



ANNUAL REPORT

2023

SHAREHOLDER LETTER

To Our Shareholders,

I am happy to report our successful results achieved in 2023 as we continued to execute on our strategic priorities. We were able to grow loans more than 14% while also maintaining our credit quality standards. At a time when interest rates were rising and competition among financial institutions was high due to liquidity concerns, we also increased deposits. While funding costs continued to increase, our ability to grow and our strong liquidity position gave us flexibility to manage our balance sheet effectively.

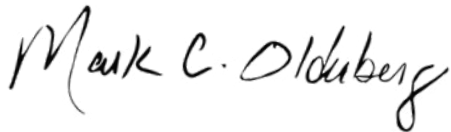
The communities we serve displayed strong economic results during 2023 with growth in housing, commercial real estate, and agriculture. We are committed to growing in 2024, but we will do it only by following the same high standards as we always have. Our recent equity raise of almost \$10 million provides us the ability to reduce our debt and give Security Financial Bank (SFB) the capital it needs to pursue additional growth opportunities.

Embracing technology is important to both our ability to meet customer preferences and our ability to manage costs. Two key drivers for our future success are offering more digital banking options for customers who prefer them and improving our efficiency. With this in mind, we continue to work with our third-party providers to achieve these goals.

SFB will celebrate its 90th anniversary in 2024, and I am proud to say we have maintained a culture of serving our customers and communities as intended on that first day. This has been achieved through the dedication and hard work of our many employees over the years. We continue to prioritize being an employer of choice to ensure we retain the people and expertise needed so this is true for many years to come.

Thank you for your confidence in us, and we appreciate your support.

Best regards.



Mark C. Oldenberg
President & CEO



2023 MARKED
1,522 TOTAL YEARS
OF SERVICE FROM
SFB EMPLOYEES.

BOARD OF DIRECTORS

Jack Kaiser, Chairman
(Since 2009)

Chuck Forster
(Since 2013)

Bob Komro
(Since 2015)

Jim Mayo
(Since 2006)

Mark Oldenberg
(Since 2022)

Jim Price
(Since 2014)

Andy Wieser
(Since 2020)



BALANCE SHEET **SUMMARY**

As a result of the rapid rate hikes imposed by the Federal Reserve Bank, new balance sheet challenges relating to liquidity and deposit growth came about in 2023. As a result, various strategies were implemented to ensure these risks were addressed, which included diversifying our funding sources, strengthening customer relationships, enhancing deposit products and services, scenario planning, and stress testing.

Security Financial Services Corporation (SFSC) ended the year with \$886 million in total assets, an increase from \$828 million at the end of 2022. The growth in the balance sheet was from the strong loan growth and was funded by growth in deposits and borrowings. Loans totaled \$619 million at the end of 2023, which was an increase of \$75.7 million (14.2%) from 2022. Commercial and commercial real estate loans comprised 66% of the growth, agriculture and agriculture real estate contributed 11%, and residential real estate contributed 23%. Credit quality of the loan portfolio remained strong in 2023. The allowance for credit losses is adequately funded at \$9.5 million or 1.54% of gross loans. Total non-accrual loans decreased from \$3 million to \$2.4 million during 2023 and represented only .39% of gross loans and loans past due only represented .14% of gross loans.

The banking industry experienced additional competition for deposits in 2023 from competitors, investment brokers, and from the Federal Reserve Bank monetary policies; however, deposits of \$734.9 million were up \$18.1 million (2.5%) from one year ago. The higher rate environment forced customers to move funds from lower yielding non-maturity deposits to higher yielding time deposits. Non-maturity deposits decreased \$42.7 million (7.0%) while time deposits increased \$60.8 million (56.1%). SFSC debt related to the acquisition of Jackson County Bank continues to be reduced ahead of schedule. Principal paydowns of \$2 million during the year brought the outstanding balance to \$7 million at the end of 2023. Principal payments on the debt have totaled \$5 million since 2021.

Total equity at the end of 2023 was \$61.9 million, an increase of \$10 million from 2022. Of this increase, \$6 million was due to the unrealized losses related to the Company's investment portfolio declining due to shifts in interest rates. The other \$4 million of increase was due to Company earnings more than shareholder distributions.

