



February 3, 2025

To Our Shareholders:

As we reflect on 2024, we are pleased to share both the challenges we faced and the positive strides we made. Although our overall earnings were comparable to the prior year, the results were better than anticipated given the various market conditions. We remain optimistic as the bank experienced higher levels of net income in the latter part of the year, due particularly to improving net interest income. We were able to maintain a solid financial position, with strong asset quality and growth, and a disciplined approach to cost management.

We are confident the foundation we've built will enable us to continue growing and enhance our profitability in 2025. Improvements in net interest income, alongside our focus on prudent risk management and community engagement, will help us remain resilient in an evolving economic landscape. Our commitment to providing value to our customers, shareholders, and communities remains steadfast.

Balance Sheet Summary – Fourth Quarter

Loan balances grew \$8.9 million during the quarter and \$50.0 million during the year to a total of \$659.8 million, an 8.2% increase from December 2023. We continue to experience strong loan demand across our markets, which, when combined with higher interest rates on loans and investments, is resulting in additional net interest income.

The securities portfolio increased to \$221.6 million, a \$9.6 million increase for the year, while our unrealized losses (AOCI) declined to \$15.6 compared to \$18.2 million as of December 2023.

Credit quality remained strong with net charge-offs for 2024 of \$417,500, while the balance of our Allowance for Credit Losses (ACL) was \$9.6 million representing 1.43% of gross loans. Non-accrual loans of \$1.3 million represented 0.19% of the loan portfolio and decreased \$1.1 million from December 2023. Loans past due 30 days or more were 0.48% of gross loans, which was up 0.14% from a year ago, but still at very low levels.

Deposits increased \$15.8 million from last quarter and were \$44.8 million higher for the year at a total of \$779.8 million. Competition for deposits remains elevated; however, deposit yields started declining in the most recent quarter, and we are experiencing cost savings as a result.

Security Financial Services Corporation (SFSC) debt of \$2.9 million was down \$4.1 million compared to December 2023.

Income Statement Summary – Fourth Quarter

Net income for the fourth quarter was \$2.4 million resulting in year-to-date net income of \$7.6 million, which matched 2023 net income. Net income for 2024 and 2023 was at lower levels due to the compression in the net interest margin due to the Federal Open Market Committee's (FOMC) interest rate increases. We experienced compression in our margin for most of 2024, but in the fourth quarter, we were able to start growing net interest income.

Interest income totaled \$45.1 million for 2024 and was \$9.8 million higher than 2023. Our loan growth, higher rates, and some restructuring of the investment portfolio have resulted in additional interest income. Interest expense of \$20.0 million was \$7.1 million higher than last year due to local competition and customers moving to short-term, higher-costing time deposits.

Non-interest income of \$3.0 million for the current year was \$53,000 lower than 2023. Non-interest income for 2024 and 2023 has declined from prior years due to the declining mortgage related revenue.

Non-interest expense of \$19.3 million for 2024 was \$1.6 million higher compared to 2023, as we experienced rising costs of operations and made investments in technology in order to continue to grow the bank.

Loan loss provisions were \$450,000 for 2024 as we added to reserves because of our loan growth. Management believes the ACL is adequately funded given all current assumptions.

Earnings per share (EPS) for the year was \$582.67, which is down from \$679.35 for 2023, due to the capital raise increasing the amount of outstanding shares.

While we continue to face challenges in this current economic environment, with the talent and experience of our employees, we 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
President and Chief Executive Officer



Balance Sheet Comparison - December 31, 2024 Year-to-date (000s)

	12/31 Year-over-year			
	<u>12/31/2024</u>	<u>12/31/2023</u>	<u>\$ Change</u>	<u>% Change</u>
Cash Equivalents	\$20,266	\$15,666	\$4,600	29.36%
Securities	221,601	212,013	9,588	4.52%
Fed Funds Sold	6,217	0	6,217	#DIV/0!
Loans	669,336	619,337	49,999	8.07%
Allowance for Loan Losses	(9,561)	(9,528)	(33)	0.35%
Other Assets	45,600	48,617	(3,017)	-6.21%
TOTAL ASSETS	\$953,459	\$886,105	\$67,354	7.60%
Total Deposits	\$779,779	\$734,936	\$44,843	6.10%
SFSC Debt	2,886	7,000	(4,114)	-58.77%
Fed Funds Purchased	0	1,965	(1,965)	-100.00%
Other Borrowings	85,000	75,000	10,000	13.33%
Other Liabilities	7,270	5,269	2,001	37.98%
TOTAL LIABILITIES	874,935	824,170	50,765	6.16%
Common Stock, Surplus & Undivided Profits	93,971	79,924	14,047	17.58%
Credit Enhancement Income Valuation	191	185	6	3.24%
Unrealized Gains (Losses) on Securities	(15,638)	(18,174)	2,536	-13.95%
Total STOCKHOLDERS' EQUITY	78,524	61,935	16,589	26.78%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$953,459	\$886,105	\$67,354	7.60%



Year-to-date Income Statement Comparison December 31, 2024 (000s)

	<u>12/31/2024</u>	<u>12/31/2023</u>	12/31 Year-over-year	
			<u>\$ Change</u>	<u>% Change</u>
INCOME:				
Interest Income	\$45,081	\$35,277	\$9,804	46.34%
Non-interest Income	3,029	3,082	(\$53)	-1.69%
Total Income	48,110	38,359	\$9,751	40.15%
Interest Expense - SFB	19,647	12,275	\$7,372	308.71%
Interest Expense - SFSC Debt	338	583	(\$245)	-60.79%
Total Interest Expense	19,985	12,858	\$7,127	255.36%
Total Income less Interest Expense	28,125	25,501	\$2,624	12.21%
EXPENSES:				
Salaries and Benefits	11,642	10,463	\$1,179	14.37%
Other Operating Expense	7,615	7,187	\$428	8.33%
Total Non-interest Expense	19,257	17,650	\$1,607	12.05%
Net Income from Operations	8,868	7,851	\$1,017	12.47%
(Gains) or Losses on Sale of Securities	800	328	\$472	-5244.44%
Provisions for Loan Losses	450	0	\$450	600.00%
Provisions for Income Tax Expense	0	(94)	\$94	8.14%
NET INCOME	\$7,618	\$7,617	\$1	0.01%