



March 15, 2021

To Our Shareholders:

In the midst of a pandemic and despite an unfavorable interest rate environment, Security Financial Services Corporation (SFSC) is proud to announce record net income for 2020 of \$11,904,000, \$4,865,000 (69.11%) greater than 2019. Although Security Financial Bank's (SFB's) record profitability contributed to the dramatic increase, the majority of the change is due to one-time accounting adjustments related to the purchase of Jackson County Bank (JCB) on November 16, 2020.

Because SFB's assets increased to more than \$500,000,000 last year, the FDIC requires an Annual Financial Audit, which is currently in process. As such, the results described in this letter should be considered preliminary.

#### **Acquisition Update**

SFSC will be a two-bank holding company until the weekend of August 20<sup>th</sup>, when JCB will be merged into SFB, pending regulatory approval. Until that time, the two banks will continue to operate relatively autonomously, with SFB managers overseeing functions of JCB. Throughout the year, efficiencies will continue to be realized and include the closure of three of JCB's small branches in May. Significant marketing and sales efforts are underway to re-engage customers and prospects in JCB's footprint.

#### **Balance Sheet Summary**

\$62,700,000 of the \$112,400,000 (31.18%) increase in loans from 2019 is attributable to the addition of JCB. \$31,700,000 of the increase is due to Paycheck Protection Program (PPP) loans, which have a short maturity, many of which are forgiven prior to maturity by the Small Business Administration (SBA). Organic loan growth in 2020 at SFB was \$18,000,000 (5.00%).

\$174,100,000 of the \$287,300,000 (70.06%) increase in deposits from 2019 is due to JCB. Much of the remaining organic growth is viewed as temporary, as businesses increase working capital accounts due to market uncertainty through PPP funds and other sources.

Credit quality remains strong at SFB and is improving at JCB. At SFB, total non-accrual loans were 1.00% of the total portfolio, and loans past due 30-89 days were 0.11%. At JCB, total loans on non-accrual were 4.30% of the portfolio, and past due 30-89 days were 0.07%. Combined, total non-accrual loans were 1.44% of the portfolios and loans past due 30-89 days were 0.10%.

Holding Company debt increased to \$15,500,000 to fund the JCB acquisition.

**Income Statement Summary**

Net Income from SFB was \$7,847,000, \$597,000 (8.23%) greater than one year ago. PPP fees of \$1,182,000 and record mortgage production offset a \$1,685,000 provision for loan losses expense. The larger-than-anticipated provision, \$815,000 (93.68%) greater than last year, is not indicative of a deteriorating portfolio, but of continued uncertainty due to the pandemic.

Net Income from JCB for the 45 days since purchase was \$4,458,000, which was almost entirely due to accounting entries related to the acquisition and the 'bargain purchase', which are one-time events.

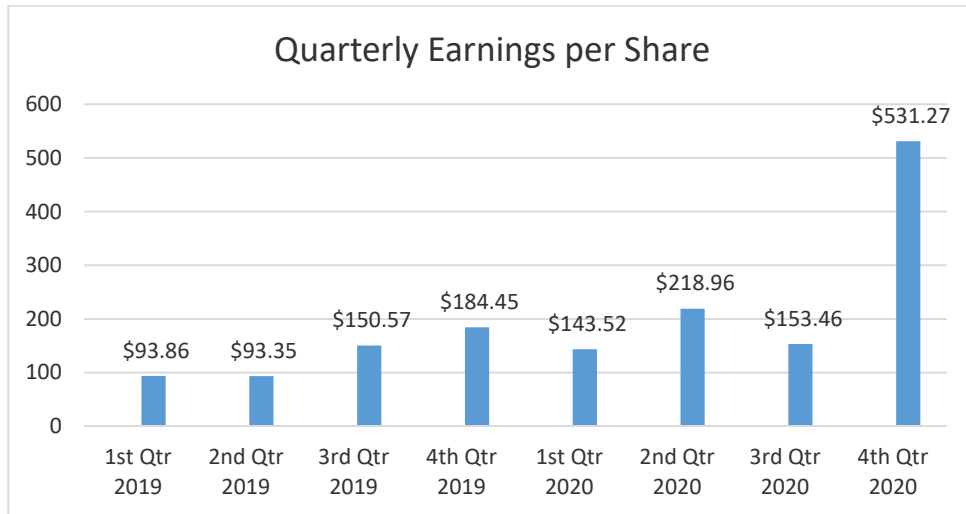
**Special Shareholder Meeting**

At a Special Meeting on February 17, 2021, shareholders voted to approve the election by SFSC to be taxed at the entity level for the tax year ending December 31, 2020. This annual election relieves shareholders from their obligation to personally pay Wisconsin income taxes based on SFSC earnings, and was made to preserve capital. SFSC plans on continuing to make regular distributions at the highest federal income tax rates to shareholders. It is anticipated that the next tax distribution will occur in April, 2021

Enclosed please find your 2020 K-1 tax information.

**Quarterly Earnings**

Earnings per share for the quarter were \$531.27.



Thank you for your continued loyalty and support. We invite you to visit any of our banking locations for your banking needs or at [www.sfbank.com](http://www.sfbank.com).

