



A Better State

2019 ANNUAL REPORT



THE
ST[>]TE
BANK

*“We are looking forward
to the creative ways
we can help our clients
find their better state.”*

Ronald L. Justice, President and CEO

In 2019, we enjoyed success in many ways, and I am excited to share our achievements in this letter and throughout our 2019 Annual Report.

The Company grew and celebrated the milestone of reaching \$1 billion in total assets, ending the year at \$1.03 billion. During the year, assets increased over \$108 million or 11.7%. We achieved this growth through our team excelling in attracting new and expanding existing relationships with individuals, families, businesses and public entities from within the communities we serve. Assets have grown \$589 million or 132% over the past four years.

Within assets, our loan portfolio has grown as well. We ended 2019 with total loans of more than \$870 million, an increase of \$98 million or 12.7%. Commercial loans had an outstanding year, increasing more than \$101 million and residential mortgage loans had a record year in loan closings.

These new assets were funded primarily from deposit growth. Our retail, cash management, and public funds teams had an outstanding year, increasing deposits by approximately \$100 million to \$863 million at year end. We continue to enhance our product lines to ensure that we offer access to funds, information and other conveniences desired by consumers, and are happy to welcome all of these new deposit relationships to our growing business.

Capital increased to \$101 million or by approximately \$12 million. The increase was primarily from retained earnings. At the beginning of the year our stock was trading at \$21.00 per share and closed the year at \$25.23 per share. We are excited about this 20% increase in price, recognizing that the market is responding to our continued strong operating results and other efforts to enhance communication and information available to the investment community.

Earnings for the year totaled a new record of \$11.6 million, an increase of \$1.5 million or 14.5% compared to 2018. 2019 results represent the third consecutive year of record earnings. The earnings increases are largely from balance sheet growth and the resulting increase in net interest income. Net interest income totaled \$34.9 million for the year, an increase of \$4.4 million compared to 2018. Operating expenses were up in 2019 compared to 2018, ending the year at \$27.2 million.

Our overall financial performance ranked us 5th in the State based on the Financial Management Consulting Group's quarterly ranking of Michigan banks. Additionally, in May of 2019 the Bank was named to the American Bankers Association's, Top 200 Publicly Traded Banks, ranking 20th, the highest ranked bank in Michigan. Rankings are based on the previous three years return on average equity.

In late 2018, the Company engaged a marketing firm to assist in creating a more strategic marketing plan. As part of the process, we analyzed the composition of our current customer base, quantified growth opportunities within the Bank's markets, measured our brand awareness both in our markets and in surrounding areas, and measured the commitment of our current customers. We used this information to choose a logo, corporate colors and marketing message to enhance awareness and to convey or represent who we are today as a company. The end result is an exciting new brand. You can see it represented on the cover and throughout this report. We chose a bold blue and orange as our colors, modified the font in our logo, reoriented the "a" in St>te, and repositioned our name within the logo to reflect the level of sophistication, expertise, professionalism, and comprehensive services we offer. The campaign leads with What If? and through the campaign, we encourage our clients to explore how we can assist them in the achievement of their dreams today. The brand launch has been successful, and we are looking forward to the creative ways we can help our clients "find their better State".

Once again, I want to thank you for your continued support, and assure you that we will continue to work hard to deliver superior performance.

Warmly,

Ronald L. Justice,
President and CEO



Find your better state is our commitment to not just be a local bank, but to live it out every day through an approach that looks for solutions, and a belief that together we can overcome any barrier.

Throughout our work in 2019 to update the Bank's brand, we have rediscovered not only our ability, but our deep passion to overcome barriers for customers by creating products or solutions that may not have existed before. We have also re-energized our commitment to the betterment of customers and communities and feel strongly that our revitalized brand positions The State Bank for long-term growth.

The new brand and its launch campaign were introduced in January 2020 following a branding process that included a thorough analysis of existing

and potential new markets, brand awareness studies, and workshopping sessions with the Bank's leadership.

