



**Notice of 2018 Annual Meeting of Stockholders,  
Annual Meeting Proxy Statement, and  
2018 Audited Consolidated Financial Statements**

# Sugar Creek Financial Corp.

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## **Corporate Profile**

Headquartered in Trenton, Illinois, Sugar Creek Financial Corp. is the holding company for Tempo Bank. Sugar Creek Financial Corp. is quoted on the OTCQB under the symbol “SUGR.”

Established in 1889, Tempo Bank continues to operate as a community-oriented financial institution offering traditional financial services to consumers and businesses in its market area of Trenton and Breese, Illinois, and the surrounding communities in Clinton, eastern St. Clair County and southeastern Madison County.

## **Banking Locations**

### *Main Office*

28 West Broadway Street  
Trenton, Illinois 62293

### *Branch Office*

301 North 4<sup>th</sup> Street  
Breese, Illinois 62230

# Sugar Creek

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FINANCIAL CORP

July 18, 2018

Dear Fellow Stockholder:

We cordially invite you to attend the annual meeting of stockholders of Sugar Creek Financial Corp. The notice of annual meeting and the proxy statement appearing on the following pages describe the formal business to be transacted at the meeting.

It is important that your shares are represented at this meeting, whether or not you attend the meeting in person and regardless of the number of shares you own. To make sure your shares are represented, we urge you to vote by promptly completing and mailing the enclosed proxy card or by voting via the Internet or by telephone. Internet and telephone voting instructions appear on the enclosed proxy card. If you attend the meeting, you may vote in person even if you have previously mailed a proxy card or voted via the Internet or by telephone.

We look forward to seeing you at the meeting.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Stroh, Jr.", written in a cursive style.

Robert J. Stroh, Jr.  
*Chairman, Chief Executive Officer  
and Chief Financial Officer*

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# Sugar Creek

FINANCIAL CORP

28 West Broadway  
Trenton, Illinois 62293  
(618) 224-9228

## NOTICE OF 2018 ANNUAL MEETING OF STOCKHOLDERS

**TIME AND DATE** ..... 2:00 p.m., local time, on Tuesday, August 21, 2018

**PLACE** ..... Trenton House Restaurant, 2 East Broadway, Trenton, Illinois

**ITEMS OF BUSINESS** ..... (1) The election of two directors to serve for a term of three years;

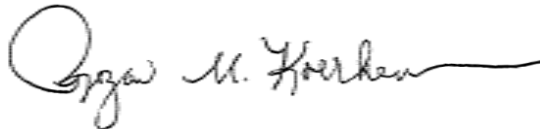
(2) The ratification of the appointment of Michael Trokey & Company, P.C. to serve as our independent auditor for the fiscal year ending March 31, 2019; and

(3) The transaction of such other business as may properly come before the meeting and any adjournment or postponement of the meeting.

**RECORD DATE** ..... To be eligible to vote at the annual meeting, you must have been a stockholder as of the close of business on June 29, 2018.

**PROXY VOTING** ..... It is important that your shares be represented and voted at the annual meeting. You can vote your shares by completing and returning the proxy card or voting instruction card sent to you or by voting via the Internet or by telephone. Voting instructions are printed on your proxy or voting instruction form and are described in the accompanying Proxy Statement. You can revoke a proxy at any time before its exercise at the meeting by following the instructions in the Proxy Statement.

BY ORDER OF THE BOARD OF DIRECTORS



Rozan Koerkenmeier  
*Vice President and Corporate Secretary*

Trenton, Illinois  
July 18, 2018

**Whether or not you plan to attend the annual meeting, please vote by marking, signing, dating and promptly returning the enclosed proxy card or voting instruction form, or vote via the Internet or by telephone.**

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**PROXY STATEMENT  
FOR  
2018 ANNUAL MEETING OF STOCKHOLDERS**

**GENERAL INFORMATION**

We are providing this Proxy Statement to you in connection with the solicitation of proxies by our Board of Directors for use at the 2018 annual meeting of stockholders and any adjournment or postponement of the annual meeting.

We will hold the annual meeting at the Trenton House Restaurant, 2 East Broadway, Trenton, Illinois, on Tuesday, August 21, 2018 at 2:00 p.m., local time.

We intend to mail this proxy statement and the enclosed proxy card to stockholders of record beginning on or about July 18, 2018.

**INFORMATION ABOUT VOTING**

**Stockholders Entitled to Vote at the Meeting**

You are entitled to vote your shares of common stock if our records show that you held your shares as of the close of business on June 29, 2018. As of the close of business on that date, 781,938 shares of common stock were outstanding. Each share of common stock has one vote.

Our Articles of Incorporation provide that record holders of our common stock who beneficially own, either directly or indirectly, more than 10% of our outstanding shares of common stock are not entitled to any vote with respect to the shares held in excess of the 10% limit.

**Ownership of Shares**

You may own your shares of common stock in one or more of the following ways:

- Directly in your name as the stockholder of record; or
- Indirectly, in "street name," through a broker, bank or other holder of record.

If you are the holder of record of your shares, we are sending these proxy materials directly to you. As the holder of record, you have the right to give your proxy directly to us to vote at the annual meeting or you may vote in person at the annual meeting.

If you hold your shares in street name through a broker, bank or other nominee, you are considered the beneficial owner of those shares and your broker, bank or other holder of record is sending these proxy materials to you. As the beneficial owner, you have the right to direct your broker, bank or other holder of record on how to vote by completing a voting instruction form that accompanies your

proxy materials. Your broker, bank or other holder of record may allow you to provide voting instructions by telephone or by the Internet. Refer to the voting instruction form provided by your broker, bank or other holder of record that accompanies this proxy statement. If you want to vote your shares of common stock held in street name in person at the meeting, you must obtain a written proxy in your name from the broker, bank or other holder who is the record holder of your shares.

## **Attending the Annual Meeting**

Only stockholders and our invited guests are eligible to attend the annual meeting. If you hold your shares in street name, you will need proof of ownership to be admitted to the annual meeting. Examples of proof of ownership are a recent brokerage account statement and a letter from your bank or broker.

## **Quorum and Votes Required**

**Quorum.** We will have a quorum and will be able to conduct the business of the annual meeting if the holders of a majority of the outstanding shares of common stock entitled to be cast at the annual meeting are present at the meeting, either in person or by proxy.

**Votes Required for Proposals.** In voting on the election of directors, you may, as to each nominee, vote in favor of the nominee or withhold your vote as to the nominee. There is no cumulative voting for the election of directors. Directors are elected by a plurality of the votes cast at the annual meeting. This means that the nominees receiving the largest number of votes cast will be elected up to the maximum number of directors to be elected at the annual meeting. The maximum number of directors to be elected at the annual meeting is two.

In voting on the ratification of the appointment of Michael Trokey & Company, P.C. to serve as our independent auditor, you may vote in favor of the proposal, against the proposal or abstain from voting. Ratification of this proposal requires the affirmative vote of a majority of the votes cast at the annual meeting.

**Effect of Not Casting Your Vote.** If you hold your shares in street name, you must instruct your bank or broker on how to cast your vote if you want your vote to count in the election of directors (Item 1 of this Proxy Statement). Your bank or broker is unable to vote your uninstructed shares on this item on a discretionary basis. Therefore, if you hold your shares in street name and you do not instruct your bank or broker on how to vote in the election of directors, no votes will be cast on your behalf. These are referred to as “broker non-votes.” Your bank or broker, however, has discretion to vote any uninstructed shares on the ratification of the appointment of the independent auditor (Item 2 of this Proxy Statement). If you are a stockholder of record and you do not cast your vote, no votes will be cast on your behalf on any of the items of business at the annual meeting.

**How We Count Votes.** If you return valid proxy instructions or attend the annual meeting in person, we will count your shares as present to determine whether there is a quorum, even if you abstain from voting. Broker non-votes also will be counted to determine the existence of a quorum.

In the election of directors, votes that are withheld and broker non-votes will have no effect on the outcome of the election.

In counting votes on the proposal to ratify the selection of the independent auditor, we will not count abstentions and broker non-votes as votes cast. Therefore, abstentions and broker non-votes will have no effect on the outcome of the proposal.



## Voting by Proxy

Our Board of Directors is sending you this Proxy Statement for the purpose of requesting that you allow your shares of common stock to be represented at the annual meeting by the designated proxies named by the Board of Directors. All shares of common stock represented at the annual meeting by properly executed and dated proxies will be voted according to the instructions indicated on the proxy card. If you sign, date and return a proxy card without giving voting instructions, your shares will be voted as recommended by the Board of Directors. **The Board of Directors unanimously recommends a vote:**

- **“FOR” all of the nominees for director; and**
- **“FOR” the ratification of Michael Trokey & Company, P.C. to serve as our independent auditor.**

If any matters not described in this Proxy Statement are properly presented at the annual meeting, the persons named in the proxy card will use their own best judgment as to how to vote your shares. This includes a motion to adjourn or postpone the annual meeting in order to solicit additional proxies. If the annual meeting is postponed or adjourned, your shares of common stock may be voted by the persons named in the proxy card on the new meeting date as well, unless you have revoked your proxy. We do not know of any other matters to be presented at the annual meeting.

Instead of voting by completing and mailing a proxy card, registered stockholders can vote their shares of common stock via the Internet or by telephone. The Internet and telephone voting procedures are designed to authenticate stockholders' identities, allow stockholders to provide their voting instructions and confirm that their instructions have been recorded properly. Specific instructions for Internet and telephone voting appear on the enclosed proxy card and for the benefit plans on the voting instruction cards. **The deadline for voting via the Internet or by telephone is 1:00 a.m., Central Time, on August 21, 2018.**

You may revoke your proxy at any time before the vote is taken at the annual meeting. To revoke your proxy, you must advise our Corporate Secretary in writing before your shares have been voted at the annual meeting, deliver valid proxy instructions with a later date, or attend the meeting and vote your shares in person. Attendance at the annual meeting will not, in itself, constitute revocation of your proxy.

