

**CPP ANNUAL USE OF CAPITAL SURVEY - 2010**



NAME OF INSTITUTION  
(Include Holding Company Where Applicable)

Farmers State Bank Shares, Inc. (The Farmers State Bank)

Point of Contact:	James Meyer	RSSD: (For Bank Holding Companies)	1717707
UST Sequence Number:	998	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	700,000	FDIC Certificate Number: (For Depository Institutions)	15258
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	March 31, 2009	City:	Holton
Date Repaid <sup>1</sup> :	N/A	State:	Kansas

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

**What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).**

**Increase lending or reduce lending less than otherwise would have occurred.**

We were able to increase lending by a solid \$3.8MM or \$30.7MM thanks to CPP. Moreover since the beginning of the year 2011 we have increased that amount by an additional \$2MM bringing total loans to \$32.7MM by May 16, 2011 total loans are now at \$33.1M.

**To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

Commercial R/E loans were increased in the amount of \$450,000.00, Agricultural R/E Loans to ranchers and farmers was increased by \$2M.

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**Increase securities purchased (ABS, MBS, etc.).**

We increased the purchase of MBS by \$2M

**Make other investments.**

**Increase reserves for non-performing assets.**

Because we were able to make additional loans and purchase additional securities we were able, through earnings, to fund our loan loss reserve and add an to tier 2 capital \$265K to our capital position.

**Reduce borrowings.**

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**Increase charge-offs.**

In 2009 we charged off bad loans in the amount of \$104.2K and in 2010 we charged off an additional \$147.2K for a grand total of \$251.4K.

Empty text box for details regarding the increase in charge-offs.

**Purchase another financial institution or purchase assets from another financial institution.**

Empty text box for details regarding the purchase of another financial institution or assets.

**Held as non-leveraged increase to total capital.**

Empty text box for details regarding the non-leveraged increase to total capital.

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**What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?**

We were able again of avoiding cost cutting measures at the bank such as layoffs and delaying much needed equipment purchases. In addition, employee benefits such as healthcare were adjusted but not eliminated due to CPP funds.

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## What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

Without the infusion of capital we would not have been able to maintain a satisfactory capital level in this dangerous economic situation. Data indicates that without the infusion our capital position, with the growth that we saw in deposits and assets (\$43.9M to 49.8M in deposits and from \$52.9M to \$58.3M in assets) would have dwindled capital from 9.25% to 7.7%. This would have alarmed our Board of Directors and our regulators. Instead because of the capital infusion we were successful in maintaining a safe capital level with the help of the CPP and earnings. This has helped us to be a stronger and more flexible bank for the future.

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**Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.**

A large, empty rectangular box with a black border, intended for the respondent to describe any other actions undertaken with the capital infusion of CPP/CDCI funds.