



August 12, 2021

To Our Shareholders:

Staff at both Security Financial Bank (SFB) and Jackson County Bank (JCB) are working diligently to ensure that the merger of JCB into SFB the weekend of August 20<sup>th</sup> is successful, while continuing to develop and refine systems and processes that create efficiencies and generate new, profitable business.

#### Balance Sheet Summary – First Quarter

Loans, at \$506.3 million, are up \$32.1 million from year-end, and are up \$77.5 million (18.08%) from 6/30/2020. Paycheck Protection Program (PPP) loans continue to be forgiven, and account for \$27.1 million of the portfolio, down from \$53.0 million one year ago. Strong organic loan growth contributed \$39.1 million to the 12-month increase, as well as the addition of the \$65 million JCB loan portfolio.

Credit quality is strong at SFB, with total non-accrual loans at 0.17% of the portfolio, down from 0.18% on 3/31/2021, and loans past due 30-89 days of 0.00%, down from 0.03%. At JCB, credit quality is improving with total non-accrual loans at 3.79% of the portfolio, down from 4.33% on 3/31/2021, and loans past due 30-89 days of 0.53%, down from 1.34%.

Deposits are up \$22.6 million from year-end and are up \$26.6 million from 6/30/2021. \$174.0 million of the 12-month increase is attributable to deposits from JCB. The remaining growth in deposits, some of which have been referred to as "Pandemic Deposits", may lack the permanency that is generally associated with traditional deposit growth in normal times.

SFSC debt of \$16.9 million, the bulk of which was used to finance the JCB acquisition, is up \$1.4 million from year-end.

#### Income Statement Summary – First Quarter

SFSC began paying Wisconsin state income tax at the entity level in 2020, rather than passing that obligation through to shareholders. If shareholders continue to vote for this state tax treatment, net income will continue to be reduced by that expense. Generally Accepted Accounting Principles dictate that the expense can be recognized only after shareholder approval. SFSC shareholders approved the state entity election for 2020 and 2021 this year so both year's state tax expense will be recognized in 2021.

Income tax expense for the first six months of \$1,000,000, 2/3 of which is related to the prior year, compares to \$26,000 one year ago.

Net Income for the first six months of \$3,928,000 is \$192,000 (4.66%) less than 2020, but Net Income Before Income Taxes of \$4,928,000 exceeds 2020 by \$782,000 (18.86%) and is a better gauge of over-all financial performance comparison due to the changed income tax treatment.

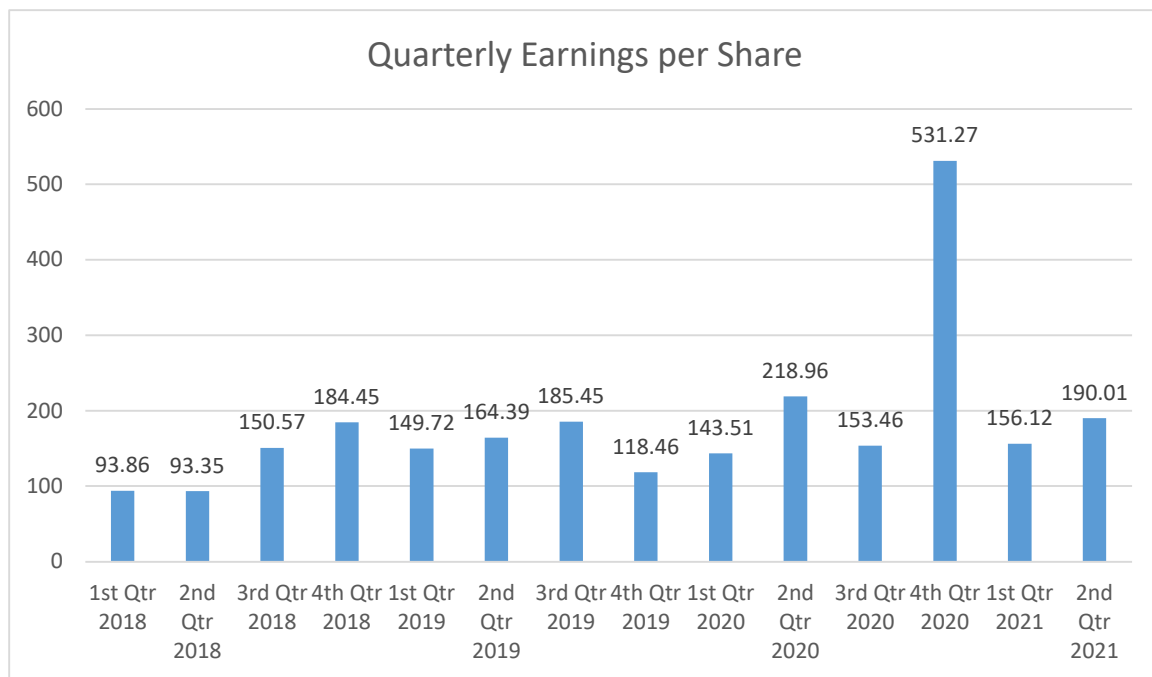
Interest income of \$12,440,000 is up \$1,968,000 (18.79%) from first half 2020, due to increased loans, despite low market interest rates. Interest expense of \$1,910,000 is up only \$18,000 despite increased deposits, also due to low market interest rates.

