



October 30, 2023

To Our Shareholders:

I am pleased to report we delivered solid results in the third quarter with net income of \$2.4 million, raising our year-to-date total to \$5.8 million, and growth in both loans and deposits. The loan pipeline is strong as our local markets continue to expand. Although credit quality is good, we continue to be cautious in our underwriting as we expect a normalization of losses in the future. Deposit balances were higher during the quarter and are up from the beginning of the year. Funding costs continue to rise given the competition for deposits as consumers continue to reduce pandemic savings. Liquidity continues to be available with our many lines of credit giving us flexibility to fund growth and meet customer needs.

In the face of mounting challenges, our SFB team continues to work hard to deliver above peer results. Inflation is still running higher than the Federal Open Market Committee (FOMC) would prefer, which is causing market interest rates to continue to rise. Some signs of a slowing economy are emerging, which is being complicated by world events. Nonetheless, we remain focused on serving you, our customers, and shareholders at all times.

Balance Sheet Summary – Third Quarter 2023

Loan balances grew during the quarter by \$17.7 million to a total of \$581.9 million and were \$40.1 million or 7.39% higher than last year. We continue to have opportunities across our markets to bring in new agriculture and commercial customer relationships.

Credit quality continues to be better than historical results, as the balance of our Loan Loss Reserve was adequately funded at \$9.6 million or 1.64% of gross loans. Non-accrual loans of \$1.9 million were down \$1.1 million from December 31, 2022 and represented 0.33% of the portfolio. Loans past due over 30 days were 0.16% of the portfolio, which is down from 0.29% a year ago.

Deposits increased \$26.1 million from last quarter and are \$17.2 million higher for the year at a balance of \$734.0 million. Competition for deposits remains elevated as interest rates increase and liquidity leaves the banking system. Our employees continue to work closely with customers to build relationships, educate people on FDIC insurance, and deliver superior customer service.

SFSC debt was unchanged at \$7.0 million, which is down from \$9.0 million at the end of last year as we have paid down principal ahead of schedule.

Income Statement Summary – Third Quarter 2023

Net Income for the third quarter was \$2.4 million compared to \$1.6 million last quarter, raising year-to-date net income to \$5.8 million. Interest funding costs during the most recent quarter continued to drive interest expense higher. While it is uncertain if the FOMC is done raising rates, the growth in interest expense is slowing, allowing us to reprice and add assets to catch up and increase net income in the coming quarters.

Interest income in the most recent quarter of \$9.2 million was up \$0.7 million from last quarter. Higher rates during the quarter combined with loan growth added to interest income. Interest expense was \$3.5 million compared to \$3.0 million last quarter. The increase was a result of customers that continued to move funds from lower-cost accounts to higher-cost accounts and due to deposit growth in interest-bearing accounts.

Non-interest income of \$2.7 million was \$0.3 million higher than the same period in 2022. A decline in mortgage of \$0.1 million in 2023 was offset by increases in service fee income, bank-owned life insurance income and gains on equity securities.

Non-interest expense of \$13.2 million year-to-date was unchanged from the same period last year.

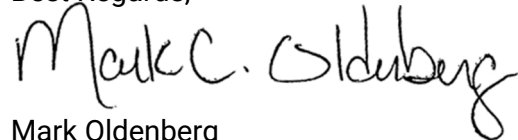
No loan loss provision was expensed during the quarter as the reserve for Loan Losses was determined to be adequately funded.

Earnings per share (EPS) for the quarter of \$210.42 were up \$64.72 from second quarter 2023. The increases in EPS during the third quarter resulted from increased interest income from fed funds sold due to inexpensive deposit growth, increased commission income, no losses on sales of investment securities, and no tax expense recorded.

Thank you for your confidence in us and your continued loyalty and support. Because of our dedicated employees, SFB continues to be both a great place to work and do business. If you are interested in receiving the 2022 Financial Audit or the 2022 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 visit us at www.sfbank.com to learn more about how we can serve you.

Best Regards,



Mark Oldenberg
President and Chief Executive Officer