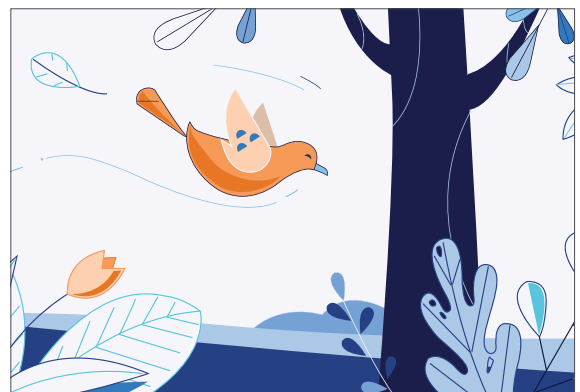
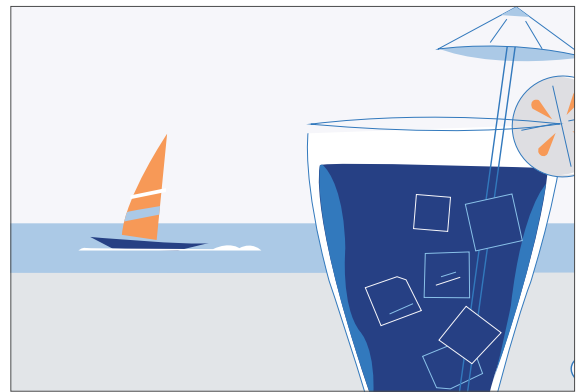
The end result was a redesign of the logo and launch of a brand campaign that sets The State Bank apart and positions them as a bank that sees things differently than its competitors.



Updated Logo for The State Bank



The What If Microloan Brochure



Static Illustrations from Brand Campaign Animations

The State Bank's brand launch was driven by a microsite, **YourBetterState.com**. The microsite was used to communicate the Bank's differentiation through seeking solutions and overcoming obstacles for customers. It features customer and community testimonies, as well as information on the What If Microloan, a new product to help parents save for their child's future.

What if
your bank could help you
see that anything is possible?

At The State Bank, we believe that things don't have to be just right to get the life you want. Let us help you see things differently.

THE STATE BANK
Find Your Better State.

THESTATEBANK.COM
800.535.0517

Member FDIC

Print Ad - Brand Campaign General

What if
your bank could help you
see that anything is possible?

At The State Bank, we believe that things don't have to be just right to expand your business. Let us help you see things differently.

THE STATE BANK
Find Your Better State.

- > Preferred SBA Lender
- > 16 Locations Across Michigan
- > 2018 Michigan SBA District Community Lender of the Year

THESTATEBANK.COM
800.535.0517

Kevin Neumeier
Great Lakes Bay Market Manager
819.865.4025
kevin@thestatebank.com

Equal Housing Lender - Member FDIC

Print Ad - Brand Campaign - Small Business Focus

Brand Launch Microsite: yourbetterstate.com

THE STATE BANK

WELCOME WHAT IF? BANKING FOR GOOD CHANGE FOR KIDS YOUR BETTER STATE THE STATE BANK

SEE THINGS differently

What if?

What if you didn't have to wait for things to be just right to get the life you want? What if you could start making it happen right now? And what if your bank could help you see that it's possible?

We believe
in the potential of banking for good—to create **better lives,**

INVESTING LESS THAN FOR YOUR CHILD'S FUTURE?

papers (did we already say when you have a new little one, size that a little goes a long way? By starting now, the future you see for your son or daughter possible.

No Loan Processing Fee | Next Day Closing Availability | No Prepayment Penalty

First Name	\$103,227.01	\$114,920.88	\$174,510.58	\$38,386.91
Age 30 (estimated)				
Estimated Savings Rate	\$1,233,254.31	\$995,340.72	\$888,627.15	\$152,313.58
Quarterly Investment				

What if

Find Your Better State.

Brand Launch Teaser Billboard

The Bank's new tagline, "Find Your Better State," was introduced through the brand launch.