\$97MM

debit card transactions

1.8MM

debit card swipes

2,642

new debit
cards issued

\$759MM

in mobile transfers

INCOME STATEMENT

The additional challenges to the income statement in 2023 related to maintaining net interest margin, lower noninterest income due to a lack of mortgage activity, and increased noninterest expenses related to maintaining/hiring employees, operation, and compliance costs. SFSC implemented strategies to help offset the increased interest expense and limiting the increase in noninterest expense by enhancing efficiencies within the organization by utilizing software and restructuring of certain areas within the organization.

Interest income increased \$3.6 million (11.4%) from the prior year. This increase was a result of our variable rate loans repricing and the strong loan growth that was originated at higher current market interest rates. The 11.4% growth was a positive outcome due to many of our interest-bearing assets not being able to be repriced during this increased interest rate environment.

Interest expense in total increased from \$3.6 million in 2022 to \$12.9 million in 2023, an increase of \$9.3 million or 257%. The increase was a result of the Federal Reserve Bank increasing rates significantly beginning in late 2022, which caused deposit interest expense to increase significantly for banks starting in 2023. In a strategy to combat the increase in interest expense, SFSC grew the loan portfolio; however, these loans were funded primarily with borrowings, which were at interest rates above deposit costs and assisted in growing the interest expense. The combination of increased competition to maintain and slightly grow our core deposits and taking on additional borrowings led to the banks funding sources repricing at higher market interest rates.

Net interest income decreased \$5.6 million in 2023 due to our deposits and borrowings repricing at higher market interest rates more than our investments and loans. Without the strong loan growth, this decrease to net interest income would have been near \$7 million.

Non-interest income of \$3.1 million was \$84,000 (2.65%) less in 2023. Noninterest income would have increased \$507,000 in 2023; however, income related to mortgage banking decreased \$591,000 compared to 2022. The decrease in non-interest income was due to the housing market experiencing less mortgage originations and refinances due to the higher mortgage interest rates.

Non-interest expense of \$18 million was \$377,000 (2.14%) more than 2022. The reason for the increase was due to the additional operation and compliance costs required to operate within the highly regulated banking industry as we continue to grow. These increased operations and compliance costs were offset by the Bank's ability to reduce employee costs and other operational costs through efficiencies implemented and restructuring the organization's staff. During 2023, the Current Expected Credit Loss (CECL) method was adopted to account for our allowance for credit losses. Due to the strong credit quality of the loan portfolio, no credit loss provisions were recorded in 2023, even with the strong loan growth. Also, during 2023, the state of Wisconsin passed legislation that eliminated Wisconsin income tax to assist in the competition with the Credit Unions that are not paying federal or state taxes. This resulted in a benefit of approximately \$650,000 for SFSC shareholders.

Earnings Per Share (EPS) for the year were \$679.35, which represented a return of 12.31% on the book value of the share on December 31, 2023.

