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Providing Financial Services in Very Stable Rural Communities in Three States with Experienced Leadership has enabled State Bank to deliver on a vision of High-Performance

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President & CEO

SB Financial Group (parent company)
(NASDAQ: SBFG)
State Bank (the bank)
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CEOCFO: ***Mr. Klein, you were appointed Chairman, President and CEO of SB Financial Group Inc. back in 2015. Would you give us a brief history of the bank, how it came to be?***

Mr. Klein: It is great to be with you here today, to join you and talk about a lifelong passion of mine which is banking. Now, over the last fourteen years with State Bank and SB Financial Group. We were incorporated by 1902 as a state-chartered institution which is perhaps the origin of our name, State Bank. From $50 thousand in capital back in 1902, to $1.2 billion in bank assets to date, and 260 staff members. From one location, now we have 22 offices and five loan production offices in fourteen counties and three states.

When you look at our entire franchise, not only do we have $1.2 billion in bank assets, that we have grown the last five years by over 64%, we have also grown our mortgage servicing portfolio from $26 million when I arrived, to $1.2 billion today. When you add our wealth management group at over $500 million in there, we are coming upon that $3 billion number. Again, when you add all of our assets under our care, about $3 billion. What you see on our balance sheet of $1.2 does not really reflect the whole story of our progress over the last fifteen years.

I was named bank CEO in 2006 and then became the holding company President and CEO in 2010, and then in 2015 added the chairman role. It gives us a little bit of latitude on succession planning and M&A (Mergers & Acquisitions). We adopted a lead independent director structure which has worked out quite well for us so that is a bit of background on State Bank and SB Financial.

CEOCFO: ***How big a part of your bank is wealth management today?***
Mr. Klein: The wealth management division is around $535 million and we have grown decently the last few years. There is a lot of opportunity out there but clearly with the billions and trillions of dollars that are changing hands every year, with many people turning 65 every year, we know there is certainly a lot of potential. There are not many billion-dollar banks that have a wealth management division, much less $535 million. It gives us a little more breadth and depth of potential business lines to provide to our clients.

CEOCFO: ***Would you tell us about the bank's name, State Bank? What is the relevance?***
Mr. Klein: A number of years ago we incorporated as State Bank of Defiance County. I speculate that because it was incorporated as a state chartered financial institution, they named it State Bank. Then, in 1956, we became State Bank and Trust Company, as we apparently wanted to expand our services to delve into not only doing commercial banking but also getting into more financial advising and wealth management.

CEOCFO: ***Are you strictly a Commercial Bank?***
Mr. Klein: We are not just a commercial bank, we are diversified in the sense we are big in mortgage lending, we do retail banking, and we do private client group, a derivative of retail banking. For SBA lending, we crafted a strategic plan to become an SBA lender and to be one of the top 100 banks in the country that does SBA loans and we currently rank about 280 or so out of about 2,100 that do SBA deals, and then treasury management services and wealth management. Those all make up who we are.

Recently we acquired a more non-traditional service of State Bank, which is a title insurance company. We are going to do between $600 and $700 million in mortgages this year and owning a title company was just a great extension of what we do. That has been nice having that business line to be a fee income generator for our holding company. The good part about having all of our different business lines is that it gives us revenue diversity. We know we cannot be everything to everyone; however, we do want our business lines decentralized since we have high-level leaders that own their strategic plans. We use balance scorecard management tools to make sure that we have major initiatives in each of our business lines to deliver on their vision. In the aggregate, each then enables us to reach our corporate vision which is becoming a $2 billion high-performing organization with high-performing affiliates and a high-performing conglomerate.

CEOCFO: ***Would you tell us about the communities you serve and their financial health? Has COVID and the restrictions that came with it made a major impact on local businesses?***
Mr. Klein: Just when we thought the great recession was never to reappear again, we were hit with a totally unexpected pandemic that brought the longest expansion on record to a close—over 10 years of

positive GDP and no recession. We were all enjoying the economic expansion and the balance sheet growth that accompanied it. Generally, our largely rural communities have weathered the pandemic and economic fallout relatively well; albeit with some mortgage, commercial, and SBA forbearances as well as PPP loans. Businesses that have been affected all across the U.S. are the same ones that have been affected here in the Midwest; hospitality, service industries and food services; those that had to literally shut their doors or were severely crippled. Fortunately, our federal government devised a stimulus plan to address this pandemic; one that was many times larger than the stimulus plan that was implemented to thwart the recession in 2008 due to the housing crisis AND they did it roughly 10 times faster! So, most businesses in our markets, as a result, are faring decently well with some critical financial assistance. As we learned all too well in this recession and the one prior, it is all about the client's liquidity. In fact, we called each of our commercial clients early on in the shut-down to let them know that we were here for them and we had their liquidity needs covered.

