January 31, 2023

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, record net income for the year of $12.73 million, a $2.84 million or 40.91% increase over 2021, due to an expanding net interest margin, strong credit quality and one-time accounting adjustments as a result of better-than-expected credit experience with the Jackson County Bank (JCB) acquisition.

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.

Balance Sheet Summary

Loans grew during the fourth quarter, increasing $29.0 million, and finished the year at $541.8 million, $15.2 million ahead of 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 Losses remained adequately funded at $7.7 million or 1.43% of gross loans. Loan Loss provisions for the year were $0 due in part to our improving credit quality. Total non-accrual loans of $3.0 million trended down slightly from the previous quarter and last year and represented 0.56% of the portfolio. Loans past due 30-89 days were 0.09% of the portfolio, down from both last quarter 0.26% and year-end 2021 0.35%.

Total deposits, at $716.8 million, were down $31.8 million (4.25%) from year-end 2021 and were down $23.1 million (3.12%) from September 30, 2022. 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 2023 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 Summary

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 Margin, the difference between interest income and interest expense, increased from $10.24 million in 2021 to $14.34 million. We have been growing this margin gradually over the last several quarters; however, increased competition for deposits will make further improvements in margin more difficult to achieve into 2023.

Non-interest income of $2.95 million was $1.98 million (63.43%) less than 2021 due to reduced loan fees, especially PPP fee income and mortgage-related fees.

Non-interest expense of $17.36 million was $643,000 (4.82%) 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.

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.

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 C. Oldenberg

Mark Oldenberg
President and Chief Executive Officer

SECURITY FINANCIAL SERVICES CORPORATION

STATEMENT OF CONDITION

000s omitted

ASSETS:	12/31/2022	12/31/2021	12/31/2020	12/31/2019	12/31/2018
Cash Equivalents	$19,733	$36,049	$70,831	$25,662	$19,904
Securities	$229,539	$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	$6,123	$6,123	$6,123	$6,123	$6,123
Other Assets	$29,949	$27,435	$26,697	$20,291	$19,726
TOTAL ASSETS	**$828,357**	**$863,738**	**$824,429**	**$501,279**	**$491,925**
LIABILITIES and EQUITY:					
Total Deposits	$716,843	$748,715	$697,459	$410,099	$402,004
Local Repurchase Agreements	$0	$1,454	$2,684	$8,104	$8,600
Fed 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	$5,231	$4,890	$6,407	$4,380	$2,762
Total Liabilities	$776,469	$795,057	$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	$51,357	$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	$68,681	$65,239	$54,964	$49,068
TOTAL LIABILITIES & EQUITY	**$828,357**	**$863,738**	**$824,429**	**$501,279**	**$491,925**

SECURITY FINANCIAL SERVICES CORPORATION

INCOME STATEMENT

Preliminary

000s omitted

	12/31/2022	12/31/2021	12/31/2020	12/31/2019	12/31/2018
Interest Income - Securities	$3,602	$2,524	$2,199	$2,443	$2,336
Interest Income - Loans	$27,575	$25,942	$21,101	$18,996	$16,632
Interest Income - Other	$523	$277	$253	$452	$253
Total Interest Income	**$31,700**	**$28,743**	**$23,553**	**$21,891**	**$19,221**
Less Interest Expense SFB	$3,109	$3,097	$3,780	$4,320	$3,545
Less Interest Expense SFSC	$496	$512	$118	$21	$96
Total Interest Expense	**$3,605**	**$3,609**	**$3,898**	**$4,341**	**$3,641**
Net Interest Income	**$28,095**	**$25,134**	**$19,655**	**$17,550**	**$15,580**
Plus Non-interest Income	$2,946	$4,916	$8,265	$2,745	$2,090
Total Income less Interest Expense	**$31,041**	**$30,050**	**$27,920**	**$20,295**	**$17,670**
Salaries & Employee Benefits	$10,758	$11,154	$9,259	$7,695	$6,860
Occupancy	$1,343	$2,203	$1,644	$1,715	$1,440
Other Operating Expenses	$5,257	$4,644	$3,376	$3,009	$3,071
Total Non-interest Expense	**$17,358**	**$18,001**	**$14,279**	**$12,419**	**$11,371**
Net Income From Operations	**$13,683**	**$12,049**	**$13,641**	**$7,876**	**$6,299**
Provision for Loan Loss	$0	$575	$1,685	$870	$300
Net Securities (Gains) Losses	$56	($14)	$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**