

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, 2020

OR

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

For the transition period from _____ to _____

OCC Certificate Number: 703360

Sidney Federal Savings and Loan Association

(Exact Name of Registrant as Specified in its Charter)

Federal

(State or other jurisdiction of incorporation or organization)

47-0298080

(I.R.S. Employer Identification Number)

1045 10th Avenue, Sidney, Nebraska

(Address of principal executive offices)

69162

(Zip code)

(308) 254-2401

(Registrant's telephone number including area code)

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

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

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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, 2020, was \$838,490.

As of March 30, 2021 there were 132,250 shares outstanding of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the 2021 Annual Meeting of Stockholders. (Part III)

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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 Order with the OCC, as described below;
- 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;

- 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.

Further, given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID-19 outbreak on our business. The extent of such impact will depend on future developments, which are highly uncertain, including when the novel coronavirus can be fully controlled and abated and when and how the economy may be fully reopened. As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, we could be subject to any of the following risks, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations:

- demand for products and services may decline, making it difficult to grow assets and income;
- if the economy is unable to substantially and successfully reopen, and high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income;
- collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase;
- the allowance for loan losses has been and may have to be increased if borrowers experience financial difficulties, which will adversely affect our net income;
- as the result of the decline in the Federal Reserve Board's target federal funds rate, the yield on assets may decline to a greater extent than the decline in the cost of interest-bearing liabilities, reducing net interest margin and spread and reducing net income;
- cyber-security risks are increased as the result of an increase in the number of employees working remotely;
- we rely on third-party vendors for certain services and the unavailability of a critical service due to the COVID-19 outbreak could have an adverse effect on us; and
- FDIC premiums may increase if the agency experiences additional resolution costs.

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,” the “Association” or the “Bank”) 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, 2020, we had total assets of \$19.7 million, net loans of \$12.0 total deposits of \$15.8 million and total stockholders’ equity of \$1.3 million.

Subsequent Events

Effective January 19, 2021, the Bank consented to the issuance of a Cease and Desist Order (the “Order”) from the Office of the Comptroller of the Currency (the “OCC”). The Order formalizes many of the requirements of the Bank’s previously disclosed Memorandum of Understanding with the OCC and its Individual Minimum Capital Ratios. The Order provides, among other things, that:

- The Board must maintain a Compliance Committee of at least three members of which a majority must be directors who are not employees or officers of the Bank or any of its subsidiaries or affiliates;

- By March 31, 2021, the Bank must achieve and maintain the following capital ratios as defined in and as calculated in accordance with 12 C.F.R. Part 3: (a) tier 1 capital to adjusted total assets at least equal to 9%; and (b) total risk-based capital to risk-weighted assets at least equal to 12%;
- By March 31, 2021, the Board must develop a written strategic plan for the Bank covering at least the next three years from the date of the Order (the “Capital and Strategic Plan”), complete with specific time frames that incorporate the requirements of the Order.
- Until the Capital and Strategic Plan required under the Order has been submitted by the Bank for the Assistant Deputy Comptroller’s of the OCC (the “ADC”) review, has received a written determination of no supervisory objection from the ADC, and has been adopted by the Board, the Bank must not significantly deviate from the products, services, asset composition and size, funding sources, structure, operations, policies, procedures, and markets of the Bank that existed immediately before the effective date of this Order without first obtaining the ADC’s prior written determination of no supervisory objection to such significant deviation;
- The Board must immediately submit to the ADC for review and prior determination of no supervisory objection, a written interest rate risk program;
- The Board must immediately submit to the ADC for review and prior determination of no supervisory objection, a written program designed to identify, measure, monitor, and control concentrations of credit;
- Within 60 days of the Order, the Board must submit to the ADC for review and prior determination of no supervisory objection, a written a commercial credit risk management and independent loan review program;
- Within 60 days of the Order, the Board must submit to the ADC for review and prior determination of no supervisory objection, a written loan portfolio stress testing program;
- Within 60 days of the Order, the Board must submit to the ADC for review and prior determination of no supervisory objection, a written loan policy (the “Loan Policy”) to include, at a minimum, revisions relating to guidelines for participations purchased, which Loan Policy must include a prohibition against purchasing any participation for which the Bank does not have the knowledge, skills, or ability to properly underwrite on its own; and
- The Board must ensure that the Bank has timely adopted and implemented all corrective actions required by the Order, and must verify that the Bank adheres to the corrective actions and they are effective in addressing the Bank’s deficiencies that resulted in the Order.

At December 31, 2020, Sidney Federal’s Tier 1 leverage capital ratio was 6.5%, which is below the required level set by the OCC. At December 31, 2020, Sidney Federal’s Total risk-based capital was 12.0% which is equal to the required level set by the OCC.

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 past several 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 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. Most Recently, Camping World has announced plans to locate a dealership and distribution facility in Sidney. Expectations are that the business would bring 150-220 jobs to Sidney. Approximately 50-60 of those jobs would be in the retail dealership and offices. The City of Sidney and the Nebraska State government continue to make efforts to attract new businesses with economic development programs.

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 June 30, 2020 (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 4.2%, 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,			
	2020		2019	
	Amount	Percent	Amount	Percent
Real estate loans:	(In thousands)			
One-to-four family, owner occupied..... \$	8,024	65.8%	\$ 9,726	68.9%
One-to-four family, non-owner occupied.....	383	3.1%	870	6.2%
Commercial Loans.....	3,502	28.7%	3,063	21.7%
Consumer loans.....	290	2.4%	449	3.2%
	<u>12,199</u>	<u>100.0%</u>	<u>14,108</u>	<u>100.0%</u>
Allowance for losses.....	(162)		(150)	
Deferred loan fees, net.....	(23)		(31)	
Total..... \$	<u>12,014</u>		<u>\$ 13,927</u>	

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, 2020, we did not have any borrowers with outstanding balances in excess of this amount. As of December 31, 2020, the largest dollar amount outstanding to one borrower, or group of related borrowers, was \$355,000 and was secured by a Commercial and Industrial business. This loan was performing according to its contractual terms at December 31, 2020.

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, 2020, \$8.0 million, or 65.8% 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, 2020, \$383,000 or 3.1% 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, 2020, our average one- to four-family non-owner occupied loan had a balance of \$29,500. 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, 2020 was a \$67,000 loan. This loan was performing according to its contractual terms at December 31, 2020.

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, 2020, commercial loans were \$3.5 million or 24.7%, of our total loan portfolio. The commercial industrial loans are from businesses in the health and 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 hospitality, sports and entertainment, and housing industries. At December 31, 2020, our largest commercial loan relationship had a principal balance of \$354,000 and was secured by a commercial and industrial business. This loan relationship was performing in accordance with its contractual terms at December 31, 2020.

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, 2020, consumer loans totaled \$290,000, or 2.4% of our loan portfolio. At that date, \$87,000 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 purchased loans from third parties or 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,	
	2020	2019
	(In Thousands)	
Total loans receivable, net, at beginning of year	\$ 13,927	\$ 10,777
Loans originated:		
Real estate loans:		
One- to four-family, owner occupied	3,434	2,569
One- to four-family, non-owner occupied	-	55
Commercial loans.....	147	192
Consumer loans	77	117
Total loans originated	<u>3,658</u>	<u>2,933</u>
Loans purchased	<u>1,987</u>	<u>3,510</u>
Loans sold:		
Real estate loans:.....		
One- to four-family, owner occupied (1)	(3,023)	(1,011)
Total loans sold	<u>(3,023)</u>	<u>(1,011)</u>
Other:		
Principal repayments and other	<u>(4,535)</u>	<u>(2,282)</u>
Net loan activity	<u>(1,913)</u>	<u>3,150</u>
Total loans receivable, net, at end of year	<u>\$ 12,014</u>	<u>\$ 13,927</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>2020</u>	<u>2019</u>
	(Dollars in Thousands)	
Non-accrual loans:		
Real estate loans:		
One- to four-family, owner occupied	\$ 71	\$ 125
One- to four-family, non-owner occupied	-	-
Commercial loans.....	-	-
Consumer loans	-	-
Total non-accrual loans	<u>71</u>	<u>125</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.....	71	125
Foreclosed real estate.....	-	-
Total non-performing assets.....	<u>\$ 71</u>	<u>\$ 125</u>
Ratios:		
Non-performing loans to total loans.....	0.58%	0.89%
Non-performing assets to total assets.....	0.36%	0.68%

For the year ended December 31, 2020, 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, 2020, nonaccrual loans consisted of three loans totaling \$71,000 with no allocated allowances. No nonaccrual loans were 30 to 89 days past due and three loans totaling \$71,000 were 90 days or more past due.

