

OFFICE OF THE COMPTROLLER OF THE CURRENCY
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2019

OR

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

For the transition period from _____ to _____

OCC Certificate Number: 703360

Sidney Federal Savings and Loan Association
(Exact Name of Registrant as Specified in its Charter)

<u>Federal</u> (State or other jurisdiction of incorporation or organization)	<u>47-0298080</u> (I.R.S. Employer Identification Number)
<u>1045 10th Avenue, Sidney, Nebraska</u> (Address of principal executive offices)	<u>69162</u> (Zip code)

(308) 254-2401
(Registrant's telephone number including area code)

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

Title of each class	Trading Symbol	Name of exchange on which registered
<u>Common Stock, \$0.01 par value</u>	<u>SFSA</u>	<u>OTC Pink Marketplace</u>

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer 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

The aggregate value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of the common stock of \$10.00 as of June 30, 2019, was \$838,490.

As of March 30, 2020 there were 132,250 shares outstanding of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the 2020 Annual Meeting of Stockholders. (Part III)

	<u>PAGE</u>
<u>PART I</u>	TABLE OF CONTENTS
ITEM 1. Business	4
ITEM 1A. Risk Factors	32
ITEM 1B. Unresolved Staff Comments	32
ITEM 2. Properties	32
ITEM 3. Legal Proceedings	32
ITEM 4. Mine Safety Disclosures	32
<u>PART II</u>	
ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	33
ITEM 6. Selected Financial Data	34
ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	36
ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk	45
ITEM 8. Financial Statements and Supplementary Data	45
ITEM 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	45
ITEM 9A. Controls and Procedures	45
ITEM 9B. Other Information	46
<u>PART III</u>	
ITEM 10. Directors, Executive Officers and Corporate Governance	46
ITEM 11. Executive Compensation	47
ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	47
ITEM 13. Certain Relationships and Related Transactions, and Director Independence	47
ITEM 14. Principal Accountant Fees and Services	47
<u>PART IV</u>	
ITEM 15. Exhibits and Financial Statement Schedules	47
ITEM 16. Form 10-K Summary	48
<u>SIGNATURES</u>	

PART I

ITEM 1. Business

Forward Looking Statements

This annual report contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “might,” “should,” “could,” “predict,” “potential,” “believe,” “expect,” “attribute,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “goal,” “target,” “outlook,” “aim,” “would,” “annualized” and “outlook,” or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

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 area, that are worse than expected;
- our ability to maintain higher regulatory capital levels as imposed by the OCC and otherwise comply with our MOU with the OCC;
- competition among depository and other financial institutions;
- weather-related, disease, viruses, wide-spread health emergencies, pandemics, and other adverse climate or other conditions that may impact our business and our clients' business;
- inflation and 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;
- changes in monetary and fiscal policy of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve and changes in the level of government support of housing finance;
- our ability to capitalize on growth opportunities;

- our ability to successfully integrate acquired entities or acquired branches, if any;
- changes in consumer spending, borrowing and savings habits;
- the inability of third-party providers to perform their obligations to us;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;
- changes in our organization, compensation and benefit plans; and
- changes in the financial condition or future prospects of issuers of securities that we own.

The foregoing factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included in this annual report. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New risks and uncertainties arise from time to time, and it is not possible for us to predict those events or how they may affect us. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Our Company

Sidney Federal Savings and Loan Association (“Sidney Federal”) is a federal stock savings and loan association headquartered in Sidney, Nebraska. Sidney Federal was organized in 1899 and has operated continuously in Sidney, Nebraska since its founding. On July 26, 2018, Sidney Federal completed its initial public stock offering and mutual-to-stock conversion. Sidney Federal sold 132,250 shares of common stock, representing the adjusted maximum of the offering range, at \$10.00 per share, for gross offering proceeds of \$1,322,500.

We offer financial services to individuals, families and businesses through our office located in Sidney, Nebraska. We are a community-oriented bank offering a variety of financial products and services to meet the needs of our customers. We believe that our community orientation and personalized service distinguishes us from larger banks that operate in our market area.

Our business consists primarily of accepting deposits from the general public and investing those deposits, together with funds generated from operations, and to a lesser extent borrowings, in one- to four-family owner occupied and non-owner occupied real estate loans, commercial loans and consumer loans. We offer a variety of deposit accounts, including checking accounts, money market accounts, savings accounts and certificates of deposit.

At December 31, 2019, we had total assets of \$18.4 million, net loans of \$13.9 million, total deposits of \$14.1 million and total stockholders’ equity of \$1.3 million.

In June 2017, we entered into a Memorandum of Understanding (“MOU”) with the Office of the Comptroller of the Currency (the “OCC”) aimed at improving Sidney Federal’s earnings, strategic plan and succession plan development, internal capital planning process, interest rate risk management and concentration risk management. In addition, in July 2017, Sidney Federal was notified by the OCC that it established individual minimum capital ratios for Sidney Federal. The OCC’s minimum capital ratios are as follows. By December 31, 2017, Sidney Federal was required to maintain a Tier 1 leverage capital ratio of 7.5% and a Total risk-based capital to risk-weighted assets ratio of 12.0%. By June 30, 2018, Sidney Federal was required to maintain a Tier 1 leverage capital ratio of 8.0% and a Total risk-based capital to risk-weighted assets ratio of 12.0%. By December 31, 2018, Sidney Federal was required to maintain a Tier 1 leverage capital ratio of 8.5% and a Total risk-based capital to risk-weighted assets ratio of 12.0%. At December 31, 2018, Sidney Federal’s Tier 1 leverage capital ratio was 9.2% and its Total risk-based capital to risk-weighted assets ratio was 17.3%. At December 31, 2019, Sidney Federal’s Tier 1 leverage capital ratio was 7.8%, which is below the required level set by the OCC. At December 31, 2019, Sidney Federal’s total risk-based capital to risk-weighted assets ratio was 13.0%.

Market Area

We conduct our operations from our office located in Sidney, Nebraska, which is the county seat of Cheyenne County, Nebraska. We consider Cheyenne County, Nebraska to be our primary market area. On a more limited basis, we also service Kimball County and Deuel County, Nebraska.

The City of Sidney is located in Cheyenne County, Nebraska, which is in western Nebraska near the Colorado border along Interstate 80. According to the City of Sidney, Sidney has experienced nearly \$250 million in new investment within the last five years. The local economy is supported by business services, agriculture, healthcare, transportation and logistics and metal manufacturing. In 2017, Lukjan Metal Products selected Sidney for an \$8.0 million capital investment in a manufacturing operation, and Sandhills Publishing opened an additional office in Sidney. Additionally, in 2015, Bell Lumber opened a treatment plant in Sidney and Agri-Plastics announced that it would invest \$4.5 million in a 159,000 square foot production plant in Sidney in 2018. Prior to its merger with Bass Pro Shops, Cabela’s corporate headquarters was also located in Sidney. Some of those facilities have been sold and repurposed, but most of the corporate headquarters is available for sale. While Bass Pro still has a presence in the community, they continue to relocate employees to their headquarters in Missouri. UST Global and Xpanxion have combined services in our Sidney, Nebraska. They offer Healthcare Business Process Platforms, software development and digital solutions. Xpanxion will be leasing up to 65,000 sq. ft. of space in downtown Sidney, Nebraska, formerly Cabela’s facilities. They project they will be providing up to 200 jobs for the community. Xpanxion and UST Global will invest in training the local workforce in healthcare operations and envision partnering with industry and academia in the Sidney area.

To a lesser extent, education, automotive and electronic power generation and transmission support the local economy.

Competition

We face intense competition in our market area both in making loans and attracting deposits. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds and insurance companies. Some of our

competitors have greater name recognition and market presence and offer certain services that we do not or cannot provide.

Our deposit sources are primarily concentrated in the communities surrounding our banking office in Sidney, Nebraska. As of December 31, 2019 (the latest date for which information is publicly available), we ranked sixth in total deposits out of seven banks and thrift institutions with offices in Cheyenne County, Nebraska, with a market share of approximately 4.4%, which does not reflect deposits held by credit unions.

Lending Activities

Our primary lending activities are the origination of one- to four-family real estate loans, including both owner and non-owner occupied, commercial, and consumer loans.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated. A majority of all of our loans are made to residents of Cheyenne County, Nebraska and would be similarly affected by economic conditions there. Commercial C&I loans are all purchased loans. Other than as disclosed herein, there are no other loan concentrations that would exceed 10% of our loan portfolio.

	At December 31,			
	2019		2018	
	Amount	Percent	Amount	Percent
Real estate loans:	(In thousands)			
One-to-four family, owner occupied..... \$	9,726	68.9%	\$ 9,483	86.7%
One-to-four family, non-owner occupied.....	870	6.2%	963	8.8%
Commercial Loans.....	3,063	21.7%	235	2.1%
Consumer loans.....	449	3.2%	256	2.3%
	14,108	100.0%	10,937	100.0%
Allowance for losses.....	(150)		(122)	
Deferred loan fees, net.....	(31)		(38)	
Total..... \$	13,927		\$ 10,777	

Loan Approval Procedures and Authority. We make loans according to written, non-discriminatory underwriting standards and loan origination procedures established by our board of directors. The loan approval process is intended to assess the borrower's ability to repay the loan and value of the property that will secure the loan. To assess the borrower's ability to repay, we review the borrower's employment and credit history and information on the historical and projected income and expenses of the borrower. We require "full documentation" on all of our loan applications.

Pursuant to federal law, the aggregate amount of loans that we are permitted to make to any one borrower, or a group of related borrowers is \$500,000. At December 31, 2018, we did not have any borrowers with outstanding balances in excess of this amount. As of December 31, 2019, the largest dollar amount outstanding to one borrower, or group of related borrowers, was

\$400,000 and was secured by a Commercial and Industrial business. This loan was performing according to its contractual terms at December 31, 2019.

While our loan policy provides for individual lending authorities, our general practice is that all loans, regardless of size, are reviewed and approved by our Loan Committee, which consists of three members of the board of directors. Our Board of Directors also reviews all loans that are originated. At least two members of the Loan Committee and our Board of Directors must review and approve all one- to four-family residential real estate loan requests that are in excess of \$484,350 for loans to be sold in the secondary market and \$325,000 for loans to be held in our portfolio. Consumer loans and commercial real estate loans greater than \$25,000 must be approved by two members of the Loan Committee. Consumer loans and commercial real estate loans up to \$25,000 may be approved by the Loan Committee or a Loan Officer and one member of the Loan Committee. Consumer loans and commercial real estate loans up to \$10,000 may be approved by a Loan Officer or one member of the Loan Committee.

One- to Four-Family Real Estate Loans – Owner Occupied. At December 31, 2019, \$9.7 million, or 68.9% of our total loan portfolio, consisted of one- to four-family owner occupied residential real estate loans. We offer owner occupied fixed-rate residential mortgage loans with maturities up to 30 years. Historically, we have also offered owner occupied adjustable-rate residential mortgage loans. In recent years in the historically low interest rate environment, nearly all of our owner occupied one- to four-family residential real estate loans have been originated with fixed-rates of interest.

Consistent with our strategy to increase our noninterest income while addressing interest rate risk, we have historically sold substantially all of our owner occupied fixed-rate, conforming one- to four-family real estate loans with maturities of 15 years or greater. However, in late 2015, at the direction of the Federal Housing Finance Agency, Freddie Mac implemented new capital and liquidity requirements for its sellers and servicers. Due to our net losses and capital levels, Freddie Mac terminated our mortgage servicing status. We sell the majority of fixed-rate residential mortgage loans with terms of 15 years or more into the secondary market with servicing released.

One- to four-family, owner occupied residential mortgage loans are generally underwritten according to Freddie Mac guidelines, and we refer to loans that conform to such guidelines as “conforming loans.” We generally originate one- to four-family owner occupied real estate loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency, which is generally \$484,000 for single-family homes. However, loans in excess of \$484,000 (which are referred to as “jumbo loans”) may be originated for retention in our loan portfolio. Our maximum loan amount for these loans is generally \$500,000. We generally underwrite jumbo loans in the same manner as conforming loans.

Generally, we originate loans with loan-to-value ratios of up to 80%. We also originate loans with loan-to-value ratios of up to 95%, with any loans in excess of 80% requiring private mortgage insurance.

Generally, we do not offer “interest only” mortgage loans on one- to four-family residential properties (where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan), however, in certain circumstances, we have offered such loans and we evaluate such loans on a case by case basis. We do not offer loans that provide for negative amortization of principal, such as “Option ARM” loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan.

We do not offer “subprime loans” (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (traditionally defined as loans having less than full documentation).

We also offer home equity loans secured by a first or second mortgage on residential property. Our home equity loans are made with fixed- or adjustable-rates, and with combined loan-to-value ratios up to 90% on an owner occupied principal residence.

Generally, we do not make second mortgage loans unless we also hold the first mortgage on the borrower’s primary residence. For second mortgage loans for which we do not hold the first mortgage, we have greater risk than one- to four-family owner occupied real estate loans secured by first mortgages. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure, particularly since holders of the first mortgage would be repaid first from the proceeds of any sale of collateral, before such proceeds are applied to second mortgage loans. When customers default on their loans, we attempt to foreclose on the property and resell the property as soon as possible to minimize foreclosure and carrying costs. Particularly with respect to our second mortgage loans, decreases in real estate values could adversely affect the value of property used as collateral for our loans.

One- to Four-Family Real Estate Loans – Non-Owner Occupied. At December 31, 2019, \$870,000 or 6.2% of our total loan portfolio, consisted of one- to four-family non-owner occupied real estate loans. Our real estate underwriting policies provide that such loans may be made in amounts of up to 80% of the appraised value of the property. Our one- to four-family non-owner occupied real estate loans, are generally fixed-rate balloon loans. Our fixed-rate balloon loans for one- to four-family non-owner occupied real estate loans typically have 15-year terms and amortize over 30 years. In the future, we will target fixed-rate balloon loans for one- to four-family non-owner occupied real estate loans with 10 year terms and that amortize over 30 years. We occasionally make adjustable-rate loans as well, which have a competitive initial rate that typically reset to an applicable margin over the one-year treasury index after one, three or five years, with a maximum rate adjustment of 2.0% per adjustment, and a lifetime maximum adjustment of 5.0% above the initial rate. Our adjustable-rate one- to four-family non-owner occupied property loans generally also have a floor, which currently is 4.00%. Adjustable-rate loans may have terms from 15-30 years, and are fully amortizing.

We generally target one- to four-family non-owner occupied loans with balances up to \$325,000. At December 31, 2019, our average one- to four-family non-owner occupied loan had a balance of \$43,500. Virtually all of our one- to four-family non-owner occupied loans are secured by properties located in our primary lending area, which we define as Cheyenne County, Nebraska.

In reaching a decision on whether to make one- to four-family non-owner occupied loans, we consider the net operating income of the property, the borrower’s expertise and credit history, the global cash flow of the borrowers and the value of the underlying property. We generally require that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.2x. Generally, one- to four-family real estate loans made to business entities require the principals to execute the loan agreements in their individual capacity, as well as signing on behalf of such business entity.

A borrower’s financial information is monitored on an ongoing basis by requiring periodic financial statement updates, payment history reviews and periodic face-to-face meetings with the

borrower. We require borrowers receiving one- to four-family non-owner occupied loans to provide annually updated financial statements and federal tax returns, as we do of individual principals on our commercial real estate loans. We also require borrowers with rental investment property to provide an annual report of income and expenses for the property, including a rent roll and copies of leases, as applicable. The largest one- to four-family investment property loan in our portfolio at December 31, 2019 was a \$174,400 loan. This loan was performing according to its contractual terms at December 31, 2019.

Loans secured by one- to four-family non-owner occupied real estate generally involve a greater degree of risk than one- to four-family owner occupied residential mortgage loans. Because payments on loans secured by one- to four-family non-owner occupied properties often depend on successful operation or management of the properties, repayment of such loans may be affected by adverse conditions in the real estate market or the economy.

Commercial Loans. Our commercial loan portfolio consists of commercial industrial, commercial real estate, and other land loans. At December 31, 2019, commercial loans were \$3.1 million or 21.7%, of our total loan portfolio. The commercial industrial loans are from businesses in the insurance industry. Properties securing our commercial real estate loan portfolio include business owner occupied properties, small office buildings and self-storage facilities. Additionally, there are properties in the hospitably, sports and entertainment, and housing industries. At December 31, 2019, our largest commercial loan relationship had a principal balance of \$400,000 and was secured by a commercial and industrial business. This loan relationship was performing in accordance with its contractual terms at December 31, 2019.

For commercial industrial loans, in addition to the underwriting criteria, we analyze the primary and secondary source of repayment as well as the termination payment offered by the insurance company. The termination payment is protection for the lender in the event of a default by the insurance agency. The value of the insurance agency is determined by using a national insurance valuation service.

In the underwriting of commercial real estate, we generally lend up to 80% of the property's appraised value. We base our decision to lend primarily on the economic viability of the property and the creditworthiness of the borrower. In evaluating a proposed commercial real estate loan, we emphasize the ratio of the property's projected net cash flow to the loan's debt service requirement (generally requiring a ratio of 1.2x), computed after deduction for a vacancy factor and property expenses we deem appropriate. Personal guarantees are generally obtained from commercial real estate loan borrowers. We require title insurance, fire and extended coverage casualty insurance, and, if appropriate, flood insurance, in order to protect our security interest in the underlying property.

Commercial real estate loans generally carry higher interest rates and have shorter terms than one- to four-family owner occupied real estate loans. Commercial real estate loans, however, entail greater credit risks compared to the one- to four-family owner occupied real estate loans we originate, as they generally involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the property, as repayment of the loan generally is dependent, in large part, on sufficient income from the property to cover operating expenses and debt service. Changes in economic conditions that are not in the control of the borrower or lender could affect the value of the collateral for the loan or the future cash flow of the property. Additionally, any decline in real estate values may be more pronounced for commercial real estate properties than residential properties.