Non-interest income of \$3,612,000 exceeded first half 2020 by \$1,137,000 (45.94%) due largely to strong mortgage fees, PPP fees, and contribution from JCB (\$609,000).

Non-interest expense of \$9,148,000 exceeds first half 2020 by \$2,596,000 (39.62%). The majority of the increase is attributable to JCB human resource and operating expenses.

The loan loss provision of \$75,000 was expensed for JCB loans. SFB’s reserve for loan losses was determined to be adequately funded so no provision was taken, compared to last year’s first half expense of \$328,000.

Earnings per share for the second quarter were \$190.01, up from \$156.12 in the first quarter.



Thank you for your continued loyalty and support. We invite you to visit any of our banking locations, especially in Black River Falls and Alma Center, for your banking needs, or at [www.sfbank.com](http://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, 2021 (000s)

	<u>6/30/2021</u>	<u>12/31/2020</u>	<u>6/30/2020</u>	<b>1st half 2021</b>	
				<u>\$ Change</u>	<u>% Change</u>
Cash Equivalents	\$34,214	\$70,831	\$37,524	(\$36,617)	-51.70%
Securities	188,576	178,112	81,191	10,464	5.87%
Fed Funds Sold	73,510	66,058	24,164	7,452	11.28%
Loans	506,307	474,240	428,784	32,067	6.76%
Allowance for Loan Losses	(7,242)	(7,160)	(5,903)	(82)	1.15%
Other Assets	41,213	42,348	30,871	(1,135)	-2.68%
<b>TOTAL ASSETS</b>	<b>\$836,578</b>	<b>\$824,429</b>	<b>\$596,631</b>	<b>\$12,149</b>	<b>1.47%</b>
Total Deposits	\$720,058	\$697,459	\$456,500	\$22,599	3.24%
SFSC Debt	16,887	15,500	3,000	1,387	8.95%
Fed Funds Purchased	0	0	312	0	na
Other Liabilities	34,672	46,231	78,748	(11,559)	-25.00%
<b>TOTAL LIABILITIES</b>	<b>771,617</b>	<b>759,190</b>	<b>538,560</b>	<b>12,427</b>	<b>1.64%</b>
Common Stock, Surplus & Undivided Profits	63,852	62,697	55,778	1,155	1.84%
Unrealized Gains (Losses) on Securities	1,109	2,542	2,293	(1,433)	-56.37%
<b>Total STOCKHOLDERS' EQUITY</b>	<b>64,961</b>	<b>65,239</b>	<b>58,071</b>	<b>(278)</b>	<b>-0.43%</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$836,578</b>	<b>\$824,429</b>	<b>\$596,631</b>	<b>\$ 12,149</b>	<b>1.47%</b>



Year-to-date Income Statement Comparison - June 30, 2021 (000s)

	<u>6/30/2021</u>	<u>12/31/2020</u>	<u>6/30/2020</u>	<b>6/30 Year-over-year</b>	
				<b>\$ Change</b>	<b>% Change</b>
INCOME:					
Interest Income	\$12,440	\$23,553	\$10,472	\$1,968	18.79%
Non-interest Income	3,612	8,265	2,475	1,137	45.94%
Total Income	16,052	31,818	12,947	3,105	23.98%
Interest Expense - SFB/JCB	1,645	3,780	1,878	(233)	-12.41%
Interest Expense - SFSC Debt	265	118	14	251	1792.86%
Total Interest Expense	1,910	3,898	1,892	18	0.95%
Total Income less Interest Expense	14,142	27,920	11,055	3,087	27.92%
EXPENSES:					
Salaries and Benefits	5,411	9,259	4,074	1,337	32.82%
Other Operating Expense	3,737	5,020	2,478	1,259	50.81%
Total Non-interest Expense	9,148	14,279	6,552	2,596	39.62%
Net Income from Operations	4,994	13,641	4,503	491	10.90%
(Gains) or Losses on Sale of Securities	(9)	0	29	(38)	-131.03%
Provisions for Loan Losses	75	1,685	328	(253)	-77.13%
NET INCOME BEFORE INCOME TAXES	4,928	11,956	4,146	782	18.86%
Provisions for Income Tax Expense	1,000	53	26	974	3746.15%
NET INCOME	\$3,928	\$11,903	\$4,120	(\$192)	-4.66%