

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 September 30, 2020 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 10th 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)

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

Title of each class

Not Applicable

Trading Symbol(s)

Not Applicable

Name of each exchange on which registered

Not Applicable

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.

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 November 11, 2020, 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
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SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION
Part 1. Financial Information
Item 1. Condensed Financial Statements

Condensed Balance Sheets
September 30, 2020 (Unaudited) and December 31, 2019
(Amounts in thousands, except share amounts)

	September 30, 2020	December 31, 2019
Assets		
Cash	\$ 161	\$ 120
Interest-bearing deposits in other banks:		
Federal Home Loan Bank of Topeka ("FHLBT") demand account	404	366
FHLBT overnight deposit account	3,100	1,000
Cash and cash equivalents	<u>3,665</u>	<u>1,486</u>
Securities available for sale, at market value (amortized cost of \$1,776 and \$2,502, respectively)	1,817	2,526
Stock in FHLBT and Midwest Independent Bank ("MIB")	249	153
Loans receivable, net of allowance for loan losses of \$162 and \$150, respectively	13,230	13,927
Premises and equipment, net	32	66
Accrued interest receivable:		
Securities and other interest-earning assets	6	9
Loans receivable	41	40
Other assets	330	166
Total assets	<u>\$ 19,370</u>	<u>\$ 18,373</u>
Liabilities		
Deposits:		
Noninterest-bearing	\$ 1,019	\$ 1,202
Interest-bearing	13,797	12,856
Total deposits	<u>14,816</u>	<u>14,058</u>
Federal Home Loan Bank of Topeka (FHLBT) Advances	2,700	2,700
Advances from borrowers for taxes and insurance	111	180
Other liabilities	379	148
Total liabilities	<u>18,006</u>	<u>17,086</u>
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.01 par value, 19,000,000 shares authorized, 132,250 shares outstanding	1	1
Additional paid in capital	811	811
Retained earnings - substantially restricted	519	456
Accumulated other comprehensive income, net of taxes	33	19
Total equity	<u>1,364</u>	<u>1,287</u>
Total liabilities and stockholders' equity	<u>\$ 19,370</u>	<u>\$ 18,373</u>

See accompanying notes to condensed financial statements.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Condensed Statements of Operations
Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)
(Amounts in thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Interest income:				
Loans receivable	\$ 168	\$ 134	\$ 503	\$ 377
Securities-taxable	10	22	39	82
Other interest-earning assets	2	3	12	15
Total interest income	<u>180</u>	<u>159</u>	<u>554</u>	<u>474</u>
Interest expense:				
Deposits	27	23	78	67
Advances from FHLBT	10	-	28	-
Total interest expense	<u>37</u>	<u>23</u>	<u>106</u>	<u>67</u>
Net interest income	<u>143</u>	<u>136</u>	<u>448</u>	<u>407</u>
Provision for loan losses	-	-	10	-
Net interest income after provision for loan losses	<u>143</u>	<u>136</u>	<u>438</u>	<u>407</u>
Noninterest income:				
Service charges on deposit accounts	2	3	6	8
Gain on sale of loans	26	12	49	27
Gain on called and sold securities	-	-	-	3
Debit card income	2	3	7	8
Gain on sale of premises and equipment	-	-	282	-
Other	1	1	1	2
Total noninterest income	<u>31</u>	<u>19</u>	<u>345</u>	<u>48</u>
Noninterest expense:				
Compensation and benefits	113	111	342	336
Occupancy expense	14	10	42	23
Equipment and data processing expense	25	26	80	75
FDIC premium expense	5	(2)	14	3
Professional and regulatory fees	39	40	117	110
Insurance expense	8	8	23	22
Debit card expense	8	8	24	24
Correspondent bank service charges	3	3	10	10
Other	22	20	68	55
Total noninterest expense	<u>237</u>	<u>224</u>	<u>720</u>	<u>658</u>
Income(loss) before income taxes	<u>(63)</u>	<u>(69)</u>	<u>63</u>	<u>(203)</u>
Income taxes	-	-	-	-
Net income(loss)	<u>\$ (63)</u>	<u>\$ (69)</u>	<u>\$ 63</u>	<u>\$ (203)</u>
Basic net income (loss) per share	\$ (0.48)	(0.52)	\$ 0.48	1.53
Weighted average common shares outstanding	132,250	132,250	132,250	132,250

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

**Condensed Statements of Comprehensive Income (Loss)
Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)**

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	(In thousands)			
Net income (loss)	\$ (63)	\$ (69)	\$ 63	\$ (203)
Other comprehensive (loss) income, net of tax:				
Reclassification adjustment for gains on securities AFS included in operations	-	-	-	(3)
Unrealized gain (loss) on securities available for sale during the period	(10)	-	17	43
Other comprehensive income (loss) before taxes	(10)	-	17	40
Income tax benefit (expense)	2	-	(4)	(9)
Other comprehensive income (loss), net of tax	(8)	-	13	31
Comprehensive income (loss)	<u>\$ (71)</u>	<u>\$ (69)</u>	<u>\$ 76</u>	<u>\$ (172)</u>

See accompanying notes to condensed financial statements.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Condensed Statements of Stockholders' Equity
Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)
(Amounts in thousands)

	Three Months Ending September 30, 2020				
	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net	Total Stockholders' Equity
Balance at June 30, 2020	\$ 1	\$ 811	\$ 582	\$ 40	\$ 1,434
Net loss	-	-	(63)	-	(63)
Other comprehensive income, net of taxes	-	-	-	(7)	(7)
Balance at September 30, 2020	<u>\$ 1</u>	<u>\$ 811</u>	<u>\$ 519</u>	<u>\$ 33</u>	<u>\$ 1,364</u>

	Nine Months Ended September 30, 2020				
	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net	Total Stockholders' Equity
Balance at January 1, 2020	\$ 1	\$ 811	\$ 456	\$ 19	\$ 1,287
Net income	-	-	63	-	63
Other comprehensive income, net of taxes	-	-	-	14	14
Balance at September 30, 2020	<u>\$ 1</u>	<u>\$ 811</u>	<u>\$ 519</u>	<u>\$ 33</u>	<u>\$ 1,364</u>

	Three Months Ending September 30, 2019				
	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net	Total Stockholders' Equity
Balance at June 30, 2019	\$ 1	\$ 811	\$ 625	\$ 29	\$ 1,466
Net loss	-	-	(69)	-	(69)
Other comprehensive income, net of taxes	-	-	-	-	-
Balance at September 30, 2019	<u>\$ 1</u>	<u>\$ 811</u>	<u>\$ 556</u>	<u>\$ 29</u>	<u>\$ 1,397</u>

	Nine Months Ended September 30, 2019				
	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Total Stockholders' Equity
Balance at January 1, 2019	\$ 1	\$ 811	\$ 759	\$ (2)	\$ 1,569
Net loss	-	-	(203)	-	(203)
Other comprehensive income, net of taxes	-	-	-	31	31
Balance at September 30, 2019	<u>\$ 1</u>	<u>\$ 811</u>	<u>\$ 556</u>	<u>\$ 29</u>	<u>\$ 1,397</u>

