

F S Bancorp Reports September 30, 2015 Financial Results

We are excited to report our financial results for the first nine months of 2015. During the 3rd quarter, we announced the consolidation of three of our existing branches (Ashley, Orland and Waterloo). The consolidation will occur in the 4th quarter of 2015. More of our customers are asking for and moving to remote access banking, and the branch consolidation decision reflects our expectation that this trend will continue. We note, however, that our bank will still have the largest number of Steuben County branches of any financial institution.

We believe it is important to evolve as customer expectations change, and we will continue to take steps to assure the long-term future of the Bank. During the 3rd quarter, the FDIC released annual bank deposit data as of June 30, 2015. We are very pleased that Farmers State Bank held approximately 60% market share in LaGrange County and 35% market share in Steuben County. We are proud that Farmers State Bank continues to maintain the largest market share of any bank in these two key counties. The following are key financial results for September 30, 2015:

- Our net income for the first nine months of 2015 was \$4.7 million. Net income was negatively impacted by branch consolidation expenses totaling \$250,000. We expect additional consolidation expenses in the 4th quarter of 2015 as we are currently pursuing the donation of those branch buildings.
- Our net income and earnings per share are approximately 7% higher than the first nine months of 2014 excluding the impact of the branch consolidation expenses discussed above.
- Net interest income for the first nine months of 2015 increased \$1.1 million compared to the same period in 2014.
- Total assets ended the quarter 8% higher than total assets at September 30, 2014.
- Total loans ended the quarter 7% higher than total loans at September 30, 2014.
- Total deposits ended the quarter 10% higher than total deposits at September 30, 2014.
- Asset quality continues to be very solid with delinquent loans representing less than 1% of total loans at September 30, 2015. Additionally, we have experienced net loan recoveries of \$95,000 during 2015.

We are very pleased to report these kinds of strong results at a time when we are continuing to make significant investments in technology, personnel and advertising. We are looking forward to a positive finish for 2015 and will continue to work hard to make our future even brighter.

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Report of Condition

FS Bancorp

Farmers State Bank

100 YEARS



CONSOLIDATED BALANCE SHEETS

September 30, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Cash and due from banks | \$57,718,737 | \$42,831,104 |
| Federal funds sold | — | — |
| Investment securities | 76,527,973 | 76,804,884 |
| Federal Home Loan Bank Stock | 1,723,000 | 2,470,400 |
| | | |
| Total Loans | 415,770,536 | 388,327,561 |
| Less deferred loan fees | (17,335) | (24,001) |
| Less allowance for loan losses | (5,199,220) | (5,426,501) |
| Loans, net | <u>410,553,981</u> | <u>382,877,059</u> |
| Premises and equipment, net | 8,716,942 | 7,930,123 |
| CVS-Insurance | 10,401,180 | 10,530,533 |
| Goodwill and other intangible assets | 3,160,921 | 3,379,626 |
| Other assets | 5,064,836 | 5,303,572 |
| Total Assets | <u>\$573,867,570</u> | <u>\$532,127,301</u> |
| | | |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing demand | \$148,197,137 | \$135,525,989 |
| Interest-bearing demand | 145,664,979 | 107,168,201 |
| Savings | 112,314,583 | 102,756,032 |
| Time under \$100,000 | 53,829,560 | 61,250,012 |
| Time \$100,000 and over | <u>30,363,269</u> | <u>40,361,604</u> |
| Total Deposits | 490,369,528 | 447,061,838 |
| | | |
| Repurchase Agreements | 5,147,779 | 6,626,959 |
| Federal Home Loan Bank Advances | 16,875,269 | 20,772,092 |
| Other liabilities | 3,121,292 | 3,835,872 |
| Total Liabilities | <u>515,513,868</u> | <u>478,296,761</u> |
| | | |
| Shareholders' Equity | | |
| Common stock: No par value, 5,000,000 shares authorized and 1,190,976 issued | 148,872 | 148,872 |
| Paid-in capital | 3,771,892 | 3,776,058 |
| Retained earnings | 56,184,590 | 52,153,791 |
| Net unrealized gains (losses) on securities | 692,200 | 323,748 |
| Less treasury stock, at cost | <u>(2,443,852)</u> | <u>(2,571,929)</u> |
| Total Shareholders' Equity | <u>\$58,353,702</u> | <u>\$53,830,540</u> |
| Total Liabilities and Shareholders' Equity | <u>\$573,867,570</u> | <u>\$532,127,301</u> |

CONSOLIDATED STATEMENTS OF INCOME

For the Nine Months Ended September 30, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|--|---------------------------|---------------------------|
| Interest Income | | |
| Interest and fees on loans | \$14,789,743 | \$13,929,205 |
| Interest on investment securities | 1,222,865 | 1,262,778 |
| Other interest and dividend income | <u>237,322</u> | <u>202,421</u> |
| Total Interest Income | <u>16,249,930</u> | <u>15,394,404</u> |
| | | |
| Interest Expense | | |
| Interest on deposits | 568,642 | 722,768 |
| Interest on FHLB advances and other borrowings | <u>433,152</u> | <u>516,136</u> |
| Total Interest Expense | <u>1,001,794</u> | <u>1,238,904</u> |
| | | |
| Net Interest Income | | |
| Provision for loan losses | 15,248,136 | 14,155,500 |
| Net Interest Income after Provision for Loan Losses | — | — |
| | | |
| Net Interest Income after Provision for Loan Losses | | |
| | 15,248,136 | 14,155,500 |
| | | |
| Other Income | | |
| Service charges on deposit accounts | 1,340,100 | 1,338,245 |
| Trust Department Income | 206,983 | 190,937 |
| Mortgage banking | 139,713 | 203,751 |
| Security gains and losses | 37,906 | 28,348 |
| Other service charges, commissions and fees | <u>1,930,799</u> | <u>1,794,576</u> |
| Total Other Income | <u>3,655,501</u> | <u>3,555,857</u> |
| | | |
| Other Expenses | | |
| Salaries and employee benefits | 7,386,048 | 7,086,592 |
| Occupancy expense of premises, net | 814,502 | 801,875 |
| Furniture and equipment, data processing expense | 1,302,447 | 1,210,311 |
| Advertising and marketing expense | 418,254 | 286,060 |
| FDIC Assessment | 237,201 | 232,209 |
| Branch consolidation expenses | 250,000 | — |
| Other expenses | <u>2,256,627</u> | <u>2,172,081</u> |
| Total Other Expenses | <u>12,665,079</u> | <u>11,789,128</u> |
| | | |
| Income Before Income Taxes | | |
| Provision for income taxes | 6,238,558 | 5,922,229 |
| Net Income | <u>\$4,675,420</u> | <u>\$4,618,927</u> |
| | | |
| Basic Earnings per Common Share | | |
| | <u>\$4.18</u> | <u>\$4.13</u> |
| <small>(Based on 1,118,982 and 1,117,219 average shares outstanding in 2015 and 2014.)</small> | | |