## Participants in the Tempo Bank Employee Stock Ownership Plan and/or the Tempo Bank Savings and Profit Sharing Plan

If you participate in the Tempo Bank Employee Stock Ownership Plan (the “ESOP”), or if you invest in our common stock through the Sugar Creek Financial Corp. Stock Fund (the “Stock Fund”) in the Tempo Bank Employees’ Savings and Profit Sharing Plan and Trust (the “401(k) Plan”), you will receive a vote authorization form for each plan that will reflect all the shares that you may direct the respective plan trustee to vote on your behalf under the respective plan. Under the terms of the ESOP, the ESOP trustee will vote all shares held by the ESOP, but each participant in the ESOP may direct the trustee on how to vote the shares of common stock allocated to his or her account. The ESOP trustee, subject to the exercise of its fiduciary duties, will vote all unallocated shares of common stock held by the ESOP and all allocated shares for which timely voting instructions are not received in the same proportion as shares for which it has received valid voting instructions. Under the terms of the 401(k) Plan, a participant investing in the Stock Fund may direct the Stock Fund trustee on how to vote the shares credited to his or her account. The Stock Fund trustee will vote all shares for which it does not receive timely voting instructions from participants based on the final results of the tabulation. **The deadline for returning all vote authorization forms is August 14, 2018.**

## CORPORATE GOVERNANCE

### Director Independence

Based on the definition of “independent director” contained in the NASDAQ Stock Market listing standards, the Board of Directors has determined that each of our directors are independent, except for Messrs. Stroh and Eversman whom we employ as executive officers.

### Board Committees

***Audit Committee.*** We have a separately designated standing Audit Committee, consisting of Directors Timothy W. Deien, Henry C. Siekmann, CPA (Chair) and Gary R. Schwend. The Audit Committee meets periodically with the independent auditors and with management to review accounting, auditing, internal control structure and financial reporting matters. Each member of the Audit Committee is independent in accordance with the listing standards of the NASDAQ Stock Market. The Audit Committee held four meetings in fiscal year 2018.

***Other Committees.*** We do not maintain a separately designated compensation committee or nominating committee. Based on the number of independent directors currently serving on the Board of Directors, we believe that the functions customarily attributable to these committees are sufficiently performed by the full Board of Directors.

### Compensation Processes and Procedures

The Board of Directors is responsible for overseeing employee compensation and benefit programs. Management develops recommendations for the Board of Directors regarding the appropriate range of annual salary increases of our employees. Each member of the Board of Directors participates in the consideration of executive officer and director compensation. Our Chief Executive Officer and Chief Financial Officer and President and Chief Operating Officer do not participate in Board discussions or the review of Board documents relating to the determination of their compensation.

### Board and Committee Meetings

During fiscal year 2018, our Board of Directors and the Board of Directors of Tempo Bank jointly held 12 meetings. No director attended fewer than 75% of the meetings of the Board of Directors and Board committees on which he served in fiscal year 2018.

### Director Compensation

The following table sets forth the applicable retainers and fees paid to our non-employee directors.

**Board of Directors of Tempo Bank:**

Board meeting fee.....	\$500
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**Board of Directors of Sugar Creek Financial:**

Annual retainer .....	1,000
Audit Committee Chairman annual retainer .....	3,000

Director Timothy P. Fleming is an attorney-at-law. We also pay him a retainer of \$1,875 per quarter for legal services.

For the fiscal year ended March 31, 2018, we and Tempo Bank together paid an aggregate of \$39,235 in fees and retainers to our directors.

## **STOCK OWNERSHIP**

The following table provides information, as of June 29, 2018, about the persons we know to be the beneficial owners of more than 5% of our outstanding shares of common stock. A person may be considered to beneficially own any shares of common stock over which the person has, directly or indirectly, sole or shared voting or investment power.

	<b><u>Number of Shares Owned</u></b>	<b><u>Percent of Common Stock Outstanding <sup>(1)</sup></u></b>
Maltese Capital Management LLC Maltese Capital Holdings, LLC Terry Maltese 150 East 52 <sup>nd</sup> Street, 30 <sup>th</sup> Floor New York, NY 10022	78,575 <sup>(2)</sup>	10.0%
Tempo Bank Employee Stock Ownership Plan Trust 28 West Broadway Trenton, IL 62293	79,031 <sup>(3)</sup>	10.1

(1) Based on 781,938 shares outstanding as of June 29, 2018.

(2) As disclosed by the shareholder.

(3) ESOP shares are held in a suspense account for future allocation among participants as the loans used to purchase the shares are repaid. Shares held by the ESOP trust and allocated to the accounts of participants are voted by the trustee according to the participants' instructions and unallocated shares and shares for which instructions are not provided are voted by the trustee in the same ratio as ESOP participants direct the voting of allocated shares, subject to the fiduciary duties of the trustee.

As of June 29, 2018, our directors and executive officers as a group (8 persons) beneficially owned an aggregate of 86,758 shares of our common stock, or 11.1% of the outstanding shares.

## **ITEMS OF BUSINESS TO BE VOTED ON BY STOCKHOLDERS**

### **Item 1 — Election of Directors**

The Board of Directors currently consists of six members. The Board is divided into three classes with three-year staggered terms, with approximately one-third of the directors elected each year. Two directors will be elected at the annual meeting to serve for a three-year term, or until his successor is elected and qualified. The nominees are Gary R. Schwend and Timothy W. Deien, each of whom currently serves as a director. There are no family relationships among the directors.

The Board of Directors intends to vote the proxies solicited by it in favor of the election of the nominees named above. If any nominee is unable to serve, the persons named in the proxy card will vote your shares to approve the election of any substitute proposed by the Board of Directors. Alternatively, the Board of Directors may adopt a resolution to reduce the size of the Board. At this time, the Board of Directors knows of no reason why any nominee might be unable to serve.

**The Board of Directors unanimously recommends a vote “FOR” all of the nominees for director.**

Information regarding the nominees for director and the directors continuing in office is provided below. Unless otherwise stated, each individual has held his current occupation for the last five years. The age indicated in each individual's biography is as of March 31, 2018. The indicated period of service as a director includes service as a director of Tempo Bank.

### **Board Nominees for Terms Ending in 2021**

*Gary R. Schwend* is the owner and president of Trenton Processing Center, a meat processor. Age 63. Director since 2000.

*Timothy W. Deien* is the dealer principal of Deien Chevrolet, an automobile dealership. Age 52. Director since 2003.

### **Directors Continuing in Office with Terms Ending in 2019**

*Robert J. Stroh, Jr.* has been the Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer of Tempo Bank since 1992. He served as President and Treasurer from 1980 to 1992. He also serves as our Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer. Age 70. Director since 1976.

*Francis J. Eversman* has been the President and Chief Operating Officer of Tempo Bank since 1993. He served as Vice President and Corporate Secretary from 1980 to 1993. He also serves as our President and Chief Operating Officer. Age 67. Director since 1980.

### **Directors Continuing in Office with Terms Ending in 2020**

*Timothy P. Fleming*, an attorney, is a shareholder in and the President of the law firm Fleming & Fleming, LTD. Age 71. Director since 1996.

*Henry C. Siekmann, CPA* is a Principal of Scheffel Boyle Certified Public Accountants. Age 70. Director since 2015.

## **Item 2 — Ratification of Appointment of Independent Auditor**

Michael Trokey & Company, P.C. served as our independent auditor for fiscal year 2018. The Audit Committee has appointed Michael Trokey & Company, P.C. to serve as our independent auditor for fiscal year 2019, subject to ratification by stockholders. A representative of Michael Trokey & Company, P.C. is expected to attend the annual meeting to respond to appropriate questions from stockholders and will have the opportunity to make a statement should he desire to do so.

If the appointment of the independent auditor is not ratified by a majority of the votes cast by stockholders at the annual meeting, the Audit Committee will consider other independent auditors.

**The Board of Directors unanimously recommends that stockholders vote “FOR” the ratification of the appointment of Michael Trokey & Company, P.C. to serve as our independent auditor.**

## **SUBMISSION OF BUSINESS PROPOSALS AND STOCKHOLDER NOMINATIONS**

Our Bylaws provide that, in order for a stockholder to make a director nomination or a proposal for business to be brought before an annual meeting, the stockholder must deliver notice of such nomination and/or proposal to our Corporate Secretary not less than 90 days before the date of the annual meeting; provided, however, that if less than 100 days' notice or prior public disclosure of the date of the annual meeting is given to stockholders, we must receive such notice at our principal executive office not later than the close of business on the tenth day following the day on which notice of the annual meeting was mailed to stockholders or such prior public disclosure was made. A copy of the Bylaws may be obtained by writing to us.

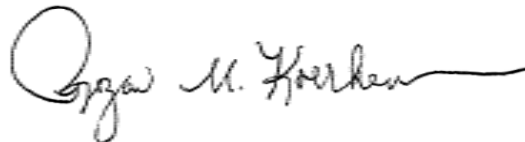
## **MISCELLANEOUS**

We will pay the cost of this proxy solicitation and will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses they incur in sending proxy materials to the beneficial owners of common stock. In addition to soliciting proxies by mail, our directors, officers and regular employees may solicit proxies personally or by telephone without receiving additional compensation.

Our Fiscal Year 2018 Audited Consolidated Financial Statements accompany this Proxy Statement. They are not to be treated as part of the proxy solicitation material or as having been incorporated in this Proxy Statement by reference.