See accompanying notes to condensed financial statements.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

**Condensed Statements of Cash Flows
Nine Months Ended September 30, 2020 and 2019 (Unaudited)**

	Nine Months Ended September 30,	
	2020	2019
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ 63	\$ (203)
Adjustments to reconcile net loss to net cash used for operating activities:		
Provision for loan losses	10	-
Depreciation expense	7	6
Gain on sale of premises	(282)	-
Amortization of premiums, net	11	13
FHLBT stock dividends	(5)	(3)
Gain on called and sold securities	-	(3)
Gain on sale of loans	(49)	(27)
Loan originations for sale	(1,454)	(1,011)
Proceeds from sale of loans	1,503	1,038
Net change in:		
Accrued interest receivable	2	3
Other assets	81	74
Other liabilities	(17)	33
Net cash used in operating activities	<u>(130)</u>	<u>(80)</u>
Cash flows from investing activities:		
Net change in loans receivable	2,484	595
Purchased Loans	(1,797)	(1,260)
Proceeds from maturities, paydowns and calls of securities available for sale	715	1,220
Proceeds from sales of securities available for sale	-	664
Purchases of FHLBT Stock	(91)	-
Redemption of FHLBT stock	-	1
Proceeds on sale of premises and equipment	314	-
Purchases of premises of equipment	(5)	(31)
Net cash provided by investing activities	<u>\$ 1,620</u>	<u>\$ 1,189</u>

(Continued)

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**Condensed Statements of Cash Flows
Nine Months Ended September 30, 2020 and 2019 (Unaudited)**

(Continued)

	Nine Months Ended September 30,	
	2020	2019
	(In thousands)	
Cash flows from financing activities:		
Net change in deposits	\$ 758	\$ (1,199)
Proceeds from advance from FHLBT	-	-
Net change in advances from borrowers for taxes and insurance	(69)	(35)
Proceeds from issuance of common stock	-	-
Net cash provided by (used in) financing activities	<u>689</u>	<u>(1,234)</u>
Net change in cash and cash equivalents	2,179	(87)
Cash and cash equivalents at beginning of period	1,486	798
Cash and cash equivalents at end of period	<u>\$ 3,665</u>	<u>\$ 711</u>
Cash paid during the period for:		
Interest on deposits	\$ 78	\$ 67
Interest on advances from FHLBT	28	-
Supplemental non-cash activity		
Initial recognition of right of use lease asset	\$ 245	-
Initial recognition of operating lease liability	245	-

See accompanying notes to condensed financial statements.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Condensed Financial Statements

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (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

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

Basis of Presentation

The accompanying condensed balance sheet of the Association as of December 31, 2019, which has been derived from audited financial statements, and unaudited condensed financial statements of the Association as of September 30, 2020 and for the three and nine months ended September 30, 2020 and 2019, 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, 2019 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 September 30, 2020 and the results of operations and cash flows for the three and nine months ended September 30, 2020 and 2019. All interim amounts have not been audited and the results of operations for the three and nine months ended September 30, 2020, 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.

Risk and Uncertainties

On March 11, 2020, the World Health Organization declared COVID-19, the disease caused by the novel coronavirus, a pandemic as a result of the global spread of the coronavirus illness. In response to the outbreak, federal and state authorities in the U.S. introduced various measures to try to limit or slow the spread of the virus, including travel restrictions, nonessential business closures, stay-at-home orders, and strict social distancing. The full impact of COVID-19 is unknown and rapidly evolving.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Condensed Financial Statements

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

We have granted deferrals in accordance with the CARES Act to assist business borrowers and certain consumers that may be experiencing financial hardship due to COVID-19 related challenges. These loans will continue to accrue interest during the deferral period unless otherwise classified as nonperforming. Consistent with regulatory guidance and the provisions of the CARES Act, borrowers that were otherwise current on loan payments that were granted COVID-19 related financial hardship payment deferrals will continue to be reported as current loans during the deferral period and not evaluated as to whether they are troubled debt restructurings.

At this time, it is difficult to quantify the impact COVID-19 will have on the rest of 2020, but the Association currently expects it to negatively impact us more in the future periods than experienced in the first three quarters of 2020. This could cause the Association to experience a material adverse effect on our business operations, asset valuations, financial condition, and results of operations. Material adverse impacts may include all or a combination of an increase in the allowance for loan losses, valuation impairments on our investments or deferred tax assets. The Association has evaluated the impact of the effects of COVID-19 and determined that there were no material or systematic adverse impacts on the Association's Condensed Statement of Financial Condition as of September 30, 2020 and Condensed Statement of Operations for the three and nine months ended September 30, 2020.

As of September 30, 2020, the Association had two loan modification agreements related to the COVID-19 crisis. The deferral period for both of these loans has expired and the borrowers have resumed making payments.

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.

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.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Condensed Financial Statements

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

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.

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").

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Condensed Financial Statements

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

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 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, 2022, including interim periods within those fiscal years. The Association is currently evaluating the impact of ASU 2016-13 on its financial statements.

Recently adopted account standards

The Association adopted ASU 2016-02, “Leases (Topic 842)” and related amendments using an alternative transition method. During the first quarter of 2020, the Association entered into a sales-lease back transaction with the sale of the Association’s building and land. A gain of \$282 was recorded as a result of the transaction. In connection with the sales-lease back transaction, the Association early adopted ASU No. 2016-02. Upon adoption, the Association recorded a \$245 right-of-use lease assets and a \$245 of operating lease liability. The Association elected all applicable practical expedients, including the option to expense short-term leases, which are defined as leases with a term of one year or less. The Association elected not to separate non-lease components from lease components for its operating lease. The right-of-use lease asset and the operating lease liability are recorded on the balance as other assets and other liabilities, respectively. The adoption of this ASU did not have a meaningful impact on the performance metrics.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Condensed Financial Statements

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

Note 2. Securities Available for Sale

Securities available for sale are summarized as follows:

	September 30, 2020			Market Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(In thousands)			
Debt securities:				
MBS: Government-sponsored enterprise ("GSE") residential	\$ 1,727	\$ 44	\$ (3)	\$ 1,768
SBA pools	49	-	-	49
Total	<u>\$ 1,776</u>	<u>\$ 44</u>	<u>\$ (3)</u>	<u>\$ 1,817</u>
	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
	(In thousands)			
Debt securities:				
MBS: Government-sponsored enterprise ("GSE") residential	\$ 2,444	\$ 33	\$ (9)	\$ 2,468
Collateralized mortgage obligations	6	-	-	6
SBA pools	52	-	-	52
Total	<u>\$ 2,502</u>	<u>\$ 33</u>	<u>\$ (9)</u>	<u>\$ 2,526</u>

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Condensed Financial Statements

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

Securities having a continuous unrealized loss position for less than twelve months and twelve months or longer at September 30, 2020 and December 31, 2019 are summarized as follows:

<u>September 30, 2020</u>	<u>Number of Positions</u>	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
		<u>Market Value</u>	<u>Unrealized loss</u>	<u>Market Value</u>	<u>Unrealized loss</u>	<u>Market Value</u>	<u>Unrealized loss</u>
(Dollars in thousands)							
MBS	<u>28</u>	\$ <u>316</u>	\$ <u>1</u>	\$ <u>223</u>	\$ <u>2</u>	\$ <u>539</u>	\$ <u>3</u>
<u>December 31, 2019</u>	<u>Number of Positions</u>	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
		<u>Market Value</u>	<u>Unrealized loss</u>	<u>Market Value</u>	<u>Unrealized loss</u>	<u>Market Value</u>	<u>Unrealized loss</u>
(Dollars in thousands)							
MBS	<u>26</u>	\$ <u>131</u>	\$ <u>1</u>	\$ <u>625</u>	\$ <u>8</u>	\$ <u>756</u>	\$ <u>9</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 September 30, 2020 and December 31, 2019, was \$542 and \$756, respectively, which is approximately 30% and 30%, respectively, of the Association's available for sale securities portfolio.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Condensed Financial Statements

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

Note 3. Loans Receivable, Net

Loans receivable, net is summarized as

	September 30, 2020	December 31, 2019
	(In thousands)	
Real estate loans:		
One-to-four family, owner occupied	\$ 8,645	\$ 9,726
One-to-four family, non-owner occupied	569	870
Commercial	3,863	3,063
Consumer loans	341	449
	<u>13,418</u>	<u>14,108</u>
Allowance for losses	(162)	(150)
Deferred loan fees, net	(26)	(31)
Total	<u>\$ 13,230</u>	<u>\$ 13,927</u>

During the three and nine months ended September 30, 2020, the Association purchased commercial and consumer loans of \$707 and \$1,797 respectively. During the three and nine months ended September 30, 2019, the Association purchased commercial and consumer loans of \$288 and \$1,260 respectively.

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

One-to-four family, owner occupied

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.

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Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

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.

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Notes to Condensed Financial Statements

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

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

	Allowance for Loan Losses				
	Beginning Balance	Provision for Losses	Charge-offs (In thousands)	Recoveries	Ending Balance
Three Months Ended September 30, 2020:					
Real estate loans:					
One-to-four family, owner occupied	\$ 101	\$ (2)	\$ -	\$ -	\$ 99
One-to-four family, non-owner occupied	7	-	-	-	7
Commercial	50	2	-	-	52
Consumer loans	4	-	-	-	4
	<u>\$ 162</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 162</u>

	Allowance for Loan Losses				
	Beginning Balance	Provision for Losses	Charge-offs (In thousands)	Recoveries	Ending Balance
Three Months Ended September 30, 2019:					
Real estate loans:					
One-to-four family, owner occupied	\$ 99	\$ (2)	\$ -	\$ -	\$ 97
One-to-four family, non-owner occupied	9	-	-	-	9
Commercial	8	3	-	-	11
Consumer loans	6	(1)	-	-	5
	<u>\$ 122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122</u>

	Allowance for Loan Losses				
	Beginning Balance	Provision for Losses	Charge-offs (In thousands)	Recoveries	Ending Balance
Nine Months Ended September 30, 2020:					
Real estate loans:					
One-to-four family, owner occupied	\$ 103	\$ (4)	\$ -	\$ -	\$ 99
One-to-four family, non-owner occupied	9	(2)	-	-	7
Commercial	33	19	-	-	52
Consumer loans	5	(3)	-	2	4
	<u>\$ 150</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ 162</u>

	Allowance for Loan Losses				
	Beginning Balance	Provision for Losses	Charge-offs (In thousands)	Recoveries	Ending Balance
Nine Months Ended September 30, 2019:					
Real estate loans:					
One-to-four family, owner occupied	\$ 104	\$ (7)	\$ -	\$ -	\$ 97
One-to-four family, non-owner occupied	12	(3)	-	-	9
Commercial	3	8	-	-	11
Consumer loans	3	2	-	-	5
	<u>\$ 122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122</u>

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Condensed Financial Statements

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

The following presents by portfolio segment, the recorded investment in loans and impairment method:

	Allowance for Loan Losses			Loans		
	Individually	Collectively	Total	Individually	Collectively	Total
	Evaluated	Evaluated		Evaluated	Evaluated	
	for Impairment	for Impairment	(In thousands)	for Impairment	for Impairment	
At September 30, 2020:						
Real estate loans:						
One-to-four family, owner occupied	\$ -	\$ 99	\$ 99	\$ 60	\$ 8,585	\$ 8,645
One-to-four family, non-owner occupied	-	7	7	-	569	569
Commercial	-	52	52	-	3,863	3,863
Consumer loans	-	4	4	-	341	341
	<u>\$ -</u>	<u>\$ 162</u>	<u>\$ 162</u>	<u>\$ 60</u>	<u>\$ 13,358</u>	<u>\$ 13,418</u>

	Allowance for Loan Losses			Loans		
	Individually	Collectively	Total	Individually	Collectively	Total
	Evaluated	Evaluated		Evaluated	Evaluated	
	for Impairment	for Impairment	(In thousands)	for Impairment	for Impairment	
At December 31, 2019:						
Real estate loans:						
One-to-four family, owner occupied	\$ -	\$ 103	\$ 103	\$ 125	\$ 9,601	\$ 9,726
One-to-four family, non-owner occupied	-	9	9	-	870	870
Commercial	-	33	33	-	3,063	3,063
Consumer loans	-	5	5	-	449	449
	<u>\$ -</u>	<u>\$ 150</u>	<u>\$ 150</u>	<u>\$ 125</u>	<u>\$ 13,983</u>	<u>\$ 14,108</u>

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Condensed Financial Statements

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

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

	Impaired Loans				
	With Allowance for Loan Losses	With no Allowance for Loan Losses	Total	Unpaid Principal Balance	Allowance for Loan Losses
	(In thousands)				
At September 30, 2020:					
Real estate loans:					
One-to-four family, owner occupied	\$ -	\$ 60	\$ 60	\$ 60	\$ -
One-to-four family, non-owner occupied	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer loans	-	-	-	-	-
	<u>\$ -</u>	<u>\$ 60</u>	<u>\$ 60</u>	<u>\$ 60</u>	<u>\$ -</u>

	Nonperforming Loans			
	Nonaccrual	Past Due 90 Days and More Still Accruing	Accruing Troubled Debt Restructurings	Total
	(In thousands)			
At September 30, 2020:				
Real estate loans:				
One-to-four family, owner occupied	\$ 18	\$ 42	\$ -	\$ 60
One-to-four family, non-owner occupied	-	-	-	-
Commercial	-	-	-	-
Consumer loans	-	-	-	-
	<u>\$ 18</u>	<u>\$ 42</u>	<u>\$ -</u>	<u>\$ 60</u>

	Impaired Loans				
	With Allowance for Loan Losses	With no Allowance for Loan Losses	Total	Unpaid Principal Balance	Allowance for Loan Losses
	(In thousands)				
At December 31, 2019:					
Real estate loans:					
One-to-four family, owner occupied	-	\$ 125	\$ 125	\$ -	\$ 59
One-to-four family, non-owner occupied	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer loans	-	-	-	-	-
	<u>-</u>	<u>\$ 125</u>	<u>\$ 125</u>	<u>\$ -</u>	<u>\$ 59</u>

