



sfb

ANNUAL REPORT

2022

sfsc
SECURITY FINANCIAL
SERVICES CORPORATION

SHAREHOLDER LETTER

To Our Shareholders,

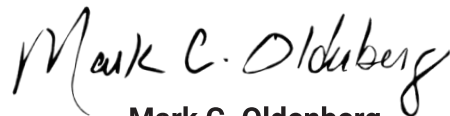
As I reflect on the completion of my first year back with Security Financial Bank (SFB), what an interesting year it has been. Inflation continued to increase to levels not seen in decades as the Federal Reserve aggressively moved interest rates higher. This caused several changes in the economy that affected the banking industry, including a slowdown in mortgage-related business, increased competition for deposits, and unrealized losses related to investment holdings.

I am pleased to report, even with these challenges, a record net income for the year of \$12.73 million, a \$2.84 million or 28.67% increase over 2021. This success is due in large part to an expanding net interest margin, strong credit quality, and one-time accounting adjustments as a result of a better-than-expected credit experience with the Jackson County Bank (JCB) acquisition.

The coming year promises to be challenging on many fronts as inflation remains high and we face a more uncertain economy. As a result, we expect to see higher costs for deposits and potentially slower loan growth. However, we are confident in the strength of our balance sheet and our employees to manage through these challenges and deliver for both our customers and shareholders.

We continue to develop our plans for the next several years, and no matter what the economic environment holds, please be assured that we will continue to focus on the same three priorities – our customers, shareholders, and our employees.

Thank you for your continued loyalty and support.



Mark C. Oldenberg
President & CEO



**Record Net
Income for
the year of
\$12.73 million -
a 28.67%
increase over
2021.**

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**

\$93MM
debit card transactions

34%
increase in **debit**
card swipes

24%
increase in **debit**
cards issued

\$725MM
in **mobile** transfers

We ended the year with \$828 million in total assets, a decrease from \$864 million in 2021. Total loans at \$541.85 million were \$15.2 million more than 2021. During the year, all remaining \$4.7 million Paycheck Protection Program (PPP) loans were forgiven by the Small Business Administration.

The Allowance for Loan Loss remained adequately funded at \$7.7 million or 1.43% of gross loans, due in part to our improving credit quality. Total non-accrual loans of \$3.0 million trended down slightly from last year and represented 0.56% of the portfolio. Loans past due 30-89 days were 0.09% of the portfolio, down from 0.35% in 2021.

Total deposits, at \$716.8 million, were down \$31.8 million (4.25%) from year-end 2021. During the early stages of the pandemic deposits increased more than \$100 million, and a portion of that increase has been viewed as temporary. An expanded Treasury Management Department and enhanced deposit pricing strategies are expected to help grow deposit balances in 2023.

Total equity at year-end was \$51.9 million down \$16.8 million from last year's total of \$68.7 million. Equity was negatively affected by a \$23.6 million adjustment in unrealized losses related to the bank's investment portfolio due to increasing interest rates.

Security Financial Services Corporation's (SFSC) debt related to the acquisition of Jackson County Bank continues to be reduced ahead of schedule. Principal paydowns of \$2.5 million during the fourth quarter and a total of \$3.0 million for the year brought the outstanding balance to \$9.0 million at year-end.

INCOME STATEMENT

Significant accounting adjustments related to the acquisition of JCB favorably impacted Net Income in 2022. At the acquisition, JCB assets and liabilities were incorporated into SFB's balance sheet at market value as required by Generally Accepted Accounting Practices (GAAP). This created discounts and premiums, some significant, that are then realized over the estimated life of the respective asset or liability acquired. During 2022, loans acquired during the JCB acquisition paid off or were restructured more rapidly than anticipated prompting a one-time 'catch-up' adjustment increasing loan interest income by \$1,523,000. Relatedly, a JCB borrowing acquired during the merger was paid off, prompting a \$432,000 adjustment decreasing interest expense.

