

FNS Bancshares, Inc.

Alan K. Gay
Chairman of the Board

May 9, 2019

TO THE SHAREHOLDERS:

Attached is the Consolidated Income Statement for the three month period ended March 31, 2019 and 2018, respectively, and fiscal year ended December 31, 2018. Also attached is the Consolidated Balance Sheet as of March 31, 2019 and December 31, 2018. Please note information presented on a quarterly basis is unaudited.

We had several successes and a disappointment in the first quarter. Income for the three months ended March 31, 2019 was \$1.621 million, up 14.6% over the same period in 2018. Excluding one-time costs within the first quarter to convert Capital Bank, income was up 21% year over year. We grew deposits 5.7% in the first quarter of 2019 while only increasing our cost of funds to .72%, which remains below our peer cost of funds. Our earning assets yield as of March 31, 2019 was 5.28%, up 33 basis points compared to the same period in 2018. And we completed the conversion and rebranding of Capital Bank to FNB Bank smoothly and on time in late February. All remaining cost from the conversion have been recognized in the first quarter with expected cost savings being realized starting in the second quarter going forward.

Our disappointment was loan volume, which was down 3.5% in the quarter and 4.7% below our target. There were several contributors. We had an unexpected number of investor properties pay off in the quarter, and we declined to finance the new owners based on guarantor weakness. We had pruned our list of new home builders late last year, and in the first quarter our remaining builders started fewer new homes. Consumer and home equity borrowing was flat, and one larger commercial real estate loan we had anticipated did not close. The overall impact to the quarter was about \$120,000 after tax, or \$.10/share. Our lending team is very focused on getting back on plan over the next few months.

Finally, I call your attention to an April 30 press release available on our new FNS website at www.fnsbancshares.com. We announced Tobey Eskew has joined as EVP and Chief Financial Officer, and Steve Beaird has assumed the duties of Chief Operating and Client Experience Officer.

Sincerely,



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.

FNS BANCSHARES**Consolidated Income Statement**

(Dollars in thousands except per share data)

	Quarter Ending March 31, 2019 <i>Unaudited</i>	Quarter Ending March 31, 2018 <i>Unaudited</i>	Year Ending Dec 31, 2018 <i>Audited</i>
Interest Income			
Interest and fees on loans	\$ 6,727	\$ 5,036	\$ 22,634
Interest and dividends on investments securities	637	531	2,297
Interest on fed funds and interest bearing deposits	237	81	569
Total Interest Income	7,601	5,648	25,500
Interest Expense			
Interest on deposits	1,004	615	2,735
Interest on borrowings	175	76	356
Total Interest Expense	1,179	691	3,091
Net Interest Income Before Provisions	6,422	4,957	22,409
Provisions for Loan Losses	426	267	1,068
Net interest income After Provision	5,996	4,690	21,341
Non Interest Income	1,207	1,036	4,415
Non Interest Expense	5,420	4,067	18,950
Income Before Income Taxes	1,783	1,659	6,806
Provision for Income Taxes	162	244	940
NET INCOME	<u>\$ 1,621</u>	<u>\$ 1,415</u>	<u>\$ 5,866</u>
Earnings per Share (period end)	\$ 1.35	\$ 1.47	\$ 4.87
Merger Expense Associated with Acquisitions Tax Adjusted	97	0	1,367
Net Operating Income (Non-GAAP)	1,718	1,415	7,233
Net Operating Earnings Per Share (Non-GAAP)	\$ 1.43	\$ 1.47	\$ 6.01

FNS BANCSHARES**Consolidated Balance Sheet**

(Dollars in thousands except per share data)

	For the Period Ending		
	Mar 31, 2019	Dec 31, 2018	Dec 31, 2017
	FNS	FNS	FNS
	Consolidated	Consolidated	Consolidated
	<i>Unaudited</i>	<i>Audited</i>	<i>Audited</i>
ASSETS			
Cash and due from Banks	\$ 66,401	\$ 32,825	\$ 26,571
Investments securities available-for-sale	87,607	88,420	79,321
Other investments	6,740	7,693	5,777
Mortgage Loans held-for-sale	276	611	1,423
Loans, net	454,152	470,508	368,546
Premises and equipment, net	16,555	16,429	10,209
Cash surrender value of life insurance	11,559	11,494	8,101
Goodwill	6,423	6,582	3,861
Core deposit intangibles	4,237	4,354	1,906
Other Real Estate	915	915	1,209
Other Assets	11,134	7,635	11,165
Total Assets	\$ 665,999	\$ 647,466	\$ 518,089
LIABILITIES AND STOCKHOLDER'S EQUITY			
Liabilities			
Deposits	581,147	549,909	456,264
Dividends Payable	0	0	1,884
Other Liabilities	3,153	15,177	1,963
Note Payable	5,955	6,193	7,150
Trust Preferred	4,155	4,155	0
Total Liabilities	594,410	575,434	467,261
Shareholder Equity			
Capital Stock, \$.01 par value	12	12	10
Surplus	19,166	19,167	2,798
Retained Earnings	53,490	54,557	48,691
Treasury stock, at cost	(1,166)	(1,166)	(1,073)
Accumulated other comp income	87	(538)	402
Total Shareholder Equity	71,589	72,032	50,828
Total Liabilities and Stockholder's Equity	\$ 665,999	\$ 647,466	\$ 518,089
Shareholders Equity/Share	59.44	59.81	52.61
Shareholders Equity/Share exc AOCI	59.37	60.26	52.19
Tangible Common Equity	\$ 60,929	\$ 61,096	\$ 45,061
TCE Ratio	9.15%	9.44%	8.70%
TCE per Share	50.59	50.73	46.64
Share Authorized	2,000,000	2,000,000	2,000,000
Shares Issued	1,227,600	1,227,600	987,600
Treasury Stock	23,261	23,261	21,463
Shares Outstanding	1,204,339	1,204,339	966,137

1Q19 revised 08/01/2019 to reflect a decrease in retained earnings of \$2.688 million, reflecting the \$2.529 million cash dividend paid in January 2019 and a \$159K increase in goodwill due to a correction in the purchase accounting related to the Catoosa Bancshares acquisition.