At December 31, 2020, 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, 2020 and 2019, 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, 2020</u>						
Real estate loans:						
One- to four-family, owner occupied.....	2	\$ 160	3	\$ 71	5	\$ 231
One- to four-family, non-owner occupied.....	-	-	-	-	-	-
Commercial loans.....	-	-	-	-	-	-
Consumer loans.....	-	-	-	-	-	-
Total loans.....	<u>2</u>	<u>\$ 160</u>	<u>3</u>	<u>\$ 71</u>	<u>5</u>	<u>\$ 231</u>
<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>

Foreclosed Real Estate Held for Sale. At December 31, 2020, 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, 2020 and 2019. We did not have any special mention loans or foreclosed real estate held for sale at December 31, 2019. At December 31, 2020, we had one special mention loan with a balance of \$324,000 and no foreclosed real estate held for sale.

	At December 31,	
	2020	2019
	(In Thousands)	
Substandard assets	\$ 213	\$ 125
Doubtful assets	-	-
Loss assets	-	-
Total classified assets	<u>\$ 213</u>	<u>\$ 125</u>
Special mention assets	<u>324</u>	-
Total classified and criticized assets..	<u><u>\$ 537</u></u>	<u><u>\$ 125</u></u>

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,	
	2020	2019
	(Dollars in thousands)	
Balance at beginning of year.....	\$ 150	\$ 122
Charge-offs.....	-	(3)
Recoveries.....	2	1
Net recoveries (charge-offs).....	2	(2)
Provision for loan losses.....	10	30
Balance at end of year.....	<u>\$ 162</u>	<u>\$ 150</u>
Ratios:		
Net charge-offs to average loans outstanding.....	-0.02%	-
Allowance for loan losses to non-performing loans at end of year...	228.17%	120.00%
Allowance for loan losses to total loans at end of year.....	1.33%	1.06%

The recoveries that occurred in 2020 were related to overdrafts and fraud in checking products. There were no charge-offs or recoveries in other loan segments. 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.

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,					
	2020			2019		
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.....	\$ 97	59.9 %	65.8 %	\$ 103	68.7 %	68.9 %
One- to four-family, non-owner occupied	5	3.1	3.1	9	6.0	6.2
Commercial loans.....	57	35.2	28.7	33	22.0	21.7
Consumer loans.....	3	1.8	2.4	5	3.3	3.2
Total allowance for loan losses.....	<u>\$ 162</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>\$ 150</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,			
	2020		2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Mortgage-backed securities.....	\$ 1,517	\$ 1,547	\$ 2,444	\$ 2,468
Collateralized mortgage obligations....	-	-	6	6
SBA pools.....	40	40	52	52
Total securities available for sale.....	<u>\$ 1,557</u>	<u>\$ 1,587</u>	<u>\$ 2,502</u>	<u>\$ 2,526</u>

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at December 31, 2020 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.....	\$ -	-	\$ 234	2.85%	\$ 154	1.24%	\$ 1,129	\$ 2.38%	\$ 1,517	\$ 1,547	2.34%
SBA pools.....	-	-	-	-	40	2.25%	-	0.00%	40	40	2.25%
Total.....	\$ -	-	\$ 234	2.85%	\$ 194	1.45%	\$ 1,129	\$ 2.38%	\$ 1,557	\$ 1,587	2.33%

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, 2020 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,					
	2020			2019		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in Thousands)					
Deposit Type:						
Noninterest-bearing checking accounts.....	\$ 1,118	7.58%	_%	\$ 1,060	7.35%	_%
Checking and MMDA accounts.....	2,433	16.50%	0.12%	2,359	16.36%	0.10%
Savings Accounts.....	4,578	31.05%	0.11%	4,762	33.03%	0.11%
Certificates of deposit.....	6,615	44.87%	1.45%	6,237	43.26%	1.33%
Total deposits.....	\$ 14,744	100.00%	0.70%	\$ 14,418	100.00%	0.63%

As of December 31, 2020, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to \$100,000 was \$3.4 million. The following table sets forth the maturity of those certificates as of December 31, 2020.

	At December 31, 2020 (In Thousands)
Three months or less	\$ 200
Over three months through six months	-
Over six months through one year	1,004
Over one year to three years	2,108
Over three years	120
Total	\$ 3,432

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,	
	2020	2019
	(Dollars in Thousands)	
Balance at end of year.....	\$ 2,000	\$ 2,700
Average balance during year.....	\$ 2,620	\$ 167
Maximum outstanding at any month end.....	\$ 2,700	\$ 2,700
Weighted average interest rate at end of year..	1.16%	1.35%
Average interest rate during year.....	1.37%	1.80%

Personnel

As of December 31, 2020, 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, 2020, Sidney Federal had \$2.1 million in net operating loss carryforward for federal income tax purposes which begin expiring in 2030.

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 9 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.

Cease and Desist Consent Order with the OCC

Effective January 19, 2021, the Bank consented to the issuance of a Cease and Desist Order from the OCC. The Order formalizes many of the requirements of the Bank's previously disclosed Memorandum of Understanding with the OCC and its Individual Minimum Capital Ratios. The Order provides, among other things, that:

- The Board must maintain a Compliance Committee of at least three members of which a majority must be directors who are not employees or officers of the Bank or any of its subsidiaries or affiliates;
- By March 31, 2021, the Bank must achieve and maintain the following capital ratios as defined in and as calculated in accordance with 12 C.F.R. Part 3: (a) tier 1 capital to adjusted total assets at least equal to 9%; and (b) total risk-based capital to risk-weighted assets at least equal to 12%;
- By March 31, 2021, the Board must develop a written strategic plan for the Bank covering at least the next three years from the date of the Order (the “Capital and Strategic Plan”), complete with specific time frames that incorporate the requirements of the Order.
- Until the Capital and Strategic Plan required under the Order has been submitted by the Bank for the ADC review, has received a written determination of no supervisory objection from the ADC, and has been adopted by the Board, the Bank must not significantly deviate from the products, services, asset composition and size, funding sources, structure, operations, policies, procedures, and markets of the Bank that existed immediately before the effective date of this Order without first obtaining the ADC’s prior written determination of no supervisory objection to such significant deviation;
- The Board must immediately submit to the ADC for review and prior determination of no supervisory objection, a written interest rate risk program;
- The Board must immediately submit to the ADC for review and prior determination of no supervisory objection, a written program designed to identify, measure, monitor, and control concentrations of credit;
- Within 60 days of the Order, the Board must submit to the ADC for review and prior determination of no supervisory objection, a written a commercial credit risk management and independent loan review program;
- Within 60 days of the Order, the Board must submit to the ADC for review and prior determination of no supervisory objection, a written loan portfolio stress testing program;
- Within 60 days of the Order, the Board must submit to the ADC for review and prior determination of no supervisory objection, a written loan policy (the “Loan Policy”) to include, at a minimum, revisions relating to guidelines for participations purchased, which Loan Policy must include a prohibition against purchasing any participation for which the Bank does not have the knowledge, skills, or ability to properly underwrite on its own; and

The Board must ensure that the Bank has timely adopted and implemented all corrective actions required by the Order, and must verify that the Bank adheres to the corrective actions and they are effective in addressing the Bank’s deficiencies that resulted in the Order.

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 was fully implemented at 2.5% on January 1, 2019.