CEOCFO: ***What types of businesses do you serve?***
Mr. Klein: As I just mentioned, we specialize in funding business expansion, which is why we are so intimately linked to economic growth. That is not to say that there is not business to be done in a less robust economy but growing our balance sheet when our clients are growing and need capital is much more rewarding than restructuring a client's balance sheet in response to an economic contraction. Case-in –point is when the pandemic hit in late February, when generally all commercial activity disappeared, we converted to a PPP lender and after one month assisted over 650 small business with over $84 million in government backed stimulus funds. We were quite proud of our ability to assist our local communities and our clients with stimulus funds. Interestingly, over 30% of our 650 loans were to new clients to State Bank as many larger institutions were not quite as agile as we were with the SBA process and we stepped in to assist. Our Preferred Lender status with the SBA certainly served us well in launching a PPP strategy.

We love working with expanding businesses but we also generally finance owner occupied and non-owner occupied commercial real estate so that coupled with private client services for the people that own those businesses as well as some retail defensively, wealth management and treasury management services for commercial clients, that makes up our general base of clientele here in northwest Ohio and northeast Indiana.

CEOCFO: ***Previous economic downturns and government regulations such as TARP have had great impact on banks and the industry as a whole. How did State Bank manage through the previous challenges and do you see COVID as an experience that will make your bank stronger? Did you put things in place that will benefit your employees and customers going forward?***
Mr. Klein: My mind immediately goes to, "As they say what doesn't kill you, will make you better", so with that in mind I think that adversity always makes each of us better as well as our businesses, but for our staff we bought fifty extra computers in the spirit of keeping them safe and sent many of them home, those who could work from home. They

really liked that and quite honestly our production levels actually ramped up. If we would have known that production would go up 20% to 30%, we might have considered the change earlier.

Over a decade ago when the economy tanked and the federal government sought to strengthen the banking industry, the treasury came up with the troubled asset relief program. The thrust of the program was to support the capital needs of the banking industry in the midst of the housing crisis. Fortunately, our bank was adequately capitalized and did not participate in the relief program. We proudly made it on our own capital. At that time, regardless of whether you participated in the government relief program or not, all banks were literally painted with the same broad brush and as a result hurt the public image of all banks; including those that elected to not participate. This black-eye for the industry was particularly painful to us as we, like many other community banks, always merely complied with and explicitly followed the government's policy mandations when it came to housing financing and underwriting parameters. We had very few foreclosures.

Covid-19 tsunami has certainly had an equal effect on our industry as much as the housing meltdown but, as I mentioned before, the speed and scope of the government's stimulus program have constrained the potential impact, so far. Due to this unexpected economic derailment, coupled with a much stronger capitalized balance sheet, we have weathered the storm well to date but with many unknowns remaining. That said, it has heightened the importance of the digital landscape including anytime, anywhere access to client data. We realize now, more than ever, the importance of scale in this consolidating industry; to be able to afford the technology to remain relevant in a rapidly consolidating industry.

CEOCFO: ***What do you offer your customers that they may not find at other banks?***

Mr. Klein: We are all trying to fight "decomodization," as I call it. When you have gone from eighteen thousand banks when I started in this business to under five thousand today, you are going to have to do something really good to remain relevant, independent and unique.

It seems a bit trite, but most clients just want to have their expectations met with every interaction. We all know the killer of all brands is "indifference." This is a place that we never want to go; takes way too much work to land a client. We have worked extremely hard to build our brand, one client at a time. Take care of the small things and the big things take care of themselves. This is why we proclaim our value proposition to be "Your lifetime provider of innovative financial solutions delivered by a passionate and caring staff." Said differently, we never intend to lose a client due to service gaps. This attitude affects every interaction with every client. I remember early on in my banking career, I started two offices De Novo; two new communities with zero clients. My commitment in each was to literally treat each client as if they were my only one—because many times they were! What it instilled in me at an early stage in my career was that if you work to develop a brand to pull that off, make each client feel as if they were your only client, they will beat a path to your door. Seems elementary but many competitors are either unwilling or incapable of making that level of commitment, consistently.

CEOCFO: ***You have done a number of mergers over the years, the latest being Edon Bancorp Inc. completed June 5, 2020. What do you look for when considering a merger; are you looking to add branches, customers, bankers?***
Mr. Klein: We are always looking to add more scale because we know scale is one of the common denominators of survival today. Without scale you cannot afford the technology, you cannot afford the people and you are not going to get the returns that the stockholders want today.

We compare ourselves to 65 publicly-traded banks in the U.S. between \$500 and \$1.3 billion. Our goal is to be at minimum the 75th percentile when measuring ROA. In the last five years we have exceeded that goal four out of five years and were as high as the top decile in 2017 and 2018.

Our success has enabled us to capitalize our company at some of the highest levels among our peers. We work to be judicious with our earned capital as well as the capital we raise through either preferred or common issues. In fact, we raised \$15 million of the former in 2014 and an additional \$30 million of the latter in 2018. So, good performance and investor confidence have placed our capital levels at the 68th percentile in our peer group. We seek to remain well-capitalized yet leverage our success in new, growing markets. So, while scale is important to efficiency and profitability, we are selective. Geography is a factor as we know our Midwest markets well but urban markets are of even more interest as opportunities for growth are abundant. This is why we went to Toledo, Ohio in 2005 with a bank purchase, and Columbus, Ohio in 2008, Ft. Wayne in 2005, and Indianapolis, Indiana in 2019 as either LPOs or De Novo expansions.

