



May 16, 2020

To Our Shareholders:

Much has changed for each of us since our last communication. The COVID-19 pandemic has challenged us to think and behave in ways unimaginable just a few short months ago. Management at Security Financial Bank is striving to act safely and compassionately with employees and clients, while at the same time focusing on our mission.

Before we share financial details of our first quarter, we are pleased to announce that Security Financial Services Corporation and Security Financial Bank have entered into an agreement to acquire Jackson County Bank, which is headquartered in Black River Falls. The transaction is subject to the customary closing conditions, including approval by the shareholders of Wisconsin Bank Services, Inc., the holding company of Jackson County Bank.

Our respective Boards and executive management teams share a common vision of this opportunity. We believe this acquisition will make both banks stronger while providing our clients with an increased lending power in a larger geographic footprint. The combined assets of the merged entity will be about \$700 million.

It is anticipated that the transaction will close late in the third quarter of this year. We look forward to providing you more details about this acquisition in next quarter's report. But for now, below is a summary of our first quarter financial results.

Balance Sheet Summary – First Quarter

Loans began the year strongly, up \$8.7 million from year-end to \$369.2 million, and are up \$21.7 million (6.24%) year-over-year. At present, credit quality is strong. Total loans on non-accrual were 1.17% of the total portfolio, down from 1.56% at year-end; loans past due over 30 days were 0.32% of the portfolio, down from 0.61% at year-end.

The pandemic is wreaking havoc in many sections of our economy, and management expects credit quality to be negatively impacted. Provision for loan loss expense will increase during the next several quarters or more, as needed.

Deposits were down \$15.3 million from year-end due largely to seasonal cash needs of depositors and are up \$9.3 million (2.40%) year-over-year.

Income Statement Summary – First Quarter

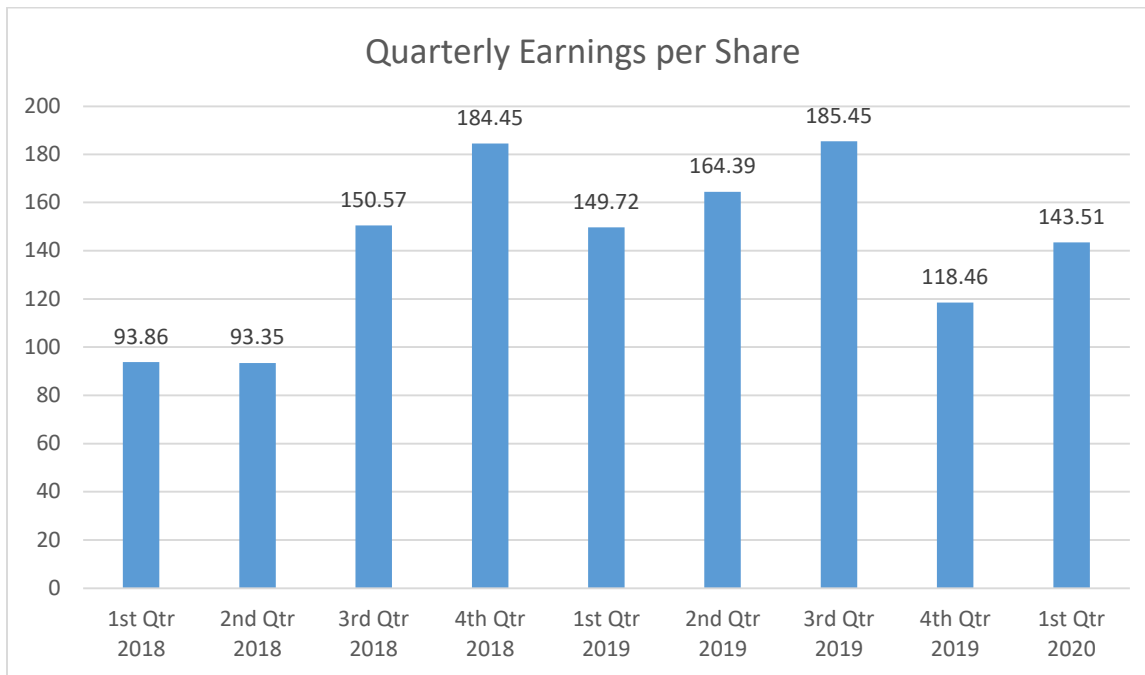
Net Income for the first quarter of \$1,631,000 was \$76,000 (4.45%) short of 2019, but remains ahead of plan. Revenue generation lagged investment in infrastructure (systems and staff).