At December 31, 2020, Sidney Federal exceeded all regulatory capital requirements necessary to be considered a “adequately-capitalized” bank, but is subject to the Order 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, 2020, 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, 2020, Sidney Federal exceeded all regulatory capital requirements necessary to be considered "adequately capitalized", but is subject to the Order 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, 2020, 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.

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, 2020, 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 \$30,000 at December 31, 2020.

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, 2020, 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 22, 2021 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.

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,		
	2020	2019	2018
	(Dollars in Thousands)		
Total assets.....	\$ 19,655	\$ 18,373	\$ 16,993
Cash and cash equivalents.....	5,344	1,486	798
Securities available for sale.....	1,587	2,526	5,075
Stock in Federal Home Loan Bank of Topeka ("FHLB of Topeka") and Midwest Independent Bank ("MIB").....	256	153	97
Loans receivable, net.....	12,014	13,927	10,777
Premises and equipment.....	30	66	44
Other assets (1).....	424	215	202
Deposits.....	15,838	14,058	15,163
Advances from FHLB of Topeka.....	2,000	2,700	-
Advances from borrowers for taxes and insurance.....	150	180	147
Other liabilities.....	381	148	114
Total equity.....	1,286	1,287	1,569

(1) Includes accrued interest receivable and other assets.

Years Ended December 31,

	2020	2019	2018
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(Dollars in Thousands)

Selected Operating Data:

Interest income.....	\$ 718	\$ 630	\$ 610
Interest expense.....	140	93	74
Net interest income.....	578	537	536
Provision for loan losses.....	10	30	-
Net interest income after provision for loan losses...	568	507	536
Noninterest income.....	375	54	82
Noninterest expense.....	949	864	910
Loss before income taxes.....	(6)	(303)	(292)
Income taxes.....	-	-	-
Net loss.....	\$ (6)	\$ (303)	\$ (292)

Selected Financial Ratios and Other Data:

Performance Ratios:

Return on assets (ratio of net loss to average total assets).....	(0.03) %	(1.85) %	(1.74) %
Return on equity (ratio of net loss to average equity).....	(0.42) %	(25.44) %	(23.14) %
Interest rate spread (1).....	2.96	3.24	3.20
Net interest margin (2).....	3.08	3.35	3.27
Efficiency ratio (3).....	99.58	146.19	147.25
Average equity to average total assets.....	7.42 %	7.28 %	7.53 %

Asset Quality Ratios:

Non-performing assets to total assets.....	0.36 %	0.68 %	0.39 %
Non-performing loans to total loans.....	0.58 %	0.89 %	0.60 %
Allowance for loan losses to non-performing loans.....	228.17 %	120.00 %	184.85 %
Allowance for loan losses to total loans.....	1.33 %	1.06 %	1.12 %
Net charge-offs to average loans outstanding (1).....	(0.02) %	0.02 %	-

Capital Ratios:

Total capital (to risk-weighted assets).....	11.96 %	13.03 %	17.34 %
Tier 1 capital (to risk-weighted assets).....	10.71 %	11.79 %	16.09 %
Common equity Tier 1 capital (to risk-weighted assets)	10.71 %	11.79 %	16.09 %
Tier 1 capital (to average assets).....	6.50 %	7.77 %	9.25 %

Other Data:

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

(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.

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, 2020 and 2019

	At December 31,		Increase (Decrease)	% Change
	2020	2019		
(Dollars in Thousands)				
Summary of Selected Balance Sheet Data:				
Total assets.....	\$ 19,655	\$ 18,373	\$ 1,282	6.98%
Cash and cash equivalents.....	5,344	1,486	3,858	259.62%
Securities available for sale.....	1,587	2,526	(939)	-37.17%
Stock in FLHB of Topeka and Midwest independent bank.....	256	153	103	67.32%
Loans receivable, net.....	12,014	13,927	(1,913)	-13.74%
Premises and equipment.....	30	66	(36)	-54.55%
Other assets (1).....	424	215	209	97.21%
Deposits.....	15,838	14,058	1,780	12.66%
Advances from FHLB of Topeka.....	2,000	2,700	(700)	-25.93%
Advances from borrowers for taxes and insurance.....	150	180	(30)	-16.67%
Other liabilities.....	381	148	233	157.43%
Total equity.....	1,286	1,287	(1)	-0.08%

(1) Includes accrued interest receivable and other assets.

Total Assets. Total assets increased \$1.3 million, or 6.98%, to \$19.7 million at December 31, 2020 from \$18.4 million at December 31, 2019. The increase in total assets was due primarily to increases in cash and cash equivalents, which was partially offset by decreases in net loans and securities available for sale.

Loans Receivable, Net. Net loans decreased \$1.9 million, or 13.74%, to \$12.0 million at December 31, 2020 from \$13.9 million at December 31, 2019, due primarily to a decrease in one-to-four family, owner and non-owner occupied loan originations. The one- to four-family owner occupied real estate loan portfolio decreased \$1.7 million, or 17.50%, to \$8.0 million at December 31, 2020 from \$9.7 million at December 31, 2019. One- to four-family non-owner occupied real estate loan portfolio decreased from \$870,000 or 55.98% to \$383,000. Commercial loans increased from \$3.1 million or 14.33% to \$3.5 million at December 31, 2020 due to increases in third-party loan purchases. Consumer loans decreased \$159,000 or 34.41% to \$290,000 at December 31, 2020 due to decreases in both third-party purchases and originations.

Securities. At December 31, 2020 and 2019, all securities were classified as available for sale and included primarily mortgage-backed securities. Securities decreased \$939,000, or 37.17%, to \$1.6 million at December 31, 2020 from \$2.5 million at December 31, 2019. due to principal collections.

Cash and Cash Equivalents. Cash and cash equivalents increased \$3.9 million, or 259.62%, to \$5.3 million at December 31, 2020 from \$1.5 million at December 31, 2019. During 2020, 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 increased \$1.8 million, or 12.66%, to \$15.8 million at December 31, 2020 from \$14.1 million at December 31, 2019. The increase in deposits was approximately 50% in core deposits and 50% in certificates of deposit. The Association's core deposits, which include noninterest-bearing checking, interest-bearing checking, savings, and money market accounts, increased \$887,000. 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. Advances from the FHLB of Topeka decreased \$700,000, or 25.93%, to \$2.0 million at December 31, 2020 from \$2.7 million at December 31, 2019.

Stockholders' Equity. Total equity decreased \$1,000 to \$1,286,000 at December 31, 2020 from \$1,287,000 at December 31, 2019, primarily as a result of operating losses offset by an increase in other comprehensive income, net of tax.

Comparison of Operating Results for the Years Ended December 31, 2020 and 2019

General. The Association had a net loss of \$6,000 for the year ended December 31, 2020, compared to a net loss of \$303,000 for the year ended December 31, 2019. The decrease in the Association's net loss for 2020 was primarily due to the gain on the sale of the Association's office building.

	For the Year Ended December 31,		Increase (Decrease)	% Change
	2020	2019		
(Dollars in Thousands)				
Summary of Net Interest Income:				
Interest Income:				
Loans receivable.....	\$ 656	\$ 511	\$ 145	28.38%
Securities, taxable.....	46	100	(54)	-54.00%
Other interest-earning assets.....	16	19	(3)	-15.79%
Total interest income.....	<u>718</u>	<u>630</u>	<u>88</u>	13.97%
Interest Expense:				
Checking and money market accounts.....	3	2	1	50.00%
Savings accounts.....	5	5	-	0.00%
Certificates of deposit.....	96	83	13	15.66%
Total deposits.....	<u>104</u>	<u>90</u>	<u>14</u>	15.56%
Advances from FHLB of Topeka.....	36	3	33	100.00%
Total interest expense.....	<u>140</u>	<u>93</u>	<u>47</u>	50.54%
Net interest income	<u>\$ 578</u>	<u>\$ 537</u>	<u>\$ 41</u>	7.64%

Interest Income. Interest income increased \$88,000, or 13.97%, to \$718,000 for 2020 from \$630,000 for 2019. The increase in interest income resulted primarily from higher yields on loans offset by a lower yield on taxable securities and other-interest-earning assets. The higher average balance of loans is due, in part, to the purchase of commercial loans.