Consumer Loans. To a much lesser extent, we offer a variety of consumer loans to individuals who reside or work in our market area, including new and used automobile loans, recreational vehicle loans, and loans secured by certificates of deposits and other collateral. We do not purchase indirect automobile loans from dealers. At December 31, 2019, consumer loans totaled \$449,000, or 3.2% of our loan portfolio. At that date, \$203,000 of our consumer loans were unsecured.

Consumer loans generally have shorter terms to maturity, which reduces our exposure to changes in interest rates. In addition, management believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

Consumer loans generally have greater risk compared to longer-term loans secured by improved, owner occupied real estate, particularly consumer loans that are secured by rapidly depreciable assets, such as automobiles. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. As a result, consumer loan collections are dependent on the borrower's continuing financial stability and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

Loan Originations, Purchases, Sales, Participations and Servicing

Lending activities are conducted by our loan personnel operating at our office. All loans that we originate are underwritten pursuant to our standard policies and procedures. In addition, our one- to four-family residential real estate loans generally incorporate underwriting guidelines of Freddie Mac. Our ability to originate loans is dependent upon the relative customer demand for such loans and competition from other lenders, which is affected by market interest rates as well as anticipated future market interest rates. Our loan origination and sales activity may be adversely affected by a rising interest rate environment which typically results in decreased loan demand. Our originations of our loans are generated by our loan personnel, existing customers, referrals from realtors, residential home builders, and walk-in business.

Consistent with our strategy to increase our noninterest income while addressing interest rate risk, we have historically sold substantially all of our owner occupied fixed-rate, conforming one- to four-family real estate loans with maturities of 15 years or greater. However, in late 2015, at the direction of the Federal Housing Finance Agency, Freddie Mac implemented new capital and liquidity requirements for its sellers and servicers. Due to our net losses and capital levels, Freddie Mac terminated our mortgage servicing status. We now sell a portion of our fixed-rate residential mortgage loans with terms of 15 years or more, without the servicing retained by Sidney Federal.

From time to time, we have entered into loan participations with other banks and borrowers. In these circumstances, we will generally follow our customary loan underwriting and approval policies.

The following table sets forth our loan origination, purchase, sale and principal repayment activity during the years indicated.

	Years Ended December 31,	
	2019	2018
	(In Thousands)	
Total loans receivable, net, at beginning of year	\$ 10,777	\$ 12,678
Loans originated:		
Real estate loans:		
One- to four-family, owner occupied	2,569	2,518
One- to four-family, non-owner occupied	55	-
Commercial loans.....	192	190
Consumer loans	117	150
Total loans originated	<u>2,933</u>	<u>2,858</u>
Loans purchased	<u>3,510</u>	<u>14</u>
Loans sold:		
Real estate loans:.....		
One- to four-family, owner occupied (1)	(1,011)	(2,249)
Total loans sold	<u>(1,011)</u>	<u>(2,249)</u>
Other:		
Principal repayments and other	<u>(2,282)</u>	<u>(2,524)</u>
Net loan activity	3,150	(1,901)
Total loans receivable, net, at end of year	<u>\$ 13,927</u>	<u>\$ 10,777</u>

(1) Represents loans sold in the secondary market.

Non-Performing and Problem Assets

Delinquency Procedures. When a borrower fails to make a required monthly loan payment, a late notice is generated, generally on the 15th day after the payment due date, stating the payment and late charges due. A follow-up notice is sent every 15 days thereafter. On a case-by-case basis, we will also include follow-up phone calls. Generally, after a loan is 90 days past due it is placed on nonaccrual status. Our Chief Executive Officer and/or our Board of Directors determines on a case-by-case basis further actions. Generally, we will contact our attorney to initiate foreclosure procedures. If the loan is reinstated, foreclosure proceedings will be discontinued and the borrower will be permitted to continue to make payments. The loan will remain on nonaccrual status until a timely repayment history of six months has been established. The past due report is reviewed and discussed at the monthly loan committee meeting, which is attended by all members of the loan committee.

When we acquire real estate as a result of foreclosure or by deed in lieu of foreclosure, the real estate is classified as foreclosed real estate held for sale until it is sold. The real estate is recorded at estimated fair value at the date of acquisition less estimated costs to sell, and any write-down resulting from the acquisition is charged to the allowance for loan losses. Estimated fair value is based on a new appraisal or an in-house evaluation which is obtained as soon as practicable, typically at the start of the foreclosure proceeding and every six months thereafter until the property is sold. Subsequent decreases in the value of the property are charged to operations. After acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development and improvement of the property, however, are capitalized at estimated fair value less estimated costs to sell.

Non-Performing Assets. We generally cease accruing interest on our loans when contractual payments of principal or interest have become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed. Interest received on nonaccrual loans is recorded as income or applied against principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Restructured loans are restored to accrual status when the obligation is brought current, has performed in accordance with the revised contractual terms for a reasonable period of time (typically six months) and the ultimate collectability of the total contractual principal and interest is reasonably assured.

The following table sets forth information regarding our non-performing assets at the dates indicated. We had no troubled debt restructurings at the dates indicated.

	<u>At December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(Dollars in Thousands)	
Non-accrual loans:		
Real estate loans:		
One- to four-family, owner occupied	\$ 125	\$ 65
One- to four-family, non-owner occupied	-	-
Commercial loans.....	-	-
Consumer loans	-	1
Total non-accrual loans	<u>125</u>	<u>66</u>
Gross loans delinquent 90 days or more and still accruing:		
Real estate loans:		
One- to four-family, owner occupied	-	-
One- to four-family, non-owner occupied	-	-
Commercial loans.....	-	-
Consumer loans	-	-
Total loans delinquent 90 days or more and still accruing..	<u>-</u>	<u>-</u>
Total non-performing loans.....	125	66
Foreclosed real estate.....	-	-
Total non-performing assets.....	<u>\$ 125</u>	<u>\$ 66</u>
Ratios:		
Non-performing loans to total loans.....	0.89%	0.60%
Non-performing assets to total assets.....	0.68%	0.39%

For the year ended December 31, 2019, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms and interest income recognized on such loans was less than 1% and was determined immaterial.

At December 31, 2019, nonaccrual loans consisted of three loans totaling \$125,000 with no allocated allowances. No nonaccrual loans were 30 to 89 days past due and three loans totaling \$125,000 were 90 days or more past due.

At December 31, 2019, we did not have any loans that were not currently classified as nonaccrual, 90 days past due or troubled debt restructurings, but where known information about possible credit problems of borrowers caused management to have serious concerns as to the ability of the borrowers to comply with existing loan repayment terms and that could result in disclosure as non-accrual, 90 days past due or troubled debt restructurings.

Troubled Debt Restructurings. Troubled debt restructurings are defined under ASC 310-40 to include loans for which either a portion of interest or principal has been forgiven, or for loans modified at interest rates or on terms materially less favorable than current market rates. At

December 31, 2019 and 2018, we had no loans that were classified as a troubled debt restructuring.

Delinquent Loans. The following table sets forth our loan delinquencies by type and amount, at the dates indicated.

	Loans Delinquent For				Total	
	30 to 89 Days		90 Days or Over		Number	Amount
	Number	Amount	Number	Amount		
	(Dollars in Thousands)					
<u>At December 31, 2019</u>						
Real estate loans:						
One- to four-family, owner occupied.....	4	\$ 160	3	\$ 125	7	\$ 285
One- to four-family, non-owner occupied.....	-	-	-	-	-	-
Commercial loans.....	-	-	-	-	-	-
Consumer loans.....	-	-	-	-	-	-
Total loans.....	<u>4</u>	<u>\$ 160</u>	<u>3</u>	<u>\$ 125</u>	<u>7</u>	<u>\$ 285</u>
<u>At December 31, 2018</u>						
Real estate loans:						
One- to four-family, owner occupied.....	1	\$ 56	2	\$ 65	3	\$ 121
One- to four-family, non-owner occupied.....	-	-	-	-	-	-
Commercial loans.....	-	-	-	-	-	-
Consumer loans.....	1	10	1	1	2	11
Total loans.....	<u>2</u>	<u>\$ 66</u>	<u>3</u>	<u>\$ 66</u>	<u>5</u>	<u>\$ 132</u>

Foreclosed Real Estate Held for Sale. At December 31, 2019, we did not have any foreclosed real estate held for sale.

Classified Assets. Federal regulations provide that loans and other assets of lesser quality should be classified as “substandard”, “doubtful” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the insured institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as “special mention” by our management.

When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances in an amount deemed prudent by management to cover probable accrued losses. General allowances represent loss allowances which have been established to cover probable accrued losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as “loss,” it is required to charge-off the amount of such

assets. An institution’s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the regulatory authorities, which may require the establishment of additional loss allowances.

In connection with the filing of our periodic regulatory reports and in accordance with our classification of assets policy, we regularly review the problem loans in our portfolio to determine whether any loans require classification in accordance with applicable regulations. Loans are listed on the “watch list” initially because of emerging financial weaknesses even though the loan is currently performing as agreed, or because of delinquency status, or if the loan possesses weaknesses although currently performing. Management reviews the status of each impaired loan on our watch list with the Loan Committee and then with the full board of directors at the next regularly scheduled board meeting. If the asset quality of a loan deteriorates, the classification is changed to “special mention,” “substandard,” “doubtful” or “loss” depending on the circumstances and the evaluation. Generally, loans 90 days or more past due are placed on nonaccrual status and classified “substandard.”

The following table sets forth our amounts of classified assets and assets designated as special mention as of December 31, 2019 and 2018. We did not have any special mention loans or foreclosed real estate held for sale at December 31, 2019 and 2018.

	At December 31,	
	2019	2018
	(In Thousands)	
Substandard assets.....	\$ 125	\$ 66
Doubtful assets.....	-	-
Loss assets.....	-	-
Total classified assets.....	\$ 125	\$ 66
Special mention assets.....	-	-
Total classified and criticized assets..	\$ 125	\$ 66

Allowance for Loan Losses

Analysis and Determination of the Allowance for Loan Losses. Our allowance for loan losses is the amount considered necessary to reflect probable incurred losses in our loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to operations.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of two key elements: (1) allocated allowances for impaired loans, and (2) a general valuation allowance for non-impaired loans. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

Allocated Allowances on Impaired Loans. We establish an allocated allowance when loans are determined to be impaired. Loss is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. Factors in identifying a specific problem loan include: (1) the strength of the customer’s personal or business cash flows; (2) the availability

of other sources of repayment; (3) the amount due or past due; (4) the type and value of collateral; (5) the strength of our collateral position; (6) the estimated cost to sell the collateral; and (7) the borrower's effort to cure the delinquency. In addition, for loans secured by real estate, we consider the extent of any past due and unpaid property taxes applicable to the property serving as collateral for the mortgage.

General Valuation Allowance on Non-impaired Loans. We establish a general allowance for non-impaired loans to recognize the probable losses associated with lending activities. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss experience for the last three years, adjusted for qualitative factors that could impact the allowance for loan losses. These qualitative factors may include changes in lending policies and procedures, existing general economic and business conditions affecting our primary market area, volume and severity of non-performing loans, collateral value, nature and volume of the loan portfolio and existence and effect of any concentrations of credit and the level of such concentrations, recent loss experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results. The applied loss factors are re-evaluated quarterly to ensure their relevance in the current real estate environment.

	At or For the Years Ended December 31,	
	2019	2018
	(Dollars in thousands)	
Balance at beginning of year.....	\$ 122	\$ 122
Charge-offs.....	(3)	-
Recoveries.....	1	-
Net recoveries (charge-offs).....	(2)	-
Provision for loan losses.....	30	-
Balance at end of year.....	<u>\$ 150</u>	<u>\$ 122</u>
Ratios:		
Net charge-offs to average loans outstanding.....	0.02%	-
Allowance for loan losses to non-performing loans at end of year...	120.00%	184.85%
Allowance for loan losses to total loans at end of year.....	1.06%	1.12%

The charge-offs and recoveries that occurred in 2019 were related to overdrafts in checking products within our consumer loan segment with none in other loan segments. There were no charge-offs or recoveries in 2018.

Allocation of Allowance for Loan Losses. The following table sets forth the allowance for loan losses allocated by loan category and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,					
	2019			2018		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
(Dollars in Thousands)						
Real estate loans:						
One- to four-family, owner occupied.....	\$ 103	68.7 %	68.9 %	\$ 104	85.2 %	86.7 %
One- to four-family, non-owner occupied	9	6.0	6.2	12	9.8	8.8
Commercial loans.....	33	22.0	21.7	3	2.5	2.2
Consumer loans.....	5	3.3	3.2	3	2.5	2.3
Total allowance for loan losses.....	<u>\$ 150</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>\$ 122</u>	<u>100.0 %</u>	<u>100.0 %</u>

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Because future events affecting borrowers and collateral cannot be predicted with certainty, the existing allowance for loan losses may not be adequate and management may determine that increases in the allowance are necessary if the quality of any portion of our loan portfolio deteriorates as a result. Furthermore, the OCC periodically reviews our allowance for loan losses and as a result of such reviews, we may have to adjust our allowance for loan losses or recognize further loan charge-offs. However, the OCC is not directly involved in the process of establishing the allowance for loan losses, as the process is our responsibility and any adjustment of the allowance is the responsibility of management. Material additions to the allowance would materially decrease our results of operations.

Investments

General. Federally chartered savings associations have the authority to invest in various types of liquid assets, including United States government and government agency obligations, securities of various federal agencies and government-sponsored entities (including securities collateralized by mortgages), certificates of deposits of insured banks and savings institutions, municipal and corporate debt securities, and any other securities authorized for investment by a federal savings association.

U.S. GAAP requires that securities be categorized as “held to maturity,” “trading securities” or “available for sale,” based on management’s intent as to the ultimate disposition of each security. U.S. GAAP allows debt securities to be classified as “held to maturity” and reported in financial statements at amortized cost only if the reporting entity has the positive intent and ability to hold these securities to maturity. Securities that might be sold in response to changes in market interest rates, changes in the security’s prepayment risk, increases in loan demand, or other similar factors cannot be classified as “held to maturity.”

Our investment objectives are to: (i) ensure adequate liquidity for loan demand, deposit fluctuations, and other changes in balance sheet mix; (ii) manage interest rate risk; (iii) maximize our overall return; (iv) ensure collateral is available for pledging; and (v) manage asset-quality diversification of our assets. Our board of directors has the overall responsibility for the investment portfolio, including approval of our investment policy. Our board of directors also has the responsibility for the approval of investment strategies and for monitoring our investment performance. Our President and Chief Executive Officer is the institution's investment manager and is responsible for proposing investment strategies and for executing approved portfolio strategies as set forth by the board of directors. Our board of directors reviews the status of our investment portfolio on a quarterly basis, or more frequently if warranted.

The following table sets forth the amortized cost and fair value of our securities portfolio (excluding FHLB of Topeka and Midwest Independent Bank common stock) at the dates indicated. At the dates indicated, all of our investment securities were held as available for sale.

	At December 31,			
	2019		2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Mortgage-backed securities.....	\$ 2,444	\$ 2,468	\$ 4,740	\$ 4,735
Collateralized mortgage obligations....	6	6	18	17
SBA pools.....	52	52	72	72
Municipal securities.....	-	-	248	251
Total securities available for sale.....	<u>\$ 2,502</u>	<u>\$ 2,526</u>	<u>\$ 5,078</u>	<u>\$ 5,075</u>

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at December 31, 2019 is summarized in the following table. Maturities and yields are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All of our securities at this date were held as available for sale

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted- Average Yield	Amortized Cost	Weighted- Average Yield	Amortized Cost	Weighted- Average Yield	Amortized Cost	Weighted- Average Yield	Amortized Cost	Fair Value	Weighted- Average Yield
	(Dollars in thousands)										
MBS: GSE residential.....	\$ -	-	\$ 486	2.23%	\$ 206	1.60%	\$ 1,752	3.69%	\$ 2,444	\$ 2,468	3.22%
CMOs.....	-	-	-	-	-	-	6	2.19%	6	6	2.19%
SBA pools.....	-	-	-	-	-	-	52	3.14%	52	52	3.14%
Total.....	\$ -	-	\$ 486	2.23%	\$ 206	1.60%	\$ 1,810	3.67%	\$ 2,502	\$ 2,526	3.22%

Sources of Funds

General. Deposits traditionally have been our primary source of funds for our lending activities and, as applicable, other investments. We also occasionally borrow from the FHLB of Topeka to supplement cash flow needs. Our additional sources of funds are scheduled loan repayments, loan prepayments, retained earnings and the proceeds of loan sales.

Deposits. We accept deposits primarily from individuals who reside in and businesses located in Cheyenne County, Nebraska. We rely on our competitive pricing and products, convenient location and quality customer service to attract and retain deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of checking accounts, money market accounts, savings accounts and certificates of deposit.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market interest rates, liquidity requirements and our deposit growth goals. At December 31, 2018 and 2019, we had no brokered deposits.

The following table sets forth the distribution of average total deposits by account type, for the years indicated.

	For The Year Ended December 31,					
	2019			2018		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in Thousands)					
Deposit Type:						
Noninterest-bearing checking accounts.....	\$ 1,060	7.35%	_%	\$ 963	6.32%	_%
Checking and MMDA accounts.....	2,359	16.36%	0.10%	2,557	16.79%	0.10%
Savings Accounts.....	4,762	33.03%	0.11%	4,930	32.36%	0.14%
Certificates of deposite.....	6,237	43.26%	1.33%	6,783	44.53%	1.08%
Total deposits.....	\$ 14,418	100.00%	0.63%	\$ 15,233	100.00%	0.55%

As of December 31, 2019, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to \$100,000 was \$2.4 million. The following table sets forth the maturity of those certificates as of December 31, 2019.

