

June 30, 2017

FS Bancorp Reports First Half 2017 Financial Results

We are pleased to report our earnings for the first half of 2017 grew by 7% compared to the first half of 2016. These results were primarily driven by strong growth in net interest income and our continued focus on improving efficiency. We were able to achieve growth in interest income despite the termination of our mortgage warehouse loan participation program with another community bank that earned us \$242,000 of interest income in the first half of 2016.

We continue to see solid improvement in the strength of our balance sheet. During the past twelve months, portfolio loans grew 7%, deposits grew 7%, and shareholders' equity grew 5%. Meaningful balance sheet growth has not compromised our conservative approach to sound banking. Loan delinquencies and net loan losses remain at historically low levels as we head into the third quarter of 2017.

	Key Ratios	
	2017	2016
Return on average assets- YTD	1.26%	1.24%
Return on average equity- YTD	12.33%	12.15%
Net interest margin- YTD	3.99%	4.05%

We continue to focus on the implementation of new technology to make sure we are delivering the products and services our customers want. We are currently focused on implementing technology that will improve the way we originate consumer loans. We are very focused on creating better customer experiences and providing our Blue Button Bankers with tools that will help them be more efficient. We are excited about the customized technology we are implementing at this time.

Additionally, we continue to provide high quality branch locations for our customers to conduct business with us in person. All of these efforts are consistent with our focus on the long term success of our Company, the effort of our entire team at Farmers State Bank, and the continued support of our loyal customers and communities.

During the first six months of 2017 our earnings per share grew to \$3.56 compared to \$3.30 for the same period in 2016. Our stock price has increased 23% during the first six months of the year from \$68.25 to \$84.00. The Company has also repurchased 10,000 shares through our Share Repurchase Program at an average price of \$78.00 per share. We are returning significant capital to our shareholders through our on going dividends and share repurchases. We will continue to focus on generating results that will lead to good returns for our shareholders.

Gordon T. Anderson
Owner, I&A Properties, LLC

Roger A. Bird
*Chairman, F S BANCORP
Chairman, Farmers State Bank
Bird, Brothers, Scheske, & Reed P.C.,
Attorneys-at-Law*

James M. Ingledue
CEO/Founder, Jim Ingledue Construction, Inc.

Winford Jones
Owner, Yoder's Shipshewana Hardware

Kevin Lambright
Owner, KC Squared Farms, LLC

Thomas L. Miller
President, Topeka Pharmacy

Rodney Perkins
Co-owner of Perkins Twin Creek Farms, Stroh

Joseph Urbanski
*President & CEO, F S BANCORP
President & CEO, Farmers State Bank*

Kerry G. Sprunger
*Executive Vice President and Chief
Lending Officer, Farmers State Bank*

Honorary Directors
*Jerry O. Grogg
James W. Perkins
Miles S. Perkins
C. Lynn Tracey
Frederic J. Brown
Ruth R. Perry
Joseph G. Pierce*

www.GoFSB.com



Report of Condition

FS Bancorp


**Farmers
State Bank**

888.492.7111 / Telephone Banking 866.463.1110

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CONSOLIDATED BALANCE SHEETS

June 30, 2017 and 2016

(Unaudited)

	<u>2017</u>	<u>2016</u>
Assets		
Cash and due from banks	\$66,775,186	\$50,721,250
Federal funds sold	—	—
Investment securities	105,431,989	93,979,063
Federal Home Loan Bank stock	1,723,000	1,723,000
Loans		
Total loans	469,146,942	439,204,171
Less deferred loan fees	(5,249)	(10,208)
Less allowance for loan losses	(5,173,721)	(5,067,712)
Loans, net	463,967,972	434,126,251
Premises and equipment, net	8,195,897	8,447,117
CSV-Insurance	13,305,433	10,553,096
Goodwill and other intangible assets	2,867,314	3,023,106
Other assets	4,968,315	4,274,117
Total Assets	<u>\$667,235,106</u>	<u>\$606,847,000</u>
Liabilities		
Deposits		
Noninterest-bearing demand	\$170,853,573	\$154,702,162
Interest-bearing demand	188,813,772	166,157,620
Savings	117,099,934	113,880,450
Time under \$100,000	46,669,334	49,452,169
Time \$100,000 and over	33,722,967	36,100,302
Total deposits	557,159,580	520,292,703
Repurchase agreements	4,371,029	3,552,553
Federal Home Loan Bank advances	36,876,881	16,862,675
Other liabilities	3,112,290	3,274,936
Total Liabilities	601,519,780	543,982,867
Shareholders' Equity		
Common stock: No par value, 5,000,000 shares authorized; 1,190,976 shares issued and 1,110,498 and 1,122,596 shares outstanding 2017 and 2016	148,872	148,872
Paid-in capital	3,762,268	3,740,587
Retained earnings	64,688,655	59,566,347
Net unrealized gains (losses) on securities	554,567	1,878,159
Less treasury stock, at cost; 80,478 and 68,380 shares 2017 and 2016	(3,439,036)	(2,469,832)
Total Shareholders' Equity	<u>65,715,326</u>	<u>62,864,133</u>
Total Liabilities and Shareholders' Equity	<u>\$667,235,106</u>	<u>\$606,847,000</u>

CONSOLIDATED STATEMENTS OF INCOME

For the Six Months Ended June 30, 2017 and 2016

(Unaudited)

	<u>2017</u>	<u>2016</u>
Interest Income		
Interest and fees on loans	\$10,860,018	\$10,438,120
Interest on investment securities	1,159,010	971,345
Other interest and dividend income	213,752	175,112
Total Interest Income	<u>12,232,780</u>	<u>11,584,577</u>
Interest Expense		
Interest on deposits	520,743	409,466
Interest on FHLB advances and other borrowings	254,584	212,007
Total Interest Expense	<u>775,327</u>	<u>621,473</u>
Net Interest Income	11,457,453	10,963,104
Provision for loan losses	136,000	180,000
Net Interest Income after Provision for Loan Losses	11,321,453	10,783,104
Other Income		
Service charges on deposit accounts	904,008	878,810
Trust department income	107,239	122,177
Financial services	30,259	31,475
Mortgage banking	91,385	152,894
Security gains and losses	38,111	4,047
Other service charges, commissions and fees	1,438,847	1,287,265
Total Other Income	<u>2,609,849</u>	<u>2,476,668</u>
Other Expenses		
Salaries and employee benefits	5,067,286	4,948,697
Occupancy expense of premises, net	494,155	480,259
Furniture and equipment, data processing expense	1,106,209	982,243
Advertising and marketing expense	222,000	235,164
FDIC assessment	100,598	166,862
Other expenses	1,617,220	1,518,894
Total Other Expenses	<u>8,607,468</u>	<u>8,332,119</u>
Income Before Income Taxes	5,323,834	4,927,653
Provision for income taxes	1,346,633	1,222,631
Net Income	<u>\$3,977,201</u>	<u>\$3,705,022</u>
Basic Earnings per Common Share	<u>\$3.56</u>	<u>\$3.30</u>
(Based on 1,116,481 and 1,121,539 average shares outstanding in 2017 and 2016.)		