The average yield on loans increased to 4.92% for 2020 from 4.52% for 2019. The average yield on taxable securities decreased to 2.18% for 2020 from 2.64% for 2019. The average balance of loans increased to \$13.3 million for 2020 from \$11.3 million for 2019. In contrast, the average balance of taxable securities decreased to \$2.1 million for 2020 from \$3.8 million for 2019, as there were no securities purchased during 2019 and 2020.

Interest Expense. Interest expense increased \$47,000, or 50.54%, to \$140,000 for 2020 from \$93,000 for 2019 primarily as a result of higher rates paid on certificate of deposits, and a higher average balance of FHLB of Topeka advances. The average balance of FHLB of Topeka advances increased to \$2.6 million for 2020 from \$167,000 for 2019. The average rate paid on these advances decreased to 1.37% for 2020 from 1.80% for 2019 due to the maturity during 2020 of a higher rate advance.

Net Interest Income. Net interest income increased \$41,000, or 7.64%, to \$578,000 for the year ended December 31, 2020 from \$537,000 for the year ended December 31, 2019 due primarily to a increase on interest income on loans receivable. The net interest rate spread decreased to 2.96% for 2020 from 3.24% for 2019 as the yield on average interest-earning assets decreased by 11 basis points and the cost of average interest-bearing liabilities increased by 17 basis points. The decrease in the yield on average interest-earning assets was primarily due to the decrease in the rate environment. These decreases were coupled by the increase in the cost of average interest-bearing liabilities, primarily due to higher rates paid on certificate of deposits and the higher average balance of FHLB of Topeka advances.

Provision for Loan Losses. The provision for loan losses decreased \$20,000 to \$10,000 for the year ended December 31, 2020, compared to \$30,000 for the year ended December 31, 2019. The decrease in the provision for loan losses was primarily due to a decrease in loans outstanding offset by the increase in commercial loans outstanding and the ongoing threat of the COVID virus.

	For the Year Ended		Increase (Decrease)	% Change
	December 31,			
	2020	2019		
	(Dollars in Thousands)			
Summary of Noninterest Income:				
Noninterest Income:				
Service charges on deposit accounts.....	\$ 8	\$ 10	\$ (2)	-20.00%
Gain on called and sold securities.....	-	5	(5)	100.00%
Gain on sale of loans.....	73	28	45	160.71%
Gain on sale of premises and equipment.....	282	-	282	NM
Debit card income.....	10	10	-	0.00%
Other.....	2	1	1	100.00%
Total noninterest income	\$ 375	\$ 54	\$ 321	594.44%

NM - Not meaningful

Noninterest Income. Noninterest income increased \$321,000, or 594.44%, to \$375,000 for the year ended December 31, 2020 from \$54,000 for the year ended December 31, 2019. The increase is due primarily to the gain on sale of premises and equipment and the gain on sale of loans during 2020.

	<u>At December 31,</u>		<u>Increase (Decrease)</u>	<u>% Change</u>
	<u>2020</u>	<u>2019</u>		
	(Dollars in Thousands)			
Summary of Noninterest Expense:				
Noninterest Expense:				
Compensation and benefits.....	\$ 443	\$ 433	\$ 10	2.31%
Occupancy expense.....	58	29	29	100.00%
Equipment and data processing expense..	107	102	5	4.90%
FDIC premium expense.....	19	3	16	533.33%
Professional and regulatory fees.....	156	140	16	11.43%
Insurance expense.....	32	30	2	6.67%
Debit card expense.....	32	32	-	0.00%
Correspondent bank service charges.....	14	14	-	0.00%
Other.....	88	81	7	8.64%
Total noninterest expense	<u>\$ 949</u>	<u>\$ 864</u>	<u>85</u>	<u>9.84%</u>

Noninterest Expense. Noninterest expense increased \$85,000 or 9.84%, to \$949,000 for the year ended December 31, 2020 from \$864,000 for the year ended December 31, 2019 due primarily to increases in FDIC premiums, occupancy expense, professional and regulatory fees, other non-interest expense and equipment and data processing expense.

FDIC premiums expense increased \$16,000, or 533.33%, to \$19,000 for the year ended December 31, 2020, compared to \$3,000 for the year ended December 31, 2019. The increase was primarily related to Sidney Federal Savings and Loan not receiving the small bank credits in 2020 that applied to our FDIC assessments in 2019. Equipment and data processing expense increased \$5,000, or 4.90%, to \$107,000 for 2020, compared to \$102,000 for 2019 due primarily to a higher information technology and network maintenance and depreciation expense. Occupancy expense increased \$29,000, or 100.00% to \$58,000 for the year ended December 31, 2020, compared to \$29,000 for the year ended December 31, 2019. This increase is primarily due to office building rental expense offset by a decrease in personal property and real estate tax expense. Professional and regulatory fees increased \$16,000, or 11.43% to \$156,000 for the year ended December 31, 2020, compared to \$140,000 for the year ended December 31, 2019. This increase is primarily due to an increase in audit and accounting services expense, partially offset by a decrease in legal expense. Other expense increased \$7,000 or 8.64% to \$88,000 for the year ended December 31, 2020 compared to \$81,000 primarily due to the increase in advertising 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 2020 and 2019 were recorded resulting in no net income tax benefit recorded for 2020 and 2019. In addition, a valuation allowance has been recorded against all components of the net deferred tax asset, except for the net unrealized gain/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,					
	2020			2019		
	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate
	(Dollars in Thousands)					
Interest-earning assets:						
Loans receivable	\$ 13,325	\$ 656	4.92 %	\$ 11,301	\$ 511	4.52 %
Securities, taxable	2,108	46	2.18	3,789	100	2.64
Other interest-earning assets	3,358	16	0.48	940	19	2.02
Total interest-earning assets	18,791	718	3.82	16,030	630	3.93
Noninterest-earning assets	550			324		
Total assets	\$ 19,341	\$		\$ 16,354	\$	
Interest-bearing liabilities:						
Checking and MMDA accounts	\$ 2,433	\$ 3	0.12	\$ 2,359	\$ 2	0.08
Savings accounts	4,578	5	0.11	4,762	5	0.10
Certificates of deposit	6,615	96	1.45	6,237	83	1.33
Total deposits	13,626	104	0.76	13,358	90	0.67
Advances from FHLB of Topeka	2,620	36	1.37	167	3	1.80
Total interest-bearing liabilities	16,246	140	0.86	13,525	93	0.69
Non-interest bearing checking accounts	1,118			1,060		
Non-interest bearing liabilities	542			578		
Stockholder's Equity	1,435			1,191		
Total liabilities and equity	\$ 19,341	\$		\$ 16,354	\$	
Net interest income		\$ 578		\$ 537		
Net interest rate spread (1)			2.96 %			3.24 %
Net interest-earning assets (2)	\$ 2,545			\$ 2,505		
Net interest margin (3)			3.08 %			3.35 %
Average interest-earning assets to average interest-bearing liabilities		115.67 %			118.52 %	

(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.

	Increase (Decrease)		Total Increase (Decrease)
	Due to		
	Volume	Rate	
(In Thousands)			
Interest-earning assets:			
Loans receivable.....	\$ 97	\$ 48	\$ 145
Securities, taxable.....	(39)	(15)	(54)
Other interest-earning assets.....	20	(23)	(3)
Total interest-earning assets....	78	10	88
Interest-bearing liabilities:			
Checking and MMDA accounts.....	-	1	1
Savings accounts.....	-	-	-
Certificates of deposit.....	5	8	13
Total deposits.....	5	9	14
Advances from FHLB of Topeka.....	34	(1)	33
Total interest-bearing liabilities..	39	8	47
Change in net interest income.....	\$ 39	\$ 2	\$ 41

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, 2020, Sidney Federal had \$2.0 million in FHLB of Topeka advances with unused borrowing capacity of \$2.9 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, 2020.