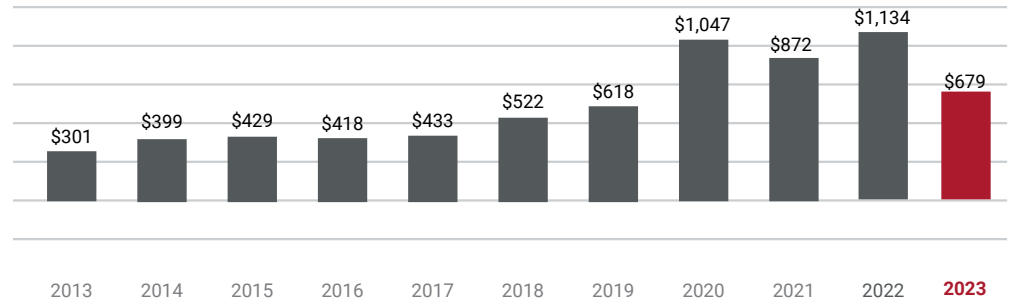


Our Vision

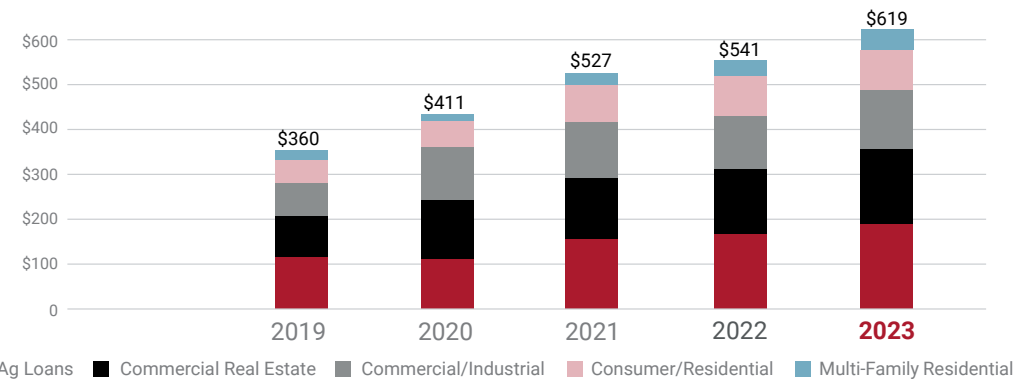
To be the best business and ag bank and top employer in each of the markets we serve.



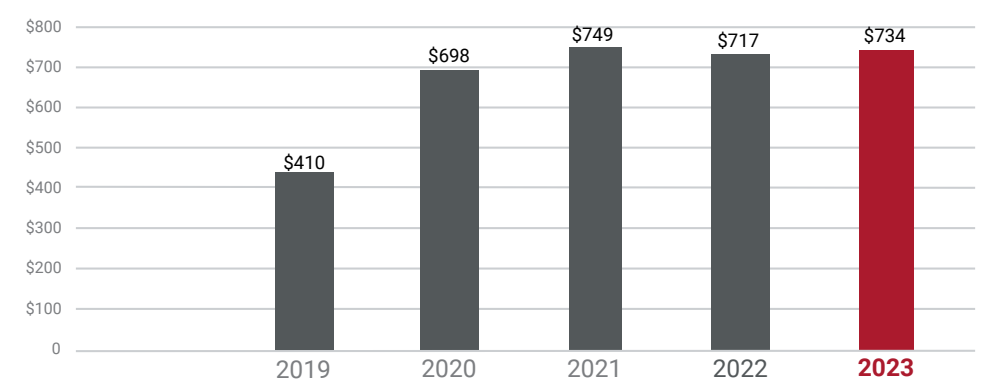
EARNINGS PER SHARE OVER THE LAST DECADE



LOAN BALANCE (IN MILLIONS)



DEPOSIT BALANCE (IN MILLIONS)





COMPARATIVE STATEMENT

STATEMENT OF INCOME

Here's how we add up (without the extra 000s)

	2023	2022	2021	2020	2019
Income					
Interest Income - Securities	\$3,358	\$3,647	\$2,524	\$2,199	\$2,443
Interest Income - Loans	\$31,156	\$27,542	\$25,942	\$21,101	\$18,996
Interest Income - Other	\$763	\$477	\$277	\$253	\$452
Total Interest Income	\$35,277	\$31,666	\$28,743	\$23,553	\$21,891
Less Interest Expense-Bank	\$12,275	\$3,108	\$3,097	\$3,780	\$4,320
Less Interest Expense-SFSC	\$583	\$496	\$512	\$118	\$21
Total Interest Expense	\$12,858	\$3,604	\$3,609	\$3,898	\$4,341
Net Interest Income	\$22,419	\$28,062	\$25,134	\$19,655	\$17,550
Plus Non-interest Income	\$3,084	\$3,168	\$4,930	\$8,265	\$2,745
Total Income Less Interest Expense	\$25,503	\$31,230	\$30,064	\$27,920	\$20,295
Salaries & Employee Benefits	\$10,463	\$10,758	\$11,154	\$9,259	\$7,695
Occupancy	\$2,102	\$2,559	\$2,203	\$1,644	\$1,715
Other Operating Expenses	\$5,087	\$4,230	\$4,644	\$3,376	\$3,009
Total Non-interest Expense	\$17,652	\$17,547	\$18,001	\$14,279	\$12,419
Net Income From Operations	\$7,851	\$13,683	\$12,063	\$13,641	\$7,876
Provision for Credit Losses	\$0	\$0	\$575	\$1,685	\$870
Net Securities (Gains) Losses	\$328	\$56	\$0	\$0	(\$85)
Income Tax (Credit) Expense	\$(94)	\$901	\$1,598	\$53	\$52
Net Income	\$7,617	\$12,726	\$9,890	\$11,903	\$7,039

BANKERS WHO BELIEVE IN YOU

Local businesses and organizations are the backbone of communities. They believe in local jobs, local decision making, and giving back. That's why SFB believes in them, providing financial options tailored to each organization's individual financial needs.