CEOCFO: ***Do you ever build out de novo or is your growth strictly through acquisition? What is your model?***
Mr. Klein: When we had more ambition than TCE way back in 2010, organic growth was the focus as we could internally fund our capital for growth. Now, with TCE at 10.49%, we are positioned to continue to selectively search for the right cultural fits to leverage our community bank brand through M&A. Organic growth is accomplished the old fashion way, by outworking the competition; whereas M&A requires a collective vision of two institutions to unite resources for a common good, and that requires a strong currency to make it work for our ownership. Our modus operandi has generally been to go into a community, do an LPO (Loan Production Office), gain some traction, and do some mortgage lending, private client work, and some SBA. Then, once we gain a foothold, we launch that LPO into our full-service operation. We did that in Ft. Wayne, we did it in Columbus, and we did it in Findlay, Ohio.

CEOCFO: ***You recently joined Russell 2000 and Russell 3000 Indexes. Why is that a significant milestone?***
Mr. Klein: First of all, we are value-driven and vision-driven. I have always had a vision of being high-performance and we want to be

nothing less than the best in the industry; at least the 75th percentile and potentially the 90th percentile of that sixty-five, publicly-traded bank peer group. Clearly, we have had it in our vision to be high-performing and to be part of the Russell 2000, because number one, you have to have a certain level of market-cap to get into the Russell 2000 and they reconstitute that level every year. Just last year we thought it was going to be around $135 million in market-cap to get in the index and by the time COVID hit, along with everything else that happened in the industry, it was down to something north of the $110 or $120 million.

This year, based on our stock price holding up better in total market-cap, which again is the total value of all your outstanding stock, ours is holding up well compared to the industry. We made the Russell 2000 which is one of the 2000 largest, smaller cap companies in the United States. The last 5.5 years we have improved our market cap over $93 million, from $61 million in 2014 to $150 million the end of 2019. We have improved our market cap by either making it or raising it through a preferred convertible or common offering. I always want to achieve goals and that was a key one for us. That is going to get us in front of more investors that potentially would want to own a small-cap institution like ours. Our average daily volume of our stock has gone from 4 to 5 thousand in shares trading daily to over 12 thousand daily. That market presence and liquidity is good for our owners, our company and management.

CEOCFO: ***You announced 2nd Quarter results in July. Would you tell us about the financial health of the bank today? Did COVID have much impact there?***
Mr. Klein: When the economy is expanding, banks do well. We know that and we have selected our business lines specifically to make sure that our company does well in all economies. In an expanding economy when the yield curve was steep, commercial lending was great which enabled us to grow $500 million in the last five years and when the economy dipped a bit and the yield curve flattened, guess which business line expanded? Mortgage lending, very low-cost mortgage loans. We are going to do 50% more than we have ever done, near $700 million in volume in one year which is about $300 million north of what we have ever done in any year. We built this thing to do well in all markets and it is working nicely.

CEOCFO: ***SB Financial Group is traded on the NASDAQ. Is attracting investors a priority for you? Are you reaching out to investors and if so, with conferences being an industry greatly affected by COVID restrictions, what are the methods you are using to reach out to potential investors?***
Mr. Klein: We think that nothing can trump great quarterly performance because growing EPS and growing tangible book value is highly correlated with a higher stock price and a higher market capitalization. We understand there is a new world order here, no one was anticipating it but everyone has acknowledged it. We understand that and we have embraced the digital platform, whether it is Microsoft Teams or Zoom or Cisco Webex™ Online Meetings; it is clearly a new world order and we are embracing it.

It just speaks to the need to embrace Fintech because if we intend to remain relevant in a consolidating industry, we know we are going to have to be embracing the digital platform. I think this Covid-19 just exacerbated what we already knew was coming, albeit now at significantly higher speed.

CEOCFO: ***What sets State Bank apart and why should current shareholders and potential investors have confidence in its future?***
Mr. Klein: I think community banking is the backbone of any community. Without a bank in a community, a community tends to die on the vine. We have developed some great initiatives in an attempt to remain relevant; one example is our State Bank's GIVES Program, "Gathering Individuals to Volunteer, Empower and Serve." We bought a 28 ft. food truck and we now go to every one of our communities to sponsor events, raise money and do things that are important for the community and to our staff. These philanthropic events are important to our staff and we give back to each of our communities.

Why would somebody have confidence in State Bank? We have a vision of high-performance and we are willing to do whatever it takes to deliver it. We have some great people who are buying into our vision of high-performance and we think we have great, diverse business lines. In addition, we are in some very stable rural communities that are now in vogue given the fact that some of our more metropolitan areas have had some challenges. We also have very good clients who are very loyal.

CEOCFO: ***In closing, what are some of your competitive advantages?***
Mr. Klein: We do a lot of strategic planning but all our staff across the board, all 260 of them, understand that it is all about execution. You can have a great plan but it is all about who is going to out-think, out-work the competition and I think that is one of our competitive advantages; we have people with great values who are willing to do whatever it takes to survive and thrive.