Growing Core Deposits

4,450

Retail Accounts Opened in 2019



\$5.42

MILLION

in Kasasa Accounts

Growing Community

\$42,000

donated to

12

LOCAL
SCHOOL
DISTRICTS



to support the needs of low to moderate income children and families from the staff-directed fundraising effort through the Change for Kids Program.

Growing Innovation

12,077

Average Monthly ITM Transactions

Serving customers
seven days a week
with 24 Connect! ITMs
throughout our markets



\$30,000

donated to the Food Bank of Eastern Michigan through their 2019 holiday fundraising efforts. This is the 18th year of partnership with Food Bank of Eastern Michigan.



We have over

1,500

VOLUNTEER
HOURS



from our employees to the local communities in 2019

Growing Homeownership

1,041

New Mortgage and Refinance Loans



\$289.6

MILLION

DONATIONS &
SPONSORSHIPS

\$194,141

in 2019

Growing Local Business

\$29.5
MILLION

Small Business Administration
(SBA) and US Department
of Agriculture Loans

\$186
MILLION

New Commercial Loans



Feelin'
ON TOP

With an 84% increase in
loan volume, The State
Bank was recognized as a
Top Ten Lender of the
Year by the SBA.

Growing Wealth

20.5%
INCREASE

in Investment Advisory Revenue

\$12.4
MILLION
INCREASE

in Trust Assets Under
Management



Growing Public Funds

\$51
MILLION

of deposit growth from
the efforts of our Public
Funds Management
Program in 2019.



COMMERICAL LOAN | **Weinstein Electric Company**

"Our move to The State Bank has turned out to be one of the best business decisions we've made. We have realized a cost savings and have experienced exceptional service/support from both Commercial Loan Products/Services and Treasury Services. We are proud to support a locally owned company."

Jeffrey R. Chappelle
Former Owner/Senior Engineer



COMMERICAL LOAN | **1-800-LAW-FIRM**

"When I was looking for options to refinance an existing commercial loan, my financial advisor said I should check with Michael Franklin at The State Bank.

I was impressed with how easy the entire refinancing process was and at the end of the day, their loan package was better than any of the offers I received from other banks that were competing for my business. I definitely would recommend Michael Franklin at The State Bank to anyone in need of commercial real estate financing."

Ari Kresch
Founder



COMMERICAL LOAN | **The Home Store**

"Jill White and The State Bank have helped me with several commercial loans to finance my real estate portfolio. Jill and her team are knowledgeable, responsive, reliable, and easy to work with. Most impressive however, was that Jill demonstrated a solid understanding of my real estate business and the bank's business of lending, which allowed us to solve problems and optimize the loans and the process in each case to meet my needs."

Bradley Cohen
President



COMMERCIAL LOAN | Sharp Funeral Homes

"The State Bank and Tom Bertschy are, hands down, the most professional and helpful in their industry. From the beginning of our business, State Bank has been there to assist Sharp Funeral Homes with banking services and commercial loans to help us succeed as a hometown family-owned funeral home.



Much like my profession, having a personal relationship with the professionals you are working with helps to ease any burdens and elevates the level of trust. That is why we chose to work with a local bank and local banking professionals."

Roger Sharp
C.E.O. and Founder

MORTGAGE | Morgan Milzow & Ford Realtors

"The State Bank offers so much to us as top real estate professionals but, more importantly, to our clients. Their commonsense lending approach, savvy financial guidance, personal service, and unmatched rates and fees deliver the ultimate package in what can seem like a daunting process to even the most seasoned home buyer. The State Bank has and continues to deliver what they promise to all of our clients. We so value The State Bank and look forward to our continued and wonderful business relationship!"



Emily Ford
Associate Broker

BANKING SERVICES | The City of Montrose

"The City of Montrose has been with The State Bank for many years and continue to be very happy with their service. We use online banking for everything. The website is easy to maneuver, making transfers between accounts extremely easy. I can print off bank statements immediately rather than waiting for them to come in the mail. The customer service at the bank is awesome."