	At December 31, 2019 (In Thousands)
Three months or less	\$ 200
Over three months through six months	-
Over six months through one year	591
Over one year to three years	1,570
Over three years	-
Total	\$ 2,361

Borrowings. We may obtain advances from the FHLB of Topeka utilizing the security of the common stock we own in the FHLB of Topeka and qualifying residential mortgage loans as collateral, provided certain standards related to creditworthiness are met. These advances are made pursuant to several credit programs, each of which has its own interest rate and range of maturities. FHLB of Topeka advances are generally available to meet seasonal and other withdrawals of deposit accounts and to permit increased lending. The following table sets forth information concerning balances and interest rates on our borrowings at and for the periods shown:

	At or For the Years Ended	
	December 31,	
	2019	2018
	(Dollars in Thousands)	
Balance at end of year.....	\$ 2,700	\$ -
Average balance during year.....	\$ 167	\$ -
Maximum outstanding at any month end.....	\$ 2,700	\$ -
Weighted average interest rate at end of year..	1.35%	_%
Average interest rate during year.....	1.80%	_%

Personnel

As of December 31, 2019, we had six full-time equivalent employees. Our employees are not represented by any collective bargaining group. Management believes that we have a good working relationship with our employees.

Subsidiary Activity

Sidney Federal has no subsidiaries.

Federal Taxation

General. Sidney Federal is subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize material federal income tax matters and is not a comprehensive description of the tax rules applicable to Sidney Federal.

Method of Accounting. For federal income tax purposes, Sidney Federal reports its income and expenses on the cash basis method of accounting and use a calendar year ending December 31st for filing its federal income tax returns.

Net Operating Loss Carryovers. At December 31, 2019, Sidney Federal had \$2.3 million in net operating loss carryforward for federal income tax purposes which begin expiring in 2029.

Audit of Tax Returns. Sidney Federal's federal income tax returns have not been audited in the most recent five-year period.

State Taxation

Nebraska State Taxation. Sidney Federal is subject to Nebraska taxation. Under Nebraska law, Sidney Federal pays a franchise tax in lieu of a corporate income tax. The franchise tax is the lesser of two amounts computed based on our average deposits and net financial income, respectively. Presently, the tax is \$0.47 per \$1,000 of average deposits but not to exceed an amount determined by applying 3.81% to our net financial income. Net financial income is our income as reported to the OCC after ordinary and necessary expenses but before income taxes.

Other applicable state taxes include generally applicable sales and use taxes plus real and personal property taxes. Sidney Federal's state income tax returns have not been audited in the most recent five-year period.

For additional information regarding taxation, see Note 8 of the Notes to Sidney Federal's Financial Statements beginning on page F-1 of this Annual Report on Form 10-K.

Supervision and Regulation

As a federal savings association, Sidney Federal is subject to examination, supervision and regulation, primarily by the OCC, and, secondarily, by the Federal Deposit Insurance Corporation ("FDIC") as deposits insurer. Prior to July 21, 2011, the Office of Thrift Supervision was Sidney Federal's primary federal regulator. However, the Dodd-Frank Act, which is discussed further below, eliminated the Office of Thrift Supervision and transferred the Office of Thrift Supervision's functions relating to federal savings associations, including rulemaking authority, to the OCC, effective July 21, 2011. The federal system of regulation and supervision establishes a comprehensive framework of activities in which Sidney Federal may engage and is intended primarily for the protection of depositors and the FDIC's Deposit Insurance Fund.

In addition, Sidney Federal is a member of and owns stock in the FHLB of Topeka, which is one of the 11 regional banks in the Federal Home Loan Bank System. Sidney Federal's relationship with its depositors and borrowers also is regulated to a great extent by federal law and, to a lesser extent, state law, including in matters concerning the ownership of deposit accounts and the form and content of Sidney Federal's loan documents.

Sidney Federal will also be subject to the federal securities laws and regulations as administered by the OCC.

Set forth below are certain material regulatory requirements that are applicable to Sidney Federal. This description of statutes and regulations is not intended to be a complete description of such statutes and regulations and their effects on Sidney Federal. Any change in these laws or regulations, whether by Congress or the applicable regulatory agencies, could have a material adverse impact on Sidney Federal and its operations.

Memorandum of Understanding with the OCC

In June 2017, Sidney Federal entered into an MOU with the OCC aimed at improving Sidney Federal's earnings, strategic plan and succession plan development, internal capital planning process, interest rate risk management and concentration risk management. Specifically, the MOU requires Sidney Federal to take the following actions:

- prepare a three-year strategic plan that establishes objectives for Sidney Federal's overall risk profile, earnings performance, growth, balance sheet activities, liability structure, capital and liquidity adequacy and product line development;
- prepare a contingency funding plan to monitor Sidney Federal's progress to ensure Sidney Federal maintains adequate liquidity in any environment and to detail actions to be taken to either (i) merge with another insured depository institution or (ii) perform another type of transaction that would resolve the supervisory concerns;
- develop an interest rate risk program to address Sidney Federal's strategic direction and tolerance for interest rate risk; and
- develop a concentration risk management program designed to identify, measure, monitor, and control concentrations of credit.

In addition, in July 2017, Sidney Federal was notified by the OCC that it established minimum capital ratios for Sidney Federal. The OCC's minimum capital ratios are as follows. By December 31, 2017, Sidney Federal was required to maintain a Tier 1 leverage capital ratio of 7.5% and a Total risk-based capital to risk-weighted assets ratio of 12.0%. By June 30, 2018, Sidney Federal is required to maintain a Tier 1 leverage capital ratio of 8.0% and a Total risk-based capital to risk-weighted assets ratio of 12.0%. By December 31, 2018, Sidney Federal is required to maintain a Tier 1 leverage capital ratio of 8.5% and a Total risk-based capital to risk-weighted assets ratio of 12.0%. At December 31, 2019, Sidney Federal's Tier 1 leverage capital ratio was 7.8%, which is below the required level set by the OCC, and its Total risk-based capital to risk-weighted assets ratio was 13.0%.

Failure to comply with the individual minimum capital requirements may result in our needing to reduce our total assets in order to meet our individual minimum capital requirements, which would likely reduce our earnings. Moreover, in the event we are in material non-compliance with the terms of the MOU and the individual minimum capital requirements, the OCC has the authority to subject us to more restrictive enforcement actions, such as a cease and desist order, civil money penalties, and the removal of directors and officers from their positions with Sidney Federal.

Dodd-Frank Act

As noted above, the Dodd-Frank Act made significant changes to the regulatory structure for depository institutions. However, the Dodd-Frank Act's changes go well beyond that and affect the lending, investments and other operations of all depository institutions. The Dodd-Frank Act broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The legislation also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor. The Dodd-Frank Act increased stockholder influence over boards of directors by requiring publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments.

The Dodd-Frank Act created the Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply

to all banks and savings institutions such as Sidney Federal, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The new legislation also weakened the federal preemption available for national banks and federal savings associations, and gave state attorneys general the ability to enforce applicable federal consumer protection laws.

Federal Banking Regulation

Business Activities. The activities of federal savings associations, such as Sidney Federal, are governed by federal laws and regulations. Those laws and regulations delineate the nature and extent of the business activities in which federal savings associations may engage. In particular, certain lending authority for federal savings associations, e.g., commercial, non-residential real property loans and consumer loans, is limited to a specified percentage of the institution’s capital or assets

Examinations and Assessments. Sidney Federal is primarily supervised by the OCC. Sidney Federal is required to file reports with and is subject to periodic examination by the OCC. Sidney Federal is required to pay assessments to the OCC to fund the agency’s operations.

Capital Requirements. Federal regulations require FDIC-insured depository institutions, including federal savings associations, to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio, a Tier 1 capital to risk-based assets ratio, a total capital to risk-based assets and a Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

The capital standards require the maintenance of common equity Tier 1 capital, Tier 1 capital and Total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively. The regulations also establish a minimum required leverage ratio of at least 4% Tier 1 capital. Common equity Tier 1 capital is generally defined as common stockholders’ equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income (“AOCI”) such as Sidney Federal, up to 45% of net unrealized gains on available for sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available for sale securities). Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, an institution’s assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests), are multiplied by a risk weight factor assigned by the regulations based on the risk deemed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk

weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one- to four-family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019.

At December 31, 2019, Sidney Federal exceeded all regulatory capital requirements necessary to be considered a “adequately-capitalized” bank, but is still subject to an MOU and increased capital requirements with the OCC.

Loans-to-One Borrower. Generally, a federal savings association may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by “readily marketable collateral,” which generally includes certain financial instruments (but not real estate). However, if a savings association's aggregate lending limitation calculated under the test as described above is less than \$500,000, which Sidney Federal's limitation is, then such savings association may have total loans and extensions of credit, for any purpose, to one borrower outstanding at one time not to exceed \$500,000. As of December 31, 2019, Sidney Federal was in compliance with the \$500,000 loans-to-one borrower limitation.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation and other operational and managerial standards as the agency deems appropriate. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. Failure to implement such a plan can result in further enforcement action, including the issuance of a cease and desist order or the imposition of civil money penalties.

Prompt Corrective Action. Under the federal Prompt Corrective Action statute, the OCC is required to take supervisory actions against undercapitalized institutions under its jurisdiction, the severity of which depends upon the institution's level of capital. An institution that has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a common equity Tier 1 ratio of less than 4.5% or a leverage ratio of less than 4% is considered to be “undercapitalized.” A savings institution that has total risk-based capital of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a common equity Tier 1 ratio of less than 3.0% or a leverage ratio that is less than 3.0% is considered to be “significantly undercapitalized.” A savings institution that has a tangible capital to assets ratio equal to or less than 2.0% is deemed to be “critically undercapitalized.”

Generally, the OCC is required to appoint a receiver or conservator for a federal savings association that becomes “critically undercapitalized” within specific time frames. The regulations also provide that a capital restoration plan must be filed with the OCC within 45 days of the date that a federal savings association is deemed to have received notice that it is “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” Any federal savings association that is required to submit a capital restoration plan must guarantee performance under the plan in an amount of up to the lesser of 5.0% of the savings association’s assets at the time it was deemed to be undercapitalized by the OCC or the amount necessary to restore the savings association to adequately capitalized status. This guarantee remains in place until the OCC notifies the savings association that it has maintained adequately capitalized status for each of four consecutive calendar quarters. Institutions that are undercapitalized become subject to certain mandatory measures such as restrictions on capital distributions and asset growth. The OCC may also take any one of a number of discretionary supervisory actions against undercapitalized federal savings associations, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At December 31, 2019, Sidney Federal exceeded all regulatory capital requirements necessary to be considered “adequately capitalized”, but is still subject to an MOU and increased capital requirements with the OCC.

Qualified Thrift Lender Test. As a federal savings association, Sidney Federal must satisfy the qualified thrift lender, or “QTL,” test. Under the QTL test, Sidney Federal must maintain at least 65% of its “portfolio assets” in “qualified thrift investments” (primarily residential mortgages and related investments, including mortgage-backed securities) in at least nine months of every 12-month period. “Portfolio assets” generally means total assets of a savings association, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings association’s business.

Alternatively, Sidney Federal may satisfy the QTL test by qualifying as a “domestic building and loan association” as defined in the Internal Revenue Code.

A savings association that fails the qualified thrift lender test is subject to certain operating restrictions and the Dodd-Frank Act also specifies that failing the qualified thrift lender test is a violation of law that could result in an enforcement action and dividend limitations. At December 31, 2019, Sidney Federal satisfied the QTL test.

Capital Distributions. Federal regulations govern capital distributions by a federal savings association, which include cash dividends, stock repurchases and other transactions charged to the savings association’s capital account. A federal savings association must file an application with the OCC for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings association’s net income for that year to date plus the savings association’s retained net income for the preceding two years;
- the savings association would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or regulatory condition; or

- the savings association is not eligible for expedited treatment of its filings.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution shall not make any capital distribution if, after making such distribution, the institution would fail to meet any applicable regulatory capital requirement.

Additionally, pursuant to OCC regulations, during the three-year period following the conversion, we will not make any capital distribution to stockholders that would be treated by recipients as a tax-free return of capital for federal income tax purposes.

Community Reinvestment Act and Fair Lending Laws. All federal savings associations have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income borrowers. In connection with its examination of a federal savings association, the OCC is required to assess the federal savings association's record of compliance with the Community Reinvestment Act. A savings association's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the Department of Justice.

The Community Reinvestment Act requires all institutions insured by the FDIC to publicly disclose their rating. Sidney Federal received a "satisfactory" Community Reinvestment Act rating in its most recent federal examination.

Transactions with Related Parties. A federal savings association's authority to engage in transactions with its affiliates is limited by Sections 23A and 23B of the Federal Reserve Act and federal regulation. An affiliate is generally a company that controls, or is under common control with an insured depository institution such as Sidney Federal. In general, transactions between an insured depository institution and its affiliates are subject to certain quantitative limits and collateral requirements. In addition, federal regulations prohibit a savings association from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve the purchase of low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates.

Sidney Federal's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions generally require that extensions of credit to insiders:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and

- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Sidney Federal's capital.

In addition, extensions of credit in excess of certain limits must be approved by Sidney Federal's board of directors. Extensions of credit to executive officers are subject to additional limits based on the type of extension involved.

Enforcement. The OCC has primary enforcement responsibility over federal savings associations and has authority to bring enforcement action against all "institution-affiliated parties," including directors, officers, stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on a federal savings association. Formal enforcement action by the OCC may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institution to the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to \$25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as \$1.0 million per day. The FDIC also has the authority to terminate deposit insurance or recommend to the OCC that enforcement action be taken with respect to a particular savings association. If such action is not taken, the FDIC has authority to take the action under specified circumstances.

Insurance of Deposit Accounts. The Deposit Insurance Fund of the FDIC insures deposits at FDIC-insured financial institutions such as Sidney Federal. Deposit accounts in Sidney Federal are insured by the FDIC generally up to a maximum of \$250,000 per separately insured depositor and up to a maximum of \$250,000 for self-directed retirement accounts.

The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund. Under the FDIC's risk-based assessment system, insured institutions were assigned a risk category based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's rate depended upon the category to which it is assigned, and certain adjustments specified by FDIC regulations. Institutions deemed less risky pay lower FDIC assessments.

Effective July 1, 2016, the FDIC adopted changes that eliminated the risk categories. Assessments for most institutions are now based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years. In conjunction with the Deposit Insurance Fund reserve ratio achieving 1.15%, the assessment range (inclusive of possible adjustments) was reduced for most banks and savings associations to 1.5 basis points to 30 basis points.

In addition to the FDIC assessments, the Financing Corporation ("FICO") is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended December 31, 2019, the annualized FICO assessment was equal to 0.32 of a basis point of total assets less tangible capital.

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of Sidney Federal. Sidney Federal cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

Federal Home Loan Bank System. Sidney Federal is a member of the Federal Home Loan Bank System, which consists of 11 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the FHLB of Topeka, Sidney Federal is required to acquire and hold shares of capital stock in the FHLB of Topeka. As of December 31, 2019, Sidney Federal was in compliance with this requirement. Sidney Federal's ability to borrow from the FHLB of Topeka provides an additional source of liquidity and Sidney Federal has historically used limited FHLB of Topeka advances to help fund its operations.

Other Regulations

Interest and other charges collected or contracted for by Sidney Federal are subject to state usury laws and federal laws concerning interest rates. Sidney Federal's operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Truth in Savings Act; and
- rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of Sidney Federal also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and

customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;

- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;
- The USA PATRIOT Act, which requires savings associations to, among other things, establish broadened anti-money laundering compliance programs, and due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements that also apply to financial institutions under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and
- The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

Acquisition. Under the Federal Change in Bank Control Act, a notice must be submitted to the OCC if any person (including a company), or group acting in concert, seeks to acquire direct or indirect "control" of a federal savings association. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of the association's outstanding voting stock, unless the OCC has found that the acquisition will not result in control of the association. A change in control definitively occurs upon the acquisition of 25% or more of the association's outstanding voting stock. Under the Change in Bank Control Act, the OCC generally has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition.

Federal Securities Laws

Sidney Federal's common stock is registered with the OCC under the Securities Exchange Act of 1934. Sidney Federal is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934, as implemented by the OCC.

Emerging Growth Company Status

The JOBS Act, which was enacted in 2012, has made numerous changes to the federal securities laws to facilitate access to capital markets. Under the JOBS Act, a company or bank with total annual gross revenues of less than \$1.07 billion during its most recently completed fiscal year qualifies as an "emerging growth company." Sidney Federal qualifies as an emerging growth company under the JOBS Act.

An "emerging growth company" may choose not to hold stockholder votes to approve annual executive compensation (more frequently referred to as "say-on-pay" votes) or executive compensation payable in connection with a merger (more frequently referred to as "say-on-golden

parachute” votes). An emerging growth company also is not subject to the requirement that its auditors attest to the effectiveness of the company’s internal control over financial reporting, and can provide scaled disclosure regarding executive compensation; however, Sidney Federal will also not be subject to the auditor attestation requirement or additional executive compensation disclosure so long as it remains a “smaller reporting company” under Securities and Exchange Commission regulations, as applied by the OCC, (generally less than \$75 million of voting and non-voting equity held by non-affiliates). Finally, an emerging growth company may elect to comply with new or amended accounting pronouncements in the same manner as a private company, but must make such election when the company is first required to file a registration statement. Such an election is irrevocable during the period a company is an emerging growth company. Sidney Federal has elected to comply with new or amended accounting pronouncements in the same manner as a private company.

A company loses emerging growth company status on the earlier of: (i) the last day of the fiscal year of the company during which it had total annual gross revenues of \$1.07 billion or more; (ii) the last day of the fiscal year of the issuer following the fifth anniversary of the date of the first sale of common equity securities of the company pursuant to an effective registration statement under the Securities Act of 1933; (iii) the date on which such company has, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt; or (iv) the date on which such company is deemed to be a “large accelerated filer” under Securities and Exchange Commission regulations, as applied by the OCC (generally, at least \$700 million of voting and non-voting equity held by non-affiliates).

ITEM 1A. Risk Factors

The presentation of Risk Factors is not required for smaller reporting companies like Sidney Federal.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

We operate from our main office located at 1045 10th Avenue, Sidney, Nebraska 69162. During the first quarter of 2020, the Association entered into a sales-lease back transaction with the sale of the building and land. For additional information regarding the sales-lease back transaction, see Note 1 of the Notes to Sidney Federal’s Financial Statements beginning on page F-1 of this Annual Report on Form 10-K.

