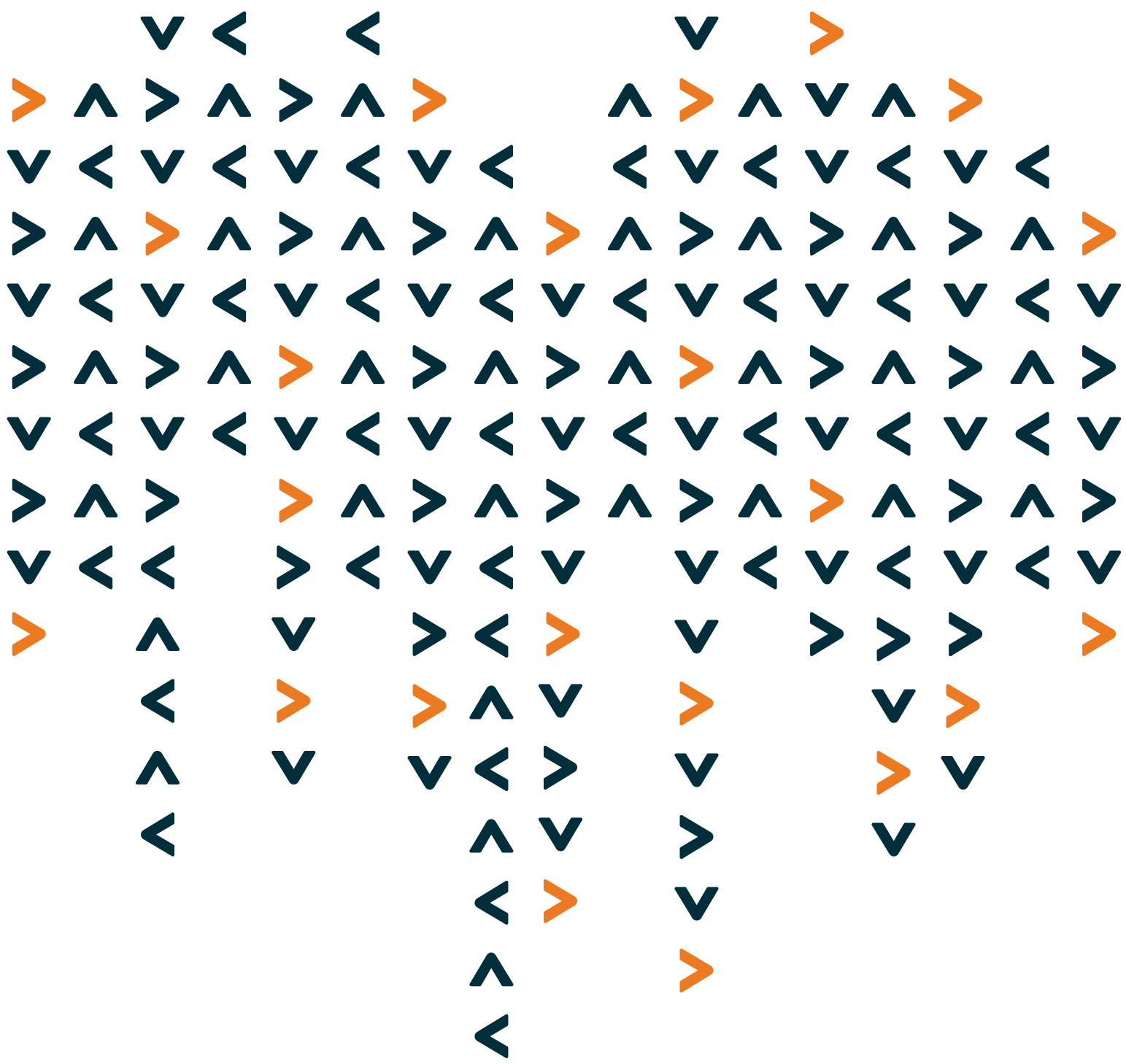




**FENTURA**  
Financial, Inc.

# Turning Obstacles into Possibilities

2020 ANNUAL REPORT



*“Our values reflect our commitment to loyalty, integrity, teamwork, results, and our curiosity to challenge the status quo.”*

While 2020 presented many challenges due to the COVID-19 pandemic, including a heightened focus on safety protocols and expanding technology-based service delivery channels, we didn't lose sight of our mission, vision and values. Part of our mission is to deliver flexible and comprehensive financial solutions. Our focus over the past year is a perfect representation of our execution of this.