Chrystal Raible
City Treasurer, City of Montrose



Dollars in Thousands Except Per Share Amounts

Balance Sheet and Asset Quality Ratios					
	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15
Net Loans to Total Deposits	100.19%	100.60%	99.32%	85.01%	99.98%
ALLL to Gross Loans	0.67%	0.58%	0.54%	0.55%	0.93%
Net Loan Charge offs to Gross Loans	0.00%	0.02%	-0.02%	-0.05%	-0.03%
Nonperforming Loans to Gross Loans	0.17%	0.14%	0.00%	0.00%	0.09%

Per Share Data					
	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15
Earnings per Share	\$2.49	\$2.65	\$2.39	\$1.70	\$1.87
Book Value per Share	\$21.75	\$19.31	\$16.37	\$14.00	\$12.90
Tangible Book Value per Share	\$20.87	\$18.32	\$14.96	\$12.41	\$12.90
Market Price per Share	\$25.23	\$21.00	\$18.88	\$16.00	\$13.86
Dividends per Share	\$0.28	\$0.24	\$0.20	\$0.40	\$0.12
Total 1 Year Return to Shareholders (%)	21.48%	12.50%	19.25%	18.33%	41.21%
Common Shares Outstanding	4,664,369	4,636,455	3,631,933	3,619,282	2,517,748
Average Common Shares Outstanding	4,653,872	3,812,433	3,625,568	2,608,903	2,511,817

Performance Ratios					
	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15
Return on Average Assets	1.20%	1.20%	1.19%	0.93%	1.12%
Return on Average Shareholders' Equity	12.02%	15.05%	15.38%	10.28%	12.73%
Net Interest Margin Yield (FTE)	3.83%	3.84%	4.08%	3.83%	3.90%
Efficiency Ratio	63.20%	65.23%	66.20%	74.56%	71.06%

Capital Ratios					
	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15
Total Capital to Risk Weighted Assets	14.03%	14.00%	10.93%	11.47%	12.90%
Tier 1 Capital to Risk Weighted Assets	13.33%	13.40%	10.39%	10.95%	12.00%
CET1 Capital to Risk Weighted Assets	11.64%	11.52%	8.27%	8.40%	8.39%
Tier 1 Capital to Average Assets	11.20%	10.92%	8.98%	11.93%	10.80%

CONDENSED CONSOLIDATED BALANCE SHEETS

Assets					
	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15
Cash and Cash Equivalents	\$46,803	\$23,412	\$15,928	\$78,313	\$19,425
Total Securities	61,621	94,721	55,323	72,458	25,708
Loans Held for Sale	19,491	903	2,067	3,869	2,905
Gross Loans	870,555	772,227	672,530	515,775	378,655
Less Allowance for Loan Losses	5,813	4,488	3,603	2,851	3,505
Net Loans	864,742	767,739	668,927	512,924	375,150
All Other Assets	42,102	39,675	39,198	35,786	23,214
Total Assets	\$1,034,759	\$926,450	\$781,443	\$703,350	\$446,402

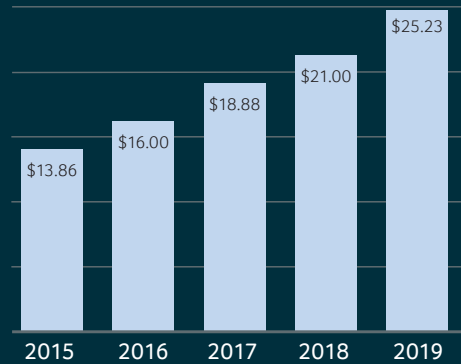
Liabilities and Shareholders' Equity					
	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15
Total Deposits	\$863,102	\$763,124	\$673,505	\$603,367	\$375,971
Total Borrowed Funds	61,500	69,000	46,000	45,000	34,775
Accrued Interest and Other Liabilities	8,713	4,810	2,491	4,323	3,182
Total Liabilities	933,315	836,934	721,996	652,690	413,928
Total Shareholders' Equity	101,444	89,516	59,447	50,660	32,474
Total Liabilities and Shareholders' Equity	\$1,034,759	\$926,450	\$781,443	\$703,350	\$446,402