	Nonperforming Loans			
	Nonaccrual	Past Due 90 Days and More Still Accruing	Accruing Troubled Debt Restructurings	Total
	(In thousands)			
At December 31, 2019:				
Real estate loans:				
One-to-four family, owner occupied	\$ 125	\$ -	\$ -	\$ 125
One-to-four family, non-owner occupied	-	-	-	-
Commercial	-	-	-	-
Consumer loans	-	-	-	-
	<u>\$ 125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125</u>

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Condensed Financial Statements

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

The average recorded investment in impaired loans for the three and nine months ended September 30, 2020 and 2019 as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Real estate loans:				
One-to-four family, owner occupied	\$ 63	\$ 20	\$ 76	\$ 32
One-to-four family, non-owner occupied	-	-	-	-
Commercial	-	-	-	-
Consumer loans	-	-	-	-
	<u>\$ 63</u>	<u>\$ 20</u>	<u>\$ 76</u>	<u>\$ 32</u>

Interest income recognized on impaired loans for the three months ended September 30, 2020 and 2019 and nine months ended September 30, 2020 and 2019 was \$2, \$0, \$3 and \$1, respectively.

There were no loans modified as troubled debt restructurings during the three and nine months ended September 30, 2020 or September 30, 2019.

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 September 30, 2020 and December 31, 2019.

At September 30, 2020 and December 31, 2019, there were no residential real estate loans in the process of foreclosure.

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

	Days Past Due				
	30-59	60-89	90 or more	Current	Total
At September 30, 2020:					
Real estate loans:					
One-to-four family, owner occupied	\$ 26	\$ 71	\$ 60	\$ 8,488	\$ 8,645
One-to-four family, non-owner occupied	-	-	-	569	569
Commercial	-	-	-	3,863	3,863
Consumer loans	-	-	-	341	341
	<u>\$ 26</u>	<u>\$ 71</u>	<u>\$ 60</u>	<u>\$ 13,261</u>	<u>\$ 13,418</u>

	Days Past Due				
	30-59	60-89	90 or more	Current	Total
At December 31, 2019:					
Real estate loans:					
One-to-four family, owner occupied	\$ 137	\$ 23	\$ 125	\$ 9,441	\$ 9,726
One-to-four family, non-owner occupied	-	-	-	870	870
Commercial	-	-	-	3,063	3,063
Consumer loans	-	-	-	449	449
	<u>\$ 137</u>	<u>\$ 23</u>	<u>\$ 125</u>	<u>\$ 13,823</u>	<u>\$ 14,108</u>

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

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September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (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.

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Three and Nine Months Ended September 30, 2020 and 2019 (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)					
At September 30, 2020:						
Real estate loans:						
One-to-four family, owner occupied	\$ -	\$ 60	\$ -	\$ -	\$ 8,585	\$ 8,645
One-to-four family, non-owner occupied	-	-	-	-	569	569
Commercial	327	144	-	-	3,392	3,863
Consumer loans	-	-	-	-	341	341
	<u>\$ 327</u>	<u>\$ 204</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,887</u>	<u>\$ 13,418</u>

	Credit Quality Indicator-Credit Risk Profile by Grade or Classification					
	Special Mention	Substandard	Doubtful	Loss	Pass	Total
	(In thousands)					
At December 31, 2019:						
Real estate loans:						
One-to-four family, owner occupied	\$ -	\$ 125	\$ -	\$ -	\$ 9,601	\$ 9,726
One-to-four family, non-owner occupied	-	-	-	-	870	870
Commercial	-	-	-	-	3,063	3,063
Consumer loans	-	-	-	-	449	449
	<u>\$ -</u>	<u>\$ 125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,983</u>	<u>\$ 14,108</u>

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September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

Note 4. Lease

Sidney Federal has an operating lease for its sole location with a term of 10 years commencing on the 15th day of January 2020, and ending on the 31st day of January 2030, (Initial Term) subject to the terms and condition contained in the agreement. After the Initial Term of this lease, this lease shall automatically renew on a month-to-month tendency under the same terms of this lease unless either party notifies the other in writing of the termination of this lease on or before the first day of the month prior to the month in which expiration of this lease is desired.

Sidney Federal elected all applicable practical expedients, including the option to expense short-term leases, which are defined as leases with a term of one year or less. Sidney Federal elected not to separate non-lease components from lease components for its operating lease. The right-of-use lease asset and the operating lease liability are recorded on the consolidated balance sheet as other assets and other liabilities, respectively.

Balance sheet, income statement and cashflow detail regarding operating leases follows:

	<u>September 30, 2020</u>
Balance Sheet	
Operating lease right-of-use asset	\$ 240
Operating lease liability	236
Remaining lease term (years)	9.33
Discount rate	8%
Future Minimum Payments	
Year 1	\$ 41
Year 2	39
Year 3	38
Year 4	36
Year 5	34
Thereafter	131
Total lease payments	\$ <u>319</u>
Less imputed interest	(83)
Total	<u>\$ 236</u>

(Continued)

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Condensed Financial Statements

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

(Continued)

	For the Three months ended <u>September 30, 2020</u>	For the Nine months ended <u>September 30, 2020</u>
Income statement		
Components of lease cost:		
Operating lease cost	\$ 9	\$ 23
Variable lease cost	-	-
Total lease cost	<u>9</u>	<u>23</u>
	For the Three months ended <u>September 30, 2020</u>	For the Nine months ended <u>September 30, 2020</u>

Cash flow statement

Supplemental cash flow information

Operating cash flows from operating lease	\$ 10	\$ 27
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As of September 30, 2020, the Association had not entered into any lease agreements that had not yet commenced.

Note 5. 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.

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September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (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 September 30, 2020 and December 31, 2019, 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. As summarized in the following table at December 31, 2019, the Association reported a Tier 1 leverage capital ratio of 7.8% which is less than the higher imposed capital requirement of 8.5% and the total risk-based capital ratio of 13.0% exceeds the higher imposed capital requirement of 12.0%. At September 30, 2020 the Association reported a Tier 1 leverage capital ratio of 6.8% which is less than the higher imposed capital requirement of 8.5% and the total risk-based capital ratio of 12.6% exceeds the higher imposed capital requirement of 12.0%.