We recognized early in the year that the pandemic's impact would be far reaching, and our clients and the communities we serve would need our help. We began monitoring both our consumer and commercial borrowers, offering payment deferrals to help them financially weather the storm. Additionally, we were active participants in the SBA's Paycheck Protection Program, assisting with loans to help businesses in need, whether already our clients or not, providing them access to funds critical in helping their businesses survive. We created an interest free emergency loan program, committing up to \$1 million dollars for qualifying individuals and families, and for one month we did cash drawings from community entrants, donating a total of \$50,000 to recipients in need.

During the “sheltering in place” orders, we modified operations, closing branches to comply with the orders, but continued to perform all transactions with a high level of personalized service through our interactive teller machines and branch transactions by appointment. This flexibility not

only reflects our mission, but the commitment in our vision statement to look past obstacles. 2020 certainly offered an opportunity for the Company to execute this vision as we led through many challenges to ensure we were there to assist clients and communities with the obstacles they faced.

Our values reflect our commitment to loyalty, integrity, teamwork, results, and our curiosity to challenge the status quo. Our focus on these values is reflected through the programs highlighted above, and all support our final core value of results. Our results focus is both external and internal, ensuring we assist in achieving not only our clients' desired financial results, but also superior financial results for our shareholders. I am pleased to share that we did achieve results for clients, while also achieving record results for our shareholders.

Once again, the Company experienced strong growth during the year, reaching \$1.25 billion in assets at year end. During the year assets increased over \$217 million or 20.9%. This strong level of growth was achieved through organic opportunities and both loan and deposit dollars in connection with the Paycheck Protection Program.

The majority of the asset growth occurred in the loan portfolio. The commercial loan team, excluding PPP loans, originated approximately \$177 million in new loans, the residential mortgage team had a record year, originating more than \$487

million in new loans, and the Company originated approximately \$214 million of the SBA's Paycheck Protect Program loans. Total loans increased by \$196 million to \$1.07 billion at year end, or 22.5%, net of loan payoffs and paydowns.

The asset increases were primarily funded by deposit growth. Total deposits were \$1.07 billion at year end, increasing by \$231.7 million or 24.2% over 2019. Retail, commercial, cash management, and public fund deposits experienced growth and increased totals in all deposit categories at year end 2020, except for time deposits. Our clients transitioned deposit dollars to checking, savings and money market accounts based on historically low interest rates lowering market rates on time deposits.

Capital increased by \$14.4 million, ending the year at \$115.9 million, the increase was primarily driven by our strong earnings.

For the fourth consecutive year the Company achieved record earnings. Net income totaled \$15.5 million, an increase of \$3.9 million or 33.6%. Balance sheet growth and the resulting increase in net interest income, as well as higher noninterest income, contributed to the net income increase. Net interest income totaled \$40.1 million for the year, an increase of \$5.1 million compared to 2019. Noninterest income totaled \$19.6 million, an increase of \$11.5 million compared to 2019, largely due to the record loan originations and the resulting gains on the sales of a majority of these residential mortgage loans in the secondary market. Noninterest expenses and provisions for loan losses both increased during 2020 compared to 2019. Noninterest expenses totaled \$34.7 million, an increase of \$7.5 million over 2019. These expenses increased primarily due to an increase in total compensation, largely commissions and incentives paid in connection with loan originations and due to annual merit increases. Additionally, the Company paid off three Federal Home Loan Bank borrowings, incurring a one-time early payoff fee of \$1.9 million. The payoff was executed to enhance net interest

income and net interest margin in each of the next three years. Loan loss provision totaled \$5.6 million in 2020, an increase of \$4.3 million compared to 2019. The provision was increased despite historical credit quality indicators, largely due to significant uncertainty surrounding the long-term impact of the COVID-19 pandemic on the loan portfolio.