CONDENSED CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED

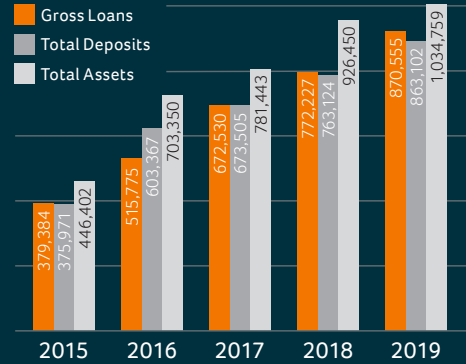
Interest & Dividend Income					
	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15
Loans, Including Fees	\$41,102	\$34,371	\$28,765	\$18,119	\$15,983
Investments	2,439	1,979	1,346	526	670
Total Interest and Dividend Income	43,541	36,350	30,111	18,645	16,653
Total Interest Expense	8,627	5,827	3,120	2,372	2,153
Net Interest Income	34,914	30,523	26,991	16,273	14,500
Provision for Loan Losses	1,335	1,057	609	(900)	(1,000)
Net Interest Income, After Provision for Loan Losses	33,579	29,466	26,382	17,173	15,500
Total Non-Interest Income	8,163	8,277	8,988	6,658	6,575
Total Non-Interest Expenses	27,223	25,310	23,818	17,097	14,976
Income Before Federal Income Taxes	14,519	12,433	11,552	6,734	7,099
Federal Income Taxes	2,941	2,319	2,876	2,293	2,407
Net Income	\$11,578	\$10,114	\$8,676	\$4,441	\$4,692

**2019
GROWTH
HIGHLIGHTS**

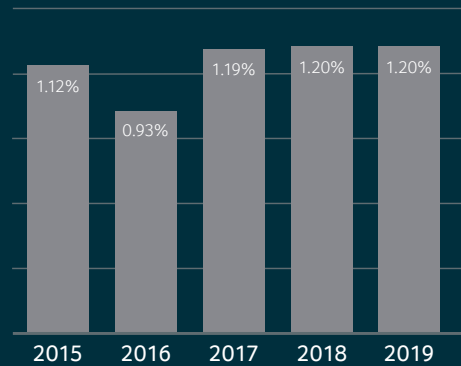
MARKET PRICE PER SHARE



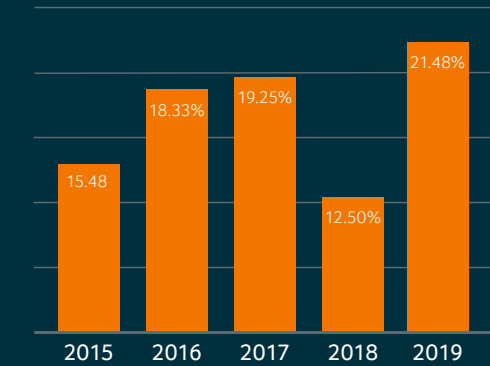
BALANCE SHEET
(Dollars in Thousands)



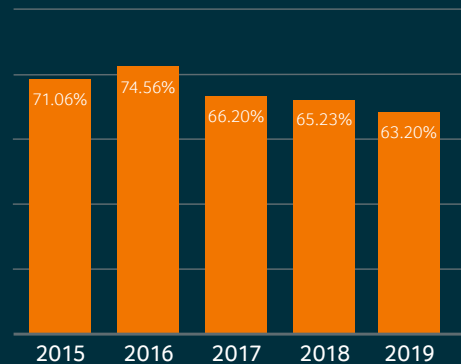
RETURN ON AVERAGE ASSETS



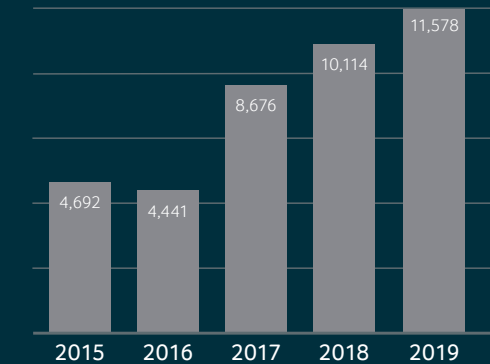
TOTAL ONE YEAR RETURN TO SHAREHOLDERS (%)