The Association's actual and required capital amounts and ratios at September 30, 2020 are as follows:

	Actual		Minimum Required			
			for Capital Adequacy		to be "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
Equity	\$ 1,364					
Unrealized gain (loss) on securities AFS, net	(33)					
Tangible capital	1,331					
General valuation allowance - limited	147					
Total capital to risk-weighted assets	\$ <u>1,478</u>	12.6%	\$ 940	8.0%	\$ 1,176	10.0%
Tier 1 capital to risk-weighted assets	\$ 1,331	11.3%	\$ 705	6.0%	\$ 940	8.0%
Common equity Tier 1 capital to risk-weighted assets	\$ 1,331	11.3%	\$ 529	4.5%	\$ 764	6.5%
Tier 1 capital to total assets	\$ 1,331	6.8%	\$ 778	4.0%	\$ 972	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

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

The Association's actual and required capital amounts and ratios at December 31, 2019 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	\$ 1,287					
Unrealized loss on securities AFS, net	(19)					
Tangible capital	1,268					
General valuation allowance - limited	134					
Total capital to risk-weighted assets	\$ <u>1,402</u>	13.0%	\$ 860	8.0%	\$ 1,075	10.0%
Tier 1 capital to risk-weighted assets	\$ 1,268	11.8%	\$ 645	6.0%	\$ 860	8.0%
Common equity Tier 1 capital to risk-weighted assets	\$ 1,268	11.8%	\$ 484	4.5%	\$ 699	6.5%
Tier 1 capital to total assets	\$ 1,268	7.8%	\$ 652	4.0%	\$ 815	5.0%

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

Note 6. 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 to originate loans, including unused lines of credit to originate fixed-rate loans were \$500 and \$754 as of September 30, 2020 and December 31, 2019, respectively.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Condensed Financial Statements

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

Note 7. 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 September 30, 2020, the outstanding balance of loans sold under the MPF Original program was \$2.8 million and the maximum credit enhancement obligation was \$173. 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 September 30, 2020 and December 31, 2019.

Note 8. 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

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (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 September 30, 2020 and December 31, 2019, 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)		
September 30, 2020:				
MBS: GSE residential	\$ -	\$ 1,768	\$ -	\$ 1,768
Collateralized mortgage obligations	-	-	-	-
SBA pools	-	49	-	49
	<u>\$ -</u>	<u>\$ 1,817</u>	<u>\$ -</u>	<u>\$ 1,817</u>
December 31, 2019:				
MBS: GSE residential	\$ -	\$ 2,468	\$ -	\$ 2,468
Collateralized mortgage obligations	-	6	-	6
SBA pools	-	52	-	52
	<u>\$ -</u>	<u>\$ 2,526</u>	<u>\$ -</u>	<u>\$ 2,526</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 September 30, 2020 and December 31, 2019, 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 and nine months ended September 30, 2020 and 2019.

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:

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Condensed Financial Statements

September 30, 2020 (Unaudited) and December 31, 2019

Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

	Carrying Amount	Fair Value	Fair Value Measurements Using		
			Level 1	Level 2	Level 3
September 30, 2020:					
Cash and cash equivalents	\$ 3,665	\$ 3,665	\$ 3,665	\$ -	\$ -
Stock in FHLBT and MIB	249	249	-	249	-
Loans receivable, net	13,230	14,293	-	-	14,293
Loans held for sale	-	-	-	-	-
Accrued interest receivable	47	47	-	47	-
Deposits	14,816	14,864	8,113	6,751	-
FHLBT Advances	2,700	2,668	-	2,668	-
December 31, 2019:					
Cash and cash equivalents	\$ 1,486	\$ 1,486	\$ 1,486	\$ -	\$ -
Stock in FHLBT and MIB	153	153	-	153	-
Loans receivable, net	13,927	14,878	-	-	14,878
Accrued interest receivable	49	49	-	49	-
Deposits	14,058	13,999	8,107	5,892	-
FHLBT Advances	2,700	2,427	-	2,427	-

Note 9. Other Noninterest Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Contract services	\$ 4	\$ 6	\$ 16	\$ 16
Advertising	5	1	12	5
Office supplies	3	3	7	6
Telephone expense	2	2	6	6
Dues and subscriptions	3	3	10	8
Other	5	5	17	14
	<u>\$ 22</u>	<u>\$ 20</u>	<u>\$ 68</u>	<u>\$ 55</u>

Note 10. 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 September 30, 2020 for the three and nine months ended September 30, 2020 and 2019 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.

Further, given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID-19 outbreak on our business. The extent of such impact will depend on future developments, which are highly uncertain, including when the coronavirus can be controlled and abated and when and how the economy may be reopened. As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, we could be subject to any of the following risks, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations: the demand for our products and services may decline, making it difficult to grow assets and income; if the economy is unable to substantially reopen, and high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income; collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase; our allowance for loan losses may increase if borrowers experience financial difficulties, which will adversely affect our net income; the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; as the result of the decline in the Federal Reserve Board's target federal funds rate to near 0%, the yield on our assets may decline to a greater extent than the decline in our cost of interest-bearing liabilities, reducing our net interest margin and spread and reducing net income; and our cyber security risks may increase if employees are required to work remotely due to exposure of the COVID-19 virus.

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 a net income of \$63,000 and a net loss of \$203,000 for the nine months ended September 30, 2020 and 2019, respectively. During the first quarter of 2020, the Association entered a sales-lease back transaction with the sale of the Association's building and land. A gain of \$282,000 was recorded as a result of the transaction. Notwithstanding the sales-lease back transaction, 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 \$342,000, \$80,000, and \$117,000 respectively, for the nine months ended September 30, 2020 and \$336,000, \$75,000, and \$110,000 respectively, for the nine months ended September 30, 2019. 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.

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 September 30, 2020 and December 31, 2019

	September 30, 2020	December 31, 2019	Increase (Decrease)	% Change
	(Dollars in thousands)			
Total assets	\$ 19,370	\$ 18,373	\$ 997	5.4 %
Cash and cash equivalents	3,665	1,486	2,179	146.6
Securities available for sale	1,817	2,526	(709)	(28.1)
Stock in FHLB of Topeka and MIB	249	153	96	62.7
Loans receivable, net	13,230	13,927	(697)	(5.0)
Premises and equipment, net	32	66	(34)	(51.5)
Other assets (1)	377	215	162	75.3
Deposits	14,816	14,058	758	5.4
Advances from FHLB of Topeka	2,700	2,700	-	-
Advances from borrowers for taxes and insurance	111	180	(69)	(38.3)
Other liabilities	379	148	231	156.1
Total stockholders equity	1,364	1,287	77	6.0

(1) Includes accrued interest receivable, prepaid income taxes, deferred tax asset, operating lease right-of-use asset and other assets.
 NM - Not meaningful

Total Assets. Total assets increased \$1.0 million, or 5.4%, to \$19.4 million at September 30, 2020 from \$18.4 million at December 31, 2019. The increase in total assets was due primarily to an increase in interest bearing deposits and cash and cash equivalents.

Loans Receivable, Net and Loan Held for Sale. Net loans decreased \$697,000, or 5.0%, to \$13.2 million at September 30, 2020 from \$13.9 million at December 31, 2019, due primarily to a decrease in one-to-four-family owner-occupied real estate loan originations and an increase in loans originated for sale. Loans purchased and originated for portfolio and sale during the nine months ended September 30, 2020 and September 30, 2019 were \$3.3 million and \$1.3 million, respectively. The one-to-four-family owner-occupied real estate loan portfolio decreased \$1.1 million or 11.1%, to \$8.6 million at September 30, 2020 from \$9.7 million at December 31, 2019 due to principal repayments which exceeded new loan originations and purchases for portfolio. Commercial loans at September 30, 2020 increased \$800,000 or 26.0% from \$3.1 million at December 31, 2019 due primarily to the continued purchase of commercial loans. One-to-four family, non-owner-occupied real estate loans decreased \$301,000 or 34.6% to \$569,000 at September 30, 2020 as compared to December 31, 2019. Consumer Loans at September 30, 2020 decreased \$108,000 from \$449,000 or 24.1%. At September 31, 2020 and December 31, 2019 there were no loans held for sale.