Once again, our strong overall financial performance earned the Company recognition both nationally and in the State. In May 2020, the Bank was named to the American Bankers Association's, Top 200 Publicly Traded Banks, ranking 22nd. Rankings are based on the average of the three previous years return on average equity. Additionally, the bank was ranked 6th in the State based on the Financial Management Consulting Group's quarterly ranking of Michigan banks at December 31, 2020.

**I am proud of the team's commitment to our mission, vision and core values throughout 2020. Even in a year with unprecedented challenges, their efforts produced outstanding results and positioned us for a strong future.**

As always, I want to thank you for your continued faith in, and support of the Company.

Warmly,

Ronald L. Justice  
President and CEO



## Pursuing Growth through Uncertain Times

While 2020 was a year when our team worked tirelessly to provide stability to customers through quickly emerging programs like Paycheck Protection and in-house COVID-19 financial support, we also kept our minds focused on the growth of the Bank through entrance into new markets.



“The State Bank feels like family—I’ve never experienced this kind of banking relationship before.”

**KRIS KRSTOVSKI**  
President  
K2 Retail Group

### A Better State in Farmington Hills

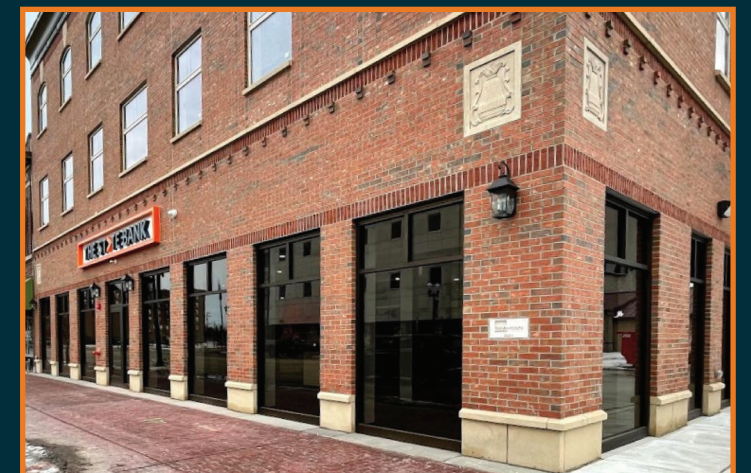
In 2020 we made our highly anticipated move into Oakland county by obtaining space and renovating it into a full-service office in the Northwestern Professional Center located at 31000 Northwestern Highway, Suite 150. While the office did not officially open until 2021, our business lending and mortgage teams were hard at work in 2020, building books of business and serving customers at a time when both local businesses and homeowners needed support the most. With the office now fully open as of first quarter 2021, our retail, trust and wealth management teams complete our full suite of expert service and guidance, now available to customers in Farmington Hills and surrounding communities.



The State Bank: Farmington Hills

### Building a Better State in Downtown Saginaw

The revitalization of downtown Saginaw brought an extra level of excitement to our new Saginaw branch and overall expansion into the Great Lakes Bay Region market. We became anchor tenants in a brand-new building located at 218 S. Washington Avenue - right in the heart of downtown. Part of our development plan of this new location was to create a full service, modern space. With a welcoming floor plan and a full team of banking experts ready to serve both businesses and families in this growing community, our team’s work in 2020 meant that when the office opened in Q1 2021, more customers in Saginaw and surrounding communities can find their better state.