The net book value of our premises, land and equipment was approximately \$66,000 at December 31, 2019.

ITEM 3. Legal Proceedings

We are not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. At December 31, 2019, we were not involved in any legal proceedings the outcome of which would be material to our financial condition or results of operations.

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our shares of common stock are traded on the OTC Pink Marketplace under the symbol “SFSA”. The approximate number of holders of record of Sidney Federal’s common stock as of March 18th, 2020 was 38. Certain shares of Sidney Federal are held in “nominee” or “street” name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. Sidney Federal began trading on the OTC Pink Marketplace on July 27, 2018; however, no trades have been made in the stock.

We have no current plan or intention to pay cash dividends to our stockholders. However, if in the future the board of directors considers the payment of dividends, the payment and amount of any dividend payments will be subject to statutory and regulatory limitations, and will depend upon a number of factors, including the following: regulatory capital requirements; our financial condition and results of operations; our other uses of funds for the long-term value of stockholders; tax considerations; and general economic conditions. No assurance can be given that the board of directors will ever consider the payment of dividends and stockholders should have no expectation of such.

ITEM 6. Selected Financial Data

The following information is derived in part from the consolidated financial statements of Sidney Federal Savings and Loan Association. For additional information, reference is made to “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Financial Statements of Sidney Federal Savings and Loan Association and related notes included elsewhere in this Annual Report.

Selected Financial Condition Data:	At December 31,		
	2019	2018	2017
	(Dollars in Thousands)		
Total assets.....	\$ 18,373	\$ 16,993	\$ 16,385
Cash and cash equivalents.....	1,486	798	594
Certificates of deposit.....	-	-	494
Securities available for sale.....	2,526	5,075	2,186
Stock in Federal Home Loan Bank of Topeka ("FHLB of Topeka") and Midwest Independent Bank ("MIB").....	153	97	99
Loans receivable, net.....	13,927	10,777	12,678
Premises and equipment.....	66	44	55
Other assets (1).....	215	202	279
Deposits.....	14,058	15,163	15,055
Advances from FHLB of Topeka.....	2,700	-	-
Advances from borrowers for taxes and insurance.....	180	147	175
Other liabilities.....	148	114	107
Total equity.....	1,287	1,569	1,048

(1) Includes accrued interest receivable and other assets.

Years Ended December 31,		
2019	2018	2017
(Dollars in Thousands)		

Selected Operating Data:

Interest income.....	\$ 630	\$ 610	\$ 606
Interest expense.....	93	74	79
Net interest income.....	<u>537</u>	<u>536</u>	<u>527</u>
Provision for loan losses.....	30	-	4
Net interest income after provision for loan losses...	507	536	523
Noninterest income.....	54	82	43
Noninterest expense.....	<u>864</u>	<u>910</u>	<u>806</u>
Loss before income taxes.....	(303)	(292)	(240)
Income taxes.....	-	-	-
Net loss.....	<u>\$ (303)</u>	<u>\$ (292)</u>	<u>\$ (240)</u>

Selected Financial Ratios and Other Data:

Performance Ratios:

Return on assets (ratio of net loss to average total assets).....	(1.85) %	(1.74) %	(1.39) %
Return on equity (ratio of net loss to average equity).....	(25.44) %	(23.14) %	(20.12) %
Interest rate spread (1).....	3.24	3.20	3.03
Net interest margin (2).....	3.35	3.27	3.09
Efficiency ratio (3).....	146.19	147.25	141.40
Average equity to average total assets.....	7.28 %	7.53 %	6.93 %

Asset Quality Ratios:

Non-performing assets to total assets.....	0.68 %	0.39 %	0.52 %
Non-performing loans to total loans.....	0.89 %	0.60 %	0.66 %
Allowance for loan losses to non-performing loans.....	120.00 %	184.85 %	143.53 %
Allowance for loan losses to total loans.....	1.06 %	1.12 %	0.95 %
Net charge-offs to average loans outstanding (1).....	0.02 %	-	-

Capital Ratios:

Total capital (to risk-weighted assets).....	13.03 %	17.34 %	15.18 %
Tier 1 capital (to risk-weighted assets).....	11.79 %	16.09 %	13.94 %
Common equity Tier 1 capital (to risk-weighted assets)	11.79 %	16.09 %	13.94 %
Tier 1 capital (to average assets).....	7.77 %	9.25 %	6.55 %

Other Data:

Number of full service offices.....	1	1	1
Full-time equivalent employees.....	6	6	7

(1) The interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average rate of interest-bearing liabilities for the year.

(2) The net interest margin represents net interest income as a percentage of average interest-earning assets for the year.

(3) The efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis reflects our financial statements and other relevant statistical data, and is intended to enhance your understanding of our financial condition and results of operations. The information in this section has been derived from the financial statements, which appear elsewhere in this annual report. You should read the information in this section in conjunction with the other business and financial information provided in this annual report.

Overview

Sidney Federal Savings and Loan Association is a federal stock savings and loan association headquartered in Sidney, Nebraska. We offer financial services to individuals, families and businesses through our office located in Sidney, Nebraska. We are a community-oriented bank offering a variety of financial products and services to meet the needs of our customers. We believe that our community orientation and personalized service distinguishes us from larger banks that operate in our market area.

Our business consists primarily of accepting deposits from the general public and investing those deposits, together with funds generated from operations, and to a lesser extent borrowings, in one- to four-family owner occupied and non-owner occupied real estate loans, commercial loans and consumer loans. We offer a variety of deposit accounts, including checking accounts, money market accounts, savings accounts and certificates of deposit.

Critical Accounting Policies

A summary of our accounting policies is described in Note 1 to the financial statements included in this annual report. Critical accounting estimates are necessary in the application of certain accounting policies and procedures and are particularly susceptible to significant change. Critical accounting policies are defined as those involving significant judgments and assumptions by management that could have a material impact on the carrying value of certain assets or on income under different assumptions or conditions. Management believes that the most critical accounting policies, which involve the most complex or subjective decisions or assessments, are as follows:

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. See Note 1 of the notes to the financial statements included in this Annual Report on Form 10-K.

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. See Note 1 of the notes to the financial statements included in this Annual Report on Form 10-K.

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

Estimation of Fair Values. Securities classified as available for sale are reported at fair value, with unrealized gains and losses excluded from operations and reported as a separate component of equity. The Association does not purchase securities for trading purposes. The cost of securities sold is determined by specific identification. Declines in fair value of securities available for sale that are deemed to be other-than-temporary are charged to operations as a realized loss. In estimating other-than-temporary impairment losses, management of the Association considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, the Association's intent to sell the security or whether it is more likely than not that it will be required to sell the security before the anticipated recovery of its remaining amortized cost basis and evaluation of cash flows to determine if the securities have been adversely affected. See Note 1 of the notes to the financial statements included in this Annual Report on Form 10-K.

Discussion and Analysis of Financial Condition for the Years Ended December 31, 2019 and 2018

	At December 31,		Increase (Decrease)	% Change
	2019	2018		
(Dollars in Thousands)				
Summary of Selected Balance Sheet Data:				
Total assets.....	\$ 18,373	\$ 16,993	\$ 1,380	8.12%
Cash and cash equivalents.....	1,486	798	688	86.22%
Securities available for sale.....	2,526	5,075	(2,549)	-50.23%
Stock in FLHB of Topeka and Midwest independent bank.....	153	97	56	57.73%
Loans receivable, net.....	13,927	10,777	3,150	29.23%
Premises and equipment.....	66	44	22	50.00%
Other assets (1).....	215	202	13	6.44%
Deposits.....	14,058	15,163	(1,105)	-7.29%
Advances from FHLB of Topeka.....	2,700	-	2,700	100.00%
Advances from borrowers for taxes and insurance.....	180	147	33	22.45%
Other liabilities.....	148	114	34	29.82%
Total equity.....	1,287	1,569	(282)	-17.97%

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

Total Assets. Total assets increased \$1.4 million, or 8.12%, to \$18.4 million at December 31, 2019 from \$17.0 million at December 31, 2018. The increase in total assets was due primarily to increases in cash and cash equivalents, and the purchase of commercial loans.

Loans Receivable, Net. Net loans increased \$3.2 million, or 29.23%, to \$13.9 million at December 31, 2019 from \$10.8 million at December 31, 2018, due primarily to an increase in commercial loans purchased. The one- to four-family owner occupied real estate loan portfolio increased \$243,000, or 2.56%, to \$9.7 million at December 31, 2019 from \$9.5 million at December 31, 2018 due to loan originations. One- to four-family non-owner occupied real estate loan portfolio decreased from \$963,000 or 9.66% to \$870,000 due to loan paydowns. Commercial loans increased from \$235,000 or 1,203.40% to \$3.1 million at December 31, 2019 due to loan purchases. Consumer loans increased \$193,000 or 75.39% to \$449,000 at December 31, 2019 due to purchases and originations.

Securities. At December 31, 2019 and 2018, all securities were classified as available for sale and included primarily mortgage-backed securities. Securities decreased \$2.6 million, or 50.23%, to \$2.5 million at December 31, 2019 from \$5.1 million at December 31, 2018. due to the sale of \$1.1 million of mortgage-backed securities and principal collections of \$1.5 million.

Cash and Cash Equivalents. Cash and cash equivalents increased \$688,000, or 86.22%, to \$1.5 million at December 31, 2019 from \$798,000 at December 31, 2018. During 2019, the Association utilized FHLB of Topeka overnight deposits and other excess funds from the FHLB demand account to fund deposit withdrawals and other corporate obligations.

Deposits. Deposits decreased \$1.1 million, or 7.29%, to \$14.1 million at December 31, 2019 from \$15.2 million at December 31, 2018. The decrease in deposits was approximately 40% in transaction accounts and 60% in certificates of deposit. The Association's core deposits, which include noninterest-bearing checking, interest-bearing checking, savings and money market accounts, decreased \$434,000. The Association intends to increase its core deposits, in particular, checking and money market accounts, through its existing and new loan customers and aggressive marketing efforts.

Advances from FHLB of Topeka. At December 31, 2019 there were \$2.7 million in advances and there were no advances from the FHLB of Topeka outstanding in 2018.

Stockholders' Equity. Total equity decreased \$282,000 to \$1.3 million at December 31, 2019 from \$1.6 million at December 31, 2018, primarily as a result of operating losses.

Comparison of Operating Results for the Years Ended December 31, 2019 and 2018

General. The Association had a net loss of \$303,000 for the year ended December 31, 2019, compared to a net loss of \$292,000 for the year ended December 31, 2018. The increase in the Association's net loss for 2019 was primarily due to higher provision for loan and lease losses and lower noninterest income offset by a reduction in noninterest expense.

	For the Year Ended December 31,		Increase (Decrease)	% Change
	2019	2018		
(Dollars in Thousands)				
Summary of Net Interest Income:				
Interest Income:				
Loans receivable.....	\$ 511	\$ 504	\$ 7	1.39%
Securities, taxable.....	100	61	39	63.93%
Securities, nontaxable.....	-	12	(12)	-100.00%
Other interest-earning assets.....	19	33	(14)	-42.42%
Total interest income.....	<u>630</u>	<u>610</u>	<u>20</u>	3.28%
Interest Expense:				
Checking and money market accounts.....	2	2	-	0.00%
Savings accounts.....	5	6	(1)	-16.67%
Certificates of deposit.....	83	66	17	25.76%
Total deposits.....	<u>90</u>	<u>74</u>	<u>16</u>	21.62%
Advances from FHLB of Topeka.....	3	-	3	100.00%
Total interest expense.....	<u>93</u>	<u>74</u>	<u>19</u>	25.68%
Net interest income	<u>\$ 537</u>	<u>\$ 536</u>	<u>\$ 1</u>	0.19%

Interest Income. Interest income increased \$20,000, or 3.28%, to \$630,000 for 2019 from \$610,000 for 2018. The increase in interest income resulted primarily from higher yields on loans and taxable securities, partially offset by a lower average balance of loans due, in part, to the sale of loan originations in the secondary market.

The average yield on loans increased to 4.52% for 2019 from 4.32% for 2018. The average yield on taxable securities increased to 2.64% for 2019 from 2.16% for 2018. The average balance of loans decreased to \$11.3 million for 2019 from \$11.7 million for 2018. In contrast, the average balance of taxable securities increased to \$3.8 million for 2019 from \$2.8 million for 2018, as the Association purchased mortgage back securities during 2018.

Interest Expense. Interest expense increased \$19,000, or 25.68%, to \$93,000 for 2019 from \$74,000 for 2018 primarily as a result of higher rates paid on certificate of deposits, and a higher average balance on FHLB of Topeka advances. The average balance of FHLB of Topeka advances increased to \$167,000 for 2019 from \$0 for 2018. The average rate paid on these advances increased to 1.80% for 2019 from 0.00% for 2018 due to advances taken.

Net Interest Income. Net interest income increased \$1,000, or 0.19%, to \$537,000 for the year ended December 31, 2019 from \$536,000 for the year ended December 31, 2018. The net interest rate spread increased to 3.24% for 2019 from 3.20% for 2018 as the yield on average interest-earning assets increased by 21 basis points and the cost of average interest-bearing liabilities increased by 17 basis points. The increase in the yield on average interest-earning assets was primarily due to the increase in the rate environment coupled with the purchase of mortgage-backed securities during 2018 at higher rates than those previously included in the investment portfolio. These increases were offset by a lower composition of average loans outstanding as the average balance of loans represented 70.5% of the total average balance of interest-earning assets during 2019 compared to 71.2% during 2018. The increase in the cost of average interest-bearing liabilities was primarily due to higher rates paid on certificate of deposits and the use of FHLB of Topeka advances.

Provision for Loan Losses. The provision for loan losses increased \$30,000 to \$30,000 for the year ended December 31, 2019, compared to \$0 for the year ended December 31, 2018. The increase in the provision for loan losses was primarily due to the increase in commercial loans outstanding.

	For the Year Ended		Increase (Decrease)	% Change
	December 31,			
	2019	2018		
	(Dollars in Thousands)			
Summary of Noninterest Income:				
Noninterest Income:				
Service charges on deposit accounts	\$ 10	\$ 13	\$ (3)	-23.08%
Gain on called and sold securities	5	-	5	100.00%
Gain on sale of loans	28	55	(27)	-49.09%
Debit card income	10	10	-	-
Other	1	4	(3)	-75.00%
Total noninterest income	\$ 54	\$ 82	\$ (28)	-34.15%

Noninterest Income. Noninterest income decreased \$28,000, or 34.15%, to \$54,000 for the year ended December 31, 2019 from \$82,000 for the year ended December 31, 2018. The decrease is due primarily to the gain on sale of loans during 2019.

	At December 31,		Increase (Decrease)	%Change
	2019	2018		
	(Dollars in Thousands)			
Summary of Noninterest Expense:				
Noninterest Expense:				
Compensation and benefits.....	\$ 433	\$ 474	\$ (41)	-8.65%
Occupancy expense.....	29	23	6	26.09%
Equipment and data processing expense..	102	118	(16)	-13.56%
FDIC premium expense.....	3	17	(14)	-82.35%
Professional and regulatory fees.....	140	143	(3)	-2.10%
Insurance expense.....	30	25	5	20.00%
Debit card expense.....	32	31	1	3.23%
Correspondent bank service charges.....	14	12	2	16.67%
Other.....	81	67	14	20.90%
Total noninterest expense	\$ 864	\$ 910	(46)	-5.05%

Noninterest Expense. Noninterest expense decreased \$46,000 or 5.05%, to \$864,000 for the year ended December 31, 2019 from \$910,000 for the year ended December 31, 2018 due primarily to decreases in compensation and benefits, FDIC premiums, and equipment and data processing expense, partially offset by increased occupancy expenses, insurance expenses, and other expenses.

Compensation and benefits decreased \$41,000, or 8.65%, to \$433,000 for the year ended December 31, 2019 from \$474,000 for the year ended December 31, 2018 due primarily to a decrease in staffing. FDIC premiums expense decreased \$14,000, or 82.35%, to \$3,000 for the year ended December 31, 2019, compared to \$17,000 for the year ended December 31, 2018. The decrease was primarily related to the small bank credits being applied to our FDIC assessments. Equipment and data processing expense decreased \$16,000, or 13.56%, to \$102,000 for 2019, compared to \$118,000 for 2018 due primarily to a lower IT and network maintenance and depreciation expense.

Income Tax Expense. The Association has experienced multiple years of taxable losses which raises doubt about the Association's ability to utilize the net deferred tax asset. Accordingly, valuation allowances equal to the tax benefits recorded in 2019 and 2018 were recorded resulting in no net income tax benefit recorded for 2019 and 2018. In addition, 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 table sets forth average balance sheets, average yields and costs, and certain other information at and for the years 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 table 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 Years Ended December 31,					
	2019			2018		
	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate
	(Dollars in Thousands)					
Interest-earning assets:						
Loans receivable	\$ 11,301	\$ 511	4.52 %	\$ 11,676	\$ 504	4.32 %
Securities, taxable	3,789	100	2.64	2,821	61	2.16
Securities, non-taxable	-	-	-	250	12	4.80
Other interest-earning assets	940	19	2.02	1,656	33	1.99
Total interest-earning assets	<u>16,030</u>	<u>630</u>	3.93	<u>16,403</u>	<u>610</u>	3.72
Noninterest-earning assets	324			346		
Total assets	<u>\$ 16,354</u>			<u>\$ 16,749</u>		
Interest-bearing liabilities:						
Checking and MMDA accounts	\$ 2,359	\$ 2	0.08	\$ 2,557	\$ 2	0.08
Savings accounts	4,762	5	0.10	4,930	6	0.12
Certificates of deposit	6,237	83	1.33	6,783	66	0.97
Total deposits	<u>13,358</u>	<u>90</u>	0.67	<u>14,270</u>	<u>74</u>	0.52
Advances from FHLB of Topeka	167	3	1.80	-	-	-
Total interest-bearing liabilities	<u>13,525</u>	<u>93</u>	0.69	<u>14,270</u>	<u>74</u>	0.52
Non-interest bearing checking accounts	1,060			963		
Non-interest bearing liabilities	578			254		
Equity	1,191			1,262		
Total liabilities and equity	<u>\$ 16,354</u>			<u>\$ 16,749</u>		
Net interest income		<u>\$ 537</u>			<u>\$ 536</u>	
Net interest rate spread (1)			3.24 %			3.20 %
Net interest-earning assets (2)	<u>\$ 2,505</u>			<u>\$ 2,133</u>		
Net interest margin (3)			3.35 %			3.27 %
Average interest-earning assets to average interest-bearing liabilities		118.52 %			114.95 %	

(1) Net interest spread represents the difference between the yield on average interest-earning assets and the rate 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.