Whether or not you plan to attend the annual meeting, please vote by marking, signing, dating and promptly returning the enclosed proxy card in the enclosed envelope, or vote via the Internet or by telephone.

BY ORDER OF THE BOARD OF DIRECTORS

A handwritten signature in dark ink, appearing to read 'Rozan M. Koerkenmeier', with a long horizontal flourish extending to the right.

Rozan Koerkenmeier  
*Corporate Secretary*

Trenton, Illinois  
July 18, 2018

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## **Index to Consolidated Financial Statements of Sugar Creek Financial Corp.**

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**MICHAEL TROKEY & COMPANY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
10411 CLAYTON ROAD  
ST. LOUIS, MISSOURI 63131

**Report of Independent Auditor**

Audit Committee, Board of Directors and Stockholders  
Sugar Creek Financial Corp.  
Trenton, Illinois

We have audited the accompanying consolidated financial statements of Sugar Creek Financial Corp. and Subsidiary, which comprise the consolidated balance sheets as of March 31, 2018 and 2017, and the related consolidated statements of earnings, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Responsibility of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Responsibility of Independent Auditor**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

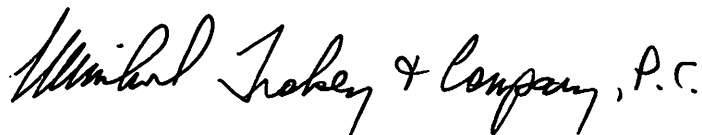
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion of Independent Auditor**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sugar Creek Financial Corp. and Subsidiary as of March 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

St. Louis, Missouri  
June 18, 2018





# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Consolidated Balance Sheets

Assets	March 31,	
	2018	2017
Cash and due from banks	\$ 1,792,676	\$ 2,686,722
FHLB daily investment account	2,698,728	2,633,938
Federal funds sold	2,760,000	6,860,000
Cash and cash equivalents	7,251,404	12,180,660
Stock in Federal Home Loan Bank of Chicago ("FHLBC")	315,000	286,300
Loans receivable, net of allowance for losses of \$196,403 at March 31, 2018 and \$193,403 at March 31, 2017	84,414,658	82,345,339
Premises and equipment, net	1,000,588	1,068,959
Foreclosed real estate	115,138	903,683
Accrued interest receivable on loans	252,127	241,488
Other assets, including prepaid income taxes of \$126,162 at March 31, 2018	290,089	177,792
Total assets	\$ 93,639,004	\$ 97,204,221
<b>Liabilities and Stockholders' Equity</b>		
Liabilities:		
Deposits	\$ 74,120,116	\$ 78,762,512
Accrued interest payable on deposits	60,437	64,305
Advances from FHLBC	7,000,000	5,000,000
Advances from borrowers for taxes and insurance	492,442	447,686
Other liabilities	278,173	332,287
Income taxes payable	-	117,128
Deferred tax liability	67,108	91,108
Total liabilities	82,018,276	84,815,026
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, 1,000,000 shares authorized; none issued or outstanding	-	-
Common stock, \$.01 par value, 14,000,000 shares authorized and 782,885 and 856,220 shares issued and outstanding at March 31, 2018 and March 31, 2017, respectively	7,829	8,562
Additional paid-in capital	5,062,584	5,511,671
Common stock acquired by Employee Stock Ownership Plan ("ESOP")	(300,783)	(344,460)
Retained earnings - substantially restricted	6,851,098	7,213,422
Total stockholders' equity	11,620,728	12,389,195
Total liabilities and stockholders' equity	\$ 93,639,004	\$ 97,204,221

See accompanying notes to consolidated financial statements.

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Consolidated Statements of Earnings

	Years Ended March 31,	
	2018	2017
Interest income:		
Loans receivable	\$ 3,429,135	\$ 3,342,064
Stock in FHLBC	9,373	12,565
Other interest-earning assets	75,260	46,609
Total interest income	3,513,768	3,401,238
Interest expense:		
Deposits	646,895	636,799
Advances from FHLBC	109,084	220,101
Total interest expense	755,979	856,900
Net interest income	2,757,789	2,544,338
Provision for loan losses	28,000	26,000
Net interest income after provision for loan losses	2,729,789	2,518,338
Noninterest income:		
Loan service charges	17,016	17,978
Service charges on deposit accounts	78,825	96,382
Other	12,537	19,220
Total noninterest income	108,378	133,580
Noninterest expense:		
Compensation and benefits	1,441,919	1,332,844
Occupancy expense	144,524	143,937
Advertising	24,144	24,021
Equipment and data processing	375,258	398,133
Data processing deconversion fees	137,888	-
FDIC premium expense	27,786	40,626
Operations of foreclosed real estate, net	37,889	34,686
Professional and regulatory fees	170,223	153,005
Other	273,464	321,531
Total noninterest expense	2,633,095	2,448,783
Earnings before income tax expense	205,072	203,135
Income tax expense	61,910	86,145
Net earnings	\$ 143,162	\$ 116,990
Basic and diluted earnings per share	\$ 0.19	\$ 0.14
Dividends per share	\$ -	\$ -

See accompanying notes to consolidated financial statements.

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Consolidated Statements of Stockholders' Equity For the Years Ended March 31, 2018 and 2017

	Common Stock	Additional Paid-in Capital	Common Stock Acquired by ESOP	Retained Earnings	Total Stockholders' Equity
Balance at March 31, 2016	\$ 8,655	\$ 5,553,764	\$ (388,137)	\$ 7,138,727	\$ 12,313,009
Net earnings	-	-	-	116,990	116,990
Repurchase of common stock	(93)	(64,832)		(42,295)	(107,220)
Amortization of ESOP awards	-	22,739	43,677	-	66,416
Balance at March 31, 2017	<u>\$ 8,562</u>	<u>\$ 5,511,671</u>	<u>\$ (344,460)</u>	<u>\$ 7,213,422</u>	<u>\$ 12,389,195</u>
Net earnings	-	-	-	143,162	143,162
Repurchase of common stock	(733)	(512,612)	-	(505,486)	(1,018,831)
Amortization of ESOP awards	-	26,429	43,677	-	70,106
Restricted stock plan expense	-	37,096	-	-	37,096
Balance at March 31, 2018	<u>\$ 7,829</u>	<u>\$ 5,062,584</u>	<u>\$ (300,783)</u>	<u>\$ 6,851,098</u>	<u>\$ 11,620,728</u>

See accompanying notes to consolidated financial statements.

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Consolidated Statements of Cash Flows

	Years Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net earnings	\$ 143,162	\$ 116,990
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	82,154	92,879
Provision for loan losses	28,000	26,000
Provision for losses on foreclosed real estate	11,221	13,933
ESOP expense	70,106	66,416
Restricted stock plan expense	37,096	-
Amortization of deferred loan fees, net	(16,071)	(17,257)
(Increase) decrease in accrued interest receivable	(10,639)	4,673
(Increase) decrease in other assets	(112,297)	144,424
Increase (decrease) in:		
Accrued interest payable on deposits	(3,868)	(4,931)
Other liabilities	(54,114)	47,648
Income taxes payable	(114,128)	117,128
Deferred tax liability	(27,000)	(117,000)
Net cash provided by operating activities	33,622	490,903
Cash flows from investing activities:		
Net increase in loans receivable	(1,749,428)	(3,776,953)
(Purchase) redemption of FHLBC Stock	(28,700)	879,213
Purchase of premises and equipment	(13,783)	(3,158)
Proceeds from sale of foreclosed real estate	445,504	182,433
Net cash (used for) investing activities	(1,346,407)	(2,718,465)
Cash flows from financing activities:		
Net (decrease) in deposits	(4,642,396)	(95,493)
Increase (decrease) in advances from borrowers for taxes and insurance	44,756	(8,667)
Proceeds from advances from FHLBC	2,000,000	5,000,000
Repayment of advances from FHLBC	-	(5,000,000)
Repurchase of common stock	(1,018,831)	(107,220)
Net cash (used for) financing activities	(3,616,471)	(211,380)
Net (decrease) in cash and cash equivalents	(4,929,256)	(2,438,942)
Cash and cash equivalents at beginning of year	12,180,660	14,619,602
Cash and cash equivalents at end of year	\$ 7,251,404	\$ 12,180,660
Supplemental disclosures - cash paid:		
Interest on deposits and advances from FHLBC	\$ 756,934	\$ 874,145
Federal and state income taxes	329,200	115,084
Noncash transactions:		
Real estate acquired in settlement of loans	48,581	506,287
Financing of foreclosed real estate	380,401	-

See accompanying notes to consolidated financial statements.

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

At March 31, 2018 and 2017 and  
For the Years Ended March 31, 2018 and 2017

### (1) Summary of Significant Accounting Policies

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is the officially recognized source of authoritative accounting principles generally accepted in the United States of America ("U.S. GAAP") to be applied to nongovernmental entities. Revision of the ASC is accomplished by issuance of an Auditing Standards Update ("ASU").

On April 8, 2014, Sugar Creek Financial Corp. (the "Company"), the Maryland-chartered holding company for Tempo Bank (the "Bank"), completed the "second step" conversion of the Bank from the mutual holding company to the stock holding company form of organization (the "Conversion") pursuant to an Amended and Restated Plan of Conversion and Reorganization. Upon completion of the Conversion, the Company became the holding company for the Bank and 535,127 shares of common stock, par value \$0.01 per share, of the Company were sold in subscription and community offerings to certain depositors of the Bank and other investors for \$7.00 per share. Further, approximately 414,118 additional shares of the Company's common stock (without taking into consideration cash issued in lieu of fractional shares) were issued in exchange for the outstanding shares of common stock of Sugar Creek Financial Corp. ("Old Sugar Creek Financial Corp."), the former federally-chartered mid-tier holding company for the Bank, held by persons other than Sugar Creek MHC. In the Conversion, each share of common stock of Old Sugar Creek Financial Corp. was converted into the right to receive 1.0453 shares of common stock of the Company.

