



September 4, 2020

To Our Shareholders:

In the midst of a global pandemic and despite a challenging economy, Security Financial Services Corporation is proud to announce record first half earnings of \$4,120,000, exceeding first half 2019 by \$539,000 (15.05%). The increase was fueled largely by a continued robust mortgage refinancing market.

Acquisition Update

Last quarter we announced to you the agreement to acquire the Jackson County Bank in Black River Falls, Wisconsin. The acquisition continues to move forward, and Jackson County Bank shareholders have approved the sale. The purchase is now expected to close in the fourth quarter after regulatory approval.

Second Quarter Balance Sheet Summary

Loans increased dramatically during the first six months of the year due largely to the Paycheck Protection Program (PPP), which offers loans designed to provide direct incentive for small businesses to keep their workers on the payroll. We funded more than \$52,000,000 in PPP loans, which mature in two years and are considered temporary.

Credit quality remains strong, and a slight rise in milk prices has helped many of our farmers. Total loans on non-accrual were 1.00% of the total portfolio, down from 1.17% at the end of the first quarter. Loans past due more than 30 days were 1.03% of the portfolio, up from 0.32% at the end of the first quarter.

Deposits also were up markedly. Many of the funds advanced under the PPP program remain on deposit at the bank.

Holding Company debt increased to \$3,000,000 to bolster the Bank's capital levels for the acquisition process during uncertain economic times.

Income Statement Summary

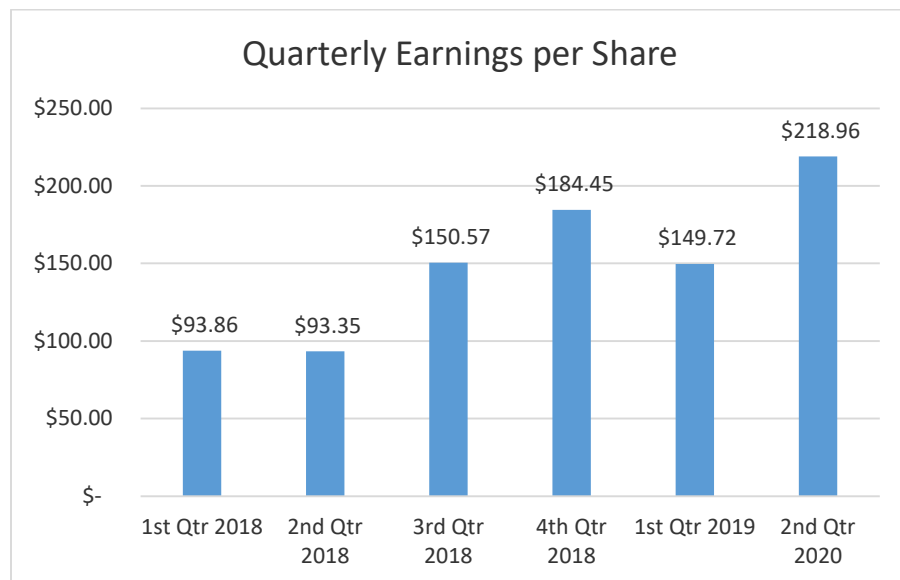
Total revenue was up \$713,000 (5.83%) year-over-year, due largely to mortgage fee income. Decreasing market rates pushed the overall portfolio yield down, partially offsetting interest earned on new loan growth.

Interest expense was down \$224,000 (10.59%) due to decreasing interest rates and non-interest expenses were up \$400,000 (\$6.00%) due largely to human resource expenses.

The provision for loan losses was down \$32,000 (8.89%) from the first half of 2019.

Quarterly Earnings

Earnings per share for the quarter were a record \$218.96.



Tax Distribution Check

As a result of action taken by the Board of Directors, we are pleased to enclose a tax distribution check to our shareholders of record as of August 31, 2020. This check of \$76 per share represents the estimated taxable income of the Company for the third quarter of 2020 at the highest federal and State of Wisconsin tax rates. As a reminder to our non-Wisconsin residents, we are required to withhold at the maximum state tax rate from your distribution and remit to the State of Wisconsin.

