, all securities were classified as available for sale and included mortgage-backed securities. Securities decreased \$580,000, or 11.4%, to \$4.5 million at March 31, 2019 from \$5.1 million at December 31, 2018 due to principal collections of \$596,000.

**Cash and Cash Equivalents.** Cash and cash equivalents increased \$606,000, or 75.9%, to \$1.4 million at March 31, 2019 from \$798,000 at December 31, 2018 due to normal fluctuations.

**Other Assets.** Other assets decreased by \$24,000 to \$178,000 at March 31, 2019, compared to \$202,000 at December 31, 2018. The decrease was due to lower prepaid expenses.

**Deposits.** Deposits increased \$188,000, or 1.2%, to \$15.4 million at March 31, 2019 from \$15.2 million at December 31, 2018. The increase in deposits was due primarily inflow of new funds.

**Stockholders' Equity.** Total equity decreased \$45,000 to \$1.5 at March 31, 2019 from \$1.6 million at December 31, 2018, as a result of operational losses and changes to unrealized gain/loss on AFS securities.



## Comparison of Operating Results for the Three Months Ended March 31, 2019 and 2018

**General.** The Association had a net loss of \$61,000 for the three months ended March 31, 2019, compared to a net loss of \$102,000 for the three months ended March 31, 2018. The Association's net loss for the three months ended March 31, 2019 was lower due to a lower level of noninterest expense.

	Three Months Ended March 31,		Increase (Decrease)	% Change
	2019	2018		
	(Dollars in thousands)			
Interest income:				
Loans receivable	\$ 118	\$ 135	\$ (17)	(12.6) %
Securities-taxable	32	11	21	190.9
Securities-nontaxable	-	3	(3)	(100.0)
Other interest-earning assets	7	5	2	40.0
Total interest income	<u>157</u>	<u>154</u>	<u>3</u>	1.9
Interest expense:				
Checking and money market accounts	1	1	-	-
Savings accounts	1	1	-	-
Certificates of deposit	19	15	4	26.7
Total deposits	<u>21</u>	<u>17</u>	<u>4</u>	23.5
Advances from FHLBT	-	-	-	-
Total interest expense	<u>21</u>	<u>17</u>	<u>4</u>	23.5
<b>Net interest income</b>	<u>\$ 136</u>	<u>\$ 137</u>	<u>\$ (1)</u>	(0.7) %

**Interest Income.** Interest income increased by \$3,000, or 1.9%, to \$157,000 for the three months ended March 31, 2019 from \$154,000 for the three months ended March 31, 2018, due primarily to an increase in interest on securities offset by decrease in interest on loans.

The average balance of loans decreased to \$10.7 million for the three months ended March 31, 2019 from \$12.6 million for the three months ended March 31, 2018. The average yield on loans increased to 4.46% for the three months ended March 31, 2019 from 4.35% for the three months ended March 31, 2018.

**Interest Expense.** Interest expense increased \$4,000, or 26.7%, to \$21,000 for the three months ended March 31, 2019 from \$17,000 for the three months ended March 31, 2018 primarily as a result of higher average rates paid on certificates of deposit. The average rate paid on certificates of deposit increased to 1.18% for the three months ended March 31, 2019 from 0.89% for the three months ended March 31, 2018.

**Net Interest Income.** Net interest income decreased \$1,000, or 0.7%, to \$136,000 for the three months ended March 31, 2019 from \$137,000 for the three months ended March 31, 2018. The modest decrease in net interest income was mostly attributable to a higher rates paid on certificates of deposits.

The net interest rate spread decreased to 3.21% for the three months ended March 31, 2019 from 3.37% for the three months ended March 31, 2018 as the average yield on average interest-earning assets decreased by 4 basis points and the average cost of average interest-bearing liabilities increased by 12 basis points.

**Provision for Loan Losses.** There were no provisions for loan losses for the three months ended March 31, 2019 and 2018, respectively.

	Three Months Ended March 31,		Increase (Decrease)	% Change
	2019	2018		
	(Dollars in thousands)			
Noninterest income:				
Service charges on deposit accounts	\$ 3	\$ 3	\$ -	0.0 %
Gain on sale of loans	11	6	5	83.3
Gain on called securities	3	-	3	NM
Other	-	1	(1)	(100.0)
Total noninterest income	\$ 17	\$ 10	\$ 7	70.0 %

NM - Not Meaningful.