The significant accounting policies which the Company and Bank follow in preparing and presenting the Company's consolidated financial statements are:

- a. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Tempo Bank. The Company's principal business is the business of the Bank. All significant intercompany accounts and transactions have been eliminated.
- b. For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, federal funds sold and the FHLBC daily investment account, all with original maturities of three months or less. The Company maintains cash in correspondent bank accounts which at times exceed federally insured limits. The Company's management monitors the balances in these accounts and periodically assesses the financial condition of the correspondent banks. Interest-bearing funds in cash and cash equivalents were \$5,888,543 and \$10,133,971 at March 31, 2018 and 2017, respectively.
- c. Stock in FHLBC is recorded at cost, which represents redemption value. The Bank is required by law to own stock in the FHLBC and at March 31, 2018 had \$315,000 of FHLBC stock. FHLBC stock in the amount of \$20,800 and \$7,900 was purchased in April 2017 and September 2017 as a result of requirements regarding activity stock.

FHLBC stock is evaluated for impairment in accordance with FASB ASC 942-325-35, "Financial Services-Depository and Lending-Investments-Other." Determination of whether the FHLBC 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 FHLBC and the length of time this situation has persisted; the ability of the FHLBC 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 of the FHLBC. Management believes that no impairment charge on FHLBC stock was necessary at March 31, 2018.

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

- d. Loans receivable, net, are carried at unpaid principal balances, less allowance for losses, deferred income, net deferred loan fees and loans in process. Loan origination and commitment 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.

The Bank considers a loan to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. The types of loans for which impairment is measured under FASB ASC 310-10-35, "Receivables," include nonaccrual income property loans, large nonaccrual single-family loans, and troubled debt restructurings 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 they are 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. A loan classified as a troubled debt restructuring will generally retain such classification until paid in full. However, a troubled debt restructuring that is performing with its modified terms for a sustained period of six consecutive months and yields a market rate of interest at the time of the restructuring is removed from such classification.

Allowance for loan losses is 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 allocated and general components. The allocated 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 for the last three years, including adjustments to historical loss experience, maintained to cover uncertainties that affect the Bank's estimate of probable losses for each loan type. The adjustments to historical loss experience are based on evaluation of several factors, including 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.

- e. Premises and equipment 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. Estimated lives are fifteen to forty years for the office buildings and improvements and three to ten years for furniture and equipment.
- f. Foreclosed real estate is initially recorded at fair value, less estimated selling costs at the date of foreclosure, establishing a new cost basis. Subsequently, foreclosed real estate is recorded at the lower of carrying amount or fair value, less estimated selling costs. Costs relating to improvement of foreclosed real estate are capitalized. Income and expenses from operations of foreclosed real estate and provision for losses are included in noninterest expense.
- g. Interest on loans receivable is accrued as earned. Interest on loans receivable deemed uncollectible is excluded from income until collected. When a loan is classified as nonaccrual, accrued interest is reversed against current income. Subsequent collection of interest on nonaccrual loans is applied against principal using the cost recovery method or interest that is recognized on the cash basis method. Accrual of interest is resumed on previously classified nonaccrual loans, when there is no

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

longer any reasonable doubt as to the timely collection of interest.

- h. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that 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 taxable 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.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and penalties related to tax positions in income tax expense.

- i. The cost of shares issued to the ESOP, but not yet committed to be released, is shown as a reduction of stockholders' equity. For ESOP shares committed to be released, the Company recognizes compensation expense equal to the average fair value of the shares committed to be released during the year in accordance with the provisions of FASB ASC 718-40-30, "Compensation-Stock Compensation-Employee Stock Ownership Plans." To the extent that the fair value of the ESOP shares differs from the cost of such shares, the difference is charged or credited to stockholders' equity as additional paid-in capital.

Compensation expense for restricted stock is recognized based on the fair value of awards at the grant date and is recognized on a straight-line basis over the requisite service period, defined as the vesting period.

- j. Earnings per share ("EPS") are based upon the weighted-average shares outstanding. ESOP shares, which have been committed to be released, are considered outstanding and restricted stock to the extent dilutive using the treasury stock method.

	<b>Years Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Basic and diluted earnings per share:		
Net earnings	\$ 143,162	\$ 116,990
Weighted-average shares - Basic EPS	764,371	811,807
Effect of dilutive stock awards	1,026	-
Weighted-average shares - Diluted EPS	765,397	811,807
Basic and diluted earnings per share	\$ 0.19	\$ 0.14

- k. The Company evaluates events and transactions that occur after the balance sheet date but before the date the financial statements are issued. The Company recognizes in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial statement preparation process. The Company has evaluated subsequent events through June 18, 2018.

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

### I. The following paragraphs summarize recent accounting pronouncements:

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." The provisions of 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 periods within fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718)-Improvements to Employee Share-Based Payment Accounting." The provisions of ASU 2016-09 simplify several aspects for share-based payment transactions, including income tax consequences, forfeitures, statutory tax withholding requirements and classifications of the income tax effects of certain share-based payment transactions in the statement of cash flows. ASU 2016-09 eliminates equity treatment for tax benefits or deficiencies that result from differences between compensation costs recognized for GAAP purposes and the related tax deduction and require such differences be recognized as income tax expense. Since excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method will exclude the amount of excess tax benefits when calculating earnings per share. Under ASU 2016-09, forfeitures can be estimated and considered in the accrual of compensation expense, as in current practice, or accounted for as they occur. In addition, for awards to qualify as equity instruments the employer must have a statutory obligation to withhold taxes on the employee's behalf and the withholdings cannot exceed the maximum statutory tax rates in the applicable jurisdictions. Excess tax benefits are now classified as operating activities and cash paid by an employer when directly withholding shares for tax-withholding purposes is classified as a financing activity. Since the Company qualifies as an emerging growth company, ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of ASU 2016-09 on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326)." The provisions of 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. The amendments in ASU 2016-13 eliminate the probable initial recognition in current GAAP 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 collectibility 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.



# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

Since the Company qualifies as an emerging growth company, ASU 2016-13 is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact of ASU 2016-13 on its consolidated financial statements.

### **(2) Risks and Uncertainties**

The Bank is a community-oriented financial institution that provides traditional financial services within the areas it serves. The Bank is engaged primarily in the business of attracting deposits from the general public and using these funds to originate primarily one- to four-family residential mortgage loans located in the Clinton, St. Clair, Madison and Bond County, Illinois area. Further, operations of the Bank are managed and financial performance is evaluated on an institution-wide basis. As a result, all of the Bank's operations are considered by management to be aggregated in one reportable operating segment.

The consolidated financial statements have been prepared in conformity with U.S. GAAP. 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 years covered. Actual results could differ significantly from these estimates and assumptions.

The Bank's operations are affected by interest rate risk, credit risk, market risk and regulation by the Office of the Comptroller of the Currency ("OCC"). The Bank 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 Bank uses a net market value methodology provided by an outside consulting firm to measure its interest rate risk exposure and potential decline in the net portfolio value of the Bank. Net portfolio value is the present value of expected net cash flows from the Bank's assets, liabilities and off-balance sheet contracts. Credit risk is the risk of default on the Bank's loan portfolio that results from inability or unwillingness of borrowers to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Bank.

The Bank is subject to periodic examination by the OCC that may require the Bank to record increases in the allowance for loan losses based on its evaluation of available information. There can be no assurance that the Bank's regulator will not require further increases. The OCC 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 Bank's management.

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

### (3) Loans Receivable, Net

Loans receivable, net, are summarized as follows:

	March 31,	
	2018	2017
Real estate loans:		
Single-family, owner occupied	\$ 70,337,458	\$ 67,846,596
Single-family, non-owner occupied	8,353,959	8,551,698
Multi-family, 5 or more units	732,204	822,965
Commercial	2,248,630	2,600,720
Land	1,154,160	882,949
Consumer loans	1,863,956	1,916,186
	<u>84,690,367</u>	<u>82,621,114</u>
Allowance for losses	(196,403)	(193,403)
Deferred loan fees, net	(79,306)	(82,372)
Total loans	<u>\$ 84,414,658</u>	<u>\$ 82,345,339</u>

The weighted-average rate on loans was 4.04% and 4.05% at March 31, 2018 and 2017, respectively. Balloon and adjustable-rate loans in the loan portfolio amounted to \$37,126,140 and \$37,717,187 at March 31, 2018 and 2017, respectively.

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

#### Single- family, owner occupied

Single- family, owner occupied 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.

#### Single- family, non-owner occupied

Single- family, non-owner occupied loans carry greater inherent risks than single- family, owner occupied loans, since the repayment ability of the borrower is reliant on the adequacy of the income generated from the property.

#### Multi-family, 5 or more units

Multi-family real estate loans are typically secured by apartment complexes.

#### Commercial real estate

Commercial real estate loans are secured primarily by office buildings and 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 flows as a percentage of debt

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

service requirements. These loans carry significant credit risks as they involve larger balances concentrated with single borrowers or groups of related borrowers. Repayment of loans secured by income-producing properties generally depends on the successful operation of the real estate project and may be subject to a greater extent to adverse market conditions and the general economy.

### Land

Land loans are secured by unimproved land with terms of fifteen years or less and loan amounts that do not exceed 85% of the lesser of the appraised value or the purchase price. Loans secured by unimproved land generally involve greater risks than residential mortgage lending because land loans are more difficult to evaluate and the marketability of the underlying property may also be adversely affected in a high interest rate environment or adverse conditions in the real estate market or economy.

