



October 28, 2022

To Our Shareholders:

We are pleased to report record net income in the first three quarters of the year due in part to our larger earning asset size year-over-year. We continue to have strong credit quality and are experiencing an expanding net interest margin (NIM) that is responding favorably to rising interest rates.

### **Third Quarter Financial Overview**

#### Balance Sheet Summary

Loans, at \$512.8 million, were down \$13.8 million from year-end and were up \$3.3 million (0.65%) from September 30, 2021. Paycheck Protection Program (PPP) loans continued to be forgiven, and accounted for only \$70,000 of the portfolio, compared to \$4.7 million at year-end and \$12.7 million one year ago.

The Allowance for Loan Losses remained adequately funded at \$7.7 million or 1.51% of gross loans. Total non-accrual loans of \$3.2 million were down slightly from year-end and represented 0.63% of the portfolio. Loans past due 30-89 days were 0.26% of the portfolio, up from 0.06% last quarter, but down from the year-end ratio of 0.35%.

Total deposits, at \$739.9 million, were down \$8.7 million from year-end and were up \$10.8 (1.49%) million from September 30, 2021. Deposits continued to migrate away from time deposits and into money market and savings deposits. The year-over-year increase in total deposits has allowed us to maintain the liquidity needed to fund loan growth and control our cost of funds.

Security Financial Services Corporation's (SFSC) debt of \$11.5 million was down \$500,000 from year-end and was \$5.4 million lower than September 30, 2021.

#### Income Statement Summary

Net income through the third quarter of \$8.75 million exceeded 2021 net income for the same period by \$1.82 million or 26.23% due largely to the merger of Jackson County Bank. Return On Average Assets (ROAA) and Return On Average Equity (ROAE) through September 30, 2022 were 1.38% and 18.86% compared to 1.06% and 16.45% for the same period last year.

Interest income of \$22.22 million was up \$1.06 million, a 5.02% increase from the first three quarters of 2021. Average loan balances have increased \$10.1 million year-over-year and low-

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yielding PPP loans forgiven during that period were replaced with market-rate loans. At the same time \$36.1 million of cash balances have been deployed in the investment portfolio. Additionally, market interest rates continue to increase, pushing loan and investment yields higher.

Interest expense of \$2.15 million was \$641,000 or 22.97% less than the first three quarters of 2021 due to merger-related fair market value interest adjustments as well as reduced SFSC debt outstanding.

As a result of these factors, our NIM has increased from 3.03% to 3.28% as of September 30th compared to the same period last year.

Non-interest income of \$1.94 million was \$1.19 million (37.88%) less than the first three quarters of 2021 due to reduced loan fees, especially PPP fee income and mortgage-related fees.

Non-interest expense of \$12.69 million was \$648,000 (4.86%) less than the first three quarters of 2021 due largely to merger efficiencies.

No loan loss provision was expensed during the quarter as the Reserve for Loan Losses was determined to be adequately funded. We are currently evaluating the impact of changing from the current method for calculating the Allowance for Loan Losses (ALL) to the Current Expected Credit Loss (CECL) method, which will be adopted during the first quarter of 2023.

Earnings Per Share (EPS) for the third quarter were \$270.55, an increase of \$15.05 from second quarter EPS of \$255.50. Year-to-date EPS of \$781.00 was 44.25% above year-to-date EPS for the comparable period last year.

As we begin the budgeting process for 2023 and beyond, we are keenly aware of the challenges facing us. Actions taken by the Federal Reserve to raise short-term interest rates in an effort to tame inflation has negatively impacted tangible capital. We are preparing for additional rate increases and planning accordingly by reducing our risk tolerances bankwide and are working more closely than ever with customers that have come to expect nothing less from us.