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the years indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to

changes in volume (changes in volume multiplied by prior rate). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated to the changes due to rate and the changes due to volume in proportion to the absolute dollar change in each.

	Years Ended December 31,		
	2019 vs. 2018		
	Increase (Decrease)		Total
	Due to		Increase
Volume	Rate	(Decrease)	
(In Thousands)			
Interest-earning assets:			
Loans receivable.....	\$ (16)	\$ 23	\$ 7
Securities, taxable.....	24	15	39
Securities, non-taxable.....	(12)	-	(12)
Other interest-earning assets.....	(14)	-	(14)
	<u>(18)</u>	<u>38</u>	<u>20</u>
Interest-bearing liabilities:			
Checking and MMDA accounts.....	-	-	-
Savings accounts.....	-	(1)	(1)
Certificates of deposit.....	(6)	23	17
Total deposits.....	(6)	22	16
Advances from FHLB of Topeka.....	3	-	3
	<u>(3)</u>	<u>22</u>	<u>19</u>
Change in net interest income.....	<u>\$ (15)</u>	<u>\$ 16</u>	<u>\$ 1</u>

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 December 31, 2019, Sidney Federal had \$2.7 million in FHLB of Topeka advances with unused borrowing capacity of \$5.1 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 December 31, 2019.

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

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and cash equivalents, which include federal funds sold and interest-bearing deposits in other banks. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2019, cash and cash equivalents totaled \$1.5 million. Securities classified as available for sale, which provide additional sources of liquidity, totaled \$2.5 million at December 31, 2019.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash used in operating activities was \$(239,000) and \$(177,000) for the years ended December 31, 2019 and 2018, respectively. Net cash used in investing activities, was \$(701,000) and \$(511,000) for the years ended December 31, 2019 and 2018, respectively. Net cash provided by financing activities was \$1.6 million and \$892,000 for the years ended December 31, 2019 and 2018.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Certificates of deposit due within one year of December 31, 2019, totaled \$2.9 million, or 20.9%, 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. Sidney Federal 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 “Item 1. Business—Supervision and Regulation—Federal Banking Regulation—Capital Requirements” and Note 10 of the Notes to the 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 December 31, 2019, we had outstanding commitments to originate loans of \$754,000.

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 will likely cause 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.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Not required for smaller reporting companies.

ITEM 8. Financial Statements and Supplementary Data

Sidney Federal’s Financial Statements are presented in Item 15 of this Annual Report on Form 10-K.

ITEM 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. 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 December

31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management of the Association is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) under the Exchange Act as a process designed by, or under the supervision of, the Association's principal executive and principal financial officers and effected by the Association's Board of Directors, management and other personnel, 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. The Association's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflects the transactions and disposition of the assets of the Association;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Association are being made only in accordance with authorization of management and directors of the Association; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Association's internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013).

Based on our assessment and those criteria, management believes that the Association maintained effective internal control over financial reporting as of December 31, 2019.

This annual report does not include an attestation report of the Association's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Association's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Association to provide only management's report in this annual report.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information contained under the sections captioned “Proposal I – Election of Directors” in Sidney Federal’s definitive Proxy Statement for the 2019 Annual Meeting of Stockholders (the “Proxy Statement”) is incorporated herein by reference.

ITEM 11. Executive Compensation

The information contained under the section captioned “ Proposal I – Election of Directors – Executive Compensation” will be contained in the definitive Proxy Statement and is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information called for by this Item will be contained in the definitive Proxy Statement and is incorporated herein by reference

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the sections captioned “Proposal I – Election of Directors – Transactions with Certain Related Persons,” “– Board Independence” and “– Meetings and Committees of the Board of Directors” of the Proxy Statement.

ITEM 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the section captioned “Proposal II – Ratification of Appointment of Independent Registered Public Accounting Firm” of the Proxy Statement.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

See audited financial starting on page F-1

(a)(3) Exhibits

- 3.1 Charter of Sidney Federal Savings and Loan Association
- 3.2 Bylaws of Sidney Federal Savings and Loan Association
- 4.1 Form of Common Stock Certificate of Sidney Federal Savings and Loan Association
- 4.2 Description of Registrant Securities
- 21 Subsidiaries of Registrant
- 31.1 Certification of Principal Executive Officer and pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

ITEM 16. Form 10-K Summary

None.

INDEX TO FINANCIAL STATEMENTS OF
SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Report of Independent Registered Public Accounting Firm.....	F-2
Balance Sheets at December 31, 2019 and 2018	F-3
Statements of Operations for the Years ended December 31, 2019 and 2018.....	F-4
Statements of Comprehensive Loss for the Years ended December 31, 2019 and 2018	F-5
Statements of Stockholders' Equity for the Years ended December 31, 2019 and 2018	F-6
Statements of Cash Flows for the Years ended December 31, 2019 and 2018	F-7
Notes to Financial Statements	F-9

All financial statement schedules have been omitted as the required information either is not applicable or is included in the financial statements or related notes.

Report of Independent Registered Public Accounting Firm

To the Board of Directors, Audit Committee, and Stockholders
Sidney Federal Savings and Loan Association
Sidney, Nebraska

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Sidney Federal Savings and Loan Association (the "Association") as of December 31, 2019 and 2018, the related statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on the Association's financial statements based on our audits.

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Association in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

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

BKD, LLP

BKD, LLP

We have served as the Company's auditor since 2017.

Indianapolis, Indiana
April 6, 2020

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Balance Sheets

December 31, 2019 and 2018

	December 31, 2019	December 31, 2018
Assets		
Cash	\$ 120	\$ 127
Interest-bearing deposits in other banks:		
Federal Home Loan Bank of Topeka ("FHLBT") demand account	366	371
FHLBT overnight deposit account	1,000	300
Cash and cash equivalents	1,486	798
Securities available for sale, at market value (amortized cost of \$2,502 and \$5,078, respectively)	2,526	5,075
Stock in FHLBT and Midwest Independent Bank ("MIB")	153	97
Loans receivable, net of allowance for loan losses of \$150 and \$122, respectively	13,927	10,777
Premises and equipment, net	66	44
Accrued interest receivable:		
Securities and other interest-earning assets	9	19
Loans receivable	40	28
Other assets	166	155
Total assets	\$ 18,373	\$ 16,993
Liabilities		
Deposits:		
Noninterest-bearing	\$ 1,202	\$ 1,131
Interest-bearing	12,856	14,032
Total deposits	14,058	15,163
Federal Home Loan Bank of Topeka (FHLBT) Advances	2,700	-
Advances from borrowers for taxes and insurance	180	147
Other liabilities	148	114
Total liabilities	17,086	15,424
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	456	759
Accumulated other comprehensive gain/loss, net of taxes	19	(2)
Total equity	1,287	1,569
Total liabilities and stockholders' equity	\$ 18,373	\$ 16,993

See accompanying notes to condensed financial statements.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Statements of Operations

Years Ended December 31, 2019 and 2018

	Year Ended	
	2019	
	2019	2018
Interest income:		
Loans receivable	\$ 511	\$ 504
Securities-taxable	100	61
Securities-nontaxable	-	12
Other interest-earning assets	19	33
Total interest income	<u>630</u>	<u>610</u>
Interest expense:		
Deposits	90	74
Advances from FHLBT	3	-
Total interest expense	<u>93</u>	<u>74</u>
Net interest income	537	536
Provision for loan losses	30	-
Net interest income after provision for loan losses	<u>507</u>	<u>536</u>
Noninterest income:		
Service charges on deposit accounts	10	13
Gain on sale of loans	28	55
Gain on called and sold securities	5	-
Debit card income	10	10
Other	1	4
Total noninterest income	<u>54</u>	<u>82</u>
Noninterest expense:		
Compensation and benefits	433	474
Occupancy expense	29	23
Equipment and data processing expense	102	118
FDIC premium expense	3	17
Professional and regulatory fees	140	143
Insurance expense	30	25
Debit card expense	32	31
Correspondent bank service charges	14	12
Other	81	67
Total noninterest expense	<u>864</u>	<u>910</u>
Loss before income taxes	(303)	(292)
Income taxes	-	-
Net loss	<u>\$ (303)</u>	<u>\$ (292)</u>

Basic net loss per share \$ (2.29) NM

Weighted average common shares outstanding 132,250 NM

NM - Not meaningful

See accompanying notes to condensed financial statements.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Statements of Comprehensive Loss

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
	<u>(In thousands)</u>	
Net loss	\$ <u>(303)</u>	\$ <u>(292)</u>
Other comprehensive income, net of tax:		
Reclassification adjustment for gains on securities AFS included in operations	(5)	-
Unrealized gains on securities available for sale during the period	<u>32</u>	<u>1</u>
Other comprehensive income before taxes	27	1
Income tax expense	<u>(6)</u>	<u>-</u>
Other comprehensive income, net of tax	<u>21</u>	<u>1</u>
Comprehensive loss	<u>\$ (282)</u>	<u>\$ (291)</u>

See accompanying notes to condensed financial statements.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Statements of Stockholders' Equity

Years Ended December 31, 2019 and 2018

	<u>Common Stock</u>	<u>Additional Paid In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss), Net</u>	<u>Total Stockholders' Equity</u>
Balance at December 31, 2017	\$ -	\$ -	\$ 1,051	\$ (3)	\$ 1,048
Net loss	-	-	(292)	-	(292)
Proceeds from issuance of common stock	1	811	-	-	-
Other comprehensive income, net of taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
Balance at December 31, 2018	<u>\$ 1</u>	<u>\$ 811</u>	<u>\$ 759</u>	<u>\$ (2)</u>	<u>\$ 1,569</u>
Net loss	\$ -	-	(303)	-	(303)
Other comprehensive income, net of taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>21</u>	<u>21</u>
Balance at December 31, 2019	<u>\$ 1</u>	<u>\$ 811</u>	<u>\$ 456</u>	<u>\$ 19</u>	<u>\$ 1,287</u>

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	December 31,	
	2019	2018
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$ (303)	\$ (292)
Adjustments to reconcile net loss to net cash used for operating activities:		
Provision for loan losses	30	-
Depreciation expense	9	13
Amortization of premiums, net	18	21
FHLBT stock dividends	(4)	(3)
Gain on called and sold securities	(5)	-
Gain on sale of loans	(28)	(55)
Loan originations for sale	(1,011)	(2,249)
Proceeds from sale of loans	1,039	2,304
Net change in:		
Accrued interest receivable	(2)	1
Other assets	(11)	77
Other liabilities	29	6
Net cash used in operating activities	(239)	(177)
Cash flows from investing activities:		
Net change in loans receivable	330	1,915
Purchased Loans	(3,510)	(14)
Proceeds from maturities, paydowns and calls of securities available for sale	1,507	733
Purchases of securities available for sale	-	(3,642)
Proceeds from sales of securities available for sale	1,055	-
Net change in certificates of deposit	-	494
Purchases of FHLBT Stock	(54)	
Redemption of FHLBT stock	2	5
Purchases of premises and equipment	(31)	(2)
Net cash used in investing activities	\$ (701)	\$ (511)

(Continued)

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

(Continued)

	December 31,	
	<u>2019</u>	<u>2018</u>
	(In thousands)	
Cash flows from financing activities:		
Net change in deposits	\$ (1,105)	\$ 108
Proceeds from advance from FHLBT	2,700	-
Net change in advances from borrowers for taxes and insurance	33	(28)
Proceeds from issuance of common stock	-	812
Net cash provided by financing activities	<u>1,628</u>	<u>892</u>
Net change in cash and cash equivalents	688	204
Cash and cash equivalents at beginning of year	<u>798</u>	<u>594</u>
Cash and cash equivalents at end of year	<u>\$ 1,486</u>	<u>\$ 798</u>
Cash paid during the period for:		
Interest on deposits	\$ 90	\$ 74
Interest on advances from FHLBT	3	-

See accompanying notes to condensed financial statements.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

(1) Summary of Significant Accounting Policies

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is the source of authoritative accounting principles generally accepted in the United States of America ("GAAP").

The following comprise the significant accounting policies, which the Association follows in preparing and presenting its financial statements:

- a. For purposes of reporting cash flows, cash and cash equivalents include cash, FHLBT demand account, FHLBT overnight deposit account and interest-bearing funds in other banks with original maturities of three months or less. At December 31, 2019 and 2018, the Association's funds in banks, exceeded federally insured limits by \$1,314 and \$603, respectively. The Association's management monitors the account balance and periodically assesses the financial condition of its correspondent banks.
- b. Securities, which the Association has the positive intent and ability to hold to maturity, are classified as held to maturity and reported at cost and adjusted for amortization of premiums and accretion of discounts over the life of the security using the interest method. 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.
- c. Stock in FHLBT is recorded at cost, which represents redemption value. The Association is required by law to own stock in the FHLBT as a condition of membership or for borrowings from the FHLBT. FHLBT stock is evaluated for impairment in accordance with FASB ASC 942-325-35, "Financial Services - Depository and Lending - Investments - Other." Determination of whether the FHLBT stock is impaired is based on the assessment of the ultimate recoverability of cost rather than by recognizing declines in value. The determination of whether a decline affects the ultimate recoverability of costs is influenced by the significance of the decline in net assets compared to the capital of the FHLBT and the length of time this situation has persisted; the ability of the FHLBT to make payments required by law or regulation and operating performance; the impact of legislative and regulatory changes on member institutions and customer base and the liquidity position of the FHLBT. Management believes no impairment charge on FHLBT stock is necessary at December 31, 2019 or 2018.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

- d. Stock in Midwest Independent Bancshares, Inc. (MIB) is recorded at cost less impairment, if any, as there is no readily determinable fair value for this investment. The investment was
- e. d to allow the Association to do business with MIB and can be sold back to MIB for the purchase price. Management believes that no impairment charge on MIB stock is necessary at December 31, 2019 and 2018.
- e. 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.
- f. 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 for 2019 and 2018. 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.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

- e. Premises and equipment, net are carried at cost, less accumulated depreciation. Depreciation of premises and equipment is computed using the straight-line method based on the estimated useful lives of the related assets. The office building has been fully depreciated. Estimated lives are generally three to five years for furniture and equipment.
- f. Foreclosed real estate held for sale is carried at fair value less estimated costs to sell. Costs related to the development and improvement of foreclosed real estate are capitalized.
- g. Interest on certificates of deposit, securities and loans receivable is accrued as earned. Interest on loans receivable is excluded from income when considered uncollectible. When a loan is classified as nonaccrual, accrued interest is reversed against current income. Interest received on nonaccrual loans generally is applied against principal or interest and is recognized on the cash basis or cost recovery method. Accrual of interest is resumed on previously classified nonaccrual loans, when there is no longer any reasonable doubt as to the timely collection of interest.
- h. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities which will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that will more likely than not be realized. Income tax expense is the tax payable or refundable for the period plus or minus the net change in the deferred tax assets and liabilities.

The FASB issued guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Association's Federal and state tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Interest and penalties related to tax positions are recognized in income tax expense. The Association is no longer subject to U.S. Federal or state income tax examination by tax authorities for the years ended on or before December 31, 2016. For the years ended December 31, 2019 and 2018, management has determined there are no material uncertain tax positions.

- i. Service charges on deposit accounts include fees collected on nonsufficient funds, overdrafts, ATMs and other banking services.
- j. Earnings (loss) per share represents income (loss) available to common stockholders divided by the weighted-average number of common shares outstanding during each period. Based on the accounting method used for the recording of the common stock transaction on July 26, 2018, the computation of loss per share for the twelve months ended December 31, 2018 would not provide meaningful information to readers of the accompanying condensed consolidated financial statements. Therefore, such presentation is not included for the periods presented.
- k. Comprehensive loss consists of net loss and unrealized gains (losses) on available-for-sale securities.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

- I. On January 01, 2019, the Association adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Topic 606 creates a single framework for recognizing revenue from contracts with customers that fall within its scope and revised when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as foreclosed assets. The majority of the Association's revenues come from interest income and other sources, including loans, and loan sales, that are outside the scope of Topic 606. The Association's services that fall within the scope of Topic 606 are presented within noninterest income in the accompanying statements of income and are recognized as revenue as the Association satisfies its obligation to the customer. Services within the scope of Topic 606 would include charges on deposit services, interchange income and other items.

A description of the Association's significant revenue streams accounted for under Topic 606 are as follows:

Deposit Services. The Association generates revenues through fees charged to depositors related to deposit account maintenance fees, overdrafts, ATM fees, wire transfers and additional miscellaneous services provided at the request of the depositor. For deposit-related services, revenue is recognized when performance obligations are satisfied, which is, generally, at a point in time.

Interchange Income. The Association earns interchange fees from debit and credit cardholder transactions conducted through payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily.

The Association adopted Topic 606 using the modified retrospective approach applied to all contracts at the date of adoption. Results for reporting periods beginning after January 1, 2019 are presented under Topic 606, while prior period amounts continue to be reported in accordance with legacy guidance. The adoption of Topic 606 did not result in a change to the timing of revenue recognition; as such, no cumulative effect on beginning retained earnings was recorded.