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

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and cash equivalents, which include federal funds sold and interest-bearing deposits in other banks. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2020, cash and cash equivalents totaled \$5.3 million. Securities classified as available for sale, which provide additional sources of liquidity, totaled \$1.6 million at December 31, 2020.

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 \$(240,000) and \$(239,000) for the years ended December 31, 2020 and 2019, respectively. Net cash provided by (used in) investing activities, was \$3.0 million and \$(701,000) for the years ended December 31, 2020 and 2019, respectively. Net cash provided by financing activities was \$1.1 million and \$1.6 million for the years ended December 31, 2020 and 2019.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Certificates of deposit due within one year of December 31, 2020, totaled \$5.8 million, or 36.6%, 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 11 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, 2020, we had outstanding commitments to originate loans of \$347,000. We anticipate that we will have sufficient funds available to meet our current lending commitments.

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

Coronavirus Disease 2019

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

The spread of the outbreak has caused disruptions in the U.S. economy and is highly likely to continue 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 is unsuccessful, the Association could experience a material adverse effect on its business, financial condition, results of operations and cash flows.

Impact of Inflation and Changing Prices

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

ITEM 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, 2020 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, 2020. 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, 2020.

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 2021 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 (Incorporated by reference to Exhibit 3.1 to Sidney Federal’s Annual Report on Form 10-K, filed on April 6, 2020).
- 3.2 Bylaws of Sidney Federal Savings and Loan Association (Incorporated by reference to Exhibit 3.2 to Sidney Federal’s Annual Report on Form 10-K, filed on April 6, 2020).
- 4.1 Form of Common Stock Certificate of Sidney Federal Savings and Loan Association (Incorporated by reference to Exhibit 4.1 to Sidney Federal’s Annual Report on Form 10-K, filed on April 6, 2020).
- 4.2 Description of Registrant Securities (Incorporated by reference to Exhibit 4.2 to Sidney Federal’s Annual Report on Form 10-K, filed on April 6, 2020).
- 10.1 Cease and Desist Order by and through the Board of Directors of Sidney Federal Savings and Loan Association and the Office of the Comptroller of the Currency, dated January 19, 2021 (Incorporated by reference to Exhibit 10.1 to Sidney Federal’s Current Report on Form 8-K, filed on February 22, 2021).
- 21 Subsidiaries of Registrant (Incorporated by reference to Exhibit 21 to Sidney Federal’s Annual Report on Form 10-K, filed on April 6, 2020).
- 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

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Association has changed its method of accounting for leases in 2020 due to the adoption of Topic 842.

Basis for Opinion

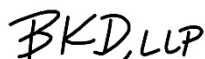
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits.

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 Company 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.

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



BKD, LLP

Indianapolis, Indiana
March 31, 2021

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Balance Sheets

December 31, 2020 and 2019

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Assets		
Cash	\$ 128	\$ 120
Interest-bearing deposits in other banks:		
Federal Home Loan Bank of Topeka ("FHLBT") demand account	616	366
FHLBT overnight deposit account	4,600	1,000
Cash and cash equivalents	<u>5,344</u>	<u>1,486</u>
Securities available for sale, at market value (amortized cost of \$1,557 and \$2,502, respectively)	1,587	2,526
Stock in FHLBT and Midwest Independent Bank ("MIB")	256	153
Loans receivable, net of allowance for loan losses of \$162 and \$150, respectively	12,014	13,927
Premises and equipment, net	30	66
Accrued interest receivable:		
Securities and other interest-earning assets	4	9
Loans receivable	37	40
Other assets	383	166
Total assets	<u>\$ 19,655</u>	<u>\$ 18,373</u>
Liabilities		
Deposits:		
Noninterest-bearing	\$ 1,382	\$ 1,202
Interest-bearing	<u>14,456</u>	<u>12,856</u>
Total deposits	15,838	14,058
Federal Home Loan Bank of Topeka (FHLBT) Advances	2,000	2,700
Advances from borrowers for taxes and insurance	150	180
Other liabilities	381	148
Total liabilities	<u>18,369</u>	<u>17,086</u>
Commitments and contingencies		
Stockholders' Equity		
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	450	456
Accumulated other comprehensive gain, net of taxes	24	19
Total equity	<u>1,286</u>	<u>1,287</u>
Total liabilities and stockholders' equity	<u>\$ 19,655</u>	<u>\$ 18,373</u>

See accompanying notes to condensed financial statements.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Statements of Operations

Years Ended December 31, 2020 and 2019

	Year Ended	
	2020	
	2020	2019
Interest income:		
Loans receivable	\$ 656	\$ 511
Securities-taxable	46	100
Other interest-earning assets	16	19
Total interest income	718	630
Interest expense:		
Deposits	104	90
Advances from FHLBT	36	3
Total interest expense	140	93
Net interest income	578	537
Provision for loan losses	10	30
Net interest income after provision for loan losses	568	507
Noninterest income:		
Service charges on deposit accounts	8	10
Gain on sale of loans	73	28
Gain on called and sold securities	-	5
Debit card income	10	10
Gain on sale of premises and equipment	282	-
Other	2	1
Total noninterest income	375	54
Noninterest expense:		
Compensation and benefits	443	433
Occupancy expense	58	29
Equipment and data processing expense	107	102
FDIC premium expense	19	3
Professional and regulatory fees	156	140
Insurance expense	32	30
Debit card expense	32	32
Correspondent bank service charges	14	14
Other	88	81
Total noninterest expense	949	864
Loss before income taxes	(6)	(303)
Income taxes	-	-
Net loss	\$ (6)	\$ (303)
Basic net loss per share	\$ (0.05)	(2.29)
Weighted average common shares outstanding	132,250	132,250

See accompanying notes to condensed financial statements.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Statements of Comprehensive Loss

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
	(In thousands)	
Net loss	\$ <u>(6)</u>	\$ <u>(303)</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>6</u>	<u>32</u>
Other comprehensive income before taxes	6	27
Income tax expense	<u>(1)</u>	<u>(6)</u>
Other comprehensive income, net of tax	<u>5</u>	<u>21</u>
Comprehensive loss	<u>\$ (1)</u>	<u>\$ (282)</u>

See accompanying notes to condensed financial statements.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Statements of Stockholders' Equity

Years Ended December 31, 2020 and 2019

	<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, 2018	\$ 1	\$ 811	\$ 759	\$ (2)	\$ 1,569
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>
Net loss	\$ -	-	(6)	-	(6)
Other comprehensive income, net of taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>5</u>
Balance at December 31, 2020	<u>\$ 1</u>	<u>\$ 811</u>	<u>\$ 450</u>	<u>\$ 24</u>	<u>\$ 1,286</u>

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Statements of Cash Flows

Years Ended December 31, 2020 and 2019

	December 31,	
	2020	2019
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$ (6)	\$ (303)
Adjustments to reconcile net loss to net cash used for operating activities:		
Provision for loan losses	10	30
Depreciation expense	9	9
Gain on sale of premises	(282)	-
Amortization of premiums, net	14	18
FHLBT stock dividends	(8)	(4)
Gain on called and sold securities	-	(5)
Gain on sale of loans	(73)	(28)
Loan originations for sale	(3,023)	(1,011)
Proceeds from sale of loans	3,096	1,039
Net change in:		
Accrued interest receivable	8	(2)
Other assets	28	(11)
Other liabilities	(13)	29
Net cash used in operating activities	(240)	(239)
Cash flows from investing activities:		
Net change in loans receivable	3,890	330
Purchased loans	(1,987)	(3,510)
Proceeds from maturities, paydowns and calls of securities available for sale	931	1,507
Proceeds from sales of securities available for sale	-	1,055
Purchases of FHLBT Stock	(95)	(54)
Proceeds on sale of premises and equipment	314	2
Purchases of premises of equipment	(5)	(31)
Net cash provided by (used in) investing activities	\$ 3,048	\$ (701)

