

Annual Message to Members May 15, 2024

Security Federal Savings Bank was established in 1934 for the purpose of providing a convenient and safe method for people to save and invest money and to provide sound and economical financing of homes. As we celebrate 90 years of service, we remain a trusted source for investing and financing. Our success has allowed Security Federal to expand services to Cass, Howard, Carroll, Tippecanoe and the contiguous counties. As we gained the trust of our community members, the Bank expanded its product line to support economic development by offering similar services to new and continuing small businesses. This summer we will celebrate Security Federal's single largest investment with the opening of a full-service banking facility in Carmel, Indiana. Once completed, we will operate eight (8) full-service bank facilities in north central Indiana, while retaining our headquarters in Logansport, IN.

Fiscal year 2023-24 brought both challenges and opportunities to the organization. Bank failures in the spring of 2023 raised liquidity concerns across the industry prompting aggressive pricing for deposits. While our members gained higher returns on their deposit balances, we remained strategic in our pricing strategies to maintain the Bank's target net interest margin. Higher mortgage rates, coupled with overall inflation and a housing shortage caused loan originations to fall below projections. Our lending team strategically developed a low-cost Home Equity Loan program which provided existing homeowners an opportunity to build equity in their current home. This special spurred demand in all markets and continues to show strong demand. Loan products designed to serve the underserved populations in our market were also highly successful. Both of these strategies are just a few examples of our continued focus on disrupting the status quo of community banking.

Other sources of income, not directly tied to loans or investments, help supplement net income in periods of stress. Trust and Investment Services generate 10% of the Bank's earnings today. We expect to see even greater demand for wealth management services as we enter the Indianapolis market.

Strategy teams dedicated to Capital, Innovation, Customer Experience, Talent and Diversity, Equity and Inclusion progressed throughout the year. By empowering our team members to be actively engaged in these strategy teams, we are growing future leaders for the organization.

Performance highlights include:

- Total assets increased 4.5%, ending the year at \$381 million.
- Higher funding costs were a significant factor in a decline in the net interest margin, from 3.68% to 3.31%.
- While many banks struggled to retain deposits, Security Federal's deposits grew by \$4 million, ending the year at \$322 million.
- Deposit volatility prompted borrowing \$10 million from the Federal Home Loan Bank to ensure liquidity was available to fund loan demand.
- Total loans on the Balance Sheet increased 5.4% from the previous year.

- Net income generated by the Trust Department increased 87% from the previous year, contributing \$361,000 to non-interest income.
- Investment Services had a net income of \$20,000, compared to a loss of \$13,000 the prior year.
- Consolidated net income of \$2.0 million, is 9% higher than the previous fiscal year.

By definition the Bank remains well-capitalized, however based on the current regulatory environment regulator expectations have elevated. The Board of Directors remains committed to increasing capital. With earnings being the primary driver, the Board remains open to other methods for increasing Security Federal's capital position.

In 2023 Security Federal Savings Bank reorganized to form Security Federal Mutual Bancorp, while preserving the mutual form of ownership. Security Federal Mutual Bancorp serves as the holding company for Security Federal Savings Bank and provides the ability to raise capital through additional means, rather than relying solely on earnings.

Although our assets have increased and our markets expanding, our values have not changed. We remain committed to providing both financial and human capital to help our communities prosper. In 2023-24, Security Federal provided over \$200,000 of financial assistance to non-profit organizations. We know it takes more than just financial support to make our communities thrive. This is why our team members are committed to dedicating their time and expertise to community organizations, economic development initiatives and education opportunities. We live and work in the communities we serve, therefore your future is our future.

Providing you with Safety, Courtesy and Flexibility for 90 years!

Annette Russell
President and CEO