### Consumer

Consumer loans include automobile, signature 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 allowance for loan losses for the years ended March 31, 2018 and 2017:

Allowance for Loan Losses					
	Beginning Balance	Provision for Losses	Charge-offs	Recoveries	Ending Balance
<b>Year ended March 31, 2018</b>					
Real estate loans:					
Single-family, owner occupied	\$ 123,546	\$ 29,994	\$ (25,000)	\$ -	\$ 128,540
Single-family, non-owner occupied	23,212	(5,283)	-	-	17,929
Multi-family, 5 or more units	1,457	(128)	-	-	1,329
Commercial	4,606	(525)	-	-	4,081
Land	1,564	531	-	-	2,095
Consumer loans	2,597	432	-	-	3,029
Unallocated	36,421	2,979	-	-	39,400
	<u>\$ 193,403</u>	<u>\$ 28,000</u>	<u>\$ (25,000)</u>	<u>\$ -</u>	<u>\$ 196,403</u>
<b>Year ended March 31, 2017</b>					
Real estate loans:					
Single-family, owner occupied	\$ 116,012	\$ 33,534	\$ (26,000)	\$ -	\$ 123,546
Single-family, non-owner occupied	25,930	(2,718)	-	-	23,212
Multi-family, 5 or more units	1,600	(143)	-	-	1,457
Commercial	4,690	(84)	-	-	4,606
Land	2,050	(486)	-	-	1,564
Consumer loans	2,694	(97)	-	-	2,597
Unallocated	40,427	(4,006)	-	-	36,421
	<u>\$ 193,403</u>	<u>\$ 26,000</u>	<u>\$ (26,000)</u>	<u>\$ -</u>	<u>\$ 193,403</u>

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

The following presents by portfolio segment, the recorded investment in loans and impairment method at March 31, 2018 and 2017:

	Allowance for Loan Losses			Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
<b>At March 31, 2018</b>						
Real estate loans:						
Single-family, owner occupied	\$ 1,043	\$ 127,497	\$ 128,540	\$ 385,847	\$ 69,951,611	\$ 70,337,458
Single-family, non-owner occupied	3,120	14,809	17,929	193,302	8,160,657	8,353,959
Multi-family, 5 or more units	-	1,329	1,329	-	732,204	732,204
Commercial	-	4,081	4,081	-	2,248,630	2,248,630
Land	-	2,095	2,095	-	1,154,160	1,154,160
Consumer loans	-	3,029	3,029	3,888	1,860,068	1,863,956
Unallocated	-	39,400	39,400	-	-	-
	<u>\$ 4,163</u>	<u>\$ 192,240</u>	<u>\$ 196,403</u>	<u>\$ 583,037</u>	<u>\$ 84,107,330</u>	<u>\$ 84,690,367</u>
<b>At March 31, 2017</b>						
Real estate loans:						
Single-family, owner occupied	\$ 3,555	\$ 119,991	\$ 123,546	\$ 158,416	\$ 67,688,180	\$ 67,846,596
Single-family, non-owner occupied	8,418	14,794	23,212	198,598	8,353,100	8,551,698
Multi-family, 5 or more units	-	1,457	1,457	-	822,965	822,965
Commercial	-	4,606	4,606	-	2,600,720	2,600,720
Land	-	1,564	1,564	-	882,949	882,949
Consumer loans	-	2,597	2,597	8,049	1,908,137	1,916,186
Unallocated	-	36,421	36,421	-	-	-
	<u>\$ 11,973</u>	<u>\$ 181,430</u>	<u>\$ 193,403</u>	<u>\$ 365,063</u>	<u>\$ 82,256,051</u>	<u>\$ 82,621,114</u>

A loan is considered impaired, in accordance with accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan.

The following presents impaired loans and allocated allowance for loan losses based upon class levels and average recorded investment:

	Impaired Loans				
	With Allowance for Losses	With no Allowance for Losses	Total	Unpaid Principal Balance	Allowance for Losses
<b>At March 31, 2018</b>					
Real estate loans:					
Single-family, owner occupied	\$ 91,327	\$ 294,520	\$ 385,847	\$ 385,847	\$ 1,043
Single-family, non-owner occupied	193,302	-	193,302	193,302	3,120
Multi-family, 5 or more units	-	-	-	-	-
Commercial	-	-	-	-	-
Land	-	-	-	-	-
Consumer loans	-	3,888	3,888	3,888	-
	<u>\$ 284,629</u>	<u>\$ 298,408</u>	<u>\$ 583,037</u>	<u>\$ 583,037</u>	<u>\$ 4,163</u>

The average recorded investment on impaired loans for the year ended March 31, 2018 included: single-family, owner occupied loans of \$74,689, single-family non-owner occupied loans of \$195,950 and consumer of \$5,695.

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

	Impaired Loans				
	With Allowance for Losses	With no Allowance for Losses	Total	Unpaid Principal Balance	Allowance for Losses
<b>At March 31, 2017</b>					
Real estate loans:					
Single-family, owner occupied	\$ 93,272	\$ 65,144	\$ 158,416	\$ 158,416	\$ 3,555
Single-family, non-owner occupied	198,598	-	198,598	198,598	8,418
Multi-family, 5 or more units	-	-	-	-	-
Commercial	-	-	-	-	-
Land	-	-	-	-	-
Consumer loans	-	8,049	8,049	8,049	-
	<u>\$ 291,870</u>	<u>\$ 73,193</u>	<u>\$ 365,063</u>	<u>\$ 365,063</u>	<u>\$ 11,973</u>

The average recorded investment on impaired loans for the year ended March 31, 2017 included: single-family, owner occupied loans of \$158,489, single-family non-owner occupied loans of \$200,964 and consumer loans of \$8,907.

For the years ended March 31, 2018 and 2017, gross interest income that would have been recorded had the impaired loans been current in accordance with their original terms was \$13,696 and \$15,695, respectively. Interest recognized on such loans for the years ended March 31, 2018 and 2017 was \$12,721 and \$10,941, respectively.

The following presents nonperforming loans based upon class level at March 31, 2018 and 2017:

	Nonperforming Loans			
	Nonaccrual	Past Due 90 Days or More and Still Accruing	Accruing Troubled Debt Restructurings	Total
<b>At March 31, 2018</b>				
Real estate loans:				
Single-family, owner occupied	\$ 377,733	\$ -	\$ -	\$ 377,733
Single-family, non-owner occupied	-	-	193,302	193,302
Multi-family, 5 or more units	-	-	-	-
Commercial	-	-	-	-
Land	-	-	-	-
Consumer loans	-	-	3,888	3,888
	<u>\$ 377,733</u>	<u>\$ -</u>	<u>\$ 197,190</u>	<u>\$ 574,923</u>

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

	Nonperforming Loans			
	Nonaccrual	Past Due 90 Days or More and Still Accruing	Accruing Troubled Debt Restructurings	Total
<b>At March 31, 2017</b>				
Real estate loans:				
Single-family, owner occupied	\$ 158,416	\$ -	\$ -	\$ 158,416
Single-family, non-owner occupied	-	-	198,598	198,598
Multi-family, 5 or more units	-	-	-	-
Commercial	-	-	-	-
Land	-	-	-	-
Consumer loans	-	-	8,049	8,049
	<u>\$ 158,416</u>	<u>\$ -</u>	<u>\$ 206,647</u>	<u>\$ 365,063</u>

There were no new troubled debt restructurings during the years ended March 31, 2018 and 2017, respectively.

The following presents a summary of troubled debt restructurings at March 31, 2018 and 2017:

	March 31,			
	2018		2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Real estate loans:				
Single-family, non-owner occupied	2	\$ 193,302	2	\$ 198,598
Consumer loans	1	3,888	2	8,049
	<u>3</u>	<u>\$ 197,190</u>	<u>4</u>	<u>\$ 206,647</u>

At March 31, 2018, there were no real estate loans that were in the process of foreclosure according to the local jurisdiction requirements.

The following presents the Bank's loan portfolio aging analysis as of March 31, 2018 and 2017:

	Days Past Due				
	30-59	60-89	90 or more	Current	Total
<b>At March 31, 2018</b>					
Real estate loans:					
Single-family, owner occupied	\$ 772,891	\$ 401,650	\$ 377,733	\$ 68,785,184	\$ 70,337,458
Single-family, non-owner occupied	203,252	17,713	-	8,132,994	8,353,959
Multi-family, 5 or more units	-	-	-	732,204	732,204
Commercial	-	-	-	2,248,630	2,248,630
Land	-	63,031	-	1,091,129	1,154,160
Consumer loans	120,721	-	3,888	1,739,347	1,863,956
	<u>\$ 1,096,864</u>	<u>\$ 482,394</u>	<u>\$ 381,621</u>	<u>\$ 82,729,488</u>	<u>\$ 84,690,367</u>

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

	Days Past Due				
	30-59	60-89	90 or more	Current	Total
<b>At March 31, 2017</b>					
Real estate loans:					
Single-family, owner occupied	\$ 499,779	\$ -	\$ 158,416	\$ 67,188,401	\$ 67,846,596
Single-family, non-owner occupied	-	198,598	-	8,353,100	8,551,698
Multi-family, 5 or more units	-	-	-	822,965	822,965
Commercial	-	-	-	2,600,720	2,600,720
Land	-	65,302	-	817,647	882,949
Consumer loans	-	7,296	7,501	1,901,389	1,916,186
	<u>\$ 499,779</u>	<u>\$ 271,196</u>	<u>\$ 165,917</u>	<u>\$ 81,684,222</u>	<u>\$ 82,621,114</u>

The Bank 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 grading process and are reflected in the Pass category. The delinquency trends of these consumer loans are monitored on a homogeneous basis.

