

## FS Bancorp Reports First Half 2020 Financial Results

The first half of 2020 has brought unique challenges to Farmers State Bank and most businesses, and our team has worked extremely hard to be a source of strength in our community. There is still 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.

During the second quarter of 2020, net income for the Company was \$3,366,000 compared to \$3,214,000 for the second 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 and the net interest margin compression from loans and investments repricing at lower rates due to the decline in rates that occurred in the first half of 2020.

We continue to build a very strong balance sheet. Our capital increased by 14% during the past twelve months. Deposits grew 19% over the last twelve months. Deposits increased primarily from economic impact payments, funds from Paycheck Protection Plan (PPP) loans, and increases in municipal deposits. Many financial institutions have experienced a surge in deposits over the quarter.

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 \$33 million in PPP loans to over 400 organizations. Loan interest income for the quarter included \$250,000 of fee income on PPP loans. Total loans also include \$45 million in mortgage warehouse loan participations with another Indiana community bank.

While we have provided temporary payment relief to approximately 3% of loans to borrowers impacted by the Pandemic, 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 will continue to monitor our loan portfolio very closely as these loans with payment adjustments resume normal payment schedules, but we do not currently believe these modified loans are impaired. Through the second quarter, we had net recoveries of \$36,000 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 impacted for an extended period of time; however, it is very difficult to predict the impact on our borrowers at this point in time. Our net interest income will likely be negatively impacted by the decline in interest rates as this decline in rates is expected to be sustained until our economy begins to recover.

Thank you for your continued investment in FS Bancorp and your support of our Farmers State Bank Team. You are invested in the 24th highest ranked bank under \$2 billion in assets in the country according to the American Bankers Association for the year ended 2019. Rankings are based on average return on equity for the trailing three years.

888.492.7111 / Telephone Banking 866.463.1110

## FS Bancorp and Farmers State Bank

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Chairman, Farmers State Bank  
President Bird, Scheske, Reed &  
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**Jordi Disler**  
*President, Parkview LaGrange Hospital*

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**Kevin Lambright**  
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**Joseph Urbanski**  
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President & CEO, Farmers State Bank*

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June 30, 2020

# Report of Condition

FS Bancorp



# Farmers State Bank

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# CONSOLIDATED BALANCE SHEETS

June 30, 2020 and 2019 (Unaudited)

(Dollars in thousands)

	2020	2019
<b>Assets</b>		
Cash and due from banks	\$110,637	\$95,771
Investment securities	135,415	101,132
Federal Home Loan Bank stock	2,246	2,246
Total loans	665,000	573,152
Less deferred loan fees	(1,170)	(83)
Less allowance for loan losses	(6,515)	(6,090)
Loans, net	657,315	566,979
Premises and equipment, net	11,027	10,640
CSV-Insurance	14,216	13,919
Goodwill and other intangible assets	2,616	2,664
Other assets	5,236	5,504
<b>Total Assets</b>	<b>\$938,708</b>	<b>\$798,855</b>
<b>Liabilities</b>		
Deposits		
Noninterest-bearing demand	\$210,754	\$163,309
Interest-bearing demand	324,409	281,439
Savings	135,328	120,715
Time under \$250,000	89,141	80,381
Time \$250,000 and over	36,853	22,201
Total deposits	796,485	668,045
Repurchase agreements	5,887	5,110
Federal Home Loan Bank advances	43,419	43,405
Other liabilities	4,246	4,598
<b>Total Liabilities</b>	<b>850,037</b>	<b>721,158</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 2,193,337 shares outstanding 2020 and 2019	149	149
Paid-in capital	3,464	3,493
Retained earnings	87,685	77,734
Net unrealized gains (losses) on securities	3,768	1,660
Less treasury stock, at cost; 201,524 and 188,615 shares 2020 & 2019	(6,395)	(5,339)
<b>Total Shareholders' Equity</b>	<b>88,671</b>	<b>77,697</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$938,708</b>	<b>\$798,855</b>

# CONSOLIDATED STATEMENTS OF INCOME

For the Three and Six Months Ended June 30, 2020 and 2019 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(Dollars in thousands except earnings per share)				
<b>Interest Income</b>				
Interest and fees on loans	\$7,668	\$7,448	\$15,413	\$14,666
Interest on investment securities	735	691	1,409	1,343
Other interest and dividend income	61	337	325	627
<b>Total Interest Income</b>	<b>8,464</b>	<b>8,476</b>	<b>17,147</b>	<b>16,636</b>
<b>Interest Expense</b>				
Interest on deposits	617	1,026	1,614	1,935
Interest on FHLB advances and other borrowings	171	172	341	340
<b>Total Interest Expense</b>	<b>788</b>	<b>1,198</b>	<b>1,955</b>	<b>2,275</b>
<b>Net Interest Income</b>	7,676	7,278	15,192	14,361
Provision for loan losses	52	108	302	218
<b>Net Interest Income after Provision for Loan Losses</b>	7,624	7,170	14,890	14,143
<b>Noninterest Income</b>				
Service charges on deposit accounts	296	493	739	954
Debit card income	572	567	1,178	1,072
Mortgage banking	70	58	123	97
Gains (losses) on securities	-	4	-	27
Other income	329	317	662	623
<b>Total Noninterest Income</b>	<b>1,267</b>	<b>1,439</b>	<b>2,702</b>	<b>2,773</b>
<b>Noninterest Expense</b>				
Salaries and employee benefits	2,886	2,861	5,741	5,693
Occupancy expense of premises, net	216	259	460	522
Furniture and equipment, data processing expense	761	677	1,511	1,359
Advertising and marketing expense	74	107	222	226
Other expense	930	864	1,862	1,764
<b>Total Noninterest Expense</b>	<b>4,867</b>	<b>4,768</b>	<b>9,796</b>	<b>9,564</b>
<b>Income Before Income Taxes</b>	4,024	3,841	7,796	7,352
Provision for income taxes	658	627	1,258	1,151
<b>Net Income</b>	<b>\$3,366</b>	<b>\$3,214</b>	<b>\$6,538</b>	<b>\$6,201</b>
<b>Basic Earnings per Common Share</b>	\$1.55	\$1.47	\$3.00	\$2.83
<b>Diluted Earnings per Common Share</b>	\$1.53	\$1.46	\$2.97	\$2.80