





**Annual Message
To
Members
2021-22**

Since 1934, Security Federal Savings Bank has remained a trusted source for offering sound financial solutions that help customers reach their goals. We recognize that our customers are also owners of Security Federal and we work for you. Your deposit dollars are reinvested back into the community in the form of new home purchase loans, consumer loans and small business loans. As a result, you are helping to foster economic growth in the neighborhoods where we all live and work.

We are deeply rooted in the communities we serve. That means decisions are made based on what's in the best interest of our customers, team members and the economy – NOT shareholders. Security Federal's Board of Directors have committed 10% of net earnings back to the communities we serve. Our highly engaged team of eighty-five full-time employees, volunteer hundreds of hours assisting non-profit groups, providing financial literacy education and serving on local boards.

Security Federal's strategic plan is designed to align with our vision: ***"To disrupt the status quo of community banking providing flexible solutions, to be the mutual bank you want to own."*** Our culture is confirmation of our commitment to differentiate Security Federal from other community banks.

The 2019-22 Strategic Plan maintained a focus on four primary goals:

-  Developing an innovative, inclusive and engaged culture
-  Enhancing remote banking services to improve the customer experience
-  Expanding our customer reach in new and existing markets, and
-  Reorganizing the corporate structure to position the Bank for future growth.

Throughout 2020 and into 2021, we experienced an unprecedented economy and operating environment. Because of our strategic efforts and collaborative culture, we became more innovative in our approach to meeting consumer needs. The pandemic accelerated the need for new and improved online and mobile banking features for our customers. Our Board of Directors is committed to investing in technology that will enhance the customer experience by providing secure and convenient online and mobile banking solutions. We have already begun implementing a new deposit account opening platform that will allow customers to open a new checking or savings account without going into a physical bank branch. This new service will be available to you by the Fall of 2022. Research on a similar platform for our loan products is underway. These enhancements will provide the same level of service you receive in-person with easier access.

A national labor shortage prompted Bank management to prioritize developing and attracting talented individuals to fulfill the Bank's desire for continued growth into new markets. We partnered with Indiana University Kokomo to provide management training courses throughout the year to strengthen supervisor skills. Emphasis was placed on developing a professional career plan to provide team members the confidence necessary to advance to the next level.

As a community bank, Security Federal is being intentional in identifying unserved or underserved populations in our market area. We have responded by modifying our existing mortgage loan product to allow individuals using an ITIN (Individual Taxpayer Identification Number) access to equitable financing. This program supports an industry wide initiative to identify and assist those not being served by a financial institution.

Security Federal provided over \$200,000 in contributions and sponsorships throughout the year. These donations support the Bank's core values of *Courtesy, Safety and Flexibility* by filling the void in community services, education, and wellness initiatives.

Plans to expand into the area north of Indianapolis are coming to fruition. This move expands our market area into a region that has consistently experienced growth in both population and development. Michael Rush, a seasoned commercial lender, and Logansport native was hired in December 2021 to cultivate new small business relationships. Security Federal will open a loan production office in Carmel, IN in the summer of 2022. This will allow the Bank to determine if our product line meets the needs and expectations of the market. If it is determined that Security Federal can be competitive without assuming unnecessary risk, we will further invest in staffing and brick-and-mortar.

In February 2022, a regulatory examination conducted by the Office of the Comptroller of the Currency (OCC) confirmed Security Federal's overall condition is sound in every respect. Financial performance remains strong as indicated by the Bank's capital position. Management and board oversight, asset quality and credit risk management all remain strong according to regulatory guidelines. The results of the exam provide solid evidence of the strength and ability of Security Federal to safeguard the assets of our customer (owners).

The Board adopted and approved a proposed Plan of Reorganization on December 16, 2020. As part of the Plan, the Bank will amend its charter to become Security Federal Mutual Bancorp, a federally chartered mutual holding company that will be formed pursuant to the Plan, and Security Federal Savings Bank, a federal stock savings bank, will be established as a federally chartered stock savings bank and a owned subsidiary of the Mutual Holding Company. A Special Meeting of Members is scheduled for August 17, 2022, at 1:00 p.m. The purpose of the Special Meeting is to consider and vote upon the proposed Plan of Reorganization. A majority approval by members of Security Federal Savings Bank is required for the Plan to be carried out.

Financial Highlights

As reported in the Bank's audited financial statements for year end March 31, 2022, total assets grew from \$338M to \$363M, an increase of 7.3%. Loan originations totaled \$111M compared to prior year totals of \$156M. Much of this variance is attributed to the origination of PPP loans in 2019-20 and historically low interest rates. The majority of PPP loans originated during this period of economic stress, have been fully forgiven as intended.