The Bank uses the following definitions for risk ratings:

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

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

The Substandard asset quality rating encompasses assets that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any; assets having a well-defined weakness based upon objective evidence; assets characterized by the distinct possibility that the Bank 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.

The 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.

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

The following presents the credit risk profile for the Bank's loan portfolio based upon risk rating category at March 31, 2018 and 2017:

Credit Quality Indicator-Credit Risk Profile by Grade or Classification						
	Special Mention	Substandard	Doubtful	Loss	Pass	Total
<b>At March 31, 2018</b>						
Real estate loans:						
Single-family, owner occupied	\$ 640,071	\$ 377,733	\$ -	\$ -	\$ 69,319,654	\$ 70,337,458
Single-family, non-owner occupied	291,895	193,302	-	-	7,868,762	8,353,959
Multi-family, 5 or more units	-	-	-	-	732,204	732,204
Commercial	-	-	-	-	2,248,630	2,248,630
Land	-	-	-	-	1,154,160	1,154,160
Consumer loans	119,057	3,888	-	-	1,741,011	1,863,956
	<u>\$ 1,051,023</u>	<u>\$ 574,923</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,064,421</u>	<u>\$ 84,690,367</u>

Credit Quality Indicator-Credit Risk Profile by Grade or Classification						
	Special Mention	Substandard	Doubtful	Loss	Pass	Total
<b>At March 31, 2017</b>						
Real estate loans:						
Single-family, owner occupied	\$ -	\$ 158,416	\$ -	\$ -	\$ 67,688,180	\$ 67,846,596
Single-family, non-owner occupied	-	198,598	-	-	8,353,100	8,551,698
Multi-family, 5 or more units	-	-	-	-	822,965	822,965
Commercial	-	-	-	-	2,600,720	2,600,720
Land	-	-	-	-	882,949	882,949
Consumer loans	-	8,049	-	-	1,908,137	1,916,186
	<u>\$ -</u>	<u>\$ 365,063</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,256,051</u>	<u>\$ 82,621,114</u>

Following is a summary of activity for loans to directors, executive officers and associates of such persons:

	Years Ended March 31,	
	2018	2017
Balance, beginning of year	\$ 3,479,033	\$ 3,668,681
Additions	155,684	79,846
Retired executive officer and related affiliate	(161,615)	-
Repayments	(322,777)	(269,494)
Balance, end of year	<u>\$ 3,150,325</u>	<u>\$ 3,479,033</u>

These loans were made on substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated persons.



# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

### (4) Premises and Equipment, Net

Premises and equipment, net, are summarized as follows:

	March 31,	
	2018	2017
Land	\$ 349,032	\$ 349,032
Land for possible future branch location	152,263	152,263
Office buildings and improvements	1,672,078	1,660,034
Furniture and equipment	464,156	462,417
	<u>2,637,529</u>	<u>2,623,746</u>
Less accumulated depreciation	1,636,941	1,554,787
	<u>\$ 1,000,588</u>	<u>\$ 1,068,959</u>

Depreciation expense for the years ended March 31, 2018 and 2017 was \$82,154 and \$92,879, respectively.

### (5) Foreclosed Real Estate

Foreclosed real estate is summarized as follows:

	March 31,	
	2018	2017
Foreclosed real estate - residential	<u>\$ 115,138</u>	<u>\$ 903,683</u>

Activity in foreclosed real estate is summarized as follows:

	Years Ended March 31,	
	2018	2017
Beginning balance	\$ 903,683	\$ 593,762
Loans to foreclosed real estate	48,581	506,287
Foreclosed real estate to loans	(380,401)	-
Provision for losses	(11,221)	(13,933)
(Proceeds from sale) additions, net	(445,504)	(182,433)
Ending balance	<u>\$ 115,138</u>	<u>\$ 903,683</u>

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

### (6) Deposits

Deposits are summarized as follows:

Description and Weighted-average Rate	March 31,	
	2018	2017
Non-interest bearing NOW accounts	\$ 4,805,837	\$ 4,839,636
NOW accounts, .16% and .15%	8,063,928	7,095,165
Savings accounts, .22% and .22%	14,321,861	14,951,049
Money market accounts, .37% and .37%	12,026,007	13,343,196
Total transaction accounts	39,217,633	40,229,046
Certificates:		
0.01 - 0.50%	6,690,214	7,477,469
0.51 - 1.00%	3,885,801	4,134,145
1.01 - 1.50%	2,406,450	3,207,815
1.51 - 2.00%	13,709,126	23,121,174
2.01 - 2.25%	8,210,892	592,863
Total certificates, 1.44% and 1.40%	34,902,483	38,533,466
Total deposits, .79% and .80%	\$ 74,120,116	\$ 78,762,512

The aggregate amount of certificates in denominations of \$250,000 or more at March 31, 2018 and 2017 were \$3,471,884 and \$3,802,302, respectively.

There were no brokered deposits at March 31, 2018 or 2017.

Certificate maturities are summarized as follows:

	March 31,	
	2018	2017
First year	\$ 17,222,856	\$ 23,019,497
Second year	7,162,081	9,532,154
Third year	2,008,033	3,860,818
Fourth year	1,020,236	1,483,819
Fifth year	7,489,277	637,178
	\$ 34,902,483	\$ 38,533,466

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

Interest expense on deposits is summarized as follows:

	Years Ended March 31,	
	2018	2017
NOW accounts	\$ 11,042	\$ 10,363
Savings accounts	31,419	31,985
Money market accounts	44,818	48,999
Certificates	559,616	545,452
	<u>\$ 646,895</u>	<u>\$ 636,799</u>

### (7) Advances from FHLBC

Advances from FHLBC are summarized as follows:

Final Maturity Date	Effective Interest Rate	March 31,	
		2018	2017
Daily Open Line Advance	1.85%	\$ 2,000,000	\$ -
February 13, 2019	1.43%	1,000,000	1,000,000
February 13, 2020	1.76%	2,000,000	2,000,000
February 14, 2022	2.21%	2,000,000	2,000,000
Total FHLBC Advances, 1.87% and 1.87%		<u>\$ 7,000,000</u>	<u>\$ 5,000,000</u>

At March 31, 2018, advances were secured by FHLBC stock and single- family residential mortgage loans with a collateral loan value totaling \$57.1 million. At March 31, 2018, the Bank had remaining credit available under the FHLBC advance program of \$50.1 million.

In addition, a \$2.0 million unused open line advance exists with Quad City Bank and Trust in Davenport, Iowa.

### (8) Income Taxes

Retained earnings at March 31, 2018 and 2017 includes \$888,000 representing tax bad debt deductions for which no provision for federal income tax has been made. 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.

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

The provision for income taxes differs from the Federal statutory corporate tax rate as follows:

	<b>Years Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Federal statutory income tax rate	30.8 %	34.0 %
Increases (decreases) in tax rate:		
State taxes, net of Federal tax benefit	7.1	5.7
ESOP expense - nondeductible	4.0	3.8
Surtax exemption	(2.4)	(3.0)
Remeasurement of deferred tax liability	(13.2)	-
Other, net	3.9	1.9
Tax rate	<u>30.2 %</u>	<u>42.4 %</u>

The components of the net deferred tax liability are summarized as follows:

	<b>At March 31,</b>	
	<b>2018</b>	<b>2017</b>
Deferred tax liabilities:		
FHLB stock dividends	\$ (17,572)	\$ (24,475)
Tax over book depreciation	(72,519)	(115,956)
Accrued income and expense	(64,698)	(67,948)
Total deferred tax liabilities	<u>(154,789)</u>	<u>(208,379)</u>
Deferred tax assets:		
Allowance for losses on loans	54,993	75,427
Book over tax ESOP expense	18,754	26,669
Restricted stock plan expense	10,387	-
Other	3,547	15,175
Total deferred tax assets	<u>87,681</u>	<u>117,271</u>
Net deferred tax liability	<u>\$ (67,108)</u>	<u>\$ (91,108)</u>

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

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

Income taxes are summarized as follows:

	Years Ended March 31,	
	2018	2017
Current:		
Federal	\$ 63,401	\$ 165,855
State	25,509	37,290
	<u>88,910</u>	<u>203,145</u>
Deferred:		
Federal	(16,000)	(96,000)
State	(11,000)	(21,000)
	<u>(27,000)</u>	<u>(117,000)</u>
Total income taxes	<u>\$ 61,910</u>	<u>\$ 86,145</u>

The Company is subject to U.S. Federal income taxes and State of Illinois income taxes. Tax years ended March 31, 2015 through March 31, 2018 remain open to examination by these jurisdictions. At March 31, 2018, there was no accrual for uncertain tax positions or related interest.

## (9) Employee Benefits

### Multiemployer Plan

The Bank participates in the Pentegra Defined Benefit Plan for Financial Institutions ("Pentegra DB Plan"), which covers substantially all employees. The Pentegra DB Plan operates as a multiemployer plan under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. The Pentegra DB Plan's Employer Identification Number is 13-5645888 and the Plan Number is 333. There are no collective bargaining agreements in place that require contributions to the Pentegra DB Plan. The Pentegra DB Plan is a simple plan under Internal Revenue Code Section 413 (c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, under the Pentegra DB Plan contributions made by a participating employer may be used to provide benefits to participants of other participating employers.

As of June 30, 2017 and 2016 (the two most recent plan year-ends), the Pentegra DB Plan was 104.50% and 101.86% funded. The Bank's contributions during the plan years ended June 30, 2017 and 2016 represented less than 5% of the total contributions to the Pentegra DB Plan. During the years ended March 31, 2018 and 2017, the Bank's cash contributions made to the Pentegra DB Plan, including administrative costs, were \$157,431 and \$111,441, respectively.

