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Corporate Information

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Corporate Officers

Rex K. Entsminger
President/CEO

Dean E. Cooke
Chief Financial Officer

Nora Koehler
Director of Human Resources

Lori Morgan
Director of Corporate Operations

K. Denise Osadjan
Chief Risk Officer/Corporate Secretary

Aaron Patterson
Chief Information Officer

John Stichnoth
Chief Credit Officer

Directors

Robert W. Stenstrom, *Chairman*
John Collman
Rex K. Entsminger
Doug Fitzgerald
Fred Kundert
John J. Morrissey
Carolyn Sluiter, D.V.M.
Judd Thrumman, J.D.
Douglas Wagner

Dear Shareholders,

August 2020

Dear Shareholders,

Our reported net income for the second quarter was \$1,203,000, a significant decrease from FFG's profit plan and 61% lower than the second quarter of 2019. A loan loss provision expense of three million dollars was the largest single factor contributing to the decline in earnings. The majority of the loan loss provision expense was associated with a single loan that was removed from the loan portfolio in July. Partially offsetting the decline in earnings were loan fees from the Small Business Administration (SBA) Paycheck Protection Program (PPP). Customer requests for PPP loans continue to trickle in and our portfolio of PPP loans has stabilized and remains at about \$100 million.

Prior newsletters have discussed the downward pressure on our company's interest margin that continued in the second quarter. Management is projecting this pressure to persist until the Federal Open Market Committee starts to increase rates, which will increase the Prime Rate and should improve our interest rate margin. The FOMC has signaled they foresee interest rates staying where they are today through 2021. Given the uncertainty of where the economy is heading and how that may affect banking, we have developed contingency plans for multiple scenarios to operate in the current and anticipated on-going economic environment.

We have grown both our loan portfolio and our deposit base over the last three months as a result of participating in stimulus packages like the PPP loan program discussed above. We believe much of the deposit increases resulting from participating in government stimulus programs will be retained by our banks in the future resulting in new core deposits and expanded deposit relationships.

In April we welcomed a new bank President, Warren Laube, to German American State Bank. Warren comes with many years of banking experience and proven leadership skills. Warren is a resident of our community and knows many of our existing customers. He also has relationships with non-customers that we look forward to becoming customers of German American State Bank.

As a group of community banks we have fewer operational and technical resources than our larger competitors to cope with and respond to the changing and evolving customer needs during this pandemic. I am very proud of all of our employees regarding their attitude and performance to be responsive to our customer base as the pandemic began and continues today. I want to thank all shareholders for the financial support you have given us in the past and during the pandemic.

The Board of Directors declared a cash dividend of \$0.09 cents per share to shareholders of record on August 11, 2020 and payable August 18, 2020. Our company continues to maintain a strong consolidated capital position of 10.72% at June 30, 2020.

Respectfully,

Rex K. Entsminger
President & CEO

Celebrating Over Thirty Years of Community Building Through Community Banking!

This release contains information and "forward-looking statements" that relate to matters that are not historical facts and which are usually preceded by words "may," "will," "should," "could," "would," "plan," "potential," "estimate," "project," "believe," "intend," "anticipate," "expect," "target," and similar expressions. These forward-looking statements are subject to significant risks, assumptions and uncertainties. Because of these and other uncertainties, our actual results may be materially different from those described in these forward-looking statements. The forward-looking statements in this release speak only as of the date of the release, and we do not assume any obligation to update the forward-looking statements or to update the reasons why actual results differ from those contained in the forward-looking statements.

FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share data (Unaudited))

	For the Six Month Period Ended June 30,			For the Years Ended December 31,		
Income Statement Data	2020	2019	% Chg	2019	2018	2017
Net Interest Income	\$19,324	\$19,314	0.05%	\$38,881	\$37,916	\$36,011
Provision for loan losses	2,675	(430)	722.09%	1,125	1,448	868
Noninterest income	4,266	3,310	28.88%	7,175	7,596	7,099
Noninterest expense	15,656	14,937	4.81%	30,725	30,090	27,744
Income Taxes	1,053	1,843	-42.86%	3,184	2,609	5,253
Net Income	\$4,206	\$6,274	-32.96%	\$11,022	\$11,365	\$9,245
	For the Six Month Period Ended June 30,			For the Years Ended December 31,		
Ratios	2020	2019	% Chg	2019	2018	2017
Return on Average Assets	0.67%	1.07%	-37.38%	0.92%	0.97%	0.81%
Return on Average Common Stockholders' Equity	5.91%	9.73%	-39.26%	8.18%	9.38%	8.06%
Net interest margin (tax equivalent)	3.29%	3.57%	-7.84%	3.59%	3.38%	3.50%
Allowance as a percent of total loans	1.77%	1.71%	3.51%	1.64%	1.80%	1.66%
Dividends per common share paid	\$0.18	\$0.16	12.50%	\$0.33	\$0.30	\$0.26
Earnings per common share (Calculated by dividing net income by the weighted average number of common stock shares outstanding)	\$1.13	\$1.70	-33.32%	\$2.98	\$3.09	\$2.53
Book value per common share (Calculated by dividing stockholders' equity, excluding other comprehensive income or loss by outstanding common shares)	\$38.20	\$36.31	5.23%	\$37.33	\$34.79	\$32.17
	At June 30,			At December 31,		
Balance Sheet	2020	2019	% Chg	2019	2018	2017
Assets	\$1,349,583	\$1,192,303	13.19%	\$1,213,488	\$1,180,323	\$1,163,933
Investment Securities (AFS Securities at Market Value)	\$312,138	\$284,688	9.64%	\$310,368	\$295,382	\$273,767
Loans, net of unearned income	\$890,071	\$797,584	11.60%	\$793,918	\$800,546	\$793,423
Deposits & Repurchase (SWEET) Agreements	\$1,153,359	\$1,015,808	13.54%	\$1,046,690	\$1,007,778	\$994,093
Short-term and other borrowings	\$38,865	\$32,680	18.93%	\$17,417	\$39,229	\$36,702
Subordinated Debentures	\$0	\$0	0.00%	\$0	\$0	\$10,000
Stockholders' Equity (Excludes accumulated other comprehensive income or loss)	\$142,508	\$134,417	6.02%	\$138,681	\$128,560	\$117,896
	For the Six Month Period Ended June 30,			For the Years Ended December 31,		
Stock Value Per Common Share Information	2020	2019	% Chg	2019	2018	2017
Price/earnings ratio	11.8	10.3	13.79%	12.2	11.0	12.8
Stock Price - High	\$36.00	\$36.00		\$36.90	\$36.15	\$32.85
Low	\$20.25	\$32.87		\$32.87	\$32.24	\$29.75
Ending	\$26.50	\$35.00	-24.29%	\$36.10	\$33.95	\$32.40
Book value per common share	\$38.20	\$36.31	5.23%	\$37.33	\$34.79	\$32.17
Price/book value per common share	0.69	0.96	-28.05%	0.97	.98	1.01
Common shares outstanding (excludes Treasury Stock Shares)	3,730,091	3,702,368		3,714,962	3,694,891	3,664,289



LENA STATE BANK



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