Annual Meeting Recap

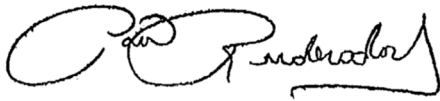
It was a pleasure to see a few of you at the condensed Annual Shareholder's meeting on August 25th. At that meeting, Robert Komro, James Price, and Paul Rudersdorf were elected as Class II directors to continue serving as directors until the Annual Meeting in 2023. Andrew Weiser was elected as a Class III director to continue serving until the Annual Meeting in 2021. Also, retired Board member Steven Schultz was honored for his 10 years of service as a director, and Robert Komro was honored for five years of service.

Outlook Ahead

The headwinds are strong as we navigate the second half of the year. A slowing mortgage refinance market, intense pressure on the net interest margin, and an uncertain economy will provide considerable challenges for the remainder of the year and beyond.

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 - June 30, Year-to-date (000s)

	<u>6/30/2020</u>	<u>12/31/2019</u>	<u>6/30/2019</u>	1st half 2020	
				<u>\$ Change</u>	<u>% Change</u>
Cash Equivalents	\$37,524	\$29,125	\$17,446	\$8,399	28.84%
Securities	81,191	86,157	83,164	(\$4,966)	-5.76%
Fed Funds Sold	24,164	0	0	\$24,164	na
Loans	428,784	360,523	356,948	\$68,261	18.93%
Allowance for Loan Losses	(5,903)	(5,580)	(5,098)	(\$323)	5.79%
Other Assets	30,871	31,054	30,976	(\$183)	-0.59%
TOTAL ASSETS	\$596,631	\$501,279	\$483,436	\$95,352	19.02%
Total Deposits	\$456,500	\$410,099	\$378,972	\$46,401	11.31%
SFSC Debt	3,000	0	0	3,000	#DIV/0!
Fed Funds Purchased	312	1,232	3,936	na	na
Other Liabilities	78,748	34,984	48,417	43,764	125.10%
TOTAL LIABILITIES	538,560	446,315	431,325	92,245	20.67%
Common Stock, Surplus & Undivided Profits	55,778	53,716	50,963	2,062	3.84%
Unrealized Gains (Losses) on Securities	2,293	1,248	1,148	1,045	83.73%
Total STOCKHOLDERS' EQUITY	58,071	54,964	52,111	3,107	5.65%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$596,631	\$501,279	\$483,436	95,352	19.02%



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

	<u>6/30/2020</u>	<u>12/31/2019</u>	<u>6/30/2019</u>	6/30 Year-over-year	
				\$ Change	% Change
INCOME:					
Interest Income	\$10,472	\$21,276	\$10,500	(\$28)	-0.27%
Non-interest Income	2,475	3,666	1,734	\$741	42.73%
Total Income	12,947	24,942	12,234	\$713	5.83%
Interest Expense - SFB	1,878	4,320	2,096	(\$218)	-10.40%
Interest Expense - SFSC Debt	14	21	20	(\$6)	-30.00%
Total Interest Expense	1,892	4,341	2,116	(\$224)	-10.59%
Total Income less Interest Expense	11,055	20,601	10,118	\$937	9.26%
EXPENSES:				\$0	na
Salaries and Benefits	4,074	7,695	3,616	\$458	12.67%
Other Operating Expense	2,478	5,030	2,536	(\$58)	-2.29%
Total Non-interest Expense	6,552	12,725	6,152	\$400	6.50%
Net Income from Operations	4,503	7,876	3,966	\$537	13.54%
(Gains) or Losses on Sale of Securities	29	(84)	0	\$29	na
Provisions for Loan Losses	328	870	360	(\$32)	-8.89%
Provisions for Income Tax Expense	26	52	25	\$1	4.00%
NET INCOME	\$4,120	\$7,038	\$3,581	\$539	15.05%