Since this is a multiemployer plan, the plan's administrators are unable to determine the actuarial present value of benefits attributable to the Bank's participants. The Bank had a funding surplus of \$199,721 and \$77,559 at June 30, 2017 and 2016, respectively. Pension expense, including administrative costs, was \$153,947 and \$131,642 for the years ended March 31, 2018 and 2017, respectively.

### Defined Contribution Plan

The Bank has a defined contribution plan which covers substantially all employees. Participants may contribute up to 20% of salary, subject to Internal Revenue Code limitations. The Bank matches the employee contribution, up to 4% of salary and employees are fully vested in such contributions at all times. Participants are fully vested in the Bank's contributions after three years of service. Participants are 0%

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

vested prior to completing three years of service. Defined contribution plan expense was \$30,903 and \$29,756 for the years ended March 31, 2018 and 2017, respectively.

### Employee Stock Ownership Plan ("ESOP")

The Bank has an ESOP for the benefit of employees who meet eligibility requirements as defined in the ESOP. Eligible employees in the ESOP are those who also participated in the Bank's defined contribution plan as of April 3, 2007 and employees hired thereafter which complete at least 1000 hours of service during the plan year, which begins January 1. Participant benefits become fully vested upon completion of 3 years of service; participants will be 0% vested prior to that time. The Bank makes annual contributions equal to the ESOP's debt service, less dividends on unallocated and allocated (if any) shares used to repay the loan. Dividends on allocated ESOP shares are charged to retained earnings. The ESOP shares are pledged as collateral on the loan. As the loan is repaid, shares are released from collateral and allocated to participating employees, based on the proportion of loan principal and interest repaid and compensation of the participants.

In the event the ESOP is unable to satisfy the obligations to repurchase the shares held by each beneficiary upon the beneficiary's termination or retirement, the Company is obligated to repurchase the shares. As of March 31, 2018, there are 3,987 shares, with a market value of approximately \$50,000, held by former employees that are subject to an ESOP related repurchase option.

The ESOP was originally established with the purchase of 35,549 shares of common stock in the offering completed in April 2007 using the proceeds of a loan from the former mid-tier Old Sugar Creek Financial Corp. The Bank has been making annual payments of principal and interest over a term of fifteen years at an annual rate of 8.25%. On April 18, 2014 as part of a second step stock offering, the allocated and unallocated shares from this ESOP were exchanged for shares of the Company at an exchange rate of 1.0453 to 1. This resulted in the addition of 1,583 shares (724 shares allocated and 859 shares unallocated).

The ESOP has an additional loan from the Company to fund the purchase of 42,810 shares of common stock in connection with the second step conversion completed on April 18, 2014 under which the Bank makes principal and interest payments over a term of fifteen years at an annual rate of 3.25%. Both loans are secured by the shares of stock either exchanged or purchased as part of the offering. Shares of the Company's stock purchased by the ESOP were deposited in the original trust and are being held until released for allocation to participants. Following this second step purchase, the ESOP trust held shares in the amount of 79,342. In December 2017, the Company repurchased 311 shares from a bank retiree under a put option and at March 31, 2018 holds 79,031 shares.

ESOP shares released are allocated to each eligible participant based on the ratio of each such participant's compensation, as defined in the ESOP, to the total compensation of all eligible participants. As the unearned shares are released from the trust, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent the fair value of the ESOP shares released differs from the cost of the shares, such amount is charged to or credited to equity as additional paid-in capital. For the years ended March 31, 2018 and 2017, the Company recognized \$70,106 and \$66,416, respectively, in compensation expense related to the ESOP.

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

ESOP shares are summarized as follows:

	At March 31,	
	2018	2017
Allocated	37,727	32,707
Committed-to-be-allocated	1,332	1,332
Unallocated	39,972	45,303
Total ESOP Shares	79,031	79,342
Fair value of unallocated shares	\$ 501,649	\$ 631,977

### Equity Incentive Plan and Restricted Stock Plan

In November 2007 stockholders approved the Sugar Creek Financial Corp. 2007 Equity Incentive Plan (the "Plan"). Under the Plan, the Company may grant to employees, officers and directors up to 62,211 shares of common stock, including 44,437 shares for stock options and 17,774 shares of restricted stock. In July 2008, the Board of Directors granted 17,774 shares of restricted stock to officers and directors of the Company. Shares of common stock to fund these awards were repurchased in the open market at an average price of \$8.10. At July 25, 2013, the restricted stock awards were fully vested. On April 18, 2014 as part of a second step offering, the 44,437 shares for stock options were exchanged for shares of the Company at an exchange rate of 1.0453 to 1. This resulted in 46,449 shares for stock options. In November 2017, the stock options expired.

In August 2015 stockholders approved the Sugar Creek Financial Corp. 2015 Restricted Stock Plan (the "RS Plan"). Under the plan and as of July 31, 2017, the Company granted to employees, officers and directors 21,400 shares of restricted stock. Shares of common stock to fund these awards will come from shares authorized but not yet issued and valued by the closing stock price on the grant date. Vesting will occur over a five year period beginning with the first anniversary of the grant date.

Restricted stock plan expense amounted to \$37,096 for the year ended March 31, 2018. As of March 31, 2018, the Company had \$241,104 of unrecognized pre-tax expense which is expected to be recognized over 4.3 years.

The table below sets forth a summary of restricted stock activity under the plan for the year ended March 31, 2018:

	Number of Shares	Weighted- Average Grant Date Fair Value
Nonvested at March 31, 2017	-	\$ -
Granted	21,400	13.00
Vested	-	-
Forfeited	-	-
Nonvested at March 31, 2018	21,400	\$ 13.00

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

### **(10) Stockholders' Equity and Regulatory Capital**

The Bank may not declare or pay a cash dividend, if the effect of such dividends would be to cause the capital of the Bank to be reduced below the aggregate amount required by federal law or regulation. The Company may pay a dividend, if and when declared by its Board of Directors. Any repurchases of the Company's common stock will be conducted in accordance with applicable laws and regulations.

On June 20, 2017, the Board of Directors of the Company authorized the repurchase of up to \$1.0 million of the outstanding shares of the Company's common stock. The Bank paid an \$800,000 cash dividend to the Company on July 25, 2018 to facilitate the repurchase of common stock. During the year ended March 31, 2018, the Company repurchased 73,335 shares of common stock at an average price of \$13.89 per share.

On November 12, 2015, the Board of Directors of the Company authorized the repurchase of up to \$1.1 million of the outstanding shares of the Company's common stock. During the year ended March 31, 2017, the Company completed the authorized transactions and repurchased 9,275 shares of common stock at an average price of \$11.56 per share.

The Bank 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 financial statements of the Bank. Under capital adequacy guidelines, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications of the Bank are also subject to quantitative judgments by the regulators about components, risk-weightings and other factors. At March 31, 2018 and 2017, the Bank met all capital adequacy requirements.

On July 9, 2013, the OCC approved rules that amended the regulatory capital rules applicable to the Bank. The rules include new minimum risk-based capital and leverage ratios, which became effective January 1, 2015. The new minimum capital level requirements applicable to the Bank are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital to risk-weighted assets ratio of 6% (increased from 4%); (iii) a total capital to risk-weighted assets ratio of 8% (unchanged from prior rules); and (iv) a Tier 1 leverage ratio of 4%. The rules also establish a "capital conservation buffer" of 2.5% above the new 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%; and, (iii) a total capital to risk-weighted assets ratio of 10.5%. The Tier 1 leverage ratio was unchanged at 4.0%. 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 Company is exempt from the Basel III rules.

The Bank is also subject to the regulatory framework for prompt corrective action. At March 31, 2018 and 2017, the most recent notification from the regulatory agencies categorized the Bank as well capitalized. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the aforementioned notifications that management believes have changed the category of the Bank.



# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

The Bank's actual and required capital amounts and ratios under "Basel III" at March 31, 2018 and 2017 are as follows:

	Actual		Minimum Required			
			for Capital Adequacy		to be "Well Capitalized"	
	Amount	Ratio	Amount	Ratio <sup>(1)</sup>	Amount	Ratio
<b><u>At March 31, 2018:</u></b>			(Dollars in T thousands)			
Total capital to risk-weighted assets	\$ <u>10,861</u>	22.70%	\$ 4,725	9.875%	\$ 4,785	10.00%
Tier 1 capital to risk-weighted assets	\$ <u>10,665</u>	22.29%	\$ 3,768	7.875%	\$ 3,828	8.00%
Common equity tier 1 capital to risk-weighted assets	\$ <u>10,665</u>	22.29%	\$ 3,050	6.375%	\$ 3,110	6.50%
Tier 1 capital to total assets	\$ <u>10,665</u>	11.36%	\$ 3,757	4.000%	\$ 4,696	5.00%

(1) Includes transition of capital conservation buffer under "Basel III".

	Actual		Minimum Required			
			for Capital Adequacy		to be "Well Capitalized"	
	Amount	Ratio	Amount	Ratio <sup>(1)</sup>	Amount	Ratio
<b><u>At March 31, 2017:</u></b>			(Dollars in T thousands)			
Total capital to risk-weighted assets	\$ <u>11,396</u>	23.59%	\$ 4,468	9.250%	\$ 4,831	10.00%
Tier 1 capital to risk-weighted assets	\$ <u>11,203</u>	23.19%	\$ 3,502	7.250%	\$ 3,865	8.00%
Common equity tier 1 capital to risk-weighted assets	\$ <u>11,203</u>	23.19%	\$ 2,778	5.750%	\$ 3,140	6.50%
Tier 1 capital to total assets	\$ <u>11,203</u>	11.60%	\$ 3,863	4.000%	\$ 4,828	5.00%

(1) Includes transition of capital conservation buffer under "Basel III".

