



January 31, 2022

To Our Shareholders:

Security Financial Services Corporation (SFSC) is proud to announce Net Income for 2021 of \$9,891,000. Although this was a decrease from 2020's record earnings of \$11,903,000, 2020's numbers include one-time merger accounting income of \$4,500,000. Excluding the one-time merger accounting income, 2021 net income exceeds 2020 net income by \$2,488,000 (33.61%).

Balance Sheet Summary

Total assets were up \$39.3 million (4.77%) from 2020, and reached a new high, ending the year at \$863.7 million.

Total loans, at \$526.7 million, were up \$52.4 million (11.05%) from one year ago. Record organic loan growth of \$77.8 million was offset by \$25.4 million of Paycheck Protection Program (PPP) loans forgiven during the year. Commercial and Commercial Real Estate loans comprised 44% of the increase and Agriculture and Agriculture Real Estate contributed 37%. \$6.3 million of PPP loans remained on the books and are expected to be forgiven in 2022.

Investments, at \$265.5 million, were up \$87.4 million (49.08%), as short-term overnight funding (Federal Funds Sold) was shifted to the securities portfolio.

Total non-accrual loans of \$3.5 million were 0.66% of the portfolio and loans past due 30-89 days were 0.35%. Troubled Jackson County Bank (JCB) loans, which were largely identified prior to purchase, continue to show improvement.

Deposits of \$748.7 million were up \$51.3 million (7.35%) from one year ago. Demand deposit accounts were up \$72.8 million, more than offsetting smaller decreases in money market accounts and certificates of deposits.

SFSC debt of \$12.0 million was down \$3.5 million due to principal reductions on the debt incurred to finance the acquisition of JCB.

Income Statement Summary

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 was recognized in 2021.

Income tax expense of \$1,598,000, almost one-half of which is related to the prior year, compares to \$53,000 for 2020.

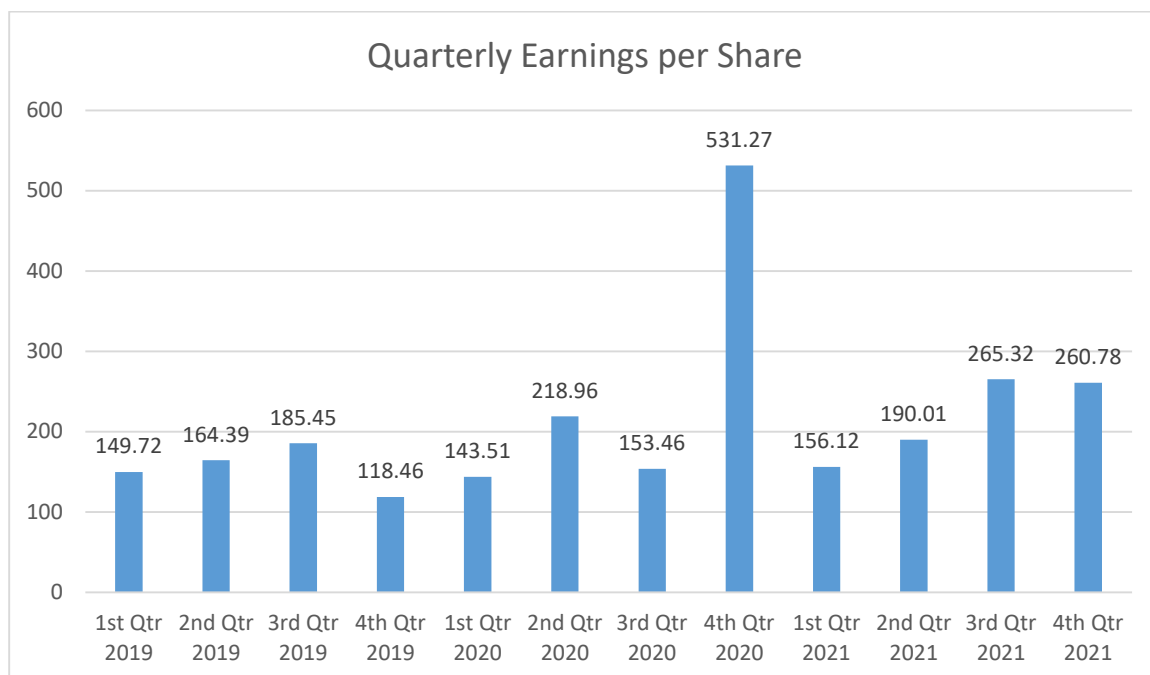
Interest income of \$25,626,000 was up \$2,073,000 (8.80%) from one year ago, despite an unfavorable interest rate environment, due to significant loan growth and security purchases. Although deposits increased during the year, interest expense of \$3,609,000 was down \$289,000 (7.74%), due to low market interest rates. Net-interest Margin on a tax equivalent basis was 2.93% of average assets.

Non-interest income of \$8,554,000 exceeded 2020 by \$289,000 (3.50%). Mortgage loans fees were down \$858,000 due to reduced demand for refinancing, but that reduction was offset by increased PPP fees. \$2,017,000 in PPP fees were recognized in 2021, compared to \$1,182,000 in 2020, and only \$340,000 is expected in 2022. Replacing PPP revenue in 2022 will be an incredible challenge.