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

Best Regards,



Mark Oldenberg  
President and  
Chief Executive Officer



Paul Solyntjes  
Executive Vice President and  
Chief Financial Officer



Balance Sheet Comparison - September 30, Year-to-date (000s)

	<u>9/30/2022</u>	<u>12/31/2021</u>	<u>9/30/2021</u>	<b>From Year-end</b>	
				<b>\$ Change</b>	<b>% Change</b>
Cash Equivalents	\$30,110	\$36,049	\$66,224	(\$5,939)	-16.47%
Securities	230,813	265,534	197,318	(\$34,721)	-13.08%
Fed Funds Sold	3,968	369	40,748	\$3,599	na
Loans	512,831	526,658	509,513	(\$13,827)	-2.63%
Allowance for Loan Losses	(7,732)	(7,745)	(7,250)	\$13	-0.17%
Other Assets	45,040	42,798	41,317	\$2,242	5.24%
<b>TOTAL ASSETS</b>	<b>\$815,030</b>	<b>\$863,663</b>	<b>\$847,870</b>	<b>(\$48,633)</b>	<b>-5.63%</b>
Total Deposits	\$739,946	\$748,641	\$729,109	(\$8,695)	-1.16%
SFSC Debt	11,500	12,000	16,887	(500)	-4.17%
Fed Funds Purchased	0	0	0	0	#DIV/0!
Other Liabilities	19,524	34,342	34,685	(14,818)	-43.15%
<b>TOTAL LIABILITIES</b>	<b>770,970</b>	<b>794,983</b>	<b>780,681</b>	<b>(24,013)</b>	<b>-3.02%</b>
Common Stock, Surplus & Undivided Profits	71,902	69,103	66,030	2,799	4.05%
Unrealized Gains (Losses) on Securities	(27,842)	(423)	1,159	(27,419)	6482.03%
<b>Total STOCKHOLDERS' EQUITY</b>	<b>44,060</b>	<b>68,680</b>	<b>67,189</b>	<b>(24,620)</b>	<b>-35.85%</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$815,030</b>	<b>\$863,663</b>	<b>\$847,870</b>	<b>(48,633)</b>	<b>-5.63%</b>



Year-to-date Income Statement Comparison September 30, 2022 (000s)

	<u>9/30/2022</u>	<u>12/31/2021</u>	<u>9/30/2021</u>	<b>9/30 Year-over-year</b>	
				<b><u>\$ Change</u></b>	<b><u>% Change</u></b>
<b>INCOME:</b>					
Interest Income	\$22,219	\$28,743	\$21,156	\$1,063	5.02%
Non-interest Income	1,943	4,930	3,128	(\$1,185)	-37.88%
<b>Total Income</b>	<b>24,162</b>	<b>33,673</b>	<b>24,284</b>	<b>(\$122)</b>	<b>-0.50%</b>
Interest Expense - SFB	1,825	3,097	2,388	(\$563)	-23.58%
Interest Expense - SFSC Debt	325	512	403	(\$78)	-19.35%
<b>Total Interest Expense</b>	<b>2,150</b>	<b>3,609</b>	<b>2,791</b>	<b>(\$641)</b>	<b>-22.97%</b>
<b>Total Income less Interest Expense</b>	<b>22,012</b>	<b>30,064</b>	<b>21,493</b>	<b>\$519</b>	<b>2.41%</b>
<b>EXPENSES:</b>					
Salaries and Benefits	8,030	11,154	8,205	(\$175)	-2.13%
Other Operating Expense	4,662	6,847	5,135	(\$473)	-9.21%
<b>Total Non-interest Expense</b>	<b>12,692</b>	<b>18,001</b>	<b>13,340</b>	<b>(\$648)</b>	<b>-4.86%</b>
<b>Net Income from Operations</b>	<b>9,320</b>	<b>12,063</b>	<b>8,153</b>	<b>\$1,167</b>	<b>14.31%</b>
(Gains) or Losses on Sale of Securities	(16)	0	(9)	(\$7)	77.78%
Provisions for Loan Losses	0	575	75	(\$75)	-100.00%
Provisions for Income Tax Expense	586	1,598	1,155	(\$569)	-49.26%
<b>NET INCOME</b>	<b>\$8,750</b>	<b>\$9,890</b>	<b>\$6,932</b>	<b>\$1,818</b>	<b>26.23%</b>