The State Bank: Downtown Saginaw

Growing Core Deposits

**3,476**  
Retail Accounts Opened in 2020

**\$231.7**  
MILLION  
increase in overall deposits



**\$18.1**  
MILLION  
in Kasasa Accounts

Growing Innovation

**15,343**  
Average Monthly ITM Transactions

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



Growing Homeownership

**1,517**  
New Mortgage and Refinance Loans



**\$713.6**  
MILLION

Growing Community

**DONATIONS &  
SPONSORSHIPS**

**\$194,000**  
in 2020 throughout our  
local communities

**\$36,000**  
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.



**\$30,000**  
donated to the **Food Bank  
of Eastern Michigan** in our  
19th year of partnership.

As a result of the pandemic,  
food insecurity rates rose  
from 14% to 40% throughout  
Michigan. The Food Bank  
of Eastern Michigan feeds  
families in all of the markets  
served by The State Bank.



Growing Local Business

**#1**  
Michigan-Based  
Community Bank  
SBA Lender

Based on number and dollar amount  
of SBA loans approved during the  
fiscal year ending 9/30/20.

**\$29.7**  
MILLION  
Small Business  
Administration (SBA) Loans

**Paycheck  
Protection  
Program**



**\$214.3**  
MILLION  
in Paycheck Protection Loans  
**HELPING 1,359 BUSINESSES**

**\$177**  
MILLION  
New Commercial Loans

Growing Wealth

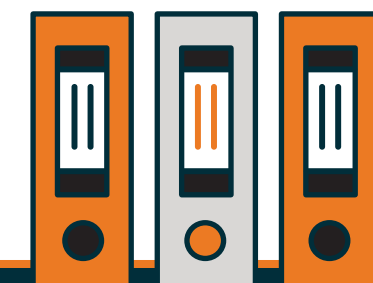
**6.5%**  
INCREASE  
in Investment Advisory Revenue



**\$26.2**  
MILLION  
INCREASE  
in Trust Assets Under  
Management

Growing Public Funds

**\$39.2**  
MILLION  
of deposit growth from  
the efforts of our **Public  
Funds Management  
Program** in 2020.





**MORTGAGE | GRAND BLANC**

“David Scott was absolutely amazing to work with. I was told he was the best and he is. Buying a house right now is a bit crazy due to the Coronavirus and its impact on the economy. David made it happen. I truly believe that without his help we would not be moving into our home in a couple weeks. I am beyond grateful and would without reservation, recommend him to anyone that is looking to buy or refinance a home.”

*Angela and Jon Foley*

**MORTGAGE | SOUTH LYON**

“The State Bank is a unique financial institution! Honest, knowledgeable, dependable, prompt, courteous, friendly personalized service delivered in an efficient manner is how I describe my experience with the colleagues at The State Bank. They provided me with the best mortgage experience I have ever received anywhere. I am a repeat customer; a new home construction loan, a mortgage, and now a refinance - all at great interest rates - are the basis for my conclusions. The State Bank - absolutely!”

*Robert Parker*

**MORTGAGE | CLARKSTON**

“Carl and his team provided excellent service, information, and comfort in the entire home buying experience. Any questions or concerns we had were answered immediately and our loan got approved extremely fast. I highly recommend The State Bank and Carl Moraw!”

*Chapin White*

**PPP LOAN | MONTROSE**

“We own a small business in Montrose doing lawn care, landscaping, irrigation, hydroseeding, snow plowing and salting in winter. We have been in business for 23 years. Because of the pandemic we were forced to shut down.

A huge thank you to The State Bank for helping us secure the PPP loan for our business. They saved our business and worked hard to obtain our PPP loan. A special thank you to Brian Rang whom answered every phone call and took extra time with me to make sure I had all my paperwork in order and was informed. I can't thank you enough for guiding me through the whole process! Your kindness and compassion will never be forgotten!”