Interest income of \$31.70 million was up \$2.96 million, a 13.98% increase, from year-end 2021. Increased loan balances, the elimination of low-yielding PPP loans forgiven during the year, and increasing market rates all contributed to the increase, along with the \$1.52 million adjustment mentioned above.

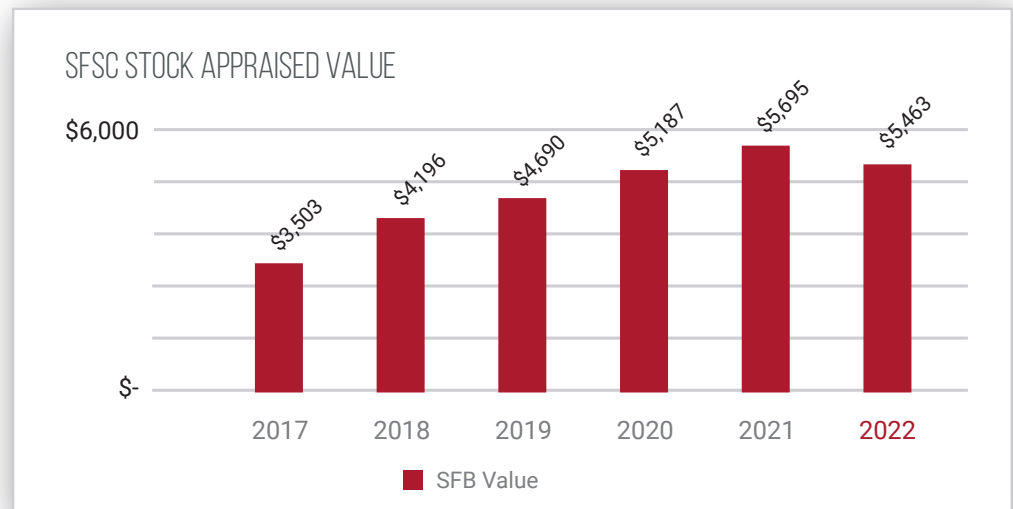
Interest expense of \$3.61 million remained near 2021 levels. Increased interest expense due to rates on both deposits and SFSC debt was offset by decreased balances on both, and the JCB borrowing adjustment mentioned above.

As a result of these factors, our Net Interest Income, the difference between interest income and interest expense, increased from \$25.1 million in 2021 to \$28.1 million. We have been growing this income gradually over the last several quarters; however, increased competition for deposits will make further improvements more difficult to achieve in 2023.

Non-interest income of \$3.2 million was \$1.7 million (34.69%) less than 2021 due to reduced loan fees, especially mortgage-related fees.

Non-interest expense of \$17.6 million was \$400,000 (2.21%) less than 2021 as we were able to realize merger efficiencies related to the JCB acquisition. No loan loss provision was expensed during the year as the Reserve for Loan Losses was determined to be adequately funded. We continue to evaluate 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 year were \$1,135.84, an increase of \$264.01 (30.28%) over 2021.