**Noninterest Income.** Noninterest income increased \$7,000, or 70.00%, to \$17,000 for the three months ended March 31, 2019 from \$10,000 for the three months ended March 31, 2018. The increase was primarily due to the higher gain on sale of loans resulting from increased loan sales during the three months ended March 31, 2019.

	Three Months Ended March 31,		Increase (Decrease)	% Change
	2019	2018		
	(Dollars in thousands)			
Noninterest expense:				
Compensation and benefits	\$ 114	\$ 130	\$ (16)	(12.3) %
Occupancy expense	7	5	2	40.0
Equipment and data processing expense	26	32	(6)	(18.8)
FDIC premium expense	3	4	(1)	(25.0)
Professional and regulatory fees	33	48	(15)	(31.3)
Insurance expense	7	5	2	40.0
Debit card expense, net	7	6	1	16.7
Correspondent bank service charges	3	3	-	-
Other	14	16	(2)	(12.5)
Total noninterest expense	\$ 214	\$ 249	\$ (35)	(14.1) %

**Noninterest Expense.** Noninterest expense decreased \$35,000 or 14.1%, to \$214,000 for the three months ended March 31, 2019 from \$249,000 for the three months ended March 31, 2018 due primarily to lower compensation and benefit, professional and regulatory fees, and equipment and data processing expense.

Compensation and benefits decreased \$16,000, or 12.3%, to \$114,000 for the three months ended March 31, 2019 from \$130,000 for the three months ended March 31, 2018 due primarily to fewer employees. Professional and regulatory fees decreased \$15,000, or 31.3%, to \$33,000 for the three months ended March 31, 2019, compared to \$48,000 for the three months ended March 31, 2018. The decrease was due to additional audit expense in the first quarter 2018, as it included the 2017 and 2016 audits. Equipment and data processing expense decreased \$6,000, or 18.8%, to \$26,000 for the three months ended March 31, 2019, compared to \$32,000 for the three months ended March 31, 2018 due primarily to a lower level of data processing costs as a result of a renegotiated contract in 2017.

**Income Tax Expense.** There was no provision for income taxes for the three months ended March 31, 2019 and 2018. A valuation allowance has been recorded against all components of the net deferred tax asset, except for the net unrealized loss on available for sale securities.

## Average Balances and Yields

The following tables set forth average balance sheets, average yields and costs, and certain other information at and for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the tables as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or interest expense.

	Average			Average		
	Outstanding	Yield/	Outstanding	Yield/	Outstanding	Yield/
	Balance	Interest	Rate	Balance	Interest	Rate
	(Dollars in Thousands)					
<b>Interest-earning assets:</b>						
Loans receivable	\$ 10,738	\$ 118	4.46 %	\$ 12,575	\$ 135	4.35 %
Securities, taxable	4,719	32	2.75	2,024	11	2.20
Securities, non-taxable	-	-	0.00	250	3	4.87
Other interest-earning assets	1,268	7	2.24	1,368	5	1.48
Total interest-earning assets	<u>16,725</u>	<u>157</u>	3.81	<u>16,217</u>	<u>154</u>	3.85
Noninterest-earning assets	<u>341</u>			<u>363</u>		
Total assets	<u>\$ 17,066</u>			<u>\$ 16,580</u>		
<b>Interest-bearing liabilities:</b>						
Checking and MMDA accounts	\$ 2,592	1	0.16	\$ 2,589	1	0.16
Savings accounts	4,976	1	0.08	4,871	1	0.08
Certificates of deposit	<u>6,526</u>	<u>19</u>	1.18	<u>6,872</u>	<u>15</u>	0.89
Total deposits	<u>14,094</u>	<u>21</u>	0.60	<u>14,332</u>	<u>17</u>	0.48
Advances from FHLB of Topeka	-	-		-	-	0.00
Total interest-bearing liabilities	<u>14,094</u>	<u>21</u>	0.60	<u>14,332</u>	<u>17</u>	0.48
Non-interest bearing checking accounts	1,042			935		
Non-interest bearing liabilities	366			311		
Stockholders' equity	<u>1,564</u>			<u>1,002</u>		
Total liabilities and Stockholders' equity	<u>\$ 17,066</u>			<u>\$ 16,580</u>		
Net interest income		<u>\$ 136</u>			<u>\$ 137</u>	
Net interest spread (1)			3.21 %			3.37 %
Net interest-earning assets (2)	<u>\$ 2,631</u>			<u>\$ 1,885</u>		
Net interest margin (3)			3.30 %			3.43 %
Average interest-earning assets to average interest-bearing liabilities			118.67 %			113.15 %

(1) Net interest spread represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of average interest-bearing liabilities.

