



June 10, 2021

To Our Shareholders:

As noted in previous communications, Security Financial Services Corporation (SFSC) is the parent company of both Security Financial Bank (SFB) and Jackson County Bank (JCB) until the weekend of August 20, 2021, when JCB will be merged into SFB. During the pre-merger period, staff at both banks will continue to develop and refine systems and processes that create efficiencies and generate new, profitable business.

Balance Sheet Summary – First Quarter

Loans, at \$483.4 million, are up \$9.2 million from year-end, and are up \$114.3 million (30.96%) year-over-year. Paycheck Protection Program (PPP) loans account for \$35.5 million of the 12-month growth, and \$59.3 million is from the addition of the JCB loan portfolio.

Credit quality is strong at SFB and improving at JCB. At SFB, total non-accrual loans were 0.18% of the portfolio, down from 1.00% at year-end, and loans past due 30-89 days were 0.03%, down from 0.11%. At JCB, total non-accrual loans were 4.33% of the portfolio, up from 4.30% at year-end, and loans past due were 1.34%, up from 0.07%. Combined, total non-accrual loans were 0.69%, down from 1.44%, and past due 30-89 days were 0.19%, up from 0.10%.

Deposits are up \$18.9 million from year-end and are up \$321.6 million year-over-year. \$179.7 million of the 12-month increase is attributable to deposits from JCB. The remaining growth in deposits, some of which have been referred to as "Pandemic Deposits", may lack the permanency that is generally associated with traditional deposit growth in normal times.

SFSC debt of \$16.9 million, the bulk of which was used to finance the JCB acquisition, is up \$1.4 million from year-end.

Income Statement Summary – First Quarter

SFSC began paying Wisconsin state income tax at the entity level in 2020, rather than passing that obligation through to shareholders. If shareholders continue to vote for this state tax treatment, net income will continue to be reduced by that expense. Generally Accepted Accounting Principles dictate that the expense can be recognized only after shareholder approval. SFSC shareholders approved the state entity election for 2020 and 2021 this year so both year's state tax expense will be recognized in 2021. First quarter 2021 state income tax expense of \$649,000 is SFSC's obligation for 2020; 2021's expenses will be recognized during the next three quarters.

Net Income for the first quarter of \$1,775,000 was \$144,000 (8.83%) greater than 2020.

Interest income of \$6,865,000 is up \$1,454,000 (26.87%) from first quarter 2020, due to increased loans, despite overall decreases in market interest rates. Interest expense of \$1,012,000 is up only \$15,000, also due to lower market interest rates.

Non-interest income of \$1,139,000 exceeded first quarter 2020 by \$582,000 (104.49%) due largely to strong mortgage fees, PPP fees, and contribution from JCB.

Non-interest expense of \$4,493,000 exceeds 2020 by \$1,286,000 (40.10%). The majority of the increase is attributable to JCB human resource and operating expenses.

The loan loss provision of \$75,000 was expensed for JCB loans. SFB's reserve for loan losses was determined to be adequately funded so no provision was taken, compared to last year's first quarter expense of \$120,000.

Earnings per share for the quarter were \$156.12, down \$375.15 from fourth quarter 2020, which benefitted from one-time acquisition-related adjustments, but are up \$12.61 (8.79%) from first quarter 2020.



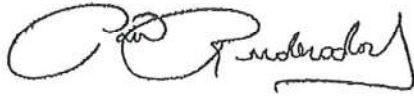
It was great that several of you participated in the first ever virtual annual meeting on April 27th. During that meeting Jack Kaiser and Andy Wieser were elected as Class III directors with terms expiring in 2024, and the Wisconsin entity tax election for the year 2021 was passed.

As a result of action taken by the Board of Directors, we are pleased to enclose a tax distribution check to our shareholders of record as of May 31, 2021. This check, of \$75 per share, represents the estimated federal tax obligation of second quarter taxable net income at the highest federal tax rate. It is anticipated that the next tax distribution will occur in September, 2021.

Thank you for your continued loyalty and support. This letter is arriving a little later than most quarterly communications, and we apologize for that, and look forward to returning to a more regular schedule post-merger. If you are interested in receiving the 2020 Compiled Financial Statements or the 2020 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 at www.sfbank.com.

Best Regards,



Paul Rudersdorf
President and
Chief Executive Officer



Paul Solyntjes
Executive Vice President and
Chief Financial Officer



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

	<u>3/31/2021</u>	<u>12/31/2020</u>	<u>3/31/2020</u>	Change in 1st Qrt	
				<u>\$ Change</u>	<u>% Change</u>
Cash Equivalents	\$25,096	\$70,831	\$18,813	(\$45,735)	-64.57%
Securities	201,531	178,112	81,553	\$23,419	13.15%
Fed Funds Sold	86,965	66,058	1,673	\$20,907	na
Loans	483,489	474,240	369,176	\$9,249	1.95%
Allowance for Loan Losses	(7,242)	(7,160)	(5,693)	(\$82)	1.15%
Other Assets	41,369	42,348	33,314	(\$979)	-2.31%
TOTAL ASSETS	\$831,208	\$824,429	\$498,836	\$6,779	0.82%
Total Deposits	\$716,336	\$697,459	\$394,759	\$18,877	2.71%
SFSC Debt	16,887	15,500	0	1,387	8.95%
Fed Funds Purchased	0	0	0	0	0.00%
Other Liabilities	33,368	46,231	47,444	(12,863)	-27.82%
TOTAL LIABILITIES	766,591	759,190	442,203	7,401	0.97%
Common Stock, Surplus & Undivided Profits	63,335	62,697	54,710	638	1.02%
Unrealized Gains (Losses) on Securities	1,282	2,542	1,923	(1,260)	-49.57%
Total STOCKHOLDERS' EQUITY	64,617	65,239	56,633	(622)	-0.95%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$831,208	\$824,429	\$498,836	6,779	0.82%



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

	<u>3/31/2021</u>	<u>12/31/2020</u>	<u>3/31/2020</u>	<u>3/31 Year-over-year</u>	
				<u>\$ Change</u>	<u>% Change</u>
INCOME:					
Interest Income	\$6,865	\$23,553	\$5,411	\$1,454	26.87%
Non-interest Income	1,139	8,265	557	\$582	104.49%
Total Income	8,004	31,818	5,968	\$2,036	34.12%
Interest Expense - SFB/JCB	884	3,780	997	(\$113)	-11.33%
Interest Expense - SFSC Debt	128	118	0	\$128	0.00%
Total Interest Expense	1,012	3,898	997	\$15	1.50%
Total Income less Interest Expense	6,992	27,920	4,971	\$2,021	40.66%
EXPENSES:					
Salaries and Benefits	2,688	9,259	1,994	\$694	34.80%
Other Operating Expense	1,805	5,020	1,213	\$592	48.80%
Total Non-interest Expense	4,493	14,279	3,207	\$1,286	40.10%
Net Income from Operations	2,499	13,641	1,764	\$735	41.67%
(Gains) or Losses on Sale of Securities	0	0	0	\$0	0.00%
Provisions for Loan Losses	75	1,685	120	(\$45)	-37.50%
Provisions for Income Tax Expense	649	53	13	\$636	4892.31%
NET INCOME	\$1,775	\$11,903	\$1,631	\$144	8.83%