75,000

website users

6,458

customer service sessions on mobile app



67 Google 5-star customer service reviews

STATEMENT OF CONDITION

Here's how we add up (without the extra 000s)

	2023	2022	2021	2020	2019
Assets					
Cash and Cash Equivalents	\$15,666	\$19,733	\$36,049	\$70,831	\$25,662
Securities	\$212,361	\$229,748	\$265,534	\$178,112	\$86,919
Gross Loans	\$619,337	\$541,846	\$526,658	\$474,240	\$360,523
Allowance for Credit Losses	(\$9,528)	(\$7,735)	(\$7,745)	(\$7,160)	(\$5,580)
Federal Funds Sold	\$0	\$0	\$369	\$66,058	\$0
Bank Building, Furniture/Fixtures	\$9,030	\$8,902	\$9,230	\$9,528	\$7,341
Other Real Estate Owned	\$0	\$0	\$85	\$0	\$0
Goodwill	\$6,122	\$6,122	\$6,122	\$6,123	\$6,123
Other Assets	\$33,117	\$29,740	\$27,361	\$26,697	\$20,291
Total Assets	\$886,105	\$828,356	\$863,663	\$824,429	\$501,279
Liabilities and Equity					
Total Deposits	\$734,936	\$716,843	\$748,641	\$697,459	\$410,099
Repurchase Agreements	\$0	\$0	\$1,454	\$2,684	\$8,104
Federal Funds Purchased	\$1,965	\$15,395	\$0	\$0	\$1,232
Borrowed Funds - Bank	\$75,000	\$30,000	\$27,998	\$37,140	\$22,500
SFSC Debt	\$7,000	\$9,000	\$12,000	\$15,500	\$0
Other Liabilities	\$5,269	\$5,230	\$4,890	\$6,407	\$4,380
Total Liabilities	\$824,170	\$776,468	\$794,983	\$759,190	\$446,315
Common Stock	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200
Surplus	\$18,547	\$18,463	\$18,419	\$18,335	\$18,335
Undivided Profits	\$62,833	\$58,952	\$51,356	\$44,847	\$35,853
Unrealized Gain (Loss) on Securities	(\$17,989)	(\$23,990)	(\$423)	\$2,542	\$1,248
Treasury Stock (at Cost)	(\$2,706)	(\$2,737)	(\$1,872)	(\$1,685)	(\$1,672)
Total Equity	\$61,935	\$51,888	\$68,680	\$65,239	\$54,964
Total Liabilities and Equity	\$886,105	\$828,356	\$863,663	\$824,429	\$501,279

WE BELIEVE IN COMMUNITY

At SFB, part of our mission is to invest in the communities we serve. SFB supported more than 110 organizations through sponsorships and donations, and our employees donated 2,009 hours of volunteer time to service in the community.



\$173,000

donated to 110
community organizations

2023

United Way of the Greater CV
campaign of the year

2,009

employee
volunteer hours

LOCATIONS

Alma Center

141 W Main St
Alma Center, WI 54611
715.964.2311

Black River Falls Motor Bank

660 Hwy 54 E
Black River Falls, WI 54724
715.284.3560

Black River Falls Main

8 Main St
Black River Falls, WI 54615
715.284.5341

Bloomer

1401 Main St
Bloomer, WI 54724
715.568.1100

Corporate Office

4813 Keystone Crossing
Eau Claire, WI 54701
888.254.0615

Durand

212 W Prospect St
Durand, WI 54736
715.672.4237

Eau Claire

4217 Southtowne Dr
Eau Claire, WI 54701
715.833.7685

Ladysmith

200 Miner Ave W
Ladysmith, WI 54848
715.532.5551

River Falls

1561 Commerce Ct
River Falls, WI 54022
715.426.6600



Bankers who believe in you.

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New IN 2023

ONLINE ACCOUNT
OPENING



zelle

THIS IS HOW MONEY MOVESSM



Our Mission

To grow profitably by deliberately investing in our clients, our employees, and our communities.

