



November 18, 2020

To Our Shareholders:

Despite an unfavorable interest rate environment, Security Financial Services Corporation (SFSC) is proud to announce record net income for the first three quarters of 2020 of \$5,865,000, which exceeds the first nine months of 2019 by \$173,000 (3.04%). The increase was fueled largely by a continued robust mortgage refinancing market.

#### **Acquisition Update**

SFSC also is proud to announce the completed acquisition of Jackson County Bank (JCB) in Black River Falls, Wisconsin. JCB will operate relatively independently until it is merged into Security Financial Bank during the second half of 2021. The acquisition gives SFSC access to key agricultural markets and funding for future loan growth.

#### **Balance Sheet Summary**

The Balance Sheet continues to be inflated by Paycheck Protection Program (PPP) loans, which account for \$52,000,000 of the \$69,200,000 (19.20%) increase from one year ago. Some of these PPP loans, which have a two-year maturity, are beginning to be forgiven by the Small Business Administration (SBA).

Deposits also grew significantly from one year ago, and are up \$77,200,000 (18.81%). Much of this growth is due to PPP loan customers depositing loan funds into working capital deposit accounts.

Credit quality remains strong. Total loans on non-accrual were 0.99% of the total portfolio, down slightly from 1.00% at the end of the second quarter. Loans past due more than 30 days were 0.84% of the portfolio, down from 1.03% at the end of the second quarter.

Holding Company debt increased to \$3,900,000 to bolster SFB's capital levels for the acquisition process.

#### **Income Statement Summary**

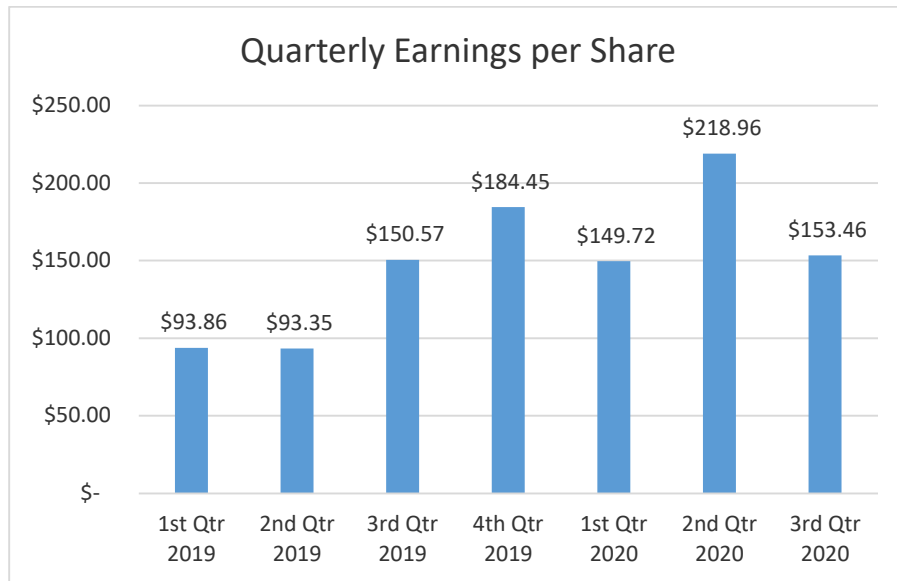
Total revenue through the third quarter was up \$890,000 (4.76%) from one year ago, due largely to mortgage and PPP fee income. Decreasing market rates continue to push the overall portfolio yield down, partially offsetting interest earned on new loan growth.

Interest expense was down \$463,000 (14.24%) due to decreasing interest rates. Non-interest expenses were up \$827,000 (\$8.96%) due largely to human resource expenses, including increased commissions to mortgage lenders for their strong productivity.

The provision for loan losses was up \$260,000 (48.15%) from the first nine months of 2019 due to economic uncertainty related to the pandemic.

## Quarterly Earnings

Earnings per share for the quarter were \$153.46.



## Outlook Ahead

We are excited about entering the Black River Falls market and the challenges merging the Jackson County Bank will bring. A shrinking net interest margin, excess liquidity and an uncertain economy necessitates new and innovative strategies at both banks, and we are confident that our experienced and dedicated management team is up to the challenge.