(2) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

(3) Net interest margin represents net interest income divided by average total interest-earning assets.

## Liquidity and Capital Resources

**Liquidity Management.** 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, and proceeds from sales, maturities and calls of securities. We also have the ability to borrow from the FHLB of Topeka. As of March 31, 2019, the Association did not have any FHLB of Topeka advances with unused borrowing capacity of \$8 million.

The board of directors is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of March 31, 2019.

We monitor and adjust our investments in liquid assets based upon our assessment of: (1) expected loan demand; (2) expected deposit flows; (3) yields available on interest-earning deposits and securities; and (4) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits and short-and intermediate-term securities.

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 cash equivalents, which include federal funds sold and interest-bearing deposits in other banks. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At March 31, 2019, cash and cash equivalents totaled \$1.4 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled \$4.5 million at March 31, 2019.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash used for operating activities was \$2,000 and \$266,000 for the three months ended March 31, 2019 and 2018, respectively. Net cash provided by investing activities was \$349,000 and \$488,000 for the three months ended March 31, 2019 and 2018. Net cash provided by financing activities was \$259,000 and \$396,000 for the three months ended March 31, 2019 and March 31, 2018.

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. Certificates of deposit due within one year of March 31, 2019, totaled \$3.2 million, or 20.8%, of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, such as other deposits and FHLB of Topeka advances. Depending on market conditions, we may be required to pay higher rates on such deposits or borrowings than we currently pay. We believe, however, based on past experience that a significant portion of such deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

**Capital Management.** The Association is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. See Note 4 of the Notes to the Condensed Financial Statements.

## **Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

**Commitments.** As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. At March 31, 2019, we had outstanding commitments to originate loans of \$526,000. We anticipate that we will have sufficient funds available to meet our current lending commitments.

**Contractual Obligations.** In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

## **Impact of Inflation and Changing Prices**

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

## **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 President and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Association'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, 2019. Based on that evaluation, the Association's management, including the President and 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, 2019, there have been no changes in the Association's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Association's internal control over financial reporting.

## **Part II – Other Information**

### **Item 1. Legal Proceedings**

The Association is 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 Association's financial condition or results of operations.

**Item 1A. Risk Factors**

Not required for smaller reporting companies.

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act 2002
- 32.1 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

## **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.

### **Sidney Federal Savings and Loan Association**

Date: August 19, 2019

/s/ Steve Smith  
Steve Smith  
President, Chief Executive Officer  
(Principal Executive Officer)

Date: August 19, 2019

/s/ Jamie Lanckriet  
Jamie Lanckriet  
Controller  
(Principal Financial Officer)

**Certification of Chief Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jamie Lanckriet, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sidney Federal Savings and Loan Association;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 19, 2019

/s/ Steve Smith  
 \_\_\_\_\_  
 Steve Smith  
 President and Chief Executive Officer  
 (Principal Executive Officer)



**Certification Principal Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jamie Lanckriet, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sidney Federal Savings and Loan Association;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - d) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - e) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - f) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - c) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - d) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 19, 2019

/s/ Jamie Lanckriet  
 \_\_\_\_\_  
 Jamie Lanckriet  
 Controller  
 (Principal Financial Officer)

**Certification of Chief Executive Officer and Principal Financial Officer Pursuant to Section 906  
of the Sarbanes-Oxley Act of 2002**

Steve Smith, President Chief Executive Officer and Jamie Lanckriet Principal Financial officer of Sidney Federal Savings and Loan Association, (the "Association"), each certify in his capacity as an officer of the Association that they have reviewed the quarterly report on Form 10-Q for the quarter ended March 31, 2019 (the "Report") and that to the best of their knowledge:

1. the Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Association.

Date: August 19, 2019      /s/ Steve Smith  
Steve Smith  
President, Chief Executive Officer  
(Principal Executive Officer)

Date: August 19, 2019      /s/ Jamie Lanckriet  
Jamie Lanckriet  
Controller  
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Association and will be retained by the Association and furnished to the Office of the Comptroller of the Currency or its staff upon request.