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

As an "emerging growth company," the Association has elected to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, the financial statements of the Association may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

The impact of recent accounting pronouncements are summarized as follows:

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." The provisions of ASU 2016-01 require certain equity investments to be measured at fair value with changes in fair value recognized in net income and simplify the impairment assessment of such investments; eliminate the requirement for public entities to disclose the methods and significant assumptions used to estimate fair value that is required to be disclosed for financial instruments measured at amortized cost; require public entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets

and require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. For emerging growth companies, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The adoption ASU 2016-01 did not have a material impact on the Association's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." ASU 2016-02 was issued to increase transparency and comparability among entities by requiring lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020. During the first quarter of 2020, the Association entered into a sales-lease back transaction with the sale of the building and land. A gain of \$283 was recorded as a result of the transaction. In connection with a sales-lease back transaction, the Association early adopted ASU No. 2016-02. Upon adoption, the Association recorded a \$245 right-of-use asset and a \$245 lease liability. The Association's financial condition and results of operations are not otherwise expected to be impacted.

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.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

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 plans to qualify as an emerging growth company, ASU 2016-13 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.

- n. Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statement presentation. These reclassifications had no impact on net income.

(2) Nature of Operations and Risks and Uncertainties

The Association is a community oriented financial institution that provides traditional financial services within its local market area. The Association is engaged primarily in the business of attracting deposits from the general public and using these funds to originate one-to-four family residential mortgage loans primarily to customers located in Cheyenne County, Nebraska.

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 is 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 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 the preference given first to natural persons residing in the State of Nebraska; and thereafter to other member 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 cost were \$511. As a result, net proceeds from sale of Association common stock was \$812.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

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.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions, which affect the reported amounts of assets and liabilities as of the balance sheet dates and income and expenses for the periods covered. Actual results could differ significantly from these estimates and assumptions. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, fair value of financial instruments and deferred tax asset. The Association's operations are affected by interest rate risk, credit risk, market risk and regulations by the Office of the Comptroller of the Currency ("OCC"). The Association is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice more rapidly, or on a different basis, than its interest-earning assets. The Association uses a net market value methodology provided by an independent consultant to measure its interest rate risk exposure. This exposure is a measure of the potential decline in the net portfolio value of the Association based upon the effect of a rate shock of plus or minus 50 and 100 basis points. Net portfolio value is the present value of expected net cash flows from the institution's assets, liabilities and off-balance sheet contracts.

Credit risk is the risk of default on the Association's loan portfolio that results from the borrower's inability or unwillingness to make contractually required payments.

Market risk reflects changes in the market value of investment securities, the value of collateral underlying loans receivable and the valuation of real estate held by the Association. The Association is subject to periodic examination by its primary regulatory agency, which may require the Association to record an increase in the allowance for loss on loans receivable, based on judgments regarding the loan portfolio information available at the time of its examination. The regulatory agency is not, however, directly involved in the determination of the allowance for loan losses, and any decisions to increase or decrease the allowance for loan losses are the responsibility of the Association's management.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

(3) Securities Available for Sale

Securities available for sale are summarized as follows:

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

See note 7 for securities pledged for FHLBT advances.

For the year ended 2019, gross gains of \$5 were realized on sold and called securities available for sale. For the year ended 2018, there were no sales of securities available for sale.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018 (Dollars in thousands)

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

December 31, 2019	Number of Positions	Less than 12 Months		12 Months or Longer		Total	
		Market Value	Unrealized loss	Market Value	Unrealized loss	Market Value	Unrealized loss
(Dollars in thousands)							
MBS	26	\$ 131	\$ 1	\$ 625	\$ 8	\$ 756	\$ 9
December 31, 2018	Number of Positions	Less than 12 Months		12 Months or Longer		Total	
		Market Value	Unrealized loss	Market Value	Unrealized loss	Market Value	Unrealized loss
(Dollars in thousands)							
MBS	29	\$ 1,759	\$ 15	\$ 837	\$ 17	\$ 2,596	\$ 32
CMOs	1	-	-	17	1	17	1
	30	\$ 1,759	\$ 15	\$ 854	\$ 18	\$ 2,613	\$ 33

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 December 31, 2019 and 2018, was \$756 and \$2,613, respectively, which is approximately 30% and 51%, respectively, of the Association's available for sale securities portfolio.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

(4) Loans Receivable, Net

Loans receivable, net are summarized as follows:

	At December 31,	
	2019	2018
	Amount	Amount
Real estate loans:	(In thousands)	
One-to-four family, owner occupied.....	\$ 9,726	\$ 9,483
One-to-four family, non-owner occupied.....	870	963
Commercial Loans.....	3,063	235
Consumer loans.....	449	256
	14,108	10,937
Allowance for losses.....	(150)	(122)
Deferred loan fees, net.....	(31)	(38)
Total.....	\$ 13,927	\$ 10,777

During 2019 and 2018, the Association purchased commercial and consumer loans of \$3,510 and \$14, respectively. Included in commercial loans at December 31, 2019 are loans of \$550 to hotel owners and or operators and loans of \$1,429 of loans related to the insurance industry.

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.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(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.

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	Recoveries	Ending Balance
Year Ended December 31, 2019	(In thousands)				
Real estate loans:					
One-to-four family, owner occupied	\$ 104	\$ (1)	\$ -	\$ -	\$ 103
One-to-four family, non-owner occupied	12	(3)	-	-	9
Commercial loans	3	30	-	-	33
Consumer loans	3	4	3	1	5
	<u>\$ 122</u>	<u>\$ 30</u>	<u>\$ 3</u>	<u>\$ 1</u>	<u>\$ 150</u>

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

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018 (Dollars in thousands)

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

	Allowance for Loan Losses			Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
At December 31, 2019:	(In thousands)					
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 loans	-	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>

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

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018 (Dollars in thousands)

The following tables present impaired loans and 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	Average Recorded Investment
(In thousands)						
At December 31, 2019:						
Real estate loans:						
One-to-four family, owner occupied	\$ -	125	\$ 125	\$ 125	\$ -	\$ 59
One-to-four family, non-owner occupied	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Consumer loans	-	-	-	-	-	-
	<u>\$ -</u>	<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 loans	-	-	-	-
Consumer loans	-	-	-	-
	<u>\$ 125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125</u>

	Impaired Loans					
	With Allowance for Loan Losses	With no Allowance for Loan Losses	Total	Unpaid Principal Balance	Allowance for Loan Losses	Average Recorded Investment
At December 31, 2018:						
Real estate loans:						
One-to-four family, owner occupied	\$ -	65	\$ 65	\$ 65	\$ -	\$ 67
One-to-four family, non-owner occupied	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Consumer loans	-	-	-	-	-	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 65</u>	<u>\$ 65</u>	<u>\$ -</u>	<u>\$ 67</u>

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

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

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

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

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

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

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018 (Dollars in thousands)

The following tables present the credit risk profile of the Association's loan portfolio based on rating.

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 loans	-	-	-	-	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>

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

There were no loans to executive officers, directors and their affiliates of the Association for the years ended December 31, 2019 and 2018.

(5) Premises and Equipment, Net

Premises and equipment, net are summarized as follows:

	2019	2018
	(In Thousands)	
Land	\$ 30	\$ 30
Office Building	395	395
Furniture and equipment	181	150
	<u>606</u>	<u>575</u>
Less accumulated depreciation	540	531
	<u>\$ 66</u>	<u>\$ 44</u>

Depreciation expense for 2019 and 2018 was \$9 and \$13, respectively.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

(6) Deposits

Deposits are summarized as follows:

Description and interest rate	2019	2018
	(In thousands)	
Non-interest bearing checking accounts	\$ 1,202	\$ 1,131
Interest bearing checking accounts	1,934	1,963
Savings accounts	4,592	4,902
Money market accounts	379	545
Total transaction accounts	<u>8,107</u>	<u>8,541</u>
Certificates:		
.00 - .99%	2,643	3,148
1.00 - 1.99%	447	2,287
2.00 - 2.99%	2,861	1,187
Total certificates	<u>5,951</u>	<u>6,622</u>
Total deposits	<u>\$ 14,058</u>	<u>\$ 15,163</u>

Certificate maturities are summarized as follows:

	2019	2018
	(In thousands)	
Less than one year	\$ 2,939	\$ 4,787
One to two years	2,446	794
Two to three years	545	977
Three to four years	21	64
Four to five years	-	-
	<u>\$ 5,951</u>	<u>\$ 6,622</u>

The aggregate amount of certificates in denominations of \$250 or more at December 31, 2019 and 2018 was \$315 and \$308, respectively. There were no brokered deposits at December 31, 2019 or 2018. Under the Federal Deposit Insurance Act and the FDIC's implementing regulations, \$250 is the standard maximum deposit insurance amount for deposits in an insured depository institution that are maintained in the same ownership right and capacity. Deposits maintained in different rights and capacities are insured separately from each other.

Deposits from executive officers, directors and affiliates held by the Association were \$257 and \$136 at December 31, 2019 and 2018, respectively.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

Interest expense on deposits is summarized as follows:

	<u>2019</u>	<u>2018</u>
	(In thousands)	
Checking and money market accounts	\$ 2	\$ 2
Savings accounts	5	6
Certificates	83	66
	<u>\$ 90</u>	<u>\$ 74</u>

(7) Advances from Federal Home Loan Bank of Topeka

At December 31, 2019, the Association had \$2,700 in advances from the Federal Home Loan Bank of Topeka with \$700 maturing in 2020 and \$2,000 maturing in 2029. Advances, at interest rates from 1.1% to 1.9% are subject to restrictions or penalties in the event of prepayment. At December 31, 2018, the Association had no outstanding advances.

The FHLBT advances are secured by mortgage loans and investment securities totaling \$9,635 and \$2,521, respectively, at December 31, 2019.

(8) Income Taxes

Net deferred tax asset (liability) is summarized as follows:

	<u>2019</u>	<u>2018</u>
	(In thousands)	
Deferred tax assets:		
Allowance for losses on loans	\$ 34	\$ 28
Net operating loss carryforward	475	394
Charitable contribution carryover	1	2
Total deferred tax assets before valuation allowance	<u>510</u>	<u>424</u>
Valuation allowance	<u>(470)</u>	<u>(405)</u>
Total deferred tax assets	<u>40</u>	<u>19</u>
Deferred tax liabilities:		
Accrued income and expense	(31)	(19)
Tax over book depreciation	(9)	-
Unrealized gain on securities available for sale	(6)	-
Total deferred tax liabilities	<u>(46)</u>	<u>(19)</u>
Net deferred tax asset (liability)	<u>\$ (6)</u>	<u>\$ -</u>

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

Change in valuation allowance for deferred tax asset is summarized as follows:

	<u>2019</u>	<u>2018</u>
	(In thousands)	
Valuation allowance:		
Balance, beginning of year	\$ 405	\$ 344
Net change in valuation allowance	<u>65</u>	<u>61</u>
Balance, end of year	<u>\$ 470</u>	<u>\$ 405</u>

At December 31, 2019, the Association has a net operating loss carryforward for Federal income tax purposes of \$2,262 a portion of which is will begin expiring in 2029, is available to offset future Federal taxable income.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. At December 31, 2019 and 2018, a valuation allowance has been recorded against all components of the deferred tax inventory, except for the unrealized gain or loss on available for sale securities, based upon the Association's cumulative operating losses in recent years.

A reconciliation of income tax expense at the statutory federal corporate tax rate to the Association's actual income tax expense is as follows:

	<u>2019</u>	<u>2018</u>
	(In thousands)	
Federal statutory income taxes	\$ (64)	\$ (61)
Change in valuation allowance in operations	65	61
Other	(1)	2
Tax-exempt income	<u>-</u>	<u>(2)</u>
Actual deferred Federal tax expense	<u>\$ -</u>	<u>\$ -</u>
Effective tax rate	<u>0.0%</u>	<u>0.0%</u>

There was no current Federal tax expense or state tax expense for 2019 or 2018.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

The Association is permitted to make additions to the tax bad debt reserve using the experience method. The Association's retained earnings include tax bad debt reserves of \$133 for which no provision for Federal income taxes has been made.

The estimated deferred tax liability on such amount is approximately \$28 which has not been recorded in the accompanying financial statements. If these tax bad debt reserves are used for other than loan losses, the amount used will be subject to Federal income taxes at the then prevailing corporate rate.

(9) Employee Benefits

The Association has a 401(k) plan which covers substantially all employees. Participants may contribute to the 401(k) plan, subject to Internal Revenue Code limitations. The Association contributes on a discretionary basis. There are no employer matching contributions. Participants vest on a graded basis and are fully vested after six years of service. 401(k) plan expense for the year ended December 31, 2019 and 2018 was \$3 and \$3, respectively.

10) 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.

The Association's capital amounts and classifications are also subject to judgments by the regulators about components, risk-weightings and other factors.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

The Association is also subject to the regulatory framework for prompt corrective action. On July 20, 2017, the OCC established minimum capital ratios that are higher than existing banking regulations. The Association was required to achieve and maintain a higher Tier 1 leverage capital ratio at December 31, 2017, June 30, 2018 and December 31, 2018 of 7.5%, 8.0% and 8.5%, respectively, and a total risk-based capital ratio of 12.0%. The requirements to have and maintain specific capital levels prevent the Association from being classified as well-capitalized. Accordingly, the Association was categorized as well capitalized under the regulatory framework for prompt corrective action at December 31, 2018. As summarized in the following table at December 31, 2019, the Association's reported Tier 1 leverage capital ratio of 7.8% 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%.

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 gains on securities AFS, net	<u>(19)</u>					
Tangible capital	1,268					
General valuation allowance - limited	<u>134</u>					
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.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

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

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

(11) 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 \$754 and \$323, respectively. Interest rates for such loans ranged from 3.25% to 14.99% and 4.25% to 15.00% at December 31, 2019 and 2018, respectively.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

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 December 31, 2019 and 2018, the outstanding balance of loans sold under the MPF Original program was \$1,945 and \$1,971 respectively, and the maximum credit enhancement obligation was \$150 and \$135, respectively. 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 December 31, 2019 and December 31, 2018.

(12) 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 1 and 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 4.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(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 December 31, 2019 and 2018, segregated by the level of the inputs within the hierarchy used to measure fair value:

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

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

Assets Measured at Fair Value on a Nonrecurring Basis

Assets measured at fair value on a non-recurring basis include impaired loans. At December 31, 2019 and 2018, impaired loans of \$0 and \$0, respectively, were adjusted to fair value utilizing Level 3 inputs during such years. The impaired loans are collateral dependent. Fair value adjustments, consisting of charge-offs, on impaired loans during the years ended December 31, 2019 and 2018 amounted to \$0 and \$0, respectively.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

Fair Value of Financial Instruments

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

	Carrying Amount	Fair Value	Fair Value Measurements Using		
			Level 1	Level 2	Level 3
December 31, 2019:					
			(In thousands)		
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	-
December 31, 2018:					
Cash and cash equivalents	\$ 798	\$ 798	\$ 798	\$ -	\$ -
Stock in FHLBT and MIB	97	97	-	97	-
Loans receivable, net	10,777	10,806	-	-	10,806
Accrued interest receivable	47	47	-	47	-
Deposits	15,163	15,068	8,541	6,527	-

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2019 and 2018
(Dollars in thousands)

(13) Other Noninterest Expense

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

	Year Ended	
	December 31,	
	2019	2018
	(In thousands)	
Contract services	\$ 20	\$ 10
Advertising	7	10
Office supplies	8	8
Telephone expense	7	7
Dues and subscriptions	11	13
Other	28	19
	<u>\$ 81</u>	<u>\$ 67</u>

(14) Contingencies

The Association is involved in certain legal actions arising from normal business activities. Management believes that the outcome of such proceedings will not have any material adverse effect on the financial statements of the Association.

(15) 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.

(16) Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the balance sheet, income statement and cash flows of the Association and in particular the collectability of the loan portfolio. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: April 6, 2020

By: /s/ Steve Smith

Steve Smith
President, Chief Executive Officer and
Director (Principal Executive Officer)
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Steve Smith</u> Steve Smith	President, Chief Executive Officer and Director (Principal Executive Officer)	April 6, 2020
<u>/s/ Jamie Lanckriet</u> Jamie Lanckriet	Controller (Principal Financial Officer)	April 6, 2020
<u>/s/ Jeff J. Jung</u> Jeff J. Jung	Chairman	April 6, 2020
<u>/s/ Larry Fraas</u> Larry Fraas	Director	April 6, 2020
<u>/s/ Wayne Fischer</u> Wayne Fischer	Director	April 6, 2020
<u>/s/ Harold Perkins</u> Harold Perkins	Director	April 6, 2020

/s/ Bill Sydow
Bill Sydow

Director

April 6, 2020

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION
FEDERAL STOCK CHARTER

Section 1. Corporate title. The full corporate title of the savings association is Sidney Federal Savings and Loan Association (the "Savings Association").

Section 2. Office. The home office shall be located in Sidney, Nebraska.

Section 3. Duration. The duration of the Savings Association is perpetual.

Section 4. Purpose and powers. The purpose of the Savings Association is to pursue any or all of the lawful objectives of a Federal savings association chartered under section 5 of the Home Owners' Loan Act and to exercise all of the express, implied, and incidental powers conferred thereby and by all acts amendatory thereof and supplemental thereto, subject to the Constitution and laws of the United States as they are now in effect, or as they may hereafter be amended, and subject to all lawful and applicable rules, regulations, and orders of the Office of the Comptroller of the Currency (the "OCC").

Section 5. Capital stock. The total number of shares of all classes of the capital stock that the Savings Association has the authority to issue is 20,000,000, of which 19,000,000 shares shall be common stock, par value \$0.01 per share, and of which 1,000,000 shares shall be serial preferred stock, par value \$0.01 per share. The shares may be issued from time to time as authorized by the board of directors without the approval of its shareholders, except as otherwise provided in this Section 5 or to the extent that such approval is required by governing law, rule, or regulation. The consideration for the issuance of the shares shall be paid in full before their issuance and shall not be less than the par or stated value. Neither promissory notes nor future services shall constitute payment or part payment for the issuance of shares of the Savings Association. The consideration for the shares shall be cash, tangible or intangible property (to the extent direct investment in such property would be permitted to the Savings Association), labor, or services actually performed for the Savings Association, or any combination of the foregoing. In the absence of actual fraud in the transaction, the value of such property, labor, or services, as determined by the board of directors of the Savings Association, shall be conclusive. Upon payment of such consideration, such shares shall be deemed to be fully paid and nonassessable. In the case of a stock dividend, that part of the retained earnings of the Savings Association that is transferred to common stock or paid-in capital accounts upon the issuance of shares as a stock dividend shall be deemed to be the consideration for their issuance.

