

FS Bancorp Reports September 30, 2018 Financial Results

We are pleased to report record earnings for the first nine months of 2018. Net income grew by 31% compared to the first nine months of 2017. During the first nine months of 2018 our basic earnings per share grew to \$3.67 compared to \$2.77 for the same period in the prior year. Our earnings were driven by strong growth in net interest income and the overall management of operating expenses. Recent tax cut legislation reduced our incremental tax rate of 34% to a flat rate of 21% in 2018, which was the primary driver of a \$635,000 reduction in tax expense compared to the same period last year. Excluding the impact of the lower tax expense, our earnings before tax still increased by 15%.

We continue to see solid improvement in the strength of our balance sheet. Loans, deposits, and equity ended the quarter at record levels for our Company. 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 fourth quarter of 2018.

We are also returning significant capital to our shareholders through our ongoing dividends and share repurchases. We paid a \$0.31 per share regular dividend and \$0.19 per share special dividend in September. We have also repurchased over 14,000 shares under our new Stock Repurchase Program at an average price of \$49.78 per share during 2018. We will continue to focus on generating results that will lead to good returns for our shareholders. Thank you for your continued investment in our Company.

Important Information Regarding Pension Plan Liability

Farmers State Bank (the "Bank") participates in the Pentegra Defined Benefit Plan for Financial Institutions (the "Plan"). The Bank's participation in the Plan was frozen on July 1, 2011, and no new benefits were accrued after that date. During the third quarter of 2018, the Bank requested bids for a group annuity contract that would transfer the Bank's pension plan obligations to an insurance company. We have decided to move forward with this settlement process. At September 30, 2018, no liability or expense had been recognized related to the potential settlement. During October, we made a contribution of \$3.2 million to the Plan to facilitate the settlement process. This amount will be expensed in the 4th quarter of 2018, net of related tax benefits. During the past several years, the Bank has contributed \$300,000 per year to the Plan and recognized that contribution as an expense.

Future costs of the Plan were uncertain. Since the Plan was frozen in 2011, the Bank has contributed approximately \$5 million to the plan, and purchasing these annuities will transfer the liability of those uncertain costs to an approved insurance company going forward. The purchase of the annuities does not impact any benefits provided to employees. Participants in the Plan will receive the same payments from insurance annuities that they were entitled to under the terms of the Plan.

FS Bancorp and Farmers State Bank

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Report of Condition

FS Bancorp



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CONSOLIDATED BALANCE SHEETS

September 30, 2018 and 2017
(Unaudited - dollars in thousands)

	2018	2017
Assets		
Cash and due from banks	\$41,872	\$37,326
Investment securities	96,720	106,278
Federal Home Loan Bank stock	2,246	1,723
Total loans	544,715	482,895
Less deferred loan fees	(30)	(14)
Less allowance for loan losses	(5,717)	(5,200)
Loans, net	538,968	477,681
Premises and equipment, net	9,283	8,307
CSV-insurance	13,692	13,383
Goodwill and other intangible assets	2,721	2,831
Other assets	5,858	5,057
Total Assets	\$711,360	\$652,586
Liabilities		
Deposits		
Noninterest-bearing demand	\$164,565	\$172,454
Interest-bearing demand	210,367	172,684
Savings	117,160	115,871
Time under \$100,000	48,356	46,571
Time \$100,000 and over	48,318	33,111
Total deposits	588,766	540,691
Repurchase agreements	4,676	4,610
Federal Home Loan Bank advances	43,395	36,880
Other liabilities	4,434	4,033
Total Liabilities	641,271	586,214
Shareholders' Equity		
Common stock: No par value, 5,000,000 shares authorized; 2,381,952 shares issued and 2,193,207 and 2,206,160 shares outstanding 2018 and 2017*	149	149
Paid-in capital	3,634	3,776
Retained earnings	72,322	65,989
Net unrealized gains (losses) on securities	(1,054)	539
Less treasury stock, at cost; 188,745 and 175,792 shares 2018 & 2017*	(4,962)	(4,081)
Total Shareholders' Equity	70,089	66,372
Total Liabilities and Shareholders' Equity	\$711,360	\$652,586

*Share amounts have been adjusted for our two-for-one stock split

CONSOLIDATED STATEMENTS OF INCOME

For the Nine Months Ended September 30, 2018 and 2017
(Unaudited - dollars in thousands except earnings per share)

	2018	2017
Interest Income		
Interest and fees on loans	\$19,353	\$16,564
Interest on investment securities	1,908	1,814
Other interest and dividend income	509	299
Total Interest Income	21,770	18,677
Interest Expense		
Interest on deposits	1,741	861
Interest on FHLB advances and other borrowings	532	422
Total Interest Expense	2,273	1,283
Net Interest Income		
Provision for loan losses	19,497	17,394
Net Interest Income after Provision for Loan Losses	19,024	17,195
Other Income		
Service charges on deposit accounts	1,409	1,382
Trust department income	167	167
Debit card income	1,476	1,368
Mortgage banking	194	130
Security gains and losses	3	38
Other service charges, commissions and fees	1,095	852
Total Other Income	4,344	3,937
Other Expenses		
Salaries and employee benefits	8,328	7,613
Occupancy expense of premises, net	751	765
Furniture and equipment, data processing expense	1,772	1,658
Advertising and marketing expense	341	335
FDIC assessment	159	151
Other expenses	2,447	2,306
Total Other Expenses	13,900	12,828
Income Before Income Taxes		
Provision for income taxes	9,568	8,304
Net Income	\$8,064	\$6,165
Basic Earnings per Common Share		
	\$3.67	\$2.77
(Based on 2,195,252 and 2,227,808 average shares outstanding in 2018 and 2017*.)		

*Share and per share amounts have been adjusted for our two-for-one stock split