(Continued)

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Statements of Cash Flows

Years Ended December 31, 2020 and 2019

(Continued)

	December 31,	
	2020	2019
	(In thousands)	
Cash flows from financing activities:		
Net change in deposits	\$ 1,780	\$ (1,105)
Proceeds from advance from FHLBT	-	2,700
Repayment of advance to FHLBT	(700)	-
Net change in advances from borrowers for taxes and insurance	(30)	33
Net cash provided by financing activities	1,050	1,628
Net change in cash and cash equivalents	3,858	688
Cash and cash equivalents at beginning of year	1,486	798
Cash and cash equivalents at end of year	\$ 5,344	\$ 1,486
Cash paid during the period for:		
Interest on deposits	\$ 104	\$ 90
Interest on advances from FHLBT	36	3
Supplemental non-cash activity		
Initial recognition of right of use lease asset	\$ 245	-
Initial recognition of operating lease liability	245	-

See accompanying notes to condensed financial statements.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2020 and 2019
(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, 2020 and 2019, the Association’s funds in banks, exceeded federally insured limits by \$5,132 and \$1,314, respectively. The Association’s management monitors the account balance and periodically assesses the financial condition of its correspondent banks.
- b. Debit 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. Debt 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, 2020 or 2019.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2020 and 2019
(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.
- e. The investment was 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, 2020 and 2019.
- f. 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.
- g. 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 2020 and 2019. 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, 2020 and 2019
(Dollars in thousands)

- h. 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.
- i. 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.
- j. 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.
- k. 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, 2017. For the years ended December 31, 2020 and 2019, management has determined there are no material uncertain tax positions.

- l. Service charges on deposit accounts include fees collected on nonsufficient funds, overdrafts, ATMs and other banking services.
- m. Earnings (loss) per share represents income (loss) available to common stockholders divided by the weighted-average number of common shares outstanding during each period.
- n. 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, 2020 and 2019
(Dollars in thousands)

- o. 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.

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

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

The impact of recent accounting pronouncements are summarized as follows:

In 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 \$282 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.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2020 and 2019
(Dollars in thousands)

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

For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination ("PCD assets") that are measured at amortized cost, the initial allowance for credit

losses is added to the purchase price rather than being reported as a credit loss expense. Subsequent changes in the allowance for credit losses on PCD assets are recognized through the statement of income as a credit loss expense.

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

Since the Association 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.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2020 and 2019
(Dollars in thousands)

(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.

Subsequent to the conversion, voting rights are held and exercised exclusively by the stockholders of the Association. Deposit account holders will continue to be insured by the FDIC. A liquidation account was established in an amount equal to the Association's total equity as of the latest balance sheet date in the final offering circular used in the Conversion. Each eligible account holder or supplemental

account holder will be entitled to a proportionate share of this account in the event of a complete liquidation of the Association, and only in such event. This share will be reduced if the eligible account holder's or supplemental account holder's deposit balance falls below the amounts on the date of record and will cease to exist if the account is closed. The liquidation account will never be increased despite any increase after Conversion in the related deposit balance.

The Association may not pay a dividend on its capital stock, if the effect thereof would cause retained earnings to be reduced below the liquidation account amount or regulatory capital requirements. The Conversion was accounted for as a change in corporate form with the historic basis of the Association's assets, liabilities and equity unchanged as a result.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2020 and 2019
(Dollars in thousands)

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.

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

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

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2020 and 2019
(Dollars in thousands)

At this time, it is difficult to quantify the impact COVID-19 will have beyond 2020; however, it may negatively impact us more in the future periods than experienced 2020. This could cause the Association to experience a material adverse effect on our business operations, asset valuations, financial condition, and results of operations. Material adverse impacts may include all or a combination of an increase in the allowance for loan losses, valuation impairments on our investments or deferred tax assets. The Association has evaluated the impact of the effects of COVID-19 and determined that there were no material or systematic adverse impacts on the Association's Statement of Financial Condition as of December 31, 2020 and Statement of Operations for year ended December 31, 2020.

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

(3) Securities Available for Sale

Securities available for sale are summarized as follows:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
	(In thousands)			
Debt securities:				
MBS: Government-sponsored enterprise ("GSE") residential	\$ 1,517	\$ 34	\$ (4)	\$ 1,547
SBA pools	40	-	-	40
Total	<u>\$ 1,557</u>	<u>\$ 34</u>	<u>\$ (4)</u>	<u>\$ 1,587</u>
	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
	(In thousands)			
Debt securities:				
MBS: Government-sponsored enterprise ("GSE") residential	\$ 2,444	\$ 33	\$ (9)	\$ 2,468
Collateralized mortgage obligations	6	-	-	6
SBA pools	52	-	-	52
Municipal obligations maturing in 2022	-	-	-	-
Total	<u>\$ 2,502</u>	<u>\$ 33</u>	<u>\$ (9)</u>	<u>\$ 2,526</u>

See note 8 for securities pledged for FHLBT advances.

For the year ended 2020, there were no sales of securities available for sale. For the year ended 2019, gross gains of \$5 were realized on sold and called securities available for sale.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2020 and 2019 (Dollars in thousands)

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

December 31, 2020	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	27	\$ 201	\$ 2	\$ 236	\$ 2	\$ 437	\$ 4
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

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, 2020 and 2019, was \$437 and \$756, respectively, which is approximately 28% and 30%, respectively, of the Association's available for sale securities portfolio.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2020 and 2019
(Dollars in thousands)

(4) Loans Receivable, Net

Loans receivable, net are summarized as follows:

	At December 31,	
	2020	2019
	Amount	Amount
Real estate loans:	(In thousands)	
One-to-four family, owner occupied..... \$	8,024	\$ 9,726
One-to-four family, non-owner occupied.....	383	870
Commercial Loans.....	3,502	3,063
Consumer loans.....	290	449
	12,199	14,108
Allowance for losses.....	(162)	(150)
Deferred loan fees, net.....	(23)	(31)
Total..... \$	12,014	\$ 13,927

During 2020 and 2019, the Association purchased commercial and consumer loans of \$1,987 and \$3,510, respectively. Included in commercial loans at December 31, 2020 are loans of \$1,000 to hotel owners and sports and entertainment. Purchased loans of \$2,118 are related to the insurance industry. 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, 2020 and 2019
(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
	(In thousands)				
Year Ended December 31, 2020					
Real estate loans:					
One-to-four family, owner occupied	\$ 103	\$ (6)	\$ -	\$ -	\$ 97
One-to-four family, non-owner occupied	9	(4)	-	-	5
Commercial loans	33	24	-	-	57
Consumer loans	5	(4)	-	2	3
	<u>\$ 150</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ 162</u>

	Allowance for Loan Losses				
	Beginning Balance	Provision for Losses	Charge-offs	Recoveries	Ending Balance
	(In thousands)				
Year Ended December 31, 2019					
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	-	5
	<u>\$ 122</u>	<u>\$ 30</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 150</u>

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2020 and 2019 (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, 2020:	(In thousands)					
Real estate loans:						
One-to-four family, owner occupied	\$ -	\$ 97	\$ 97	\$ 71	\$ 7,953	\$ 8,024
One-to-four family, non-owner occupied	-	5	5	-	383	383
Commercial loans	-	57	57	-	3,502	3,502
Consumer loans	-	3	3	-	290	290
	<u>\$ -</u>	<u>\$ 162</u>	<u>\$ 162</u>	<u>\$ 71</u>	<u>\$ 12,128</u>	<u>\$ 12,199</u>
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>

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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, 2020:						
Real estate loans:						
One-to-four family, owner occupied	\$ -	71	\$ 71	\$ 71	\$ -	\$ 79
One-to-four family, non-owner occupied	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Consumer loans	-	-	-	-	-	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 71</u>	<u>\$ 71</u>	<u>\$ -</u>	<u>\$ 79</u>

	Nonperforming Loans			
	Nonaccrual	Past Due 90 Days and More Still Accruing	Accruing Troubled Debt Restructurings	Total
(In thousands)				
At December 31, 2020:				
Real estate loans:				
One-to-four family, owner occupied	\$ 71	\$ -	\$ -	\$ 71
One-to-four family, non-owner occupied	-	-	-	-
Commercial loans	-	-	-	-
Consumer loans	-	-	-	-
	<u>\$ 71</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71</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, 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>

Interest income recognized on impaired loans for the year ended December 31, 2020 and 2019 was \$3 and \$2, respectively.