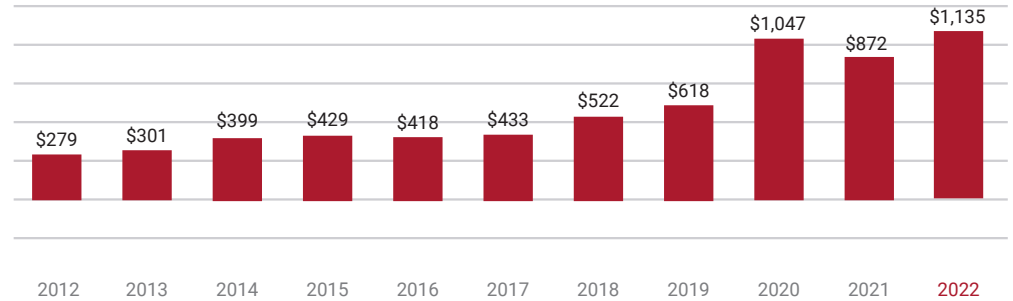


Our Vision

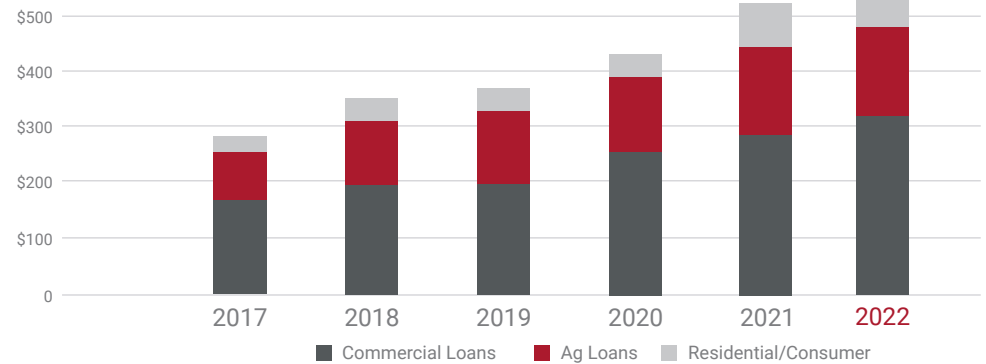
To be the best business and ag bank
and top employer in each of the
markets we serve.

sfb BY THE NUMBERS

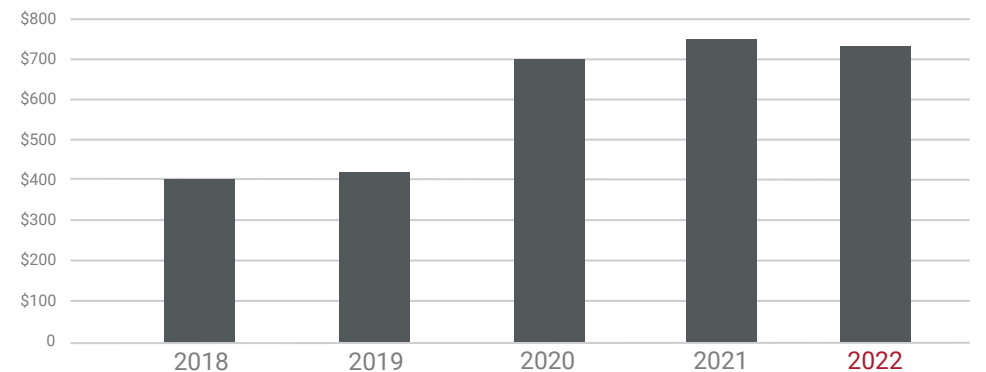
EARNINGS PER SHARE OVER THE LAST DECADE



LOAN BALANCE (IN MILLIONS)



DEPOSIT BALANCE (IN MILLIONS)





COMPARATIVE STATEMENT

STATEMENT OF INCOME

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

	2022	2021	2020	2019	2018
Income					
Interest Income - Securities	\$3,647	\$2,524	\$2,199	\$2,443	\$2,336
Interest Income - Loans	\$27,542	\$25,942	\$21,101	\$18,996	\$16,632
Interest Income - Other	\$477	\$277	\$253	\$452	\$253
Total Interest Income	\$31,666	\$28,743	\$23,553	\$21,891	\$19,221
Less Interest Expense-Bank	\$3,108	\$3,097	\$3,780	\$4,320	\$3,545
Less Interest Expense-SFSC	\$496	\$512	\$118	\$21	\$96
Total Interest Expense	\$3,604	\$3,609	\$3,898	\$4,341	\$3,641
Net Interest Income	\$28,062	\$25,134	\$19,655	\$17,550	\$15,580
Plus Non-interest Income	\$3,168	\$4,930	\$8,265	\$2,745	\$2,090
Total Income Less Interest Expense	\$31,230	\$30,064	\$27,920	\$20,295	\$17,670
Salaries & Employee Benefits	\$10,758	\$11,154	\$9,259	\$7,695	\$6,860
Occupancy	\$2,559	\$2,203	\$1,644	\$1,715	\$1,440
Other Operating Expenses	\$4,230	\$4,644	\$3,376	\$3,009	\$3,071
Total Non-interest Expense	\$17,547	\$18,001	\$14,279	\$12,419	\$11,371
Net Income From Operations	\$13,683	\$12,063	\$13,641	\$7,876	\$6,299
Provision for Loan Losses	\$0	\$575	\$1,685	\$870	\$300
Net Securities (Gains) Losses	\$56	\$0	\$0	(\$85)	\$0
Income Tax (Refunds) Expense	\$901	\$1,598	\$53	\$52	\$41
Net Income	\$12,726	\$9,890	\$11,903	\$7,039	\$5,958

