

FS Bancorp Reports December 31, 2016 Financial Results

We are happy to report our 2016 full year financial results. Our net income for 2016 increased \$1.4 million to \$7.5 million compared to \$6.1 million for 2015. Earnings per share for 2016 totaled \$6.68 compared to \$5.48 during 2015. Excluding the impact of branch consolidation expenses in the prior year, net income grew 11%. These results were primarily driven by strong advances in net interest income and mortgage banking income, and our continued focus on improving efficiency. During 2016, we achieved a return on average equity of 12% and a return on average assets of 1.23%.

Excluding the impact of the Company exiting our mortgage warehouse lending participation arrangement, portfolio loans grew by 9% during 2016. Growth was achieved while maintaining excellent asset quality evidenced by delinquencies and net charge-offs at historically low levels. Deposits and shareholders' equity have also grown by 12% and 6%, respectively.

We continue to focus on the implementation of new technology to make sure we are delivering the products and services our customers want. 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, and the effort of our entire team at Farmers State Bank and the continued support of our loyal customers and communities. We are pleased with what we accomplished in 2016, and look forward to additional successes in 2017.

Joe Pierce Retires as CEO

As previously announced, Joe Pierce retired from FS Bancorp and its subsidiaries on January 3, 2017 after nearly 16 years with the Company. Prior to his departure, Pierce was awarded the Sagamore of the Wabash Award in recognition of his work to advance economic development in LaGrange County, and the banking industry. The Board of Directors and employees of the Company congratulate Joe on his award and appreciate his many contributions to the Company, banking industry, and local community over the last 16 years.

Farmers State Bank Names Senior Loan Officer

TJ Kempf has been named Senior Vice President and Senior Loan Officer of Farmers State Bank. TJ brings 15 years of lending experience to FSB and was formerly with a community financial institution in southern Michigan, where he was the Vice President of Lending. Kempf is a graduate of Indiana University and CUNA Management School at the University of Wisconsin. We are excited to welcome TJ to the FSB team of Blue Button Bankers. He brings a wealth of experience that will support the continued growth and long term success of Farmers State Bank.

888.492.7111 / Telephone Banking 866.463.1110

FS Bancorp and Farmers State Bank

Gordon T. Anderson
President, PowerScreen Indiana, Inc.

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

Ruth R. Perry
Retired CEO, Perry Personnel Plus, Inc.

Joseph G. Pierce
President & CEO, F S BANCORP
CEO, Farmers State Bank

Joseph Urbanski
President, Farmers State Bank

Honorary Directors
*Jerry O. Grogg
James W. Perkins
Miles S. Perkins
C. Lynn Tracey
Frederic J. Brown*

www.GoFSB.com



December 31, 2016

Report of Condition

FS Bancorp



CONSOLIDATED BALANCE SHEETS

December 31, 2016 and 2015

	2016	2015
Assets		
Cash and due from banks	\$100,665,347	\$49,192,864
Investment securities	96,032,325	78,236,855
Federal Home Loan Bank stock	1,723,000	1,723,000
Total loans	457,311,234	452,241,028
Less deferred loan fees	(7,725)	(15,518)
Less allowance for loan losses	(5,106,355)	(5,057,563)
Loans, net	452,197,154	447,167,947
Premises and equipment, net	8,216,857	8,649,611
CSV-Insurance	13,161,076	10,452,382
Goodwill and other intangible assets	2,939,218	3,112,986
Other assets	5,516,395	5,312,906
Total Assets	<u>\$680,451,372</u>	<u>\$603,848,551</u>
Liabilities		
Deposits		
Noninterest-bearing demand	\$165,518,847	\$160,048,040
Interest-bearing demand	228,450,668	168,122,067
Savings	113,532,852	110,581,274
Time under \$100,000	47,624,824	51,804,197
Time \$100,000 and over	28,763,725	30,551,249
Total deposits	583,890,916	521,106,827
Repurchase agreements	3,941,717	4,067,247
Federal Home Loan Bank advances	26,869,778	16,901,063
Other liabilities	2,884,321	2,518,569
Total Liabilities	<u>617,586,732</u>	<u>544,593,706</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	3,761,754	3,780,252
Retained earnings	61,915,598	57,049,189
Net unrealized gains (losses) on securities	(246,740)	720,384
Less treasury stock, at cost	(2,714,844)	(2,443,852)
Total Shareholders' Equity	<u>62,864,640</u>	<u>59,254,845</u>
Total Liabilities and Shareholders' Equity	<u>\$680,451,372</u>	<u>\$603,848,551</u>

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2016 and 2015

	2016	2015
Interest Income		
Interest and fees on loans	\$21,148,711	\$19,958,640
Interest on investment securities	2,026,018	1,667,796
Other interest and dividend income	342,663	322,250
Total Interest Income	<u>23,517,392</u>	<u>21,948,686</u>
Interest Expense		
Interest on deposits	854,996	756,905
Interest on FHLB advances and other borrowings	432,115	557,118
Total Interest Expense	<u>1,287,111</u>	<u>1,314,023</u>
Net Interest Income	22,230,281	20,634,663
Provision for loan losses	360,000	100,000
Net Interest Income after Provision for Loan Losses	21,870,281	20,534,663
Other Income		
Service charges on deposit accounts	1,837,038	1,811,629
Trust department income	247,378	261,887
Financial services	61,301	107,602
Mortgage banking	301,986	209,236
Security gains and losses	5,019	37,906
Other service charges, commissions and fees	2,639,023	2,445,036
Total Other Income	<u>5,091,745</u>	<u>4,873,296</u>
Other Expenses		
Salaries and employee benefits	10,100,625	9,808,195
Occupancy expense of premises, net	965,234	1,074,973
Furniture and equipment, data processing expense	2,019,169	1,787,184
Advertising and marketing expense	458,420	508,002
FDIC assessment	272,695	316,151
Branch consolidation expenses	-	762,186
Other expenses	3,120,966	3,025,632
Total Other Expenses	<u>16,937,109</u>	<u>17,282,323</u>
Income Before Income Taxes	10,024,917	8,125,636
Provision for income taxes	2,535,638	1,991,545
Net Income	<u>\$7,489,279</u>	<u>\$6,134,091</u>
Basic Earnings per Common Share	<u>\$6.68</u>	<u>\$5.48</u>

(Based on 1,121,025 and 1,119,464 average shares outstanding in 2016 and 2015.)