

## FS Bancorp Reports September 30, 2020 Financial Results

The Farmers State Bank team has made it a goal to be a source of strength in our community. There continues to be a lot of uncertainty around the current and future economic impact of the COVID-19 pandemic, but we entered this economic environment with strong core earnings and a strong balance sheet, and we are extremely pleased with our third quarter results. Our team has never worked harder to produce the strong results that we experienced during the third quarter.

During the third quarter of 2020, net income for the Company was \$4,058,000 compared to \$3,449,000 for the third quarter of 2019. We are pleased to report solid earnings for the quarter despite the increased operating expenses from measures we took to keep our employees and customers safe. Additionally, FSB and other financial institutions have been impacted by net interest margin compression from loans and investments repricing at lower rates due to the decline in rates that occurred in the first quarter of 2020 and the continued low rate environment.

We remain focused on maintaining a very strong balance sheet. Our capital increased by 14% during the past twelve months. Deposits grew 23% over the last twelve months. Deposits increased from economic impact payments, funds from Paycheck Protection Plan (PPP) loans, increases in municipal deposits, and increased deposits from new and existing customers. Many financial institutions have experienced a surge in liquidity throughout the year, but it is uncertain how long that trend will continue.

Loans grew 16% over the last twelve months. We are very pleased that we were able to help support over 4,600 jobs by funding approximately \$34 million in PPP loans to over 400 organizations. Excluding \$50 million in mortgage warehouse loan participations with another Indiana community bank and PPP loans, loans grew 2% over the last twelve months. Loan interest income for the quarter included \$165,000 of fee income on PPP loans and \$433,000 of interest income on mortgage warehouse loan participations. Loan interest income for the nine month period ending September 30, 2020 included \$415,000 and \$753,000 of PPP fee income and mortgage warehouse interest income, respectively. It is unclear how long the mortgage warehouse revenue opportunity will continue.

While we modified approximately 3% of total loans for borrowers impacted by the Pandemic during the second quarter, and another 0.5% of loans during the third quarter, our asset quality indicators remain very good. Most modifications involved deferring principal and/or interest payments for a short period of time and extending the maturity date of the loan. We are pleased 99.5% of the modified loans returned to their normal payment status at the end of the modified term. Through the third quarter of 2020, we had net recoveries of \$78,000 on previously charged-off loans.

Going forward the Pandemic can impact our earnings in several ways. We expect that we may experience an increase in loan losses if the economy continues to be negatively affected for an extended period; however, it is very difficult to predict the impact on our borrowers at this point in time. The decline in interest rates will likely negatively affect future net interest income as this decline in rates is expected to continue for several more quarters. While we are excited to produce record quarterly earnings in this challenging environment, we know that we will have to be very focused to continue to produce solid results going forward.

Thank you for your continued investment in FS Bancorp and your support of our Farmers State Bank Team.

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## FS Bancorp and Farmers State Bank

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Chairman, Farmers State Bank  
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September 30, 2020

# Report of Condition

FS Bancorp



# Farmers State Bank

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Report of Condition

# CONSOLIDATED BALANCE SHEETS

September 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

	2020	2019
<b>Assets</b>		
Cash and due from banks .....	\$70,953	\$70,526
Investment securities.....	171,858	103,476
Federal Home Loan Bank stock .....	2,246	2,246
Total loans .....	679,277	585,567
Less deferred loan fees.....	(1,048)	(96)
Less allowance for loan losses.....	(6,619)	(6,013)
Loans, net.....	671,610	579,458
Premises and equipment, net.....	10,862	10,642
CSV-Insurance .....	14,288	13,995
Goodwill and other intangible assets.....	2,607	2,646
Other assets .....	5,368	5,310
<b>Total Assets</b>	<b>\$949,792</b>	<b>\$788,299</b>
<b>Liabilities</b>		
Deposits		
Noninterest-bearing demand.....	\$228,274	\$167,637
Interest-bearing demand .....	306,310	255,577
Savings.....	140,832	124,605
Time under \$250,000.....	92,312	81,197
Time \$250,000 and over.....	35,572	25,231
Total deposits.....	803,300	654,247
Repurchase agreements .....	6,876	5,249
Federal Home Loan Bank advances .....	43,423	43,409
Other liabilities .....	4,712	5,177
<b>Total Liabilities</b>	<b>858,311</b>	<b>708,082</b>
<b>Shareholders' Equity</b>		
Common stock: No par value, 5,000,000 shares authorized; 2,381,952 shares issued; and 2,180,428 and 2,190,300 shares outstanding 2020 and 2019 .....	149	149
Paid-in capital.....	3,493	3,481
Retained earnings .....	90,347	79,870
Net unrealized gains (losses) on securities.....	3,887	2,315
Less treasury stock, at cost; 201,524 and 191,652 shares 2020 & 2019 .....	(6,395)	(5,598)
<b>Total Shareholders' Equity</b>	<b>91,481</b>	<b>80,217</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$949,792</b>	<b>\$788,299</b>

# CONSOLIDATED STATEMENTS OF INCOME

For the Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(Dollars in thousands except earnings per share)				
<b>Interest Income</b>				
Interest and fees on loans.....	\$7,869	\$7,611	\$23,282	\$22,277
Interest on investment securities.....	821	685	2,230	2,028
Other interest and dividend income .....	85	382	410	1,009
<b>Total Interest Income</b>	<b>8,775</b>	<b>8,678</b>	<b>25,922</b>	<b>25,314</b>
<b>Interest Expense</b>				
Interest on deposits .....	502	1,073	2,116	3,008
Interest on FHLB advances and other borrowings.....	172	173	513	513
<b>Total Interest Expense</b>	<b>674</b>	<b>1,246</b>	<b>2,629</b>	<b>3,521</b>
<b>Net Interest Income</b> .....	8,101	7,432	23,293	21,793
Provision for loan losses .....	78	20	380	238
<b>Net Interest Income after Provision for Loan Losses</b> .....	8,023	7,412	22,913	21,555
<b>Noninterest Income</b>				
Service charges on deposit accounts .....	385	520	1,124	1,474
Debit card income .....	649	660	1,827	1,732
Mortgage banking.....	232	55	355	152
Gains (losses) on securities .....	-	4	-	31
Other income .....	354	365	1,016	988
<b>Total Noninterest Income</b>	<b>1,620</b>	<b>1,604</b>	<b>4,322</b>	<b>4,377</b>
<b>Noninterest Expenses</b>				
Salaries and employee benefits .....	2,801	3,015	8,542	8,708
Occupancy expense of premises, net .....	261	251	721	773
Furniture and equipment, data processing expense .....	652	665	2,163	2,024
Advertising and marketing expense.....	145	132	367	358
Other expenses .....	863	843	2,725	2,607
<b>Total Noninterest Expenses</b>	<b>4,722</b>	<b>4,906</b>	<b>14,518</b>	<b>14,470</b>
<b>Income Before Income Taxes</b> .....	4,921	4,110	12,717	11,462
Provision for income taxes .....	863	661	2,121	1,812
<b>Net Income</b> .....	<b>\$4,058</b>	<b>\$3,449</b>	<b>\$10,596</b>	<b>\$9,650</b>
<b>Basic Earnings per Common Share</b> .....	\$1.86	\$1.57	\$4.86	\$4.40
<b>Diluted Earnings per Common Share</b> .....	\$1.85	\$1.56	\$4.82	\$4.36