*Charles and Karen Bruton  
Bruton's Lawn Care*

**PPP LOAN | WHITMORE LAKE**

“We are left with the impression that The State Bank cares more about their customers' needs than the big banks. We certainly have a new appreciation for the value of community banks in general and especially The State Bank. Now that our industry has been allowed back to work - business is booming - and we very much have your bank to thank for allowing us to hit the ground running. We believe the PPP Loan allowed us to get back to full strength more quickly and rehire 43 of our valued employees.”

*David and Darian Bobby  
Atlas Home Improvement*

**PPP LOAN | ST. CHARLES**

“Mr. Grigg assisted me with all the questions and required information according to the CARES Act and was able to get my PPP loan through quickly. He always makes time to talk to me when he comes in for his lunch. I have worked with The State Bank for the past four years and would recommend them to anyone who wants professional, personal service whereas the bank is not so big that it doesn't even know who you are. They treat you like family!”

*Susan Reese  
Subway*

Dollars in Thousands Except Per Share Amounts

Balance Sheet and Asset Quality Ratios					
	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16
Net Loans to Total Deposits	98.48%	100.19%	100.60%	99.32%	85.01%
ALLL to Gross Loans	1.02%	0.67%	0.58%	0.54%	0.55%
Net Loan Charge offs to Gross Loans	0.05%	0.00%	0.02%	-0.02%	-0.05%
Nonperforming Loans to Gross Loans	0.75%	0.17%	0.14%	0.00%	0.00%

Per Share Data					
	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16
Earnings per Share	\$3.31	\$2.49	\$2.65	\$2.39	\$1.70
Book Value per Share	\$24.80	\$21.75	\$19.31	\$16.37	\$14.00
Tangible Book Value per Share	\$24.00	\$20.87	\$18.32	\$14.96	\$12.41
Market Price per Share	\$22.00	\$25.23	\$21.00	\$18.88	\$16.00
Dividends per Share	\$0.30	\$0.28	\$0.24	\$0.20	\$0.40
Total 1 Year Return to Shareholders (%)	-11.61%	21.48%	12.50%	19.25%	18.33%
Common Shares Outstanding	4,694,275	4,664,369	4,636,455	3,631,933	3,619,282
Average Common Shares Outstanding	4,684,006	4,653,872	3,812,433	3,625,568	2,608,903

Performance Ratios					
	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16
Return on Average Assets	1.29%	1.20%	1.20%	1.19%	0.93%
Return on Average Shareholders' Equity	14.05%	12.02%	15.05%	15.38%	10.28%
Net Interest Margin Yield (FTE)	3.50%	3.83%	3.84%	4.08%	3.83%
Efficiency Ratio	58.10%	63.20%	65.23%	66.20%	74.56%

Capital Ratios					
	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16
Total Capital to Risk Weighted Assets	15.21%	14.03%	14.00%	10.93%	11.47%
Tier 1 Capital to Risk Weighted Assets	14.00%	13.33%	13.40%	10.39%	10.95%
CET1 Capital to Risk Weighted Assets	12.44%	11.64%	11.52%	8.27%	8.40%
Tier 1 Capital to Average Assets	9.85%	11.20%	10.92%	8.98%	11.93%

## CONDENSED CONSOLIDATED BALANCE SHEETS

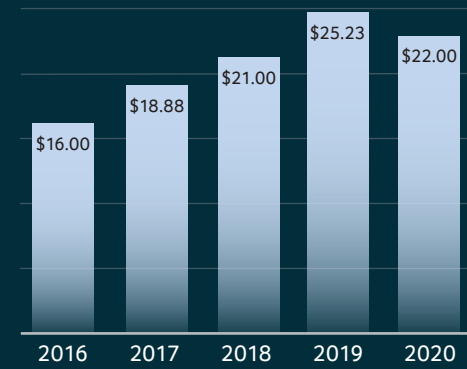
Assets					
	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16
Cash and Cash Equivalents	\$46,757	\$46,803	\$23,412	\$15,928	\$78,313
Total Securities	76,111	61,621	94,721	55,323	72,458
Loans Held for Sale	27,306	19,491	903	2,067	3,869
Gross Loans	1,066,562	870,555	772,227	672,530	515,775
Less Allowance for Loan Losses	10,900	5,813	4,488	3,603	2,851
Net Loans	1,055,662	864,742	767,739	668,927	512,924
All Other Assets	45,610	42,102	39,675	39,198	35,786
<b>Total Assets</b>	<b>\$1,251,446</b>	<b>\$1,034,759</b>	<b>\$926,450</b>	<b>\$781,443</b>	<b>\$703,350</b>