Demand for residential mortgage loans declined as the lack of supply drove home values up 30%. Although interest rates remained low thru March 31, 2022, mortgage originations fell to \$51M compared to \$82M in 2020-21. By maintaining strong underwriting practices and internal controls, we were able to end the year with stronger than expected Asset Quality ratios. By proactively managing past due and non-performing loans the Bank has maintained a delinquency ratio below 1% for the entire fiscal year. While some underlying long-term effects of the pandemic are possible, the level of uncertainty around deteriorating credit risk seems to be diminishing.

Total deposits grew 9% which is attributed to the influx of public funds, deposit promotions and changes in consumer spending habits. Deposit account owners are more comfortable in account types that can be easily accessed, with no fixed term or penalty for early withdrawal.

Non-interest revenue derived from Trust and Investment Services, loan and deposit fees and gains on loans sold represent 22% of the Bank's total income for 2021-22. Total market value of assets under management in Trust and Investment accounts increased 10% to just under \$93M, with the addition of 103 accounts. Net income for Trust Services topped \$318,000, double the amount projected for the year. Net income for Investment Services also outperformed annual projections, due in part to fee income being 36% higher than anticipated.

While Security Federal remains true to the purpose of the mutual federal savings association charter to provide home ownership, the Bank continues to seek new opportunities to serve our market area. We are motivated and enthusiastic about the future of Security Federal!

*Providing our members **Safety, Courtesy and Flexibility** for over 88 years!*

Sincerely,

Annette Russell
President and CEO

Board of Directors

Jeff Baker, Chairman of the Board

President, Baker Specialty & Supply Co.

Dr. Dianne Brown

Dr. Dianne J. Brown, Optometrist

Derek Fisher, CPA

Fisher & Associates, Inc.

Michael Ivy

President and CEO, S&S Programming & SquareFrame Industries

Scot Ortman

CEO/President, Kokomo Grain

Bret Rinehart

President, Rinehart Realtors Auctioneers, Inc.

Annette Russell, President, and CEO

Security Federal Savings Bank

Dr. Susan Sciame-Giesecke

Chancellor and Professor of Communication Arts, Indiana University Kokomo

Connie Shepherd

Former Sr. VP, First Internet Bank

CONSOLIDATED FINANCIAL DATA
 (Table Dollar Amounts in Thousands)

| Balance Sheet | March 31, 2022 | March 31, 2021 | March 31, 2020 |
|---|-----------------------|-----------------------|-----------------------|
| Cash and cash equivalents | 41,232 | 38,906 | 29,293 |
| Investment securities | 56,551 | 34,248 | 23,564 |
| Loans, net of allowance | 242,056 | 242,606 | 214,816 |
| Total assets | 362,910 | 338,081 | 292,848 |
| Total deposits | 310,113 | 282,827 | 235,748 |
| Total liabilities | 326,697 | 301,635 | 259,940 |
| Retained earnings | 37,412 | 35,355 | 33,040 |
| Total equity capital | 36,213 | 36,446 | 32,907 |
| Income Statement | March 31, 2022 | March 31, 2021 | March 31, 2020 |
| Interest and dividend income | 11,871 | 11,840 | 11,636 |
| Interest expense | 1,109 | 1,452 | 2,554 |
| Provision for loan and lease loss | 0 | 825 | 330 |
| Other income | 3,723 | 4,106 | 2,802 |
| Other expense | 12,034 | 10,815 | 9,735 |
| Income before income taxes | 2,451 | 2,854 | 1,819 |
| Income tax expense | 394 | 538 | 255 |
| Net income | 2,057 | 2,316 | 1,564 |
| Capital | March 31, 2022 | March 31, 2021 | March 31, 2020 |
| Total capital (to risk-weighted assets) | 17.10% | 16.77% | 17.30% |
| Tier 1 capital (to risk-weighted assets) | 15.94 | 15.57% | 16.35% |
| Tier 1 capital (to average assets) | 10.52% | 10.85% | 11.27% |

| Key Performance Indicators | March 31, 2022 | March 31, 2021 | March 31, 2020 |
|----------------------------|----------------|----------------|----------------|
| Return on Assets | 0.59% | 0.73% | 0.56% |
| Net Interest Margin | 3.38% | 3.76% | 3.63% |
| Full-Time Employees (FTE) | 85 | 80 | 67 |
| Assets per FTE | \$4,270M | \$4,226M | \$4,371M |

| Trust Services | March 31, 2022 | March 31, 2021 | March 31, 2020 |
|-------------------------|----------------|----------------|----------------|
| Assets Under Management | \$69M | \$67.3M | \$53.0M |
| Net Income | \$318,500 | \$284,000 | \$134,000 |

| Investment Services | March 31, 2022 | March 31, 2021 | March 31, 2020 |
|-------------------------|----------------|----------------|----------------|
| Assets Under Management | \$23.5M | \$16.5M | \$10.0M |
| Net Income | (\$10,533) | \$18,492 | (\$41,000) |