EFFICIENCY RATIO



NET INCOME
(Dollars in Thousands)



Bauer Financial 5-Star Rating

The State Bank is honored to announce it has earned Bauer Financial, Inc.'s highest 5-Star Superior rating. Bauer Financial, Inc. is the nation's leading independent bank and credit union rating firm, and awards star-ratings on a quarterly basis. A 5-Star rating indicates that The State Bank is one of the strongest banks in the nation, excelling in such areas as capital, loan quality, profitability and much more.



Earning a 5-Star rating is an outstanding achievement and the result of sound financial management, financial strength and performance. We are proud to maintain our rating as one of the strongest banks in the nation.

Ron Justice, President and Chief Executive Officer at The State Bank

Top 200 Community Bank

The State Bank was recognized by American Banker magazine as the 20th top performing community bank in the nation in their yearly Top 200 Community Bank rankings. Of all of the banks rated in the state of Michigan, The State Bank received the highest rating.



The State Bank Surpasses \$1 Billion in Assets

In the fourth quarter of 2019, The State Bank surpassed \$1 billion in assets. "As we look back on 2019, we are proud to say it was another record setting year," said Ronald L. Justice, President and CEO. "It was not only a year of growth in itself, it was a year of planning and preparing for growth in years to come."

TOTAL ASSETS
AS OF DECEMBER 30, 2019
\$1.03
BILLION

Branches

MAIN BRANCH

175 N. Leroy Street
Fenton, MI 48430
810.629.2263

SILVER PARKWAY BRANCH

15095 Silver Parkway
Fenton, MI 48430
810.750.5605

VG'S FOOD

CENTER BRANCH
18005 Silver Parkway
Fenton, MI 48430
810.750.8781

LINDEN BRANCH

107 Main Street
Linden, MI 48451
810.750.8794

HOLLY BRANCH

4043 Grange Hall Road
Holly, MI 48442
810.750.8701

GRAND BLANC SOUTH BRANCH

7606 S. Saginaw Street
Grand Blanc, MI 48439
810.695.9601

GRAND BLANC NORTH BRANCH

1401 E. Hill Road
Grand Blanc, MI 48439
810.603.9500

BRIGHTON BRANCH

134 N. First Street
Brighton, MI 48116
810.534.0800

NEW LOTHROP BRANCH

9380 Genesee Street
New Lothrop, MI 48460
810.638.3003

MONTROSE BRANCH

200 W. State Street
Montrose, MI 48457
810.639.6101

BIRCH RUN BRANCH

8412 Main Street
Birch Run, MI 48415
989.624.6280

BURT BRANCH

10811 Albee Road
Burt, MI 48417
989.770.4050

CHESANING BRANCH

12771 Brady Road
Chesaning, MI 48616
989.845.7070

ST. CHARLES BRANCH

207 S. Saginaw Street
St. Charles, MI 48655
989.865.9434

THOMAS TOWNSHIP BRANCH

7590 Gratiot Road
Saginaw, MI 48609
989.781.2350

ATM Only Locations

THOMPSON ROAD

3237 W. Thompson Road
Fenton, MI 48430

ALPINE FOOD PLAZA

606 W. Broad Street
Linden, MI 48451

CHESANING

148 Chapman Street
Chesaning, MI 48616

Loan Production Offices

SAGINAW LOAN CENTER

301 E. Genesee Avenue
Suite 01
Saginaw, MI 48607

FLINT LOAN CENTER

Flint Ferris Wheel Building
615 S. Saginaw St
7th Floor
Flint, MI 48502





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