Liabilities and Shareholders' Equity					
	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16
Total Deposits	\$1,071,976	\$863,102	\$763,124	\$673,505	\$603,367
Total Borrowed Funds	49,000	61,500	69,000	46,000	45,000
Accrued Interest and Other Liabilities	14,602	8,713	4,810	2,491	4,323
<b>Total Liabilities</b>	<b>1,135,578</b>	<b>933,315</b>	<b>836,934</b>	<b>721,996</b>	<b>652,690</b>
Total Shareholders' Equity	115,868	101,444	89,516	59,447	50,660
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$1,251,446</b>	<b>\$1,034,759</b>	<b>\$926,450</b>	<b>\$781,443</b>	<b>\$703,350</b>

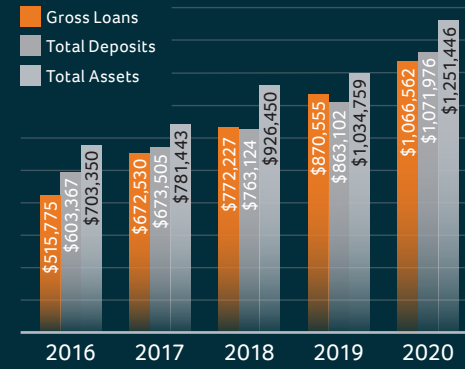
## CONDENSED CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED

Interest and Dividend Income					
	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16
Loans, Including Fees	\$44,238	\$41,102	\$34,371	\$28,765	\$18,119
Investments	1,741	2,439	1,979	1,346	526
<b>Total Interest and Dividend Income</b>	<b>45,979</b>	<b>43,541</b>	<b>36,350</b>	<b>30,111</b>	<b>18,645</b>
Total Interest Expense	5,924	8,627	5,827	3,120	2,372
Net Interest Income	40,055	34,914	30,523	26,991	16,273
Provision for Loan Losses	5,634	1,335	1,057	609	(900)
Net Interest Income, After Provision for Loan Losses	34,421	33,579	29,466	26,382	17,173
Total Non-Interest Income	19,640	8,163	8,277	8,988	6,658
Total Non-Interest Expenses	34,684	27,223	25,310	23,818	17,097
Income Before Federal Income Taxes	19,377	14,519	12,433	11,552	6,734
Federal Income Taxes	3,913	2,941	2,319	2,876	2,293
<b>Net Income</b>	<b>\$15,464</b>	<b>\$11,578</b>	<b>\$10,114</b>	<b>\$8,676</b>	<b>\$4,441</b>

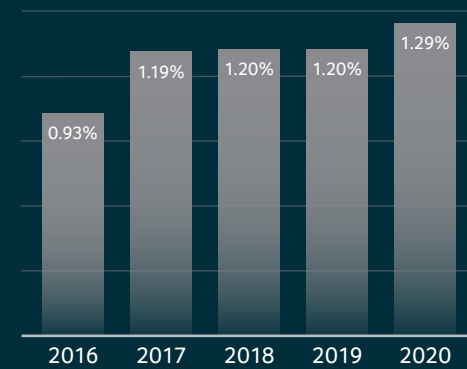
MARKET PRICE PER SHARE



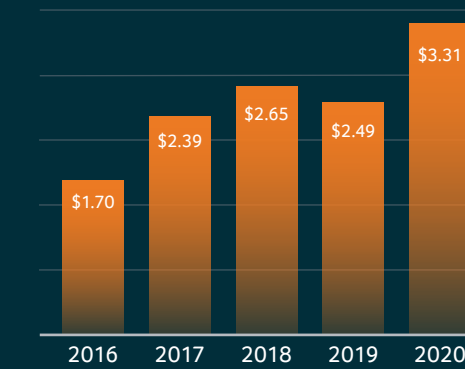
BALANCE SHEET  
(Dollars in Thousands)