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There were no loans modified as troubled debt restructurings during 2020 or 2019.

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

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

The following table presents the Association's loan portfolio aging analysis:

	Days Past Due				
	30-59	60-89	90 or more	Current	Total
	(In thousands)				
At December 31, 2020:					
Real estate loans:					
One-to-four family, owner occupied	\$ 160	\$ -	\$ 71	\$ 7,793	\$ 8,024
One-to-four family, non-owner occupied	-	-	-	383	383
Commercial loans	-	-	-	3,502	3,502
Consumer loans	-	-	-	290	290
	<u>\$ 160</u>	<u>\$ -</u>	<u>\$ 71</u>	<u>\$ 11,968</u>	<u>\$ 12,199</u>
At December 31, 2019:					
Real estate loans:					
One-to-four family, owner occupied	\$ 137	\$ 23	\$ 125	\$ 9,441	\$ 9,726
One-to-four family, non-owner occupied	-	-	-	870	870
Commercial loans	-	-	-	3,063	3,063
Consumer loans	-	-	-	449	449
	<u>\$ 137</u>	<u>\$ 23</u>	<u>\$ 125</u>	<u>\$ 13,823</u>	<u>\$ 14,108</u>

The Association classifies loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. Generally, smaller dollar consumer loans are excluded from this process and are reflected in the Pass category. The delinquency trends of these consumer loans are monitored on a homogeneous basis.

The Association uses the following definitions for risk ratings:

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

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

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

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

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

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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, 2020:						
Real estate loans:						
One-to-four family, owner occupied	\$ -	\$ 71	\$ -	\$ -	\$ 7,953	\$ 8,024
One-to-four family, non-owner occupied	-	-	-	-	383	383
Commercial loans	324	142	-	-	3,036	3,502
Consumer loans	-	-	-	-	290	290
	<u>\$ 324</u>	<u>\$ 213</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,662</u>	<u>\$ 12,199</u>

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

There were no loans to executive officers, directors, and their affiliates of the Association for the years ended December 31, 2020 and 2019.

(5) Premises and Equipment, Net

Premises and equipment, net are summarized as follows:

	2020	2019
	(In Thousands)	
Land	\$ -	\$ 30
Office Building	-	395
Furniture and equipment	169	181
	<u>169</u>	<u>606</u>
Less accumulated depreciation	139	540
	<u>\$ 30</u>	<u>\$ 66</u>

Depreciation expense for 2020 and 2019 was \$9 and \$9, respectively.

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Notes to Financial Statements

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(6) Lease

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

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

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

	<u>December 31, 2020</u>
Balance Sheet	
Operating lease right-of-use asset	\$ 238
Operating lease liability	232
Remaining lease term (years)	9.08
Discount rate	8%
Future Minimum Payments	
Year 1	\$ 41
Year 2	38
Year 3	38
Year 4	35
Year 5	34
Thereafter	122
Total lease payments	<u>308</u>
Less imputed interest	<u>(76)</u>
Total	<u>\$ 232</u>

(Continued)

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

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December 31, 2020 and 2019
(Dollars in thousands)

(Continued)

December 31, 2020

Income statement

Components of lease cost:

Operating lease cost	\$	32
Variable lease cost		-
Total lease cost		<u>32</u>

December 31, 2020

Cash flow statement

Supplemental cash flow information

Operating cash flows from operating lease	\$	37
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As of December 31, 2020, the Association had not entered into any lease agreements that had not yet commenced.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

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December 31, 2020 and 2019
(Dollars in thousands)

(7) Deposits

Deposits are summarized as follows:

Description and interest rate	2020	2019
	(In thousands)	
Non-interest bearing checking accounts	\$ 1,382	\$ 1,202
Interest bearing checking accounts	2,245	1,934
Savings accounts	4,821	4,592
Money market accounts	546	379
Total transaction accounts	<u>8,994</u>	<u>8,107</u>
Certificates:		
.00 - .99%	3,408	2,643
1.00 - 1.99%	830	447
2.00 - 2.99%	2,606	2,861
Total certificates	<u>6,844</u>	<u>5,951</u>
Total deposits	<u>\$ 15,838</u>	<u>\$ 14,058</u>

Certificate maturities are summarized as follows:

	2020	2019
	(In thousands)	
Less than one year	\$ 5,791	\$ 2,939
One to two years	1,010	2,446
Two to three years	19	545
Three to four years	21	21
Four to five years	3	-
	<u>\$ 6,844</u>	<u>\$ 5,951</u>

The aggregate amount of certificates in denominations of \$250 or more at December 31, 2020 and 2019 was \$577 and \$315, respectively. There were no brokered deposits at December 31, 2020 or 2019. 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 \$214 and \$257 at December 31, 2020 and 2019, respectively.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

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December 31, 2020 and 2019
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Interest expense on deposits is summarized as follows:

	<u>2020</u>	<u>2019</u>
	(In thousands)	
Checking and money market accounts	\$ 3	\$ 2
Savings accounts	5	5
Certificates	96	83
	<u>\$ 104</u>	<u>\$ 90</u>

(8) Advances from Federal Home Loan Bank of Topeka

At December 31, 2020, the Association had \$2,000 in advances from the Federal Home Loan Bank of Topeka with \$2,000 maturing in 2029. Advances, at interest rates from 1.10% to 1.22% are subject to restrictions or penalties in the event of prepayment. 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.

The FHLBT advances are secured by mortgage loans, investment securities and FHLBT overnight deposits, totaling \$1,229, \$1,541 and \$200, respectively, at December 31, 2020.

(9) Income Taxes

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

	<u>2020</u>	<u>2019</u>
	(In thousands)	
Deferred tax assets:		
Allowance for losses on loans	\$ 36	\$ 34
Net operating loss carryforward	448	475
Charitable contribution carryover	-	1
Total deferred tax assets before valuation allowance	<u>484</u>	<u>510</u>
Valuation allowance	<u>(472)</u>	<u>(470)</u>
Total deferred tax assets	<u>12</u>	<u>40</u>
Deferred tax liabilities:		
Accrued income and expense	(6)	(31)
Tax over book depreciation	(6)	(9)
Unrealized gain on securities available for sale	<u>(6)</u>	<u>(6)</u>
Total deferred tax liabilities	<u>(18)</u>	<u>(46)</u>
Net deferred tax liability	<u>\$ (6)</u>	<u>\$ (6)</u>

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

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

	<u>2020</u>	<u>2019</u>
	(In thousands)	
Valuation allowance:		
Balance, beginning of year	\$ 470	\$ 405
Net change in valuation allowance	<u>2</u>	<u>65</u>
Balance, end of year	<u>\$ 472</u>	<u>\$ 470</u>

At December 31, 2020, the Association has a net operating loss carryforward for Federal income tax purposes of \$2,132 a portion of which will begin expiring in 2030, 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, 2020 and 2019, 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>2020</u>	<u>2019</u>
	(In thousands)	
Federal statutory income taxes	\$ (1)	\$ (64)
Change in valuation allowance in operations	2	65
Other	(1)	(1)
Tax-exempt income	<u>-</u>	<u>-</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 2020 or 2019.

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.

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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.

(10) 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, 2020 and 2019 was \$3 and \$3, respectively.

11) 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.

