April 28, 2023

To Our Shareholders:

The banking environment has become more challenging over the past quarter with the high-profile failures of two banks, which has directed attention to risk management practices of financial institutions. The reasons for those failures can be linked to rising interest rates, excessive growth, and high levels of concentrations. I am happy to report that while rising interest rates have had an impact on our results, Security Financial Bank (SFB) remains in strong condition. We are not over exposed to any one industry or customer and have a well-diversified stable deposit base in each of our markets.

To help alleviate any concerns, SFB employees have been educating customers regarding FDIC insurance and answering questions about the bank's condition. In addition, we always welcome any questions you may have for us.

At the annual shareholders meeting on April 25th, I had the privilege of communicating this same message to those in attendance. Results of this year's meeting include the re-election of Robert Komro and James Price to the board for terms ending in 2026 and approval of the Wisconsin entity tax election for 2023. We also honored Chuck Forster for his 10-year anniversary as a director.

<u>Balance Sheet Summary – First Quarter</u>

Loans grew during the quarter by $5.3 million to a total of $547.1 million and were up $41.0 million (8.10%) from first quarter 2022. We continue to have a healthy loan pipeline and are getting opportunities across our markets to develop new relationships.

Credit quality continues to be strong, and the Allowance for Credit Losses (ACL) was adequately funded at $9.6 million or 1.75% of gross loans. Non-accrual loans of $2.8 million are down from year-end and were 0.51% of the portfolio. Loans past due 30-89 days were 0.08% of the portfolio, down from the year-end ratio of 0.09%

Deposits were $17.0 million higher from year-end with a balance of $733.9 million and were $17.8 million lower than a year ago. The competition for deposits has increased substantially with the rapid increase in interest rates. We continue to work closely with our customers to retain and grow our relationships and provide a number of solutions for anyone who is in need of additional FDIC insurance coverage.

SFSC debt of $8.0 million is down $1 million from year-end and down $3.5 million from first quarter 2022 as we continue to pay down principal on debt ahead of schedule.

Income Statement Summary – First Quarter

Net Income for the first quarter was $1.8 million compared to $2.9 million for the same period last year, a 38.0% decline. Increasing interest rates caused interest expense to climb faster than interest income during the quarter. If the FOMC slows the pace of rate increases, our asset repricing to the current rates will catch up and have a positive effect on net income.

Interest income of $7.97 million was up $704,000 (9.69%) from first quarter 2022. Increasing market rates during the quarter combined with loan growth resulted in the additional interest income. Interest expense of $2.37 million was higher due to rising rates and a shift in deposits from lower-cost accounts to higher-cost CDs.

Non-interest income of $740,000 was $9,000 (1.20%) less than first quarter 2022. Mortgage fees were $73,000 lower than a year ago due to higher interest rates and higher costs.

Non-interest expense of $4.5 million was $108,000 (2.46%) more than first quarter 2022. Most of the increase was driven by an increase in salary and benefit costs as we were impacted by higher wage and benefit costs due to rising inflation.

No loan loss provision was expensed during the quarter as the Reserve for Loan Losses was determined to be adequately funded. Our accounting change to the Current Expected Credit Loss (CECL) method did result in a $1.83 million increase to reserves that had no impact on earnings.

Earnings per share (EPS) for the quarter of $157.64 were down $95.96 from first quarter 2022. This reduction in EPS was the result of our higher interest expense, as described above. Few times in history have interest rates increased as fast as they have over the past year. I am confident in our team to manage through the current environment continuing to serve our customers and produce superior results for our shareholders.

Thank you for your continued loyalty and support. If you are interested in receiving the 2022 Financial Audit or the 2022 Fair Market Business Valuation, please contact Julie Sabelko at jsabelko@sfbank.com or 715-672-2415.

We invite you to visit any of our banking locations for your banking needs or visit us at www.sfbank.com to learn more about how we can serve you.

Best Regards,

Mark C. Oldenberg

Mark Oldenberg
President and Chief Executive Officer

Enclosure