FNS Bancshares, Inc.

Alan K. Gay
Chairman of the Board

October 25, 2019

TO THE SHAREHOLDERS:

Attached is the Consolidated Income Statement for the three and nine month periods ended September 30, 2019 and 2018, respectively. Also attached is the Consolidated Balance Sheet as of September 30, 2019; June 30, 2019; and December 31, 2018. Please note information presented on a quarterly basis is unaudited.

We are not unhappy with our results in the third quarter, but it is clear that the tail winds of the first half of the year turned into head winds this summer. Income for the three months ended September 30, 2019 was $1.9 million, or $1.58 per share, up 14% over the same period in 2018 but 12% below the prior quarter. Income for the nine months was $5.7 million, or $4.71 per share. During the quarter loans increased by $8.9 million (1.9%), deposits by $2.6 million (.5%), and total assets by $19 million (2.8%). Book value increase by 2.8% to $63.80 per share and tangible book value increased by 3.5% to $54.81 per share. Attached is a discussion of the key drivers of third quarter results.

We are seeing adequate demand for loans, but banks in our markets are even more flush with lending capital, resulting in strong downward pressure on pricing and some liberalization of loan terms. This market behavior is typical late in an economic cycle, as I discussed in my letter of July 18, but the swiftness of the direction change over the summer was unexpected. We may be challenged to grow significantly over the remainder of the year.

With somewhat slower growth, we are accumulating capital above our needs, and the board has approved a share buyback of up to $2,000,000 of stock between now and the end of 2020. If you are interested please contact our corporate broker, Eric Lawless of Janney, at (404) 601-7200.

Finally, I call your attention again to our FNS website at www.fnsbancshares.com. Particularly if you plan to transfer your shares into a brokerage account, please subscribe to email updates if you have not done so already. It's the only way you would then receive quarterly updates.

Sincerely,

Alan K Gay

Alan K. Gay
Chairman

Forward-Looking Statements

Statements in this letter relating to FNS Bancshares, Inc.'s plans, objectives, expectations or future performance are forward-looking statements. The words "believe," "may," "should," "anticipate," "estimate," "expect," "intend," "objective," "possible," "seek," "plan," "strive", "view" or similar words, or negatives of these words, identify forward-looking statements. These forward-looking statements are based on management's current expectations. The Company's actual results in future periods may differ materially from those indicated by forward-looking statements due to various risks and uncertainties, including those related to the acquisition of Catoosa Bancshares.

Third Quarter 2019 Discussion

Balance Sheet

Total assets grew by $19 million to $689.3 million. Loans and investments were up by $8.9 and $14.8 million at quarter end, with cash and due from banks down by $4.5 million. Provision for loan loss remained level at $4.4 million, or .92% of loans. Additional reserves resulting from purchase loan accounting for the 2017 and 2018 mergers are $1.5 million, or .33% of loans. Deposits and notes payable were up $2.6 and $14.8 million. The cost of interest bearing deposits was up 3 bps to 1.03%, and cost of funds was up 1 bps to .78%. We believe deposit costs have peaked, but we also bought $15 million in FHLB funding in early September at half our cost of interest-bearing deposits and are deploying it in loans. The loan to deposit ratio increased from 80.2% to 81.3%. On balance sheet liquidity increased from $147.6 million to $156.6 million, or 22.7% of assets. Book value increase by 2.8% to $63.80 per share, and tangible book value increased by 3.5% to $54.81 per share.

Income

Net income for the quarter was $1.9 million, or $1.58 per share, compared with $1.7 million, or $1.39 per share in the prior year and $2.15 million, or $1.79 per share in the prior quarter. Comparing the third to the second quarter on a bank-level, before-tax basis, interest income was down $224,000, interest expense up $68,000, provision expense down $70,000, non-interest net expense up $132,000, and income tax down $107,000. Non-interest items were driven by a $26,000 increase in income and $158,000 increase in expense, primarily associated with collection costs, staffing of our new Chattanooga office, and accelerated depreciation related to low income tax credits.

Margin

Bank-level net interest margin decreased to 4.32 from 4.63 in the quarter. However, the comparison is somewhat skewed by the $255,000 of interest we collected in 2Q in connection with the resolution of two non-performing credits. Excluding this variance, interest and fees increased $30,000 on volume and $72,000 due to one more day in the period. Interest declined $30,000 based on rollover in the loan book (repricing) and $41,000 based on the recent prime rate reduction. Deposit interest expense was up $28,000 on volume, $7,000 on rate, and $13,000 on days. Interest on borrowing was up $21,000 on volume. Interest income on securities was flat on a 2.3% increase in average securities owned.