Except for shares issued in the initial organization of the Savings Association or in connection with the conversion of the Savings Association from the mutual to the stock form of capitalization, no shares of capital stock (including shares issuable upon conversion, exchange, or exercise of other securities) shall be issued, directly or indirectly, to officers, directors, or controlling persons of the Savings Association other than as part of a general public offering or as qualifying shares to a director, unless their issuance or the plan under which they would be issued has been approved by a majority of the total votes eligible to be cast at a legal meeting.

Nothing contained in this Section 5 (or in any supplementary sections hereto) shall entitle the holders of any class or series of capital stock to vote as a separate class or series or to more than one vote per share, and there shall be no cumulation of votes for the election of directors; *provided*, that this restriction on voting separately by class or series shall not apply:

- (i) To any provision which would authorize the holders of preferred stock, voting as a class or series, to elect some members of the board of directors, less than a majority thereof, in the event of default in the payment of dividends on any class or series of preferred stock;
- (ii) To any provision which would require the holders of preferred stock, voting as a class or series, to approve the merger or consolidation of the Savings Association with another corporation or the sale, lease, or conveyance (other than by mortgage or pledge) of properties or business in exchange for securities of a corporation other than the Savings Association if the preferred stock is exchanged for securities of such other corporation; *provided*, that no provision may require such approval for transactions undertaken with the assistance or pursuant to the direction of the OCC or the Federal Deposit Insurance Corporation;
- (iii) To any amendment which would adversely change the specific terms of any class or series of capital stock as set forth in this Section 5 (or in any supplementary sections hereto), including any amendment which would create or enlarge any class or series ranking prior thereto in rights and preferences. An amendment which increases the number of authorized shares of any class or series of capital stock, or substitutes the surviving savings association in a merger or consolidation for the Savings Association, shall not be considered to be such an adverse change.

A description of the different classes and series of the Savings Association's capital stock and a statement of the designations, and the relative rights, preferences and limitations of the shares of each class of and series of capital stock are as follows:

A. Common stock. Except as provided in this Section 5 (or in any supplementary sections thereto) the holders of common stock shall exclusively possess all voting power.

Whenever there shall have been paid, or declared and set aside for payment, to the holders of the outstanding shares of any class of stock having preference over the common stock as to payment of dividends, the full amount of dividends and of sinking fund, retirement fund or other retirement payments, if any, to which such holders are respectively entitled in preference to the common stock, then dividends may be paid on the common stock and on any class or series of stock entitled to participate therewith as to dividends out of any assets legally available for the payment of dividends.

In the event of any liquidation, dissolution, or winding up of the Savings Association, the holders of the common stock (and the holders of any class or series of stock entitled to participate with the common stock in the distribution of assets) shall be entitled to receive, in cash or in kind, the assets of the Savings Association available for distribution remaining after: (i) payment or provision for payment of the Savings Association's debts and liabilities; (ii) distributions or provision for distributions in settlement of its liquidation account; and (iii) distributions or provision for distributions to holders of any class or series of stock having preference over the common stock in the liquidation, dissolution, or winding up of the Savings Association. Each share of common stock shall have the same relative rights as and be identical in all respects with all the other shares of common stock.

B. Preferred stock. The Savings Association may provide in supplementary sections to its charter for one or more classes of preferred stock, which shall be separately identified. The shares of any class may be divided into and issued in series, with each series separately designated so as to distinguish the shares thereof from the shares of all other series and classes. The terms of each series shall be set forth in a supplementary section to the charter. All shares of the same class shall be identical, except as to the following relative rights and preferences, as to which there may be variations between different series:

- (a) The distinctive serial designation and the number of shares constituting such series;
- (b) The dividend rate or the amount of dividends to be paid on the shares of such series, whether dividends shall be cumulative and, if so, from which date(s), the payment date(s) for dividends, and the participating or other special rights, if any, with respect to dividends;
- (c) The voting powers, full or limited, if any, of shares of such series;
- (d) Whether the shares of such series shall be redeemable and, if so, the price(s) at which, and the terms and conditions on which, such shares may be redeemed;
- (e) The amount(s) payable upon the shares of such series in the event of voluntary or involuntary liquidation, dissolution, or winding up of the Savings Association;
- (f) Whether the shares of such series shall be entitled to the benefit of a sinking or retirement fund to be applied to the purchase or redemption of such shares, and if so entitled, the amount of such fund and the manner of its application, including the price(s) at which such shares may be redeemed or purchased through the application of such fund;
- (g) Whether the shares of such series shall be convertible into, or exchangeable for, shares of any other class or classes of stock of the Savings Association and, if so, the conversion price(s) or the rate(s) of exchange, and the adjustments thereof, if any, at which such conversion or exchange may be made, and any other terms and conditions of such conversion or exchange;
- (h) The price or other consideration for which the shares of such series shall be issued; and
- (i) Whether the shares of such series which are redeemed or converted shall have the status of authorized but unissued shares of serial preferred stock and whether such shares may be reissued as shares of the same or any other series of serial preferred stock.

Each share of each series of serial preferred stock shall have the same relative rights as and be identical in all respects with all the other shares of the same series.

The board of directors shall have authority to divide, by the adoption of supplementary charter sections, any authorized class of preferred stock into series and, within the limitations set forth in this section and the remainder of this charter, fix and determine the relative rights and preferences of the shares of any series so established.

Prior to the issuance of any preferred shares of a series established by a supplementary charter section adopted by the board of directors, the Savings Association shall file with the OCC a dated copy of that supplementary section of this charter establishing and designating the series and fixing and determining the relative rights and preferences thereof.

Section 6. Preemptive rights. Holders of the capital stock of the Savings Association shall not be entitled to preemptive rights with respect to any shares of the Savings Association which may be issued.

Section 7. Directors. The Savings Association shall be under the direction of a board of directors. The authorized number of directors, as stated in the Savings Association's bylaws, shall not be fewer than five nor more than fifteen except when a greater or lesser number is approved by the OCC.

Section 8. Certain Provisions Applicable for Five Years. Notwithstanding anything contained in the Savings Association's charter or bylaws to the contrary, for a period of five years from the date of completion of the conversion of the Savings Association from mutual to stock form, the following provisions shall apply:

A. **Call for Special Meetings.** Special meetings of stockholders relating to changes in control of the Savings Association or amendments to its charter shall be called only upon direction of the board of directors.

Section 9. Priority of Accounts. In any situation in which the priority of the accounts of the Savings Association is in controversy, all such accounts shall, to the extent of their withdrawable value, be debts of the Savings Association having at least as high a priority as the claims of general creditors of the Savings Association not having priority (other than any priority arising or resulting from consensual subordination) over other general creditors of the Savings Association.

Section 10. Liquidation Account. Under OCC regulations, the Savings Association must establish and maintain a liquidation account for the benefit of its deposit account holders as of September 30, 2016 and March 31, 2018. If the Savings Association undergoes a complete liquidation, the Savings Association must comply with OCC regulations with respect to the amount and priorities on liquidation of each deposit account holder's interests in the liquidation account. A deposit account holder's interest in the liquidation account does not entitle the deposit account holder to any voting rights.

Section 11. Amendment of charter. Except as provided in Section 5, no amendment, addition, alteration, change or repeal of this charter shall be made, unless such is proposed by the board of directors of the Savings Association, approved by the shareholders by a majority of the votes eligible to be cast at a legal meeting, unless a higher vote is otherwise required, and approved or preapproved by the OCC.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

ATTEST: Wayne Fischer
Wayne Fischer
Secretary

BY: Steve Smith
Steve Smith
President and Chief Executive Officer

OFFICE OF THE COMPTROLLER OF THE CURRENCY

ATTEST: Stephen A. Lybarger
Deputy Comptroller for Licensing

BY: Joseph Deering
Comptroller of the Currency

Effective Date: July 26, 2018



SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION**FEDERAL STOCK BYLAWS****ARTICLE I – HOME OFFICE**

The home office of Sidney Federal Savings and Loan Association (the “Association”) shall be at 1045 10th Avenue, Sidney, Cheyenne County, Nebraska 69162.

ARTICLE II – SHAREHOLDERS

Section 1. Place of Meetings. All annual and special meetings of shareholders shall be held at any convenient place as the board of directors may determine.

Section 2. Annual Meeting. A meeting of the shareholders of the Association for the election of directors and for the transaction of any other business of the Association shall be held annually within 150 days after the end of the Association’s fiscal year.

Section 3. Special Meetings. Special meetings of the shareholders may be called at any time by the chairman of the board, the president, or a majority of the board of directors, and shall be called by the chairman of the board, the president, or the secretary upon the written request of the holders of 10 percent or more of all of the outstanding capital stock of the Association entitled to vote at the meeting. Such written request shall state the purpose or purposes of the meeting and shall be delivered to the home office of the Association addressed to the chairman of the board, the president, or the secretary.

Section 4. Conduct of Meetings. Annual and special meetings shall be conducted in accordance with the most current edition of *Robert’s Rules of Order* unless otherwise prescribed by regulations of the Office of the Comptroller of the Currency (“OCC”) or these bylaws or the board of directors adopts another written procedure for the conduct of meetings. The board of directors shall designate, when present, either the chairman of the board or president to preside at such meetings.

Section 5. Notice of Meetings. Written notice stating the place, date, and hour of the meeting and the purpose(s) for which the meeting is called shall be delivered not fewer than 20 nor more than 50 days before the date of the meeting, either personally or by mail, by or at the direction of the chairman of the board, the president, or the secretary, or the directors calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the mail, addressed to the shareholder at the address as it appears on the stock transfer books or records of the Association as of the record date prescribed in Section 6 of this Article II, with postage prepaid. When any shareholders’ meeting, either annual or special, is adjourned for 30 days or more, notice of the adjourned meeting shall be given as in the case of an original meeting.

Section 6. Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the board of directors shall fix in advance a date as the record date for any such determination of shareholders. Such date in any case shall be not more than 60 days and, in case of a meeting of shareholders, not fewer than 10 days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment.

Section 7. Voting Lists. At least 20 days before each meeting of the shareholders, the Officer or agent having charge of the stock transfer books for shares of the Association shall make a complete list of the shareholders of record entitled to vote at such meeting, or any adjournment thereof, arranged in alphabetical order, with the address and the number of shares held by each. This list of shareholders shall be kept on file at the home office of the Association and shall be subject to inspection by any shareholder of record or the shareholder's agent at any time during usual business hours for a period of 20 days prior to such meeting. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to inspection by any shareholder of record or any shareholder's agent during the entire time of the meeting. The original stock transfer book shall constitute prima facie evidence of the shareholders entitled to examine such list or transfer books or to vote at any meeting of shareholders. In lieu of making the shareholder list available for inspection by shareholders as provided in this paragraph, the board of directors may elect to follow the procedures prescribed in section 12 CFR § 5.22(k)(4)(ii) of the OCC's regulations as now or hereafter in effect.

Section 8. Quorum. A majority of the outstanding shares of the Association entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. If less than a majority of the outstanding shares is represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. The shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to constitute less than a quorum. If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on the subject matter shall be the act of the shareholders, unless the vote of a greater number of shareholders voting together or voting by classes is required by law or the charter. Directors, however, are elected by a plurality of the votes cast at an election of directors.

Section 9. Proxies. At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or by his or her duly authorized attorney in fact. Proxies may be given telephonically or electronically as long as the holder uses a procedure for verifying the identity of the shareholder. Proxies solicited on behalf of the management shall be voted as directed by the shareholder or, in the absence of such direction, as determined by a majority of the board of directors. No proxy shall be valid more than eleven months from the date of its execution except for a proxy coupled with an interest.

Section 10. Voting of Shares in the Name of Two or More Persons. When ownership stands in the name of two or more persons, in the absence of written directions to the Association to the contrary, at any meeting of the shareholders of the Association any one or more of such shareholders may cast, in person or by proxy, all votes to which such ownership is entitled. In the event an attempt is made to cast conflicting votes, in person or by proxy, by the several persons in whose names shares of stock stand, the vote or votes to which those persons are entitled shall be cast as directed by a majority of those holding such stock and present in person or by proxy at such meeting, but no votes shall be cast for such stock if a majority cannot agree.

Section 11. Voting of Shares by Certain Holders. Shares standing in the name of another corporation may be voted by any officer, agent or proxy as the bylaws of such corporation may prescribe, or, in the absence of such provision, as the board of directors of such corporation may determine. Shares held by an administrator, executor, guardian, or conservator may be voted by him or her, either in person or by proxy, without a transfer of such shares into his or her name. Shares standing in the name of a trustee may be voted by him or her, either in person or by proxy, but no trustee shall be entitled to vote shares held by him or her without a transfer of such shares into his or her name. Shares held in trust in an IRA or Keogh Account, however, may be voted by the Association if no other instructions are received.

A shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

Neither treasury shares of its own stock held by the Association nor shares held by another corporation, if a majority of the shares entitled to vote for the election of directors of such other corporation are held by the Association, shall be voted at any meeting or counted in determining the total number of outstanding shares at any given time for purposes of any meeting.

Section 12. Inspectors of Election. In advance of any meeting of shareholders, the board of directors may appoint any persons other than nominees for office as inspectors of election to act at such meeting or any adjournment. The number of inspectors shall be either one or three. Any such appointment shall not be altered at the meeting. If inspectors of election are not so appointed, the chairman of the board or the president may, or on the request of not fewer than 10 percent of the votes represented at the meeting shall, make such appointment at the meeting. If appointed at the meeting, the majority of the votes present shall determine whether one or three inspectors are to be appointed. In case any person appointed as inspector fails to appear or fails or refuses to act, the vacancy may be filled by appointment by the board of directors in advance of the meeting, or at the meeting by the chairman of the board or the president.

Unless otherwise prescribed by regulations of the OCC, the duties of such inspectors shall include: determining the number of shares and the voting power of each share, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies; receiving votes, ballots, or consents; hearing and determining all challenges and questions in any way arising in connection with the right to vote; counting and tabulating all votes or consents; determining the result; and such acts as may be proper to conduct the election or vote with fairness to all shareholders.

Section 13. Nominations and new business. Nominations for directors and new business submitted by shareholders shall be voted upon at the annual meeting if such nominations or new business are submitted in writing and delivered to the secretary of the association at least thirty days before the date of the annual meeting. Ballots bearing the names of all the persons nominated shall be provided for use at the annual meeting.

Section 14. Informal Action by Shareholders. Any action required to be taken at a meeting of the shareholders, or any other action which may be taken at a meeting of shareholders, may be taken without a meeting if consent in writing, setting forth the action so taken, shall be given by all of the shareholders entitled to vote with respect to the subject matter.

ARTICLE III – BOARD OF DIRECTORS

Section 1. General Powers. The business and affairs of the Association shall be under the direction of its board of directors. The board of directors shall annually elect a chairman of the board from among its members and shall designate, when present, either the chairman of the board or the president to preside at its meetings.

Section 2. Number and Term. The board of directors shall consist of six (6) members and shall be divided into three classes as nearly equal in number as possible. The members of each class shall be elected for a term of three years and until their successors are elected and qualified. One class shall be elected by ballot annually.

Section 3. Regular Meeting. A regular meeting of the board of directors shall be held without other notice than this bylaw following the annual meeting of shareholders. The board of directors may provide, by resolution, the time and place for the holding of additional regular meetings at least monthly without other notice than such resolution. Directors may participate in a meeting by means of a conference telephone or similar communications device through which all persons participating can hear each other at the same time. Participation by such means shall constitute presence in person for all purposes.

Section 4. Special Meetings. Special meetings of the board of directors may be called by or at the request of the chairman of the board, the president, or one-third of the directors. The persons authorized to call special meetings of the board of directors may fix any place, within the Association's normal lending territory, as the place for holding any special meeting of the board of directors called by such persons.

Members of the board of directors may participate in special meetings by means of conference telephone or similar communications equipment by which all persons participating in the meeting can hear each other. Such participation shall constitute presence in person for all purposes.

Section 5. Notice. Written notice of any special meeting shall be given to each director at least 24 hours prior thereto when delivered personally, via electronic mail or by telegram or at least five days prior thereto when delivered by mail at the address at which the director is most likely to be reached. Such notice shall be deemed to be delivered when deposited in the mail so addressed, with postage prepaid if mailed, when delivered to the telegraph company if sent by telegram, or when the Association receives notice of delivery if electronically transmitted. Any director may waive notice of any meeting by a writing filed with the secretary. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

Section 6. Quorum. A majority of the number of directors fixed by Section 2 of this Article III shall constitute a quorum for the transaction of business at any meeting of the board of directors, but if less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time. Notice of any adjourned meeting shall be given in the same manner as prescribed by Section 6 of this Article III.

Section 7. Manner of Acting. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors, unless a greater number is prescribed by regulation of the OCC or by these bylaws.

Section 8. Action Without a Meeting. Any action required or permitted to be taken by the board of directors at a meeting may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors.

Section 9. Resignation. Any director may resign at any time by sending a written notice of such resignation to the home office of the Association addressed to the chairman of the board or the president. Unless otherwise specified, such resignation shall take effect upon receipt by the chairman of the board or the president. More than three consecutive absences from regular meetings of the board of directors, unless excused by resolution of the board of directors, shall automatically constitute a resignation, effective when such resignation is accepted by the board of directors.

Section 10. Vacancies. Any vacancy occurring on the board of directors may be filled by the affirmative vote of a majority of the remaining directors, although less than a quorum of the board of directors. A director elected to fill a vacancy shall be elected to serve only until the next election of directors by the shareholders. Any directorship to be filled by reason of an increase in the number of directors may be filled by election by the board of directors for a term of office continuing only until the next election of directors by the shareholders.

