



November 9, 2021

To Our Shareholders:

Jackson County Bank (JCB) was successfully merged into Security Financial Bank during the weekend of August 20th, 2021. The merger, which occurred simultaneously with an extensive core processing system upgrade challenged our staff, and in some cases, the patience of some customers. We continue to work through a few remaining issues.

Despite the challenges presented during the merger as well as those related to the global pandemic, the bank achieved record profitability through the first 3 quarters of the year.

Balance Sheet Summary – Third Quarter

Loans, at \$509.5 million, are up \$35.3 million from year-end, and are up \$79.8 million (18.57%) from 9/30/2020. Paycheck Protection Program (PPP) loans continue to be forgiven, and account for \$12.7 million of the portfolio, down from \$52 million one year ago and \$31.7 million at year-end. Robust organic loan growth of \$50 million during the first three quarters of the year more than offset the decrease in PPP loan levels.

Total non-accrual loans of the merged loan portfolios are 0.84% of the portfolio and loans past due 30-89 days are 0.05%. Troubled JCB loans, which were largely identified prior to purchase, continue to show improvement.

Deposits of \$730.5 million are up \$33.1 million from year-end and are up \$243.3 million from 9/30/2020. \$174.0 million of the 12-month increase is attributable to deposits from JCB.

SFSC debt of \$16.9 million, the bulk of which was used to finance the JCB acquisition, is up \$1.4 million from year-end and unchanged from the prior quarter.

Income Statement Summary – Third Quarter

SFSC began paying Wisconsin state income tax at the entity level in 2020, rather than passing that obligation through to shareholders. If shareholders continue to vote for this state tax treatment, net income will continue to be reduced by that expense. Generally Accepted Accounting Principles dictate that the expense can be recognized only after shareholder approval. SFSC shareholders approved the state entity election for 2020 and 2021 this year so both year's state tax expense will be recognized in 2021.

Income tax expense for the first nine months of \$1,155,000, almost 2/3 of which is related to the prior year, compares to \$39,000 one year ago.

Net Income for the first nine months of \$6,932,000 is \$1,067,000 (18.19%) greater than 2020. Net Income Before Income Taxes of \$8,087,000 exceeds third quarter 2020 by \$2,183,000 (36.97%) and is a better gauge of over-all financial performance comparison due to the changed income tax treatment.

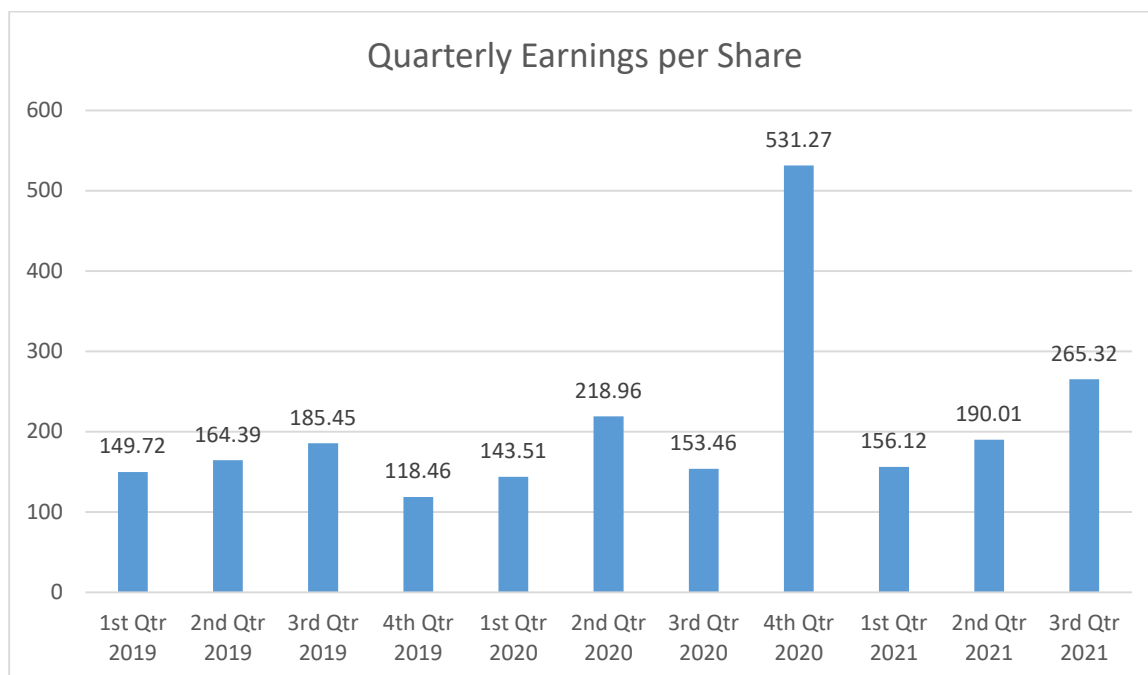
Interest income of \$18,828,000 is up \$3,297,000 (21.23%) from one year ago due to increased earning assets (largely merger related). Interest expense of \$2,791,000 is up only \$2,000 despite increased deposits, due to low market interest rates.