Asset Quality

Our credit quality profile has remained relatively consistent with the exception of one single-family builder relationship that was acquired in the 2017 Commerce Bancshares merger. Problems in this relationship came to light when we began implementing a new credit risk management program in 2018 that included tightening construction administration and centralizing construction advance funding. Winding down the relationship resulted in loans for a group of nearly completed homes becoming past-due in the second quarter. These loans migrated to non-accrual in third quarter, and the remaining six homes were transferred to OREO in October. We anticipate a one-time charge to earnings in 4Q in the range of $1.1 to $1.5 million (after tax). Past-due loans at September 30, 2019 totaled $2.9 million, or .60% of net loans, compared to the previous quarter's $4.3 million. Non-performing loans increased to $9.7 million, or 2.0% of total loans, from $6.4 million or 1.4% in the previous quarter. OREO totaled $592 thousand, a 22.7% decrease from the previous quarter.

FNS BANCSHARES
Consolidated Balance Sheet
(Dollars in thousands except per share data)

	For the Period Ending		
	Sep 30, 2019	**Jun 30, 2019**	**Dec 31, 2018**
	Unaudited	*Unaudited*	*Audited*
ASSETS			
Cash and due from Banks	$ 61,388	65,897	32,825
Investments securities available-for-sale	102,513	87,675	88,420
Other investments	6,866	6,992	7,693
Mortgage Loans held-for-sale	655	431	611
Loans, net of unearned income	475,245	466,341	474,454
Less: allowance for loan losses	(4,383)	(4,383)	(3,946)
Premises and equipment, net	16,717	16,526	16,429
Cash surrender value of life insurance	11,668	11,624	11,494
Goodwill	6,822	6,822	6,582
Core deposit intangibles	4,003	4,120	4,354
Other Real Estate	592	766	915
Other Assets	7,235	7,465	7,635
Total Assets	$ 689,321	$ 670,276	$ 647,466
LIABILITIES AND STOCKHOLDER'S EQUITY			
Liabilities			
Deposits	584,443	581,819	549,909
Dividends Payable	-	-	-
Other Liabilities	3,417	3,858	15,177
Note Payable	20,472	5,717	6,193
Trust Preferred	4,155	4,155	4,155
Total Liabilities	612,487	595,549	575,434
Shareholder Equity			
Capital Stock, $.01 par value	12	12	12
Surplus	19,168	19,168	19,167
Retained Earinings	57,634	55,644	54,557
Treasury stock, at cost	(1,166)	(1,166)	(1,166)
Accumulated other comp income	1,186	1,069	(538)
Total Shareholder Equity	76,834	74,727	72,032
			0
Total Liabilities and Stockholder's Equity	$ 689,321	$ 670,276	$ 647,466
Shareholders Equity/Share	63.80	62.05	59.81
Shareholders Equity/Share exc AOCI	62.81	61.16	60.26
Tangible Common Equity	$ 66,009	$ 63,785	$ 61,096
TCE/TA Ratio	9.73%	9.67%	9.60%
TCE per Share	54.81	52.96	50.73
Share Authorized	3,000,000	3,000,000	2,000,000
Shares Issued	1,227,600	1,227,600	1,227,600
Treasury Stock	23,261	23,261	23,261
Shares Outstanding	1,204,339	1,204,339	1,204,339

FNS BANCSHARES

Consolidated Income Statement

(Dollars in thousands except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*
Interest Income				
Interest and fees on loans	$ 6,702	$ 5,634	$ 20,355	$ 15,931
Interest and dividends on investments securities	660	563	1,952	1,641
Interest on fed funds and interest bearing deposits	316	200	877	400
Total Interest Income	7,678	6,397	23,184	17,972
Interest Expense				
Interest on deposits	1,158	673	3,274	1,944
Interest on borrowings	140	80	403	235
Total Interest Expense	1,298	753	3,677	2,179
Net Interest Income Before Provisions	6,380	5,644	19,507	15,793
Provisions for Loan Losses	100	267	696	801
Net interest income After Provision	6,280	5,377	18,811	14,992
Non Interest Income	1,363	1,010	3,901	3,105
Non Interest Expense	5,452	4,393	16,200	12,693
Income Before Income Taxes	2,191	1,994	6,512	5,404
Provision for Income Taxes	286	321	834	756
NET INCOME	$ 1,905	$ 1,673	$ 5,678	$ 4,648
Earnings per Share (period end)	$ 1.58	$ 1.39	$ 4.71	$ 3.86
Merger Expense Associated with Acquisitions Tax Adjusted	0	0	97	164
Net Operating Income (Non-GAAP)	1,905	1,673	5,775	4,812
Net Operating Earnings Per Share (Non-GAAP)	$ 1.58	$ 1.39	$ 4.80	$ 4.00