Best Regards,

Paul Rudersdorf  
President and  
Chief Executive Officer

Paul Solyntjes  
Executive Vice President and  
Chief Financial Officer



## STATEMENT OF CONDITION

000s omitted

*Preliminary*

<b>ASSETS:</b>	<b><u>12/31/2020</u></b>	<b><u>12/31/2019</u></b>	<b><u>12/31/2018</u></b>	<b><u>12/31/2017</u></b>	<b><u>12/31/2016</u></b>
Cash Equivalents	\$80,842	\$29,125	\$24,111	\$14,707	\$10,822
Securities	\$173,199	\$86,157	\$86,394	\$85,518	\$101,149
Gross Loans	\$472,922	\$360,523	\$350,356	\$291,060	\$283,060
Allowance for Loan Losses	(\$7,160)	(\$5,580)	(\$4,738)	(\$4,536)	(\$4,235)
Federal Funds Sold	\$66,058	\$0	\$5,433	\$7,265	\$280
Bank Building, Furniture/Fixtures	\$9,528	\$7,341	\$6,886	\$6,320	\$6,685
Other Real Estate Owned	\$0	\$0	\$0	\$0	\$0
Goodwill	\$7,246	\$7,423	\$7,600	\$4,333	\$4,383
Other Assets	\$20,419	\$16,290	\$15,883	\$15,425	\$14,745
<b>TOTAL ASSETS</b>	<b><u>\$823,054</u></b>	<b><u>\$501,279</u></b>	<b><u>\$491,925</u></b>	<b><u>\$420,092</u></b>	<b><u>\$416,889</u></b>
<b>LIABILITIES and EQUITY:</b>					
<b>Total Deposits</b>	\$697,402	\$410,099	\$402,004	\$318,956	\$304,927
Local Repurchase Agreements	\$2,684	\$8,104	\$8,600	\$7,468	\$4,696
Fed Funds Purchased	\$0	\$1,232	\$0	\$0	\$5,869
Borrowed Funds	\$37,140	\$22,500	\$28,000	\$42,500	\$52,500
Other Debt Incurred	\$15,500	\$0	\$1,491	\$3,000	\$5,000
Other Liabilities	\$5,089	\$4,380	\$2,762	\$2,559	\$2,236
<b>Total Liabilities</b>	<b><u>\$757,815</u></b>	<b><u>\$446,315</u></b>	<b><u>\$442,857</u></b>	<b><u>\$374,483</u></b>	<b><u>\$375,228</u></b>
Common Stock	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200
Surplus	\$18,335	\$18,335	\$18,335	\$18,335	\$18,335
Undivided Profits	\$44,847	\$35,853	\$31,766	\$27,275	\$24,097
Unrealized Gain(Loss) on Securities	\$2,542	\$1,248	(\$765)	\$260	(\$510)
Treasury stock (at cost)	(\$1,685)	(\$1,672)	(\$1,468)	(\$1,461)	(\$1,461)
<b>Total Equity</b>	<b><u>\$65,239</u></b>	<b><u>\$54,964</u></b>	<b><u>\$49,068</u></b>	<b><u>\$45,609</u></b>	<b><u>\$41,661</u></b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b><u>\$823,054</u></b>	<b><u>\$501,279</u></b>	<b><u>\$491,925</u></b>	<b><u>\$420,092</u></b>	<b><u>\$416,889</u></b>



## INCOME STATEMENT

000s omitted  
*Preliminary*

	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>
Interest Income - Securities	\$2,453	\$2,895	\$2,589	\$2,661	\$2,999
Interest Income - Loans	\$21,102	\$18,381	\$16,108	\$13,477	\$12,647
<b>Total Interest Income</b>	<b>\$23,555</b>	<b>\$21,276</b>	<b>\$18,697</b>	<b>\$16,138</b>	<b>\$15,646</b>
less Interest Expense SFB	\$3,783	\$4,320	\$3,545	\$2,948	\$2,899
less Interest Expense SFSC	\$118	\$21	\$96	\$159	\$238
<b>Total Interest Expense</b>	<b>\$3,901</b>	<b>\$4,341</b>	<b>\$3,641</b>	<b>\$3,107</b>	<b>\$3,137</b>
<b>Net Interest Income</b>	<b>\$19,654</b>	<b>\$16,935</b>	<b>\$15,056</b>	<b>\$13,031</b>	<b>\$12,509</b>
plus Non-interest Income	\$8,579	\$3,665	\$2,738	\$2,557	\$2,951
<b>Total Income less Interest Expense</b>	<b>\$28,233</b>	<b>\$20,600</b>	<b>\$17,794</b>	<b>\$15,588</b>	<b>\$15,460</b>
Salaries & Employee Benefits	\$9,259	\$7,695	\$6,860	\$5,950	\$6,025
Occupancy	\$1,644	\$1,715	\$1,563	\$1,486	\$1,459
Other Operating Expenses	\$3,679	\$3,314	\$3,072	\$2,710	\$2,656
<b>Total Non-interest Expense</b>	<b>\$14,582</b>	<b>\$12,724</b>	<b>\$11,495</b>	<b>\$10,146</b>	<b>\$10,140</b>
<b>Net Income From Operations</b>	<b>\$13,651</b>	<b>\$7,876</b>	<b>\$6,299</b>	<b>\$5,442</b>	<b>\$5,320</b>
Provision for Loan Losses	\$1,685	\$870	\$300	\$500	\$600
Net Securities (Gains) Losses	\$9	(\$85)	\$0	(\$38)	(\$66)
Income Tax (refunds) Expense	\$53	\$52	\$41	\$32	\$6
<b>NET INCOME</b>	<b>\$11,904</b>	<b>\$7,039</b>	<b>\$5,958</b>	<b>\$4,948</b>	<b>\$4,780</b>