Bankers Who Believe in You

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

59,547

customer service calls

5,506

customer service sessions on mobile app



31, 5-star Google customer service reviews

STATEMENT OF CONDITION

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

Assets	2022	2021	2020	2019	2018
Cash Equivalents	\$19,733	\$36,049	\$70,831	\$25,662	\$19,904
Securities	\$229,748	\$265,534	\$178,112	\$86,919	\$88,235
Gross Loans	\$541,846	\$526,658	\$474,240	\$360,523	\$350,356
Allowance for Loan Losses	(\$7,735)	(\$7,745)	(\$7,160)	(\$5,580)	(\$4,738)
Federal Funds Sold	\$0	\$369	\$66,058	\$0	\$5,433
Bank Building, Furniture/Fixtures	\$8,902	\$9,230	\$9,528	\$7,341	\$6,886
Other Real Estate Owned	\$0	\$85	\$0	\$0	\$0
Goodwill	\$6,122	\$6,122	\$6,123	\$6,123	\$6,123
Other Assets	\$29,740	\$27,361	\$26,697	\$20,291	\$19,726
Total Assets	\$828,356	\$863,663	\$824,429	\$501,279	\$491,925
Liabilities and Equity					
Total Deposits	\$716,843	\$748,641	\$697,459	\$410,099	\$402,004
Repurchase Agreements	\$0	\$1,454	\$2,684	\$8,104	\$8,600
Federal Funds Purchased	\$15,395	\$0	\$0	\$1,232	\$0
Borrowed Funds	\$30,000	\$27,998	\$37,140	\$22,500	\$28,000
Other Debt Incurred	\$9,000	\$12,000	\$15,500	\$0	\$1,491
Other Liabilities	\$5,230	\$4,890	\$6,407	\$4,380	\$2,762
Total Liabilities	\$776,468	\$794,983	\$759,190	\$446,315	\$442,857
Common Stock	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200
Surplus	\$18,463	\$18,419	\$18,335	\$18,335	\$18,335
Undivided Profits	\$58,952	\$51,356	\$44,847	\$35,853	\$31,766
Unrealized Gain (Loss) on Securities	(\$23,990)	(\$423)	\$2,542	\$1,248	(\$765)
Treasury Stock (at Cost)	(\$2,737)	(\$1,872)	(\$1,685)	(\$1,672)	(\$1,468)
Total Equity	\$51,888	\$68,680	\$65,239	\$54,964	\$49,068
Total Liabilities and Equity	\$828,356	\$863,663	\$824,429	\$501,279	\$491,925

We Believe in Community

At SFB, part of our mission is to invest in the communities we serve. SFB supported more than 200 organizations through sponsorships and donations, and our employees received 368 hours of paid volunteer time off to volunteers in the community.



230%
increase in employee
United Way participation

BEST
place to work finalist EC
Chamber Young Professionals

286,939
website visits by 61,616
individuals

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

NOW OFFERING ONLINE
APPOINTMENT SCHEDULING!



SECURITY FINANCIAL BANK

sfbank.com | 888.254.0615 | Member FDIC

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



Our Mission

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