Non-interest income of \$5,851,000 exceeded third quarter 2020 by \$1,811,000 (44.83%) due largely to PPP fees, and contribution from the former JCB.

Non-interest expense of \$13,735,000 exceeds the first three quarters of 2020 by \$3,682,000 (36.63%). The majority of the increase is attributable to JCB human resource and operating expenses.

The loan loss provision of \$75,000 was expensed earlier in the year for JCB loans. SFB's reserve for loan losses was determined to be adequately funded so no provision was taken, compared to last year's third quarter expense of \$800,000.

Earnings per share were \$265.32 for the third quarter.



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.

Best Regards,

Paul Rudersdorf
President and
Chief Executive Officer

Paul Solyntjes
Executive Vice President and
Chief Financial Officer



Balance Sheet Comparison - September 30, 2021 (000s)

	<u>9/30/2021</u>	<u>12/31/2020</u>	<u>9/30/2020</u>	From Year-end	
				<u>\$ Change</u>	<u>% Change</u>
Cash Equivalents	\$66,223	\$70,831	\$29,708	(\$4,608)	-6.51%
Securities	197,535	178,112	74,940	19,423	10.90%
Fed Funds Sold	40,748	66,058	49,981	(25,310)	-38.31%
Loans	509,513	474,240	429,726	35,273	7.44%
Allowance for Loan Losses	(7,250)	(7,160)	(6,359)	(90)	1.26%
Other Assets	41,101	42,348	30,748	(1,247)	-2.94%
TOTAL ASSETS	\$847,870	\$824,429	\$608,744	\$23,441	2.84%
Total Deposits	\$730,546	\$697,459	\$487,254	\$33,087	4.74%
SFSC Debt	16,887	15,500	3,900	1,387	8.95%
Fed Funds Purchased	0	0	312	0	na
Other Liabilities	33,248	46,231	58,285	(12,983)	-28.08%
TOTAL LIABILITIES	780,681	759,190	549,751	21,491	2.83%
Common Stock, Surplus & Undivided Profits	66,030	62,697	56,659	3,333	5.32%
Unrealized Gains (Losses) on Securities	1,159	2,542	2,334	(1,383)	-54.41%
Total STOCKHOLDERS' EQUITY	67,189	65,239	58,993	1,950	2.99%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$847,870	\$824,429	\$608,744	\$ 23,441	2.84%



Year-to-date Income Statement Comparison - September 30, 2021 (000s)

	<u>9/30/2021</u>	<u>12/31/2020</u>	<u>9/30/2020</u>	9/30 Year-over-year	
				\$ Change	% Change
INCOME:					
Interest Income	\$18,828	\$23,553	\$15,531	\$3,297	21.23%
Non-interest Income	5,851	8,265	4,040	1,811	44.83%
Total Income	24,679	31,818	19,571	5,108	26.10%
Interest Expense - SFB/JCB	2,388	3,780	2,747	(359)	-13.07%
Interest Expense - SFSC Debt	403	118	42	361	859.52%
Total Interest Expense	2,791	3,898	2,789	2	0.07%
Total Income less Interest Expense	21,888	27,920	16,782	5,106	30.43%
EXPENSES:					
Salaries and Benefits	8,205	9,259	6,326	1,879	29.70%
Other Operating Expense	5,530	5,020	3,727	1,803	48.38%
Total Non-interest Expense	13,735	14,279	10,053	3,682	36.63%
Net Income from Operations	8,153	13,641	6,729	1,424	21.16%
(Gains) or Losses on Sale of Securities	(9)	0	25	(34)	-136.00%
Provisions for Loan Losses	75	1,685	800	(725)	-90.63%
NET INCOME BEFORE INCOME TAXES	8,087	11,956	5,904	2,183	36.97%
Provisions for Income Tax Expense	1,155	53	39	1,116	2861.54%
NET INCOME	\$6,932	\$11,903	\$5,865	\$1,067	18.19%