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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. As summarized in the following table at December 31, 2020, the Association's reported Tier 1 leverage capital ratio of 6.5% is less than the higher imposed capital requirement of 8.5%, and the total risk-based capital ratio of 12.0% is equal to the higher imposed capital requirement of 12.0%. At December 31, 2019, the Association reported a Tier 1 leverage capital ratio of 7.8% which is less than the higher imposed capital requirement of 8.5% and the total risk-based capital ratio of 13.0% exceeds the higher imposed capital requirement of 12.0%. See Note 16 for additional capital requirements for 2021.

The Association's actual and required capital amounts and ratios at December 31, 2020 are as follows:

	Actual		Minimum Required			
			for Capital Adequacy		to be "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
Equity	\$ 1,286					
Unrealized gains on securities AFS, net	(24)					
Tangible capital	1,262					
General valuation allowance - limited	147					
Total capital to risk-weighted assets	\$ 1,409	12.0%	\$ 943	8.0%	\$ 1,178	10.0%
Tier 1 capital to risk-weighted assets	\$ 1,262	10.7%	\$ 707	6.0%	\$ 943	8.0%
Common equity Tier 1 capital to risk-weighted assets	\$ 1,262	10.7%	\$ 530	4.5%	\$ 766	6.5%
Tier 1 capital to total assets	\$ 1,262	6.5%	\$ 776	4.0%	\$ 970	5.0%

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

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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	(19)					
Tangible capital	1,268					
General valuation allowance - limited	134					
Total capital to risk-weighted assets	<u>\$ 1,402</u>	13.0%	\$ 860	8.0%	\$ 1,075	10.0%
Tier 1 capital to risk-weighted assets	\$ 1,268	11.8%	\$ 645	6.0%	\$ 860	8.0%
Common equity Tier 1 capital to risk-weighted assets	\$ 1,268	11.8%	\$ 484	4.5%	\$ 699	6.5%
Tier 1 capital to total assets	\$ 1,268	7.8%	\$ 652	4.0%	\$ 815	5.0%

(12) 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 \$347 and \$754, respectively. Interest rates for such loans ranged from 5.00% to 15.00% and 3.25% to 14.99% at December 31, 2020 and 2019, respectively.

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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, 2020 and 2019, the outstanding balance of loans sold under the MPF Original program was \$4.0 million and \$1.9 million respectively, and the maximum credit enhancement obligation was \$195 and \$150, 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, 2020 and December 31, 2019.

(13) 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.

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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, 2020 and 2019, segregated by the level of the inputs within the hierarchy used to measure fair value:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
	(In thousands)			
December 31, 2020:				
MBS: GSE residential	\$ -	\$ 1,547	\$ -	\$ 1,547
Collateralized mortgage obligations	-	-	-	-
SBA pools	-	40	-	40
	<u>\$ -</u>	<u>\$ 1,587</u>	<u>\$ -</u>	<u>\$ 1,587</u>
December 31, 2019:				
MBS: GSE residential	\$ -	\$ 2,468	\$ -	\$ 2,468
Collateralized mortgage obligations	-	6	-	6
SBA pools	-	52	-	52
	<u>\$ -</u>	<u>\$ 2,526</u>	<u>\$ -</u>	<u>\$ 2,526</u>

There were no transfers between Level 1 and Level 2 categorizations for the 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, 2020 and 2019, 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, 2020 and 2019 amounted to \$0 and \$0, respectively.

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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, 2020:			(In thousands)		
Cash and cash equivalents	\$ 5,344	\$ 5,344	\$ 5,344	\$ -	\$ -
Stock in FHLBT and MIB	256	256	-	256	-
Loans receivable, net	12,014	12,897	-	-	12,897
Accrued interest receivable	41	41	-	41	-
Deposits	15,838	15,868	8,994	6,874	-
FHLBT Advances	2,000	1,936	-	1,936	-
December 31, 2019:					
Cash and cash equivalents	\$ 1,486	\$ 1,486	\$ 1,486	\$ -	\$ -
Stock in FHLBT and MIB	153	153	-	153	-
Loans receivable, net	13,927	14,878	-	-	14,878
Accrued interest receivable	49	49	-	49	-
Deposits	14,058	13,999	8,107	5,892	-
FHLBT Advances	2,700	2,427	-	2,427	-

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2020 and 2019
(Dollars in thousands)

(14) Other Noninterest Expense

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

	Year Ended	
	December 31,	
	2020	2019
	(In thousands)	
Contract services	\$ 19	\$ 20
Advertising	15	7
Office supplies	9	8
Telephone expense	7	7
Dues and subscriptions	13	11
Other	25	28
	<u>\$ 88</u>	<u>\$ 81</u>

(15) 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.

(16) Regulatory Order

Effective January 19, 2021, the Bank consented to the issuance of a Cease and Desist Order (the "Order") from the Office of the Comptroller of the Currency (the "OCC"). The Order formalizes many of the requirements of the Bank's previously disclosed Memorandum of Understanding with the OCC and its Individual Minimum Capital Ratios. The Order provides, among other things, that:

- The Board must maintain a Compliance Committee of at least three members of which a majority must be directors who are not employees or officers of the Bank or any of its subsidiaries or affiliates;
- By March 31, 2021, the Bank must achieve and maintain the following capital ratios as defined in and as calculated in accordance with 12 C.F.R. Part 3: (a) tier 1 capital to adjusted total assets at least equal to 9%; and (b) total risk-based capital to risk-weighted assets at least equal to 12%;
- By March 31, 2021, the Board must develop a written strategic plan for the Bank covering at least the next three years from the date of the Order (the "Capital and Strategic Plan"), complete with specific time frames that incorporate the requirements of the Order.

SIDNEY FEDERAL SAVINGS AND LOAN ASSOCIATION

Notes to Financial Statements

December 31, 2020 and 2019
(Dollars in thousands)

- Until the Capital and Strategic Plan required under the Order has been submitted by the Bank for the Assistant Deputy Comptroller's of the OCC (the "ADC") review, has received a written determination of no supervisory objection from the ADC, and has been adopted by the Board, the Bank must not significantly deviate from the products, services, asset composition and size, funding sources, structure, operations, policies, procedures, and markets of the Bank that existed immediately before the effective date of this Order without first obtaining the ADC's prior written determination of no supervisory objection to such significant deviation;
- The Board must immediately submit to the ADC for review and prior determination of no supervisory objection, a written interest rate risk program;
- The Board must immediately submit to the ADC for review and prior determination of no supervisory objection, a written program designed to identify, measure, monitor, and control concentrations of credit;
- Within 60 days of the Order, the Board must submit to the ADC for review and prior determination of no supervisory objection, a written a commercial credit risk management and independent loan review program;
- Within 60 days of the Order, the Board must submit to the ADC for review and prior determination of no supervisory objection, a written loan portfolio stress testing program;
- Within 60 days of the Order, the Board must submit to the ADC for review and prior determination of no supervisory objection, a written loan policy (the "Loan Policy") to include, at a minimum, revisions relating to guidelines for participations purchased, which Loan Policy must include a prohibition against purchasing any participation for which the Bank does not have the knowledge, skills, or ability to properly underwrite on its own; and
- The Board must ensure that the Bank has timely adopted and implemented all corrective actions required by the Order, and must verify that the Bank adheres to the corrective actions and they are effective in addressing the Bank's deficiencies that resulted in the Order.

The Board of Directors and management are currently taking action to comply with the Order.

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: March 31, 2021

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)	March 31, 2021
<u>/s/ Jamie Lanckriet</u> Jamie Lanckriet	Controller (Principal Financial Officer)	March 31, 2021
<u>/s/ Jeff J. Jung</u> Jeff J. Jung	Chairman	March 31, 2021
<u>/s/ Larry Fracas</u> Larry Fraas	Director	March 31, 2021
<u>/s/ Wayne Fischer</u> Wayne Fischer	Director	March 31, 2021
<u>/s/ Harold Perkins</u> Harold Perkins	Director	March 31, 2021

/s/ Bill Sydow
Bill Sydow

Director

March 31, 2021

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: March 31, 2021

/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: March 31, 2021

/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, 2020 (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: March 31, 2021

/s/ Steve Smith

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

Date: March 31, 2021

/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.