Securities Available for Sale. At September 30, 2020 and December 31, 2019, all securities were classified as available for sale and included mortgage-backed securities. Securities decreased \$709,000, or 28.1%, to \$1.8 million at September 30, 2020 from \$2.5 million at December 31, 2019 due to principal collections of \$715,000.

Cash and Cash Equivalents. Cash and cash equivalents increased \$2.2 million, or 146.6%, to \$3.7 at September 30, 2020 from \$1.5 million at December 31, 2019 due to normal fluctuations.

Other Assets. Other assets increased by \$162,000 to \$377,000 at September 30, 2020, compared to \$215,000 at December 31, 2019. The increase was due to the sales-lease back transaction with the sale of the Association's building and land. The increase was primarily due to recording an operating right-of-use asset of \$245,000 upon the adoption of ASU 2016-02, Leases.

Deposits. Deposits increased \$758,000 or 5.4%, to \$14.8 million at September 30, 2020 from \$14.1 million at December 31, 2019 primarily due to an increase in certificate of deposit accounts, which increased \$752,000 to \$6.7 million for the three months ended September 30, 2020 compared to \$6.0 million at December 31, 2019.

Stockholders' Equity. Total equity increased \$77,000 to \$1.4 million at September 30, 2020 from \$1.3 million at December 31, 2019, as a result of net income and an increase in accumulated other comprehensive income.

Comparison of Operating Results for the Three Months Ended September 30, 2020 and 2019

General. The Association had a net loss of \$63,000 for the three months ended September 30, 2020, compared to a net loss of \$69,000 for the three months ended September 30, 2019. For the three months ended September 30, 2020 as compared to the prior year, increases in net interest income and noninterest income were offset by increase in noninterest expense.

	Three Months Ended September 30,		Increase (Decrease)	% Change
	2020	2019		
	(Dollars in thousands)			
Interest income:				
Loans receivable	\$ 168	\$ 134	\$ 34	25.4 %
Securities-taxable	10	22	(12)	(54.5)
Other interest-earning assets	2	3	(1)	(33.3)
Total interest income	<u>180</u>	<u>159</u>	<u>21</u>	13.2
Interest expense:				
Checking and money market accounts	-	-	-	-
Savings accounts	2	2	-	-
Certificates of deposit	<u>25</u>	<u>21</u>	<u>4</u>	19.0
Total deposits	<u>27</u>	<u>23</u>	<u>4</u>	17.4
Advances from FHLBT	<u>10</u>	-	<u>10</u>	NM
Total interest expense	<u>37</u>	<u>23</u>	<u>14</u>	60.9
Net interest income	<u>\$ 143</u>	<u>\$ 136</u>	<u>\$ 7</u>	5.1 %

NM - Not meaningful

Interest Income. Interest income increased by \$21,000, or 13.2%, to \$180,000 for the three months ended September 30, 2020 from \$159,000 for the three months ended September 30, 2019, due primarily to an increase in loans receivable offset by a decrease in interest on securities.

The average balance of loans increased to \$13.5 million for the three months ended September 30, 2020 from \$11.4 million for the three months ended September 30, 2019. The average yield on loans increased to 4.95% for the three months ended September 30, 2020 from 4.67% for the three months ended September 30, 2019. The average balance of securities decreased to \$2.0 million for the three months ended September 30, 2020 from \$3.5 million for the three months ended September 30, 2019. The average yield on securities decreased to 2.00% for the three months ended September 30, 2020 from 2.51% for the three months ended September 30, 2019. The Association continues to increase the amount of commercial loans purchased due to the increased yield associated with commercial loans and the lack of demand related with one-to-four family real-estate loans.

Interest Expense. Interest expense increased \$14,000, or 60.9%, to \$37,000 for the three months ended September 30, 2020 from \$23,000 for the three months ended September 30, 2019 primarily as a result of higher average rates paid on certificates of deposit and a higher average balance on FHLB of Topeka advances. The average rate paid on certificates of deposit increased to 1.48% for the three months ended September 30, 2020 from 1.37% for the three months ended September 30, 2019.

Net Interest Income. Net interest income increased \$7,000, or 5.1%, to \$143,000 for the three months ended September 30, 2020 from \$136,000 for the three months ended September 30, 2019. The net interest rate spread decreased to 2.89% for the three months ended September 30, 2020 from 3.34% for the three months ended September 30, 2019 as the average yield on average interest-earning assets decreased by 25 basis points and the average cost of average interest-bearing liabilities increased by 20 basis points. The increase in net interest income was mostly attributable to a higher average balance of commercial loans purchased and the higher interest rates on these loans.

Provision for Loan Losses. There were no provisions for loan losses for the three months ended September 30, 2020 and 2019, respectively.

	<u>Three Months Ended September 30,</u>		<u>Increase (Decrease)</u>	<u>% Change</u>
	<u>2020</u>	<u>2019</u>		
	(Dollars in thousands)			
Noninterest income:				
Service charges on deposit accounts	\$ 2	\$ 3	\$ (1)	(33.3) %
Gain on sale of loans	26	12	14	116.7
Debit card income	2	3	(1)	(33.3)
Other	1	1	-	(100.0)
Total noninterest income	<u>\$ 31</u>	<u>\$ 19</u>	<u>\$ 12</u>	63.2 %

Noninterest Income. Noninterest income increased \$12,000, or 63.2%, to \$31,000 for the three months ended September 30, 2020 from \$19,000 for the three months ended September 30, 2019. The increase was primarily due to the higher gain on sale of loans resulting from increased loan sales during the three months ended September 30, 2020.

	<u>Three Months Ended September 30,</u>		<u>Increase (Decrease)</u>	<u>% Change</u>
	<u>2020</u>	<u>2019</u>		
	(Dollars in thousands)			
Noninterest expense:				
Compensation and benefits	\$ 113	\$ 111	\$ 2	1.8 %
Occupancy expense	14	10	4	40.0
Equipment and data processing expense	25	26	(1)	(3.8)
FDIC premium expense	5	(2)	7	(350.0)
Professional and regulatory fees	39	40	(1)	(2.5)
Insurance expense	8	8	-	-
Debit card expense, net	8	8	-	-
Correspondent bank service charges	3	3	-	-
Other	22	20	2	10.0
Total noninterest expense	<u>\$ 237</u>	<u>\$ 224</u>	<u>\$ 13</u>	5.8 %

Noninterest Expense. Noninterest expense increased \$13,000 or 5.8%, to \$237,000 for the three months ended September 30, 2020 from \$224,000 for the three months ended September 30, 2019 due primarily to higher compensation and benefits, occupancy expense and FDIC premium expense. This increase is partially offset by a decrease in professional and regulatory fees.

