October 30, 2024

To Our Shareholders:

We continue to report good financial results as we make progress implementing our strategic priorities ensuring we will be a strong independent bank for years to come. The most recent quarter was highlighted by better deposit growth in our core customer base, further growth in loans, and an increase in our net interest income. Due to the strength of our local economies and our customers, credit quality remains high and our outlook for the next year is generally positive.

As a reminder to our shareholders who live outside of Wisconsin, you may need to file a Wisconsin tax return this year as Security Financial Services Corporation (SFSC) elected not to file at the entity level. This was a change from the past several years in response to passage of tax legislation that exempts income on certain loans from Wisconsin state tax. This may affect your filing status, and we recommend consulting with your accountant.

Balance Sheet Summary – Third Quarter

Loan balances for the first nine months of 2024 grew by $41.5 million to a total of $660.8 million and were $78.9 million or 13.6% 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.

Investment balances increased to $227.1 million and have increased $15.1 million year-to-date as our unrealized losses (AOCI) on investments declined to $11.2 million compared to $18.2 million.

Deposits were up $27.8 million from year-end 2023 at a balance of $762.7 million and were $28.7 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 perform better than anticipated, and the Allowance for Credit Losses (ACL) was adequately funded at $10 million or 1.51% of gross loans. Non-accrual loan balance of $2.5 million represented 0.37% of the loan portfolio. Loans past due 30 days or more were 0.34% of the loan portfolio, comparable to last year's total of 0.34%.

SFSC debt of $3.5 million was down $3.5 million compared to year-end. Management and the Board continue to prioritize debt reduction as a use of capital.

Income Statement Summary – Third Quarter

Net income for the first nine months of 2024 was $5.2 million compared to $5.8 million for the same period last year. The decrease in net income was a result of recording loan loss provisions of $450,000 in 2024 compared to $0 in 2023. This is due to our increased loan originations over the past year along with losses of $604,000 on sales of securities to reposition the investment portfolio for increased earnings moving forward.

Interest income of $32.3 million year-to-date was up $7.3 million from 2023. Our loan growth, higher rates, and some restructuring of investments have resulted in additional interest income. Interest expense of $14.8 million was $6.1 million higher than last year due to higher balances, local competition, and customers moving to short-term, higher-costing time deposits. During the most recent quarter, we experienced what we believe will be the peak in our cost of funds and expect our net interest margin to expand in the next several quarters as a result.

Non-interest income of $2.2 million was $125,000 below the same period in 2023 due to lower gains on third-party bank stock we own.

Non-interest expense of $13.9 million was $1.1 million more than year-to date 2023 as we experienced rising costs of operations along with some investments in technology as we continue to grow the bank. To help mitigate further increases, we have been reviewing our third-party relationships looking for cost savings and efficiency improvements.

Loan loss provisions were $450,000 for the nine months as we added to reserves to match our loan growth. Reserves to gross loans ended the nine months at 1.51%. Management believes we were adequately reserved given all current assumptions.

Earnings per share (EPS) for the first half of 2024 were $403.23, which is down from $513.76 for the first nine months of 2023. Lower EPS results were due to a combination of lower earnings and issuing additional shares in 2024.

Thank you for your continued loyalty and support. If you need assistance with any shareholder issues, 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