Non-interest expense of \$18,521,000 exceeds 2020 by \$4,242,000 (29.71%). The majority of the increase was attributable to human resource and operating expenses for the locations added in the acquisition.

The loan loss provision of \$575,000 compares to 2020's provision of \$1,685,000. The Loan Loss Reserve of \$7,745,000 was 1.47% of total loans.

Earnings per share were \$260.78 for the fourth quarter and equaled \$871.83 for the year.



Thank you for your continued loyalty and support. We invite you to visit any of our eight 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

STATEMENT OF CONDITION

000s omitted

ASSETS:	<u>12/31/2021</u>	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Cash Equivalents	\$ 36,049	\$70,831	\$25,662	\$19,904	\$14,708
Securities	\$ 265,534	\$178,112	\$86,919	\$88,235	\$83,727
Gross Loans	\$ 526,658	\$474,240	\$360,523	\$350,356	\$291,060
Allowance for Loan Losses	\$ (7,745)	(\$7,160)	(\$5,580)	(\$4,738)	(\$4,536)
Federal Funds Sold	\$ 369	\$66,058	\$0	\$5,433	\$7,265
Bank Building, Furniture/Fixtures	\$ 9,230	\$9,528	\$7,341	\$6,886	\$6,320
Other Real Estate Owned	\$ 85	\$0	\$0	\$0	\$0
Goodwill	\$ 6,123	\$6,123	\$6,123	\$6,123	\$4,011
Other Assets	\$ 27,435	\$26,697	\$20,291	\$19,726	\$17,537
TOTAL ASSETS	<u>\$863,738</u>	<u>\$824,429</u>	<u>\$501,279</u>	<u>\$491,925</u>	<u>\$420,092</u>
LIABILITIES and EQUITY:					
Total Deposits	\$ 748,715	\$697,459	\$410,099	\$402,004	\$318,956
Local Repurchase Agreements	\$ 1,454	\$2,684	\$8,104	\$8,600	\$21,968
Fed Funds Purchased	\$ -	\$0	\$1,232	\$0	\$0
Borrowed Funds	\$ 27,998	\$37,140	\$22,500	\$28,000	\$28,000
Other Debt Incurred	\$ 12,000	\$15,500	\$0	\$1,491	\$3,000
Other Liabilities	\$ 4,890	\$6,407	\$4,380	\$2,762	\$2,559
Total Liabilities	<u>\$ 795,057</u>	<u>\$759,190</u>	<u>\$446,315</u>	<u>\$442,857</u>	<u>\$374,483</u>
Common Stock	\$ 1,200	\$1,200	\$1,200	\$1,200	\$1,200
Surplus	\$ 18,419	\$18,335	\$18,335	\$18,335	\$18,335
Undivided Profits	\$ 51,357	\$44,847	\$35,853	\$31,766	\$27,275
Unrealized Gain(Loss) on Securities	\$ (423)	\$2,542	\$1,248	(\$765)	\$260
Treasury stock (at cost)	\$ (1,872)	(\$1,685)	(\$1,672)	(\$1,468)	(\$1,461)
Total Equity	<u>\$ 68,681</u>	<u>\$65,239</u>	<u>\$54,964</u>	<u>\$49,068</u>	<u>\$45,609</u>
TOTAL LIABILITIES & EQUITY	<u>\$ 863,738</u>	<u>\$824,429</u>	<u>\$501,279</u>	<u>\$491,925</u>	<u>\$420,092</u>



INCOME STATEMENT

Preliminary

000s omitted

	<u>12/31/2021</u>	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Interest Income - Securities	\$ 2,576	\$2,199	\$2,443	\$2,336	\$2,501
Interest Income - Loans	\$ 22,824	\$21,101	\$18,996	\$16,632	\$13,969
Interest Income - Other	\$ 226	\$253	\$452	\$253	\$160
Total Interest Income	\$ 25,626	\$23,553	\$21,891	\$19,221	\$16,630
less Interest Expense SFB	\$ 3,097	\$3,780	\$4,320	\$3,545	\$2,948
less Interest Expense SFSC	\$ 512	\$118	\$21	\$96	\$159
Total Interest Expense	\$ 3,609	\$3,898	\$4,341	\$3,641	\$3,107
Net Interest Income	\$ 22,017	\$19,655	\$17,550	\$15,580	\$13,523
plus Non-interest Income	\$ 8,554	\$8,265	\$2,745	\$2,090	\$1,939
Total Income less Interest Expense	\$ 30,571	\$27,920	\$20,295	\$17,670	\$15,462
Salaries & Employee Benefits	\$ 11,154	\$9,259	\$7,695	\$6,860	\$5,950
Occupancy	\$ 1,016	\$1,644	\$1,715	\$1,440	\$1,360
Other Operating Expenses	\$ 6,351	\$3,376	\$3,009	\$3,071	\$2,710
Total Non-interest Expense	\$ 18,521	\$14,279	\$12,419	\$11,371	\$10,020
Net Income From Operations	\$ 12,050	\$13,641	\$7,876	\$6,299	\$5,442
Provision for Loan Losses	\$ 575	\$1,685	\$870	\$300	\$500
Net Securities (Gains) Losses	\$ (14)	\$0	(\$85)	\$0	(\$38)
Income Tax (refunds) Expense	\$ 1,598	\$53	\$52	\$41	\$32
NET INCOME	\$ 9,891	\$11,903	\$7,039	\$5,958	\$4,948