



July 26, 2022

To Our Shareholders:

There have been few times in recent history that we have had so many variables affecting our economy, including a war in Ukraine with no end in sight, supply chain issues, and continued COVID-19 disruptions in China. All of these forces, and others, have culminated to drive inflation to levels not seen in decades.

Despite the challenges of an uncertain and volatile economy, we are pleased to report that we have again seen a record net income in the first half of the year due to our strong credit quality and expense control. We are confident that the bank is well prepared to provide favorable financial trends that shareholders have come to expect and have a good loan pipeline. Management is prepared to address the current challenges in our changing economy, and we will always put long-term viability and profitability above short-term success.

Second Quarter Financial Overview

Balance Sheet Summary

Loans, at \$503.4 million, were down \$23.3 million from year-end and were down \$2.9 million (0.58%) from June 30, 2021. Paycheck Protection Program (PPP) loans continue to be forgiven, and account for only \$2.2 million of the portfolio, compared to \$4.7 million at year end and \$27.1 million one year ago.

Credit quality remains strong, and the Allowance for Loan Losses remained adequately funded at \$7.7 million or 1.54% of gross loans. Total non-accrual loans of \$3.3 million were down slightly from year-end and represented 0.66% of the portfolio. Loans past due 30-89 days were 0.06% of the portfolio, down from the year-end ratio of 0.35%

Total deposits, at \$735.4 million, were down \$13.2 million from year-end and were up \$15.4 million from June 30, 2021. Deposits continue to migrate away from time deposits and into money market and savings deposits. The year-over-year increase in total deposits has allowed us to maintain high levels of liquidity to fund additional loan growth.

Security Financial Services Corporation's (SFSC) debt of \$11.5 million was down \$500,000 from year-end and was \$5.4 million lower year-over-year as the Company expects to continue paying down principal on acquisition debt ahead of schedule.

Income Statement Summary

Net income for the first two quarters of \$5.72 million exceeded 2021 net income for the same time period by \$1.79 million or 45.61% largely due to the timing of the state income tax recognition in 2021 related to the shareholder adoption of Entity State Income Tax Election.

Interest income of \$14.74 million was up \$889,000, a 6.42% increase from the first half of 2021. Although total loan balances have changed little in the past 12 months, low-yielding PPP loans forgiven during that period were replaced with market-rate loans, while cash balances have been deployed in the investment portfolio. Additionally, recent rate changes by the Federal Open Market Committee have increased yields on new and repricing loans and investments.

Interest Expense of \$1.45 million was \$462,000 or 24.19% less than the first half of 2021 due mainly to reduced SFSC debt outstanding.

Non-interest income of \$1.22 million was \$711,000 (36.92%) less than the first half of 2021 due to reduced loan fees, especially PPP fee income and mortgage-related fees.


Non-interest expense of \$8.46 million was \$413,000 (4.65%) less than the first half of 2021. Merger efficiencies, including process streamlining, branch closures, and staffing reductions drove these cost savings.

No loan loss provision was expensed during the quarter as the Reserve for Loan Losses was determined to be adequately funded.

Earnings Per Share (EPS) for the second quarter were \$255.50, up slightly from the first quarter EPS of \$253.60 and were 34.47% higher than the second quarter of 2021. Year-to-date EPS of \$509.10 was 47.08% above year-to-date EPS for the comparable period last year.

Thank you for your continued loyalty and support. As always, we invite you to visit any of our banking locations for all of your banking needs or visit us at www.sfbank.com.

Best Regards,



Mark Oldenberg
President and
Chief Executive Officer



Paul Solyntjes
Executive Vice President and
Chief Financial Officer



Balance Sheet Comparison - June 30, Year-to-date (000s)

	<u>6/30/2022</u>	<u>12/31/2021</u>	<u>6/30/2021</u>	1st half 2022	
				\$ Change	% Change
Cash Equivalents	\$27,186	\$36,049	\$34,214	(\$8,863)	-24.59%
Securities	241,852	265,534	188,577	(\$23,682)	-8.92%
Fed Funds Sold	19,126	369	73,510	\$18,757	na
Loans	503,361	526,658	506,307	(\$23,297)	-4.42%
Allowance for Loan Losses	(7,744)	(7,745)	(7,242)	\$1	-0.01%
Other Assets	45,212	42,798	41,213	\$2,414	5.64%
TOTAL ASSETS	\$828,993	\$863,663	\$836,579	(\$34,670)	-4.01%
Total Deposits	\$735,440	\$748,641	\$720,058	(\$13,201)	-1.76%
SFSC Debt	11,500	12,000	16,887	(500)	-4.17%
Fed Funds Purchased	0	0	0	0	#DIV/0!
Other Liabilities	31,887	34,342	34,673	(2,455)	-7.15%
TOTAL LIABILITIES	778,827	794,983	771,618	(16,156)	-2.03%
Common Stock, Surplus & Undivided Profits	69,689	69,103	63,852	586	0.85%
Unrealized Gains (Losses) on Securities	(19,523)	(423)	1,109	(19,100)	4515.37%
Total STOCKHOLDERS' EQUITY	50,166	68,680	64,961	(18,514)	-26.96%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$828,993	\$863,663	\$836,579	(34,670)	-4.01%



Year-to-date Income Statement Comparison June 30, 2022 (000s)

	<u>6/30/2022</u>	<u>12/31/2021</u>	<u>6/30/2021</u>	6/30 Year-over-year	
				\$ Change	% Change
INCOME:					
Interest Income	\$14,742	\$28,743	\$13,853	\$889	6.42%
Non-interest Income	1,215	4,930	1,926	(\$711)	-36.92%
Total Income	15,957	33,673	15,779	\$178	1.13%
Interest Expense - SFB	1,266	3,097	1,645	(\$379)	-23.04%
Interest Expense - SFSC Debt	182	512	265	(\$83)	-31.32%
Total Interest Expense	1,448	3,609	1,910	(\$462)	-24.19%
Total Income less Interest Expense	14,509	30,064	13,869	\$640	4.61%
EXPENSES:					
Salaries and Benefits	5,316	11,154	5,411	(\$95)	-1.76%
Other Operating Expense	3,144	6,847	3,462	(\$318)	-9.19%
Total Non-interest Expense	8,460	18,001	8,873	(\$413)	-4.65%
Net Income from Operations	6,049	12,063	4,996	\$1,053	21.08%
(Gains) or Losses on Sale of Securities	(16)	0	(7)	(\$9)	128.57%
Provisions for Loan Losses	0	575	75	(\$75)	-100.00%
Provisions for Income Tax Expense	346	1,598	1,000	(\$654)	-65.40%
NET INCOME	\$5,719	\$9,890	\$3,928	\$1,791	45.60%