July 28, 2023

To Our Shareholders:

While the banking industry -- including Security Financial Bank (SFB) – continues to face challenges, I am happy to report that the environment has improved. Over the past year, we have successfully grown loans more than 12 percent as the local economies we serve continue to do well. Our credit quality remains strong, and our loan portfolio is well diversified across industries. Deposit balances were down during the quarter but have stabilized, and we are experiencing growth in new accounts as we expand our product offerings, including online account opening. During the quarter, we increased our lines of credit by pledging additional assets to give us more flexibility to fund growth and provide balance sheet stability if needed.

Despite our best efforts, however, obstacles remain outside of our control. Inflation is still running higher than desired, and the expectation is the Federal Open Market Committee (FOMC) will most likely raise rates one or two more times in 2023 as they remain focused on slowing the economy. Meanwhile, we remain focused on serving our customers and communities in all economic cycles.

I want to thank you, our shareholders, and customers, for your confidence in us and thank our employees for their efforts so far this year in a more difficult environment.

Balance Sheet Summary – Second Quarter 2023

Loans grew during the quarter by $17.1 million to a total of $564.7 million and were up $60.8 million (12.09%) from second quarter 2022. We continue to have a healthy loan pipeline and are getting opportunities across our markets to develop new relationships.

Credit quality continues to be strong, and the balance of our Current Expected Credit Losses (CECL) was adequately funded at $9.6 million or 1.69% of gross loans. Non-accrual loans of $2.6 million were down $0.2 million from the previous quarter and represented 0.45% of the portfolio. Loans past due over 30 days were 0.13% of the portfolio, up slightly from the year-end ratio of 0.11.%

Deposits were $25.9 million lower from last quarter at a total of $708.0 million and were $27.5 million lower than a year ago. The competition for deposits has remained high with interest rates continuing to climb. Our employees continue to work closely with customers to build relationships and educate anyone who needs additional FDIC insurance coverage.

We reduced SFSC debt to $7.0 million down from $8.0 million last quarter and down $4.5 million from a year ago as we continue to pay down principal ahead of schedule.

Income Statement Summary – Second Quarter 2023

Net Income for the second quarter was $1.6 million compared to $1.8 million last quarter, raising year-to-date net income to $3.4 million. Interest rates increased further during the most recent quarter continuing to drive interest expense higher and faster than interest income. Although it does not appear the FOMC is done raising rates, it does appear we are closer to the end, which should allow our asset repricing to catch up and increase net income in the coming quarters.

Interest income in the most recent quarter of $8.5 million was up $0.6 million (6.9%) from first quarter 2023. Higher rates during the quarter combined with loan growth added to interest income. Interest expense was $3.0 million compared to $2.4 million last quarter as higher rates continued to encourage customers to move deposits from lower-cost accounts to higher-cost accounts.

Non-interest income of $1.7 million was $0.1 million (4.3%) more than for the same period 2022. A decline in mortgage related income was offset by increased BOLI income and increase in Bankers' Bank stock valuation.

Non-interest expense of $4.4 million was down $0.1 million from last quarter, while year-to-date expense of $8.9 million was $0.1 million higher than last year for the same period.

No loan loss provision was expensed during the quarter as the reserve for Loan Losses was determined to be adequately funded. The Current Expected Credit Loss (CECL) balance of $9.6 million represented 1.69% of gross loans.

Earnings per share (EPS) for the quarter of $145.70 were down $11.94 from first quarter 2023. The reduction in EPS resulted from a slight decrease in net interest income and not recording income tax expense during the first quarter.

Thank you for your continued loyalty and support. If you are interested in receiving the 2022 Financial Audit or the 2022 Fair Market Business Valuation, please contact Julie Sabelko at jsabelko@sfbank.com or 715-672-2415.

We invite you to visit any of our banking locations for your banking needs or visit us at www.sfbank.com to learn more about how we can serve you.

Best Regards,

Mark C. Oldenberg

Mark Oldenberg
President and Chief Executive Officer

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