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](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 - September 30, Year-to-date (000s)

	<u>9/30/2020</u>	<u>12/31/2019</u>	<u>9/30/2019</u>	<b>3rd Qtr. 2020/2019</b>	
				<u>\$ Change</u>	<u>% Change</u>
Cash Equivalents	\$29,708	\$29,125	\$24,138	\$583	2.00%
Securities	74,940	86,157	78,228	(\$11,217)	-13.02%
Fed Funds Sold	49,981	0	13,281	\$49,981	na
Loans	429,726	360,523	357,840	\$69,203	19.20%
Allowance for Loan Losses	(6,359)	(5,580)	(5,272)	(\$779)	13.96%
Other Assets	30,748	31,054	30,990	(\$306)	-0.99%
<b>TOTAL ASSETS</b>	<b>\$608,744</b>	<b>\$501,279</b>	<b>\$499,205</b>	<b>\$107,465</b>	<b>21.44%</b>
Total Deposits	\$487,254	\$410,099	\$395,831	\$77,155	18.81%
SFSC Debt	3,900	0	0	3,900	#DIV/0!
Fed Funds Purchased	312	1,232	0	(920)	-74.68%
Other Liabilities	58,285	34,984	49,641	23,301	66.60%
<b>TOTAL LIABILITIES</b>	<b>549,751</b>	<b>446,315</b>	<b>445,472</b>	<b>103,436</b>	<b>23.18%</b>
Common Stock, Surplus & Undivided Profits	56,659	53,716	52,369	2,943	5.48%
Unrealized Gains (Losses) on Securities	2,334	1,248	1,364	1,086	87.02%
<b>Total STOCKHOLDERS' EQUITY</b>	<b>58,993</b>	<b>54,964</b>	<b>53,733</b>	<b>4,029</b>	<b>7.33%</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$608,744</b>	<b>\$501,279</b>	<b>\$499,205</b>	<b>107,465</b>	<b>21.44%</b>



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

	<u>9/30/2020</u>	<u>12/31/2019</u>	<u>9/30/2019</u>	<b>9/30 Year-over-year</b>	
				<b><u>\$ Change</u></b>	<b><u>% Change</u></b>
<b>INCOME:</b>					
Interest Income	\$15,531	\$21,276	\$15,905	(\$374)	-2.35%
Non-interest Income	4,040	3,666	2,776	\$1,264	45.53%
<b>Total Income</b>	<b>19,571</b>	<b>24,942</b>	<b>18,681</b>	<b>\$890</b>	<b>4.76%</b>
Interest Expense - SFB	2,747	4,320	3,231	(\$484)	-14.98%
Interest Expense - SFSC Debt	42	21	21	\$21	100.00%
<b>Total Interest Expense</b>	<b>2,789</b>	<b>4,341</b>	<b>3,252</b>	<b>(\$463)</b>	<b>-14.24%</b>
<b>Total Income less Interest Expense</b>	<b>16,782</b>	<b>20,601</b>	<b>15,429</b>	<b>\$1,353</b>	<b>8.77%</b>
<b>EXPENSES:</b>					
Salaries and Benefits	6,326	7,695	5,559	\$767	13.80%
Other Operating Expense	3,727	5,030	3,667	\$60	1.64%
<b>Total Non-interest Expense</b>	<b>10,053</b>	<b>12,725</b>	<b>9,226</b>	<b>\$827</b>	<b>8.96%</b>
<b>Net Income from Operations</b>	<b>6,729</b>	<b>7,876</b>	<b>6,203</b>	<b>\$526</b>	<b>8.48%</b>
(Gains) or Losses on Sale of Securities	25	(84)	(67)	\$92	-137.31%
Provisions for Loan Losses	800	870	540	\$260	48.15%
Provisions for Income Tax Expense	39	52	38	\$1	2.63%
<b>NET INCOME</b>	<b>\$5,865</b>	<b>\$7,038</b>	<b>\$5,692</b>	<b>\$173</b>	<b>3.04%</b>