The net interest margin (interest income – interest expense) of \$4,219,000 exceeded 2019 by \$53,100 (1.26%). The percent interest margin of 3.86% was down slightly from the year-end measure of 3.92% due to declining asset yields.

Non-interest income of \$762,000 exceeded 2019 by \$42,000 (5.83%) due in part to a continued strong mortgage refinance market. Non-interest expenses of \$3,270,000 are \$250,000 (8.28%) greater than one year ago. The majority of the increase is due to open positions being filled, annual raises and increased benefits costs.

The provision for loan loss expense of \$120,000 was \$60,000 (33.33%) less than in 2019.

Earnings per share for the quarter were \$143.51, up \$25.05 (21.15%) from fourth quarter 2019, but down \$6.21 (4.15%) from first quarter 2019.



Thank you for your continued loyalty and support. We invite you to visit any of our five 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 - March 31, Year-to-date (000s)

	<u>3/31/2020</u>	<u>12/31/2019</u>	<u>3/31/2019</u>	Change in 1st Qrt	
				<u>\$ Change</u>	<u>% Change</u>
Cash Equivalents	\$22,276	\$29,125	\$17,513	(\$6,849)	-23.52%
Securities	80,792	86,157	84,932	(\$5,365)	-6.23%
Fed Funds Sold	1,673	0	4,839	\$1,673	na
Loans	369,176	360,523	347,487	\$8,653	2.40%
Allowance for Loan Losses	(5,693)	(5,580)	(4,921)	(\$113)	2.03%
Other Assets	30,612	31,054	30,690	(\$442)	-1.42%
TOTAL ASSETS	\$498,836	\$501,279	\$480,540	(\$2,443)	-0.49%
Total Deposits	\$394,759	\$410,099	\$385,503	(\$15,340)	-3.74%
SFSC Debt	0	0	1,491	0	#DIV/0!
Fed Funds Purchased	0	1,232	0	na	na
Other Liabilities	47,444	34,984	42,660	12,460	35.62%
TOTAL LIABILITIES	442,203	446,315	429,654	(4,112)	-0.92%
Common Stock, Surplus & Undivided Profits	54,710	53,716	50,534	994	1.85%
Unrealized Gains (Losses) on Securities	1,923	1,248	352	675	54.09%
Total STOCKHOLDERS' EQUITY	56,633	54,964	50,886	1,669	3.04%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$498,836	\$501,279	\$480,540	(2,443)	-0.49%



Year-to-date Income Statement Comparison (000s)

	<u>3/31/2020</u>	<u>12/31/2019</u>	<u>3/31/2019</u>	3/31 Year-over-year	
				<u>\$ Change</u>	<u>% Change</u>
INCOME:					
Interest Income	\$5,269	\$21,276	\$5,200	\$69	1.33%
Non-interest Income	762	3,666	720	\$42	5.83%
Total Income	6,031	24,942	5,920	\$111	1.88%
Interest Expense - SFB	997	4,320	982	\$15	1.53%
Interest Expense - SFSC Debt	0	21	19	(\$19)	-100.00%
Total Interest Expense	997	4,341	1,001	(\$4)	-0.40%
Total Income less Interest Expense	5,034	20,601	4,919	\$115	2.34%
EXPENSES:				\$0	na
Salaries and Benefits	1,994	7,695	1,800	\$194	10.78%
Other Operating Expense	1,276	5,030	1,220	\$56	4.59%
Total Non-interest Expense	3,270	12,725	3,020	\$250	8.28%
Net Income from Operations	1,764	7,876	1,899	(\$135)	-7.11%
(Gains) or Losses on Sale of Securities	0	(84)	0	\$0	na
Provisions for Loan Losses	120	870	180	(\$60)	-33.33%
Provisions for Income Tax Expense	13	52	12	\$1	8.33%
NET INCOME	\$1,631	\$7,038	\$1,707	(\$76)	-4.45%