## (11) Financial Instruments with Off-Balance Sheet Risk

The Company 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 typically 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.

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

The Company's 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 Company minimizes this risk by evaluating each borrower's creditworthiness on a case-by-case basis. Generally, collateral held by the Company consists of a first or second mortgage on the borrower's property. Loan commitments at March 31, 2018 to originate balloon mortgage loans amounted to \$461,600 and carried interest rates ranging from 3.375% to 3.75% and repricing terms from five years to ten years.

### (12) Contingencies

In August 2011, the Bank, and three other banks, were named defendants in an Amended Complaint filed in the Circuit Court for St. Clair County, Illinois in a case entitled *McKay, et. al. v Huelsmann, et. al., No. 11-L-89*. The Plaintiffs are elderly investors who lost money to the defendant Huelsmann in a fraudulent investment scheme. None of the Plaintiffs was a customers of the Bank. All parties agreed to a mediation hearing in an attempt to settle the case. The mediation proceedings were held on May 4, 2017 where a settlement agreement was reached. The total settlement was for \$150,000 with the Bank's share being \$32,000 plus the Bank's attorney fees and share of mediator costs. In addition, the settlement also called for a global release of the defendant banks; no admission of liability; dismissal with prejudice of all claims; and, that each party will bear their own costs. In recognition of this settlement, the Bank established a liability of \$36,000 at March 31, 2017, which was subsequently paid. The final Settlement Agreement, Releases and Court Order were completed and executed by the parties on May 11, 2018.

### (13) Concentration of Credit Risk

The Bank originates loans to the general public, which includes military personnel and civilian employees of Scott Air Force Base, located in Belleville, Illinois. This concentration of credit risk could unfavorably impact the level of credit risk of the Bank should events occur, such as employment curtailments, temporary layoffs or other events. Management believes that the secured nature of the majority of these loans partially mitigates this risk based upon current economic conditions.

### (14) Fair Value Measurements and Fair Value of Financial Instruments

#### Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

### Valuation Techniques

Available for sale securities are carried at fair value utilizing Level 1 and Level 2 inputs. For debt securities, the Company obtains fair value measurements from an independent pricing service. 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. At March 31, 2018 and 2017, the Company did not have any available for sale securities.

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) and discounted cash flow analysis. See note 3.

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

Assets measured at fair value on a nonrecurring basis at March 31, 2018 and 2017 include impaired loans of \$583,037 and \$365,063, respectively, utilizing Level 3 inputs. The impaired loans are collateral dependent.

Following is a summary of the activity in the allowance for losses on impaired loans, including troubled debt restructurings:

	Years Ended March 31,	
	2018	2017
Balance, beginning of year	\$ 11,973	\$ 15,380
Loan charge-offs	(25,000)	(26,000)
Loan recoveries	-	-
Provision for loan losses	17,190	22,593
Balance, end of year	<u>\$ 4,163</u>	<u>\$ 11,973</u>

Nonfinancial assets measured at fair value on a nonrecurring basis include foreclosed real estate which amounted to \$115,138 and \$903,683 at March 31, 2018 and 2017, respectively. Foreclosed real estate is initially recorded at fair value utilizing Level 2 units based on observable market data less costs to sell when acquired, establishing a new cost basis.

### Fair Value of Financial Instruments

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

- Cash and cash equivalents are valued at their carrying amounts due to the relatively short period to maturity of the instruments.
- Stock in FHLBC is valued at cost, which represents historical redemption value and approximates fair value.
- Fair values for the loan portfolio, certificates of deposit and advances from the FHLBC are computed using an analysis which considers the amount and timing of all future cash flows of the underlying instruments discounted at current market rates.
- Fair values of non-maturing deposits, such as checking, NOW, savings and money market deposit accounts are computed using an analysis which uses decay rates to estimate the amount and timing of all future cash flows of the underlying instruments, which are discounted at current market rates.

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

- The carrying amounts of accrued interest receivable and payable approximate fair value.

Off-balance sheet assets include the commitments to extend credit for which fair values were estimated based on interest rates and fees currently charged to enter into similar transactions. As a result of the short-term nature of the outstanding commitments, the fair values of fees on those commitments approximate the amount collected and the Company has not assigned a value to such instruments for purpose of this disclosure.

There were no transfers between Level 1 and Level 2 categorizations or into or out of Level 3 categorization for the years presented.

The carrying amount, fair value and the financial hierarchy of the Company's financial instruments are summarized in the following table. Fair values of financial instruments have been estimated by the Company based upon available market information with the assistance of an independent consultant.

	March 31, 2018		Fair Value Measurements Using		
	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Non-trading instruments and nonderivatives:					
Cash and cash equivalents	\$ 7,251,404	\$ 7,251,404	\$ 7,251,404	\$ -	\$ -
Stock in FHLBC	315,000	315,000	-	315,000	-
Loans receivable, net	84,414,658	83,339,509	-	82,756,472	583,037
Accrued interest receivable on loans	252,127	252,127	-	252,127	-
Deposits	74,120,116	69,460,306	-	69,460,306	-
Accrued interest on deposits	60,437	60,437	-	60,437	-
Advances from FHLBC	7,000,000	6,922,637	-	6,922,637	-
	March 31, 2017		Fair Value Measurements Using		
	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Non-trading instruments and nonderivatives:					
Cash and cash equivalents	\$ 12,180,660	\$ 12,180,660	\$ 12,180,660	\$ -	\$ -
Stock in FHLBC	286,300	286,300	-	286,300	-
Loans receivable, net	82,345,339	82,483,644	-	82,118,581	365,063
Accrued interest receivable on loans	241,488	241,488	-	241,488	-
Deposits	78,762,512	75,172,920	-	75,172,920	-
Accrued interest on deposits	64,305	64,305	-	64,305	-
Advances from FHLBC	5,000,000	4,981,366	-	4,981,366	-

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

### (15) Parent Company Only Financial Statements

The following parent only balance sheets, statements of earnings and statements of cash flows for Sugar Creek Financial Corp. should be read in conjunction with the consolidated financial statements and the notes thereto.

#### Balance Sheets

	March 31,	
	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 502,533	\$ 697,460
Investment in Bank	10,665,452	11,202,509
ESOP note receivable	367,309	412,392
Accrued interest receivable	4,623	5,327
Other assets	89,701	76,097
Total assets	<u>\$ 11,629,618</u>	<u>\$ 12,393,785</u>
<b>Liabilities and Stockholders' Equity</b>		
Other liabilities	\$ 8,890	\$ 4,590
Common stock	7,829	8,562
Additional paid-in capital	5,062,584	5,511,671
Common stock acquired by ESOP	(300,783)	(344,460)
Retained earnings - substantially restricted	6,851,098	7,213,422
Total stockholders' equity	<u>11,620,728</u>	<u>12,389,195</u>
Total liabilities and stockholders' equity	<u>\$ 11,629,618</u>	<u>\$ 12,393,785</u>

# SUGAR CREEK FINANCIAL CORP. AND SUBSIDIARY

## Notes To Consolidated Financial Statements

### Statements of Earnings

	Years Ended March 31,	
	2018	2017
Interest income on ESOP note receivable	\$ 20,901	\$ 23,610
Interest income on deposits	1,563	1,929
Total interest income	22,464	25,539
Dividend from Bank	800,000	-
Noninterest income	-	158
Noninterest expense	(48,646)	(71,884)
Earnings (loss) before income taxes and equity in undistributed earnings of Bank	773,818	(46,187)
Income tax benefit	13,603	19,821
Earnings (loss) before (dividends in excess of current earnings of the Bank) equity in undistributed earnings of the Bank	787,421	(26,366)
(Dividends in excess of current earnings of the Bank) equity in undistributed earnings of the Bank	(644,259)	143,356
Net earnings	\$ 143,162	\$ 116,990

### Statements of Cash Flows

	Years Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net earnings	\$ 143,162	\$ 116,990
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:		
Dividends in excess of current earnings of the Bank (equity in undistributed earnings of Bank)	644,259	(143,356)
Decrease in accrued interest receivable	704	723
Increase in other assets	(13,604)	(3,759)
Increase (decrease) in other liabilities	4,300	(170)
Net cash provided by (used for) operating activities	778,821	(29,572)
Cash flow from investing activities:		
Repayment of ESOP loan	45,083	42,356
Net cash provided by investing activities	45,083	42,356
Cash flow from financing activities:		
Repurchase of common stock	(1,018,831)	(107,220)
Net cash used for financing activities	(1,018,831)	(107,220)
Net (decrease) in cash and cash equivalents	(194,927)	(94,436)
Cash and cash equivalents at beginning of year	697,460	791,896
Cash and cash equivalents at end of year	\$ 502,533	\$ 697,460

## **Sugar Creek Financial Corp.**

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### **Board of Directors of Sugar Creek Financial Corp. and Tempo Bank**

Timothy W. Deien  
Francis J. Eversman  
Timothy P. Fleming  
Gary R. Schwend  
Henry C. Siekmann, CPA  
Robert J. Stroh, Jr.

### **Executive Officers of Sugar Creek Financial Corp. and Tempo Bank**

Robert J. Stroh, Jr.  
*Chairman, Chief Executive Officer and Chief Financial Officer*

Francis J. Eversman  
*President and Chief Operating Officer*

Rozan Koerkenmeier  
*Vice President/Corporate Secretary*

Robert J. Stroh, III  
*Vice President/Compliance*

### **Securities Counsel**

Luse Gorman, PC  
5335 Wisconsin Avenue, N.W., Suite 780  
Washington, DC 20015

### **Independent Auditor**

Michael Trokey & Company, P.C.  
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St. Louis, MO 63131

### **Transfer Agent**

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