SECURITY FINANCIAL
SERVICES CORPORATION

July 31, 2024

To Our Shareholders:

I am pleased to report that contrary to some of the reports you might have seen recently expressing concerns about banks, we continue to perform well, and I believe we are in good position to capitalize on market opportunities over the next year. The Management Team is executing on our strategic priorities, which has resulted in improving financial performance.

The economy in Western Wisconsin continues to perform well, resulting in strong loan growth so far in 2024. Recent economic reports continue to reflect declining rates of inflation, which has led to high expectations for two 25 basis point reductions yet this year by the Federal Open Market Committee (FOMC). Growing deposits in the current environment remains a challenge with the inverted yield curve and with liquidity being moved out of the banking system. Strong loan growth with increasing asset yields and good credit quality has allowed us to increase net income compared to last year after seeing decreases throughout 2023.

Balance Sheet Summary – Second Quarter

Loan balances during the first half of 2024 grew by $34.3 million to a total of $653.7 million and were $89.5 million or 15.9% higher year-over-year. We continue to see strong loan demand in all our markets, which combined with higher rates on loan renewals is adding to our net interest income.

Deposits were down $8.3 million from year-end 2023 at a balance of $726.6 million and were $18.7 million higher than a year ago. Competition for deposits remained elevated as customers continue to look for higher rate products both in and out of the banking system.

Credit quality continues to be strong, and the Allowance for Credit Losses (ACL) was funded at a balance of $9.8 million or 1.50% of gross loans. Non-accrual loans of $2.4 million represented 0.37% of the loan portfolio. Loans past due 30 days or more were 0.53% of the loan portfolio, up from the year-end total of 0.34%.

Security Financial Services Corporation (SFSC) debt of $3.9 million was down $3.1 million compared to year-end.

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Income Statement Summary – Second Quarter

Net income for the first six months of 2024 was $3.7 million compared to $3.4 million for the same period last year. Loan growth and effective management of our cost structure have allowed us to realize increases to net income compared to last year.

Interest income of $21.3 million year-to-date was up $4.8 million from 2023. Our loan growth, higher rates, and some restructuring of investments have resulted in additional interest income. Interest expense of $9.5 million was $4.1 million higher than last year due to local competition and customers moving to higher-cost time deposits.

Non-interest income of $1.4 million was $21,000 below the same period in 2023 due to lower gains on third-party bank stock we own.

Non-interest expense of $9.0 million was $500,000 more than year-to date 2023 as we experienced some rising costs of operations. To help mitigate further increases, we have been reviewing our third-party relationships looking for cost savings and efficiency improvements.

Loan loss provisions were $300,000 for the six months as we added to reserves because of our loan growth. Reserves to gross loans ended the six months at 1.50%. Management believes we are adequately reserved given all current assumptions.

Earnings per share (EPS) for the first half of 2024 were $286.83, which is down from $303.34 in first half of 2023. Lower EPS results were due in part to additional shares outstanding.

While we continue to face challenges in this current economic environment, with the talent and experience of our employees, I remain confident that we will produce positive results for our shareholders.

Thank you for your continued loyalty and support. If you are interested in receiving the 2024 Financial Audit, please contact Krystal Hudson at khudson@sfbank.com or 715-930-7034.

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 C. Oldenberg
President and Chief Executive Officer