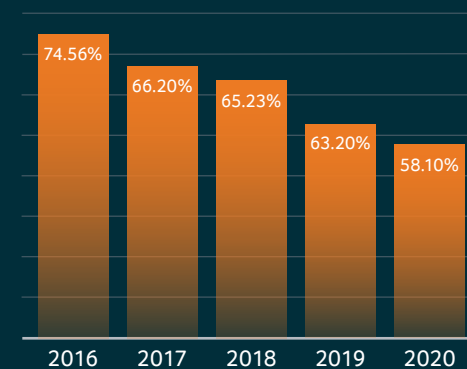
RETURN ON AVERAGE ASSETS



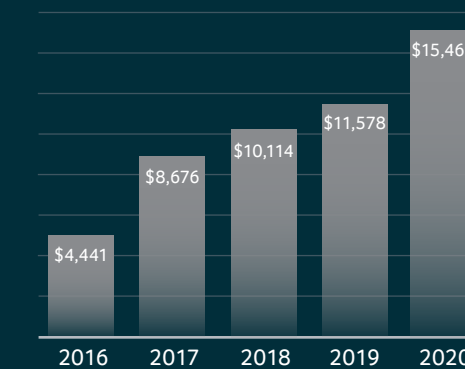
EARNINGS PER SHARE



EFFICIENCY RATIO



NET INCOME  
(Dollars in Thousands)



### 5-Star Rating

Once again, The State Bank 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.



*"A 5-Star Superior rating from Bauer Financial, Inc. is the highest rating we can receive and in direct correlation with The State Bank's strength and profitability. We are proud to have hit the mark again in 2020."*

Ron Justice, President and CEO

### Top Performing Community Banks

Fentura Financial, Inc., announced in May of 2020 that The State Bank was ranked in the American Banker Magazine's "Top 200 Community Banks" list, as one of the top performing 25 community banks in the United States.



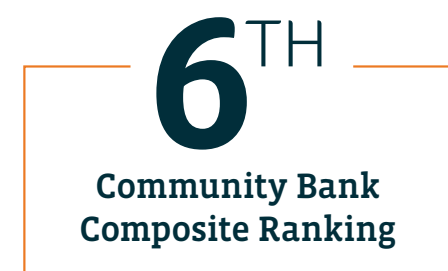
### A Passion for Small Business

Helping businesses find their better state is at the heart of what we do. We were pleased to share that because of the passion for small business by our lending team, The State Bank ranked 4th in units and 6th in volume of Small Business Administration (SBA) loans in the state of Michigan in 2020. We were also ranked the number 1 community bank SBA lender in the state of Michigan.



### Community Bank Composite Ranking

The State Bank is proud to announce that they have been ranked sixth overall in community banks in Michigan by Financial Management Consulting Group's Composite Ranking in the 2020 Michigan Bank Performance Report. The performance report considers many key factors such as bank size, margin, fee income, efficiency, asset quality and earnings.



LOCATIONS

**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

**FARMINGTON HILLS**

Northwestern Professional Center  
31000 Northwestern Highway,  
Suite 150  
Farmington Hills, MI 48334  
248.498.6979

**DOWNTOWN SAGINAW**

218 S. Washington Avenue  
Saginaw, MI 48601  
989.393.4020

**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**

**FLINT LOAN CENTER**

Flint Ferris Wheel Building  
615 S. Saginaw St  
7<sup>th</sup> Floor  
Flint, MI 48502







**FENTURA**  
Financial, Inc.