Compensation and benefits expense increased \$2,000, or 1.8%, to \$113,000 for the three months ended September 30, 2020, compared to \$111,000 for the three months ended September 30, 2019 due to the addition of a part-time employee. Occupancy expense increased \$4,000, or 40.0% to \$14,000 for the three months ended September 30, 2020 from \$10,000 for three months ended September 30, 2019 due primarily to an increase in office building rental expense as a result of the office building and land sale in January 2020. FDIC premium expense increased \$7,000 or 350.0% for the three months ended September 30, 2020 compared to a credit of \$2,000 for three months ended September 30, 2019 because a Small Bank Assessment credit was no longer applied in September 2020 to the FDIC premiums. Professional and regulatory fees decreased \$1,000 or 2.5% to \$39,000 for the three months ended September 30, 2020, compared to \$40,000 for the three months ended September 30, 2019. The decrease was due to a slight decrease in our legal, audit and accounting services, and supervisory exams fees.

Income Tax Expense. There was no provision for income taxes for the three months ended September 30, 2020 and 2019. 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.

Comparison of Operating Results for the Nine Months Ended September 30, 2020 and 2019

General. The Association had a net income of \$63,000 for the nine months ended September 30, 2020, compared to a net loss of \$203,000 for the nine months ended September 30, 2019. The Association's net income for the nine months ended September 30, 2020 was due to the gain of \$282,000 recorded on the sale of the building and land in January 2020.

	<u>Nine Months Ended September 30,</u>		<u>Increase (Decrease)</u>	<u>% Change</u>
	<u>2020</u>	<u>2019</u>		
	(Dollars in thousands)			
Interest income:				
Loans receivable	\$ 503	\$ 377	\$ 126	33.4 %
Securities-taxable	39	82	(43)	(52.4)
Other interest-earning assets	12	15	(3)	(20.0)
Total interest income	<u>554</u>	<u>474</u>	<u>80</u>	16.9
Interest expense:				
Checking and money market accounts	2	2	-	-
Savings accounts	4	4	-	-
Certificates of deposit	72	61	11	18.0
Total deposits	<u>78</u>	<u>67</u>	<u>11</u>	16.4
Advances from FHLBT	28	-	28	NM
Total interest expense	<u>106</u>	<u>67</u>	<u>39</u>	58.2
Net interest income	\$ 448	\$ 407	\$ 41	10.1 %

NM - Not meaningful

Interest Income. Interest income increased by \$80,000, or 16.9%, to \$554,000 for the nine months ended September 30, 2020 from \$474,000 for the nine months ended September 30, 2019, due primarily to an increase in loans receivable offset by a decrease in interest on securities.

The average balance of loans increased to \$13.55 million for the nine months ended September 30, 2020 from \$11.14 million for the nine months ended September 30, 2019. The average yield on loans increased to 4.96% for the nine months ended September 30, 2020 from 4.52% for the nine months ended September 30, 2019. The average balance of securities decreased to \$2.2 million for the nine months ended September 30, 2020 from \$4.1 million for the nine months ended September 30, 2019. The average yield on securities decreased to 2.33% for the nine months ended September 30, 2020 from 2.67% for the nine months ended September 30, 2019.

Interest Expense. Interest expense increased \$39,000, or 58.2%, to \$106,000 for the nine months ended September 30, 2020 from \$67,000 for the nine months ended September 30, 2019 primarily as a result by higher average rates paid on certificates of deposit, and a higher average balance on FHLB of Topeka advances. The average rate paid on certificates of deposit increased to 1.47% for the nine months ended September 30, 2020 from 1.29% for the nine months ended September 30, 2019. The average balance of FHLB of Topeka advances increased to \$2.7 million for nine months ended September 30, 2020 from \$0 for nine months ended September 30, 2019.

Net Interest Income. Net interest income increased 41,000, or 10.1%, to \$448,000 for the nine months ended September 30, 2020 from \$407,000 for the nine months ended September 30, 2019. The net interest rate spread decreased to 3.07% for the nine months ended September 30, 2020 from 3.26% for the nine months ended September 30, 2020 as the average yield on average interest-earning assets increased by 2 basis points and the average cost of average interest-bearing liabilities increased by 21 basis points. The increase in net interest income was mostly attributable to a higher average balance of commercial loans purchased and the higher interest rates on these loans.

Provision for Loan Losses. The provisions for loan losses for the nine months ended September 30, 2020 was \$10,000, compared to \$0 for the nine months ended September 30, 2019. The increase was primarily due to the continued growth of our commercial loan portfolio and the consideration of the potential impact of COVID-19. From a lending and credit perspective, we have taken actions to identify and assess our COVID-19 related credit exposures by borrower and loan category. No specific COVID-19 related credit impairment was identified within our loan portfolio. The Association has not experienced any significant increases in past due loans and our local economy has remained stable. Nonperforming loans (nonaccrual loans and accruing loans past due 90 days or more) to total loans were 0.44% at September 30, 2020 as compared to 0.89% at December 31, 2019 and 0.54% at September 30, 2019. During 2020, we granted deferrals in accordance with the CARES Act to assist business borrowers and certain consumers that may be experiencing financial hardship due to COVID-19 related challenges. These loans continued to accrue interest during the deferral period unless otherwise classified as nonperforming. Consistent with regulatory guidance and the provisions of the CARES Act, borrowers that were otherwise current on loan payments that were granted COVID-19 related financial hardship payment deferrals continued to be reported as current loans during the deferral period and not evaluated as to whether they are troubled debt restructurings. At September 30, 2020, the Association had no deferral agreements related to the COVID-19 crisis. Subsequent to September 30, 2020, no additional deferrals were requested.

	Nine Months Ended September 30,		Increase (Decrease)	% Change
	2020	2019		
(Dollars in thousands)				
Noninterest income:				
Service charges on deposit accounts	\$ 6	\$ 8	\$ (2)	(25.0) %
Gain on sale of loans	49	27	22	81.5
Gain on called and sold securities	-	3	(3)	(100.0)
Debit card income	7	8	(1)	(12.5)
Gain on Sale of premises and equipment	282	-	282	NM
Other	1	2	(1)	(50.0)
Total noninterest income	<u>\$ 345</u>	<u>\$ 48</u>	<u>\$ 297</u>	618.8 %

NM - Not meaningful

Noninterest Income. Noninterest income increased \$297,000, or 618.8%, to \$345,000 for the nine months ended September 30, 2020 from \$48,000 for the nine months ended September 30, 2019. The increase was primarily due to the gain on sale of premises and equipment.

	Nine Months Ended September 30,		Increase (Decrease)	% Change
	2020	2019		
(Dollars in thousands)				
Noninterest expense:				
Compensation and benefits	\$ 342	\$ 336	\$ 6	1.8 %
Occupancy expense	42	23	19	82.6
Equipment and data processing expense	80	75	5	6.7
FDIC premium expense	14	3	11	366.7
Professional and regulatory fees	117	110	7	6.4
Insurance expense	23	22	1	4.5
Debit card expense, net	24	24	-	-
Correspondent bank service charges	10	10	-	-
Other	68	55	13	23.6
Total noninterest expense	<u>\$ 720</u>	<u>\$ 658</u>	<u>\$ 62</u>	9.4 %

Noninterest Expense. Noninterest expense increased \$62,000, or 9.4%, to \$720,000 for the nine months ended September 30, 2020 from \$658,000 for the nine months ended September 30, 2019. This increase is due primarily to an increase occupancy expense, FDIC premium expense, and professional and regulatory fees.