Section 11. Compensation. Directors, as such, may receive a stated fee for their services. By resolution of the board of directors, a reasonable fixed sum, and reasonable expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the board of directors. Members of either standing or special committees may be allowed such compensation for attendance at committee meetings as the board of directors may determine.

Section 12. Presumption of Assent. A director of the Association who is present at a meeting of the board of directors at which action on any savings bank matter is taken shall be presumed to have assented to the action taken unless his or her dissent or abstention shall be entered in the minutes of the meeting or unless he or she shall file a written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the secretary of the Association within five days after the date a copy of the minutes of the meeting is received. Such right to dissent shall not apply to a director who voted in favor of such action.

Section 13. Removal of Directors. At a meeting of shareholders called expressly for that purpose, any director may be removed only for cause as defined in 12 CFR 5.21(j)(1)(x)(B) (or any successor regulation) by a vote of the holders of a majority of the shares then entitled to vote at an election of directors. Whenever the holders of the shares of any class are entitled to elect one or more directors by the provisions of the charter or supplemental sections thereto, the provisions of this section shall apply, in respect to the removal of a director or directors so elected, to the vote of the holders of the outstanding shares of that class and not to the vote of the outstanding shares as a whole.

Section 14. Integrity of Directors. A person is not qualified to serve as a director if he or she: (1) is under indictment for, or has ever been convicted of, a criminal offense involving dishonesty or breach of trust and the penalty for such offense could be imprisonment for more than one year, or (2) is a person against whom a banking agency has, within the past ten years, issued a cease and desist order for conduct involving dishonesty or breach of trust and that order is final and not subject to appeal, or (3) has been found either by a regulatory agency whose decision is final and not subject to appeal or by a court to have (i) breached a fiduciary duty involving personal profit or (ii) committed a willful violation of any law, rule or regulation governing banking, securities, commodities or insurance, or any final cease and desist order issued by a banking, securities, commodities or insurance regulatory agency.

ARTICLE IV – EXECUTIVE AND OTHER COMMITTEES

Section 1. Appointment. The board of directors, by resolution adopted by a majority of the full board, may designate an executive committee. The designation of any committee pursuant to this Article IV and the delegation of authority shall not operate to relieve the board of directors, or any director, of any responsibility imposed by law or regulation.

Section 2. Authority. The executive committee, when the board of directors is not in session, shall have and may exercise all of the authority of the board of directors except to the extent, if any, that such authority shall be limited by the resolution appointing the executive committee; and except also that the executive committee shall not have the authority of the board of directors with reference to: the declaration of dividends; the amendment of the charter or bylaws of the Association, or

recommending to the shareholders a plan of merger, consolidation, or conversion; the sale, lease, or other disposition of all or substantially all of the property and assets of the Association otherwise than in the usual and regular course of its business; a voluntary dissolution of the Association; a revocation of any of the foregoing; or the approval of a transaction in which any member of the executive committee, directly or indirectly, has any material beneficial interest.

Section 3. Tenure. Subject to the provisions of Section 8 of this Article IV, each member of the executive committee shall hold office until the next regular annual meeting of the board of directors following his or her designation and until a successor is designated as a member of the executive committee.

Section 4. Meetings. Regular meetings of the executive committee may be held without notice at such times and places as the executive committee may fix from time to time by resolution. Special meetings of the executive committee may be called by any member thereof upon not less than one day's notice stating the place, date and hour of the meeting, which notice may be written or oral. Any member of the executive committee may waive notice of any meeting and no notice of any meeting need be given to any member thereof who attends in person. The notice of a meeting of the executive committee need not state the business proposed to be transacted at the meeting.

Section 5. Quorum. A majority of the members of the executive committee shall constitute a quorum for the transaction of business at any meeting thereof, and action of the executive committee must be authorized by the affirmative vote of a majority of the members present at a meeting at which a quorum is present.

Section 6. Action Without a Meeting. Any action required or permitted to be taken by the executive committee at a meeting may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the members of the executive committee.

Section 7. Vacancies. Any vacancy in the executive committee may be filled by a resolution adopted by a majority of the full board of directors.

Section 8. Resignations and Removal. Any member of the executive committee may be removed at any time with or without cause by resolution adopted by a majority of the full board of directors. Any member of the executive committee may resign from the executive committee at any time by giving written notice to the president or secretary of the Association. Unless otherwise specified, such resignation shall take effect upon its receipt; the acceptance of such resignation shall not be necessary to make it effective.

Section 9. Procedure. The executive committee shall elect a presiding officer from its members and may fix its own rules of procedure which shall not be inconsistent with these bylaws. It shall keep regular minutes of its proceedings and report the same to the board of directors for its information at the meeting held next after the proceedings shall have occurred.

Section 10. Other Committees. The board of directors may by resolution establish an audit, loan, or other committees composed of directors as it may determine to be necessary or appropriate for the conduct of the business of the Association and may prescribe the duties, constitution and procedures thereof.

ARTICLE V – OFFICERS

Section 1. Positions. The Officers of the Association shall be a president, one or more vice presidents, a secretary, and a treasurer, each of whom shall be elected by the board of directors. The board of directors may also designate the chairman of the board as an officer. The offices of the president and secretary may not be held by the same person and the office of the vice president may also be either the secretary or the treasurer. The board of directors may designate one or more vice presidents as executive vice president or senior vice president. The board of directors may also elect or authorize the appointment of such other officers as the business of the Association may require. The Officers shall have such authority and perform such duties as the board of directors may from time to time authorize or determine. In the absence of action by the board of directors, the Officers shall have such powers and duties as generally pertain to their respective offices.

Section 2. Election and Term of Office. The Officers of the Association shall be elected annually at the first meeting of the board of directors held after each annual meeting of the shareholders. If the election of officers is not held at such meeting, such election shall be held as soon thereafter as possible. Each officer shall hold office until a successor has been duly elected and qualified or until the Officer's death, resignation or removal in the manner hereinafter provided. Election or appointment of an officer, employee or agent shall not of itself create contractual rights. The board of directors may authorize the Association to enter into an employment contract with any officer in accordance with regulations of the OCC; but no such contract shall impair the right of the board of directors to remove any officer at any time in accordance with Section 3 of this Article V.

Section 3. Removal. Any officer may be removed by the board of directors whenever in its judgment the best interests of the Association will be served thereby, but such removal, other than for cause, shall be without prejudice to the contractual rights, if any, of the person so removed.

Section 4. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or otherwise may be filled by the board of directors for the unexpired portion of the term.

Section 5. Remuneration. The remuneration of the Officers shall be fixed from time to time by the board of directors.

ARTICLE VI – CONTRACTS, LOANS, CHECKS, AND DEPOSITS

Section 1. Contracts. To the extent permitted by regulations of the OCC, and except as otherwise prescribed by these bylaws with respect to certificates for shares, the board of directors may authorize any officer, employee, or agent of the Association to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Association. Such authority may be general or confined to specific instances.

Section 2. Checks, Drafts, Etc. All checks, drafts, or other orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the Association shall be signed by one or more officers, employees or agents of the Association in such manner as shall from time to time be determined by the board of directors.

ARTICLE VII – CERTIFICATES FOR SHARES AND THEIR TRANSFER

Section 1. Certificates for Shares. Certificates representing shares of capital stock of the Association shall be in such form as shall be determined by the board of directors and approved by the OCC. The name and address of the person to whom the shares are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Association. All certificates surrendered to the Association for transfer shall be cancelled and no new certificate shall be issued until the former

certificate for a like number of shares has been surrendered and cancelled, except that in the case of a lost or destroyed certificate, a new certificate may be issued upon such terms and indemnity to the Association as the board of directors may prescribe.

Section 2. Transfer of Shares. Transfer of shares of capital stock of the Association shall be made only on its stock transfer books. Authority for such transfer shall be given only by the holder of record or by his or her legal representative, who shall furnish proper evidence of such authority, or by his or her attorney authorized by a duly executed power of attorney and filed with the Association. Such transfer shall be made only on surrender for cancellation of the certificate for such shares. The person in whose name shares of capital stock stand on the books of the Association shall be deemed by the Association to be owner for all purposes.

ARTICLE VIII – FISCAL YEAR

The fiscal year of the Association shall end on the 31st of December of each year. The appointment of accountants shall be subject to annual ratification by the shareholders.

ARTICLE IX – DIVIDENDS

Subject to the terms of the Association's charter and the regulations and orders of the OCC, the board of directors may, from time to time, declare, and the Association may pay, dividends on its outstanding shares of capital stock.

ARTICLE X – CORPORATE SEAL

The board of directors shall provide an Association seal which shall be two concentric circles between which shall be the name of the Association. The year of incorporation or an emblem may appear in the center.

ARTICLE XI – INDEMNIFICATION

The Association shall indemnify its personnel, including directors, officers and employees, to the fullest extent authorized by applicable law and regulations, as the same exists or may hereafter be amended; provided, any indemnification by the Association of the Association's personnel is subject to any applicable rules or regulations of the federal bank regulators.

ARTICLE XII – AMENDMENTS

These bylaws may be amended in a manner consistent with regulations of the OCC and shall be effective after: (i) approval of the amendment by a majority vote of the authorized board of directors, or by a majority vote of the votes cast by the shareholders of the Association at any legal meeting, and (ii) receipt of any applicable regulatory approval. When the Association fails to meet its quorum requirements, solely due to vacancies on the board, then the affirmative vote of a majority of the sitting board will be required to amend the bylaws.

No.

INCORPORATED UNDER THE LAWS OF THE UNITED STATES OF AMERICA

Shares

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION
Sidney, Nebraska

FULLY PAID AND NON-ASSESSABLE
PAR VALUE \$0.01 PER SHARE

THIS CERTIFIES that

is the owner of

SHARES OF COMMON STOCK OF

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION
a Federal stock savings association

The shares evidenced by this certificate are transferable only on the books of Sidney Federal Savings and Loan Association by the holder hereof, in person or by attorney, upon surrender of this certificate properly endorsed. **THE CAPITAL STOCK EVIDENCED HEREBY IS NOT AN ACCOUNT OF AN INSURABLE TYPE AND IS NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER FEDERAL OR STATE GOVERNMENTAL AGENCY.**

The interest in Sidney Federal Savings and Loan Association evidenced by this certificate may not be retired or withdrawn except as provided in the Charter and Bylaws of Sidney Federal Savings and Loan Association.

IN WITNESS WHEREOF, Sidney Federal Savings and Loan Association has caused this certificate to be executed by its duly authorized officers and has caused its seal to be hereunto affixed this _____ day of _____, 20__.

By _____
WAYNE FISCHER
CORPORATE SECRETARY

By _____
STEVE SMITH
PRESIDENT AND CHIEF EXECUTIVE OFFICER

For value received, _____ hereby sells, assigns and transfers unto

PLEASE INSERT SOCIAL SECURITY NUMBER OR OTHER IDENTIFYING NUMBER

(please print or typewrite name and address including postal zip code of assignee)

_____ Shares of the Common Stock represented by the within Certificate, and does hereby irrevocably constitute and appoint _____ Attorney to transfer the said shares on the books of the within-named corporation with full power of substitution in the premises.

Dated, _____

In the presence of

Signature:

NOTE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME OF THE STOCKHOLDER(S) AS WRITTEN UPON THE FACE OF THE CERTIFICATE, IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT, OR ANY CHANGE WHATSOEVER.

Exhibit 4.2

DESCRIPTION OF COMMON STOCK

As of December 31, 2019, the common stock of The Association Savings and Loan Association. (the "Association") is registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

The following description of our common stock, certain provisions of our charter and bylaws and certain provisions of federal law is a summary and is qualified in its entirety by reference to our charter, bylaws and federal law. Copies of our charter and our bylaws have been filed with the Office of the Comptroller of the Currency (the "OCC") and are filed as exhibits to the Company's Annual Report on Form 10-K filed with the SEC of which this Exhibit is a part.

General

Under its charter, the Association is authorized to issue 19,000,000 shares of common stock, par value of \$0.01 per share, and 1,000,000 shares of preferred stock, par value \$0.01 per share. Each share of the Association common stock has the same relative rights as, and will be identical in all respects to, each other share of common stock. All of the shares of the Association's common stock is duly authorized, fully paid and nonassessable.

Common Stock

Dividends. Federal regulations govern capital distributions by a federal savings association, which include cash dividends, stock repurchases, and other transactions charged to the savings association's capital account. A federal savings association must file an application with the OCC for approval of a capital distribution if: (i) the total capital distributions for the applicable calendar year exceed the sum of the savings association's net income for that year to date plus the savings association's retained net income for the preceding two years; (ii) the savings association would not be at least adequately capitalized following the distribution; (iii) the distribution would violate any applicable statute, regulation, agreement or regulatory condition; or (iv) the savings association is not eligible for expedited treatment of its filings.

An application or notice related to a capital distribution may be disapproved if: (i) the federal savings association would be undercapitalized following the distribution; (ii) the proposed capital distribution raises safety and soundness concerns; or (iii) the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

The Association is also prohibited from paying dividends that would reduce the Association's capital below the then adjusted balance of its liquidation account. The holders of common stock of the Association are entitled to receive and share equally in dividends as may be declared by our board of directors out of funds legally available therefor. If the Association issues shares of preferred stock, the holders thereof may have a priority over the holders of the common stock with respect to dividends.

Additionally, pursuant to OCC regulations, during the three-year period following the completion of the Association's conversion, we will not make any capital distribution to

stockholders that would be treated by recipients as a tax-free return of capital for federal income tax purposes.

Voting Rights. The holders of common stock of the Association have exclusive voting rights in the Association. They elect the Association's board of directors and act on other matters as are required to be presented to them under federal law or as are otherwise presented to them by the board of directors. Generally, each holder of common stock is entitled to one vote per share and will not have any right to cumulate votes in the election of directors. If the Association issues shares of preferred stock, holders of the preferred stock may also possess voting rights.

As a federally chartered stock savings association, corporate powers and control of the Association are vested in its board of directors, who elect the officers of the Association and who fill any vacancies on the board of directors. Voting rights of the Association are vested exclusively in the owners of the shares of the Association's capital stock.

Liquidation. In the event of liquidation, dissolution or winding up of the Association, the holders of the Association's common stock would be entitled to receive, after payment or provision for payment of all debts and liabilities of the Association, including all deposit accounts and accrued interest thereon, and after distribution of the balance in the liquidation account for Eligible Account Holders and Supplemental Eligible Account Holders, all of the assets of the Association available for distribution. If preferred stock is issued, the holders thereof may have a priority over the holders of the common stock in the event of liquidation or dissolution.

Preemptive Rights. Holders of the common stock of the Association are not entitled to preemptive rights with respect to any shares. The common stock is not subject to redemption.

Other. Holders of the common stock of the Association have no conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to our common stock.

Certain Anti-Takeover Provisions

The Change in Bank Control Act provides that no person, acting directly or indirectly or through or in concert with one or more other persons, may acquire control of an insured depository institution unless the OCC has been given 60 days prior written notice. Pursuant to federal regulations, control of a savings association is conclusively deemed to have been acquired by, among other things, the acquisition of 25% or more of any class of voting stock of the institution or the ability to control the election of a majority of the directors of an institution. Moreover, control is presumed to have been acquired, subject to rebuttal, upon the acquisition of 10% or more of any class of voting stock, or 25% or more of any class of stock, of a savings institution, where certain enumerated "control factors" are also present in the acquisition.

Additionally, the Association's charter and bylaws contain a number of provisions relating to corporate governance and rights of stockholders that might discourage future takeover attempts. As a result, stockholders who might desire to participate in such transactions may not have an opportunity to do so. In addition, these provisions will also render the removal of the board of directors or management of Sidney Federal more difficult.

Directors. The board of directors are divided into three classes. The members of each class will be elected for a term of three years and only one class of directors will be elected

annually. Thus, it would take at least two annual elections to replace a majority of our directors. The bylaws establish qualifications for board members, including a restriction based upon prior legal or regulatory violations. Further, the bylaws impose notice requirements in connection with the nomination by stockholders of candidates for election to the board of directors or the proposal by stockholders of business to be acted upon at an annual meeting of stockholders. Such notice requirements are applicable to all stockholder business proposals and nominations and are in addition to any requirements under the federal securities laws.

Restrictions on Call of Special Meetings. The bylaws provide that special meetings of stockholders can be called by the chairman of the board of directors, president, by a majority of the whole board of directors or upon the written request of stockholders entitled to cast at least 10% of all votes entitled to vote at the meeting. However, for a period of five years from the completion of the Association's conversion, special meetings of stockholders relating to changes in control of Sidney Federal or amendments to its charter may be called only upon direction of the board of directors.

Prohibition of Cumulative Voting. The charter prohibits cumulative voting for the election of directors.

Conversion Regulations. Without the prior written approval of the OCC, no person may make an offer or announcement of an offer to purchase shares or actually acquire shares of a converted institution or its holding company for a period of three years from the date of the completion of the conversion if, upon the completion of such offer, announcement or acquisition, the person would become the beneficial owner of more than 10% of the outstanding stock of the institution or its holding company.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Sidney Federal Savings and Loan Association does not have any subsidiaries.

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

I, Steve Smith, certify that:

1. I have reviewed this annual report on Form 10-K of Sidney Federal Savings and Loan Association;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and 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 is made known to us by others within the entity, 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 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:

- 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: April 6, 2020

/s/ Steve Smith

Steve Smith
President, Chief Executive Officer and
Director
(Principal Executive Officer)

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

I, Jamie Lanckriet, certify that:

1. I have reviewed this annual report on Form 10-K of Sidney Federal Savings and Loan Association;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and 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 is made known to us by others within the entity, 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 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:

- 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: April 6, 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 annual report on Form 10-K for the year ended December 31, 2019 (the "Report") and that to the best of his 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 Company.

Date: April 6, 2020

/s/ Steve Smith

Steve Smith
President, Chief Executive Officer and
Director
(Principal Executive Officer)

Date: April 6, 2020

/s/ Jamie Lanckriet

Jamie Lanckriet
Controller
(Principal Financial Officer)

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

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