Occupancy expense increased \$19,000, or 82.6% to \$42,000 for the nine months ended September 30, 2020 from \$23,000 for nine months ended September 30, 2019 due primarily to an increase in office building rental expense as a result of the office building and land sale in January 2020. FDIC premium expense increased 11,000 or 366.7% for the nine months ended September 30, 2020 compared to \$3,000 for nine months ended September 30, 2019 because a Small Bank Assessment credit was no longer applied in the nine months ended September 2020 to the FDIC premiums. Professional and regulatory fees increased \$7,000 to \$117,000 or 6.4% for the nine months ended September 30, 2020, compared to \$110,000 for the nine months ended September 30, 2019. The increase was largely due to higher legal, audit and accounting services, and supervisory exams fees.

Income Tax Expense. There was no provision for income taxes for the nine months ended September 30, 2020 and 2019. 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.

	For The Three Months Ended September 30,					
	2020			2019		
	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate
	(Dollars in Thousands)					
Interest-earning assets:						
Loans receivable	\$ 13,492	\$ 168	4.95 %	\$ 11,395	\$ 134	4.67 %
Securities, taxable	1,985	10	2.00	3,478	22	2.51
Other interest-earning assets	3,410	2	0.23	723	3	1.65
Total interest-earning assets	18,887	180	3.79	15,596	159	4.04
Noninterest-earning assets	550			191		
Total assets	\$ 19,437			\$ 15,787		
Interest-bearing liabilities:						
Checking and MMDA accounts	\$ 2,416	-	-	\$ 2,262	-	0.09
Savings accounts	4,547	2	0.17	4,690	2	0.17
Certificates of deposit	6,707	25	1.48	6,092	21	1.37
Total deposits	13,670	27	0.79	13,044	23	0.70
Advances from FHLB of Topeka	2,700	10	1.47	-	-	-
Total interest-bearing liabilities	16,370	37	0.90	13,044	23	0.70
Non-interest bearing checking accounts	1,112			1,006		
Non-interest bearing liabilities	544			303		
Stockholders' equity	1,411			1,434		
Total liabilities and Stockholders' equity	\$ 19,437			\$ 15,787		
Net interest income		\$ 143			\$ 136	
Net interest spread (1)			2.89 %			3.34 %
Net interest-earning assets (2)	\$ 2,517			\$ 2,552		
Net interest margin (3)			3.01 %			3.50 %
Average interest-earning assets to average interest-bearing liabilities			115.38 %			119.56 %

(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.

For The Nine Months Ended September 30,

	2020			2019		
	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate
(Dollars in Thousands)						
Interest-earning assets:						
Loans receivable	\$ 13,554	\$ 503	4.96 %	\$ 11,140	\$ 377	4.52 %
Securities, taxable	2,235	39	2.33	4,113	82	2.67
Other interest-earning assets	2,974	12	0.54	913	15	2.20
Total interest-earning assets	<u>18,763</u>	<u>554</u>	3.94	<u>16,166</u>	<u>474</u>	3.92
Noninterest-earning assets	556			205		
Total assets	<u>\$ 19,319</u>	\$		<u>\$ 16,371</u>	\$	
Interest-bearing liabilities:						
Checking and MMDA accounts	\$ 2,366	\$ 2	0.11	\$ 2,425	\$ 2	0.09
Savings accounts	4,561	4	0.12	4,826	4	0.11
Certificates of deposit	6,557	72	1.47	6,300	61	1.29
Total deposits	<u>13,484</u>	<u>78</u>	0.77	<u>13,551</u>	<u>67</u>	0.66
Advances from FHLB of Topeka	2,700	28	1.39	-	-	-
Total interest-bearing liabilities	<u>16,184</u>	<u>106</u>	0.87	<u>13,551</u>	<u>67</u>	0.66
Non-interest bearing checking accounts	1,122			1,021		
Non-interest bearing liabilities	547			302		
Stockholder's Equity	1,466			1,497		
Total liabilities and equity	<u>\$ 19,319</u>	\$		<u>\$ 16,371</u>	\$	
Net interest income		<u>\$ 448</u>			<u>\$ 407</u>	
Net interest spread (1)			3.07 %			3.26 %
Net interest-earning assets (2)	<u>\$ 2,579</u>			<u>\$ 2,615</u>		
Net interest margin (3)			3.19 %			3.37 %
Average interest-earning assets to average interest-bearing liabilities			115.94 %			119.30 %

(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 September 30, 2020, Sidney Federal had \$2.7 million in FHLB of Topeka advances with unused borrowing capacity of \$6.8 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 September 30, 2020.

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 September 30, 2020, cash and cash equivalents totaled \$3.7 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled \$1.8 million at September 30, 2020.

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 \$130,000 and \$80,000 for the nine months ended September 30, 2020 and 2019, respectively. Net cash provided by investing activities was \$1.6 million and 1.2 million for the nine months ended September 30, 2020 and 2019. Net cash provided by (used for) financing activities was \$689,000 and \$(1.2 million) for the nine months ended September 30, 2020 and September 30, 2019.

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 September 30, 2020, totaled \$4.9 million, or 33.1%, 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 September 30, 2020, we had outstanding commitments to originate loans of \$500,000. 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.

Coronavirus Disease 2019

The outbreak of Coronavirus Disease 2019 (“COVID-19”) could adversely impact a broad range of industries in which the Association’s customers operate and impair their ability to fulfill their obligations to the Association. The World Health Organization has declared Covid-19 to be a global pandemic indicating that almost all public commerce and related business activities must be, to varying degrees, curtailed with the goal of decreasing the rate of new infections.

The spread of the outbreak has caused disruptions in the U.S. economy and is highly likely to disrupt banking and other financial activity in the areas in which the Association operates and could potentially create widespread business continuity issues for the Association.

The Association’s business is dependent upon the willingness and ability of its employees and customers to conduct banking and other financial transactions. If the global response to contain COVID-19 escalates or is unsuccessful, the Association could experience a material adverse effect on its business, financial condition, results of operations and cash flows.

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

There were no changes made in our internal controls during the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

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 Chief 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 of 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: November 13, 2020

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

Date: November 13, 2020

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

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

I, Steve Smith, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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: November 13, 2020

/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)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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: November 13, 2020

/s/ Jamie Lanckriet

Jamie Lanckriet
Controller
(Principal Financial Officer)

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

Steve Smith, President and Chief Executive Officer of Sidney Federal Savings and Loan Association, (the "Association") and Jamie Lanckriet, Controller of 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 September 30, 2020 (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: November 13, 2020 /s/ Steve Smith
Steve Smith
President, Chief Executive Officer
(Principal Executive Officer)

Date: November 13, 2020 /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.

