

FS Bancorp Reports December 31, 2018 Financial Results

We are happy to report record earnings for the full year 2018. Net income grew by 25% compared to 2017 despite a \$2.9 million increase in pension expense during 2018. We made a \$3.2 million contribution to the Pentegra Defined Benefit Plan for Financial Institutions (the “Plan”) to fully fund our pension plan obligation, and transfer the Bank’s pension plan obligation to an insurance company through the purchase of annuity contracts for Plan participants. The purchase of the annuities does not impact any benefits provided to participants. The 2017 Tax Cut and Jobs Act reduced our incremental tax rate of 34% in 2017 to a flat rate of 21% in 2018, which had a positive impact on our net income. Excluding the impact of the increased pension expense, our earnings before tax increased by 20%.

Our basic earnings per share was \$4.27 (\$5.14 excluding the increased pension expense, net of tax due to our pension settlement) for the year ended 2018. Our basic earnings per share was \$3.38 (\$3.70 excluding the \$685,000 increased tax expense from the revaluation of our deferred tax asset) for the year ended 2017. Our earnings were driven by strong growth in net interest income and the overall management of operating expenses.

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.

We remain focused on implementing new technology to make sure we are delivering the products and services our customers want, and providing high quality branch locations for our customers to conduct business with us in person. We expect to open our new LaGrange branch in February. All of these efforts are consistent with our focus on the long term success of our Company and the continued support of our loyal customers and communities. Our success would not be possible without the effort of our entire team at Farmers State Bank.

In November of 2018, FIG Partners released an article that included FS Bancorp in the top 20 for banks with at least \$50 million in market capitalization for total shareholder return year to date. After adjusting for our two-for-one stock split, we increased our dividend payments from \$1.23 per share in 2017 to \$1.44 in 2018. The Company has also repurchased over 17,000 shares through our Share Repurchase Program at an average price of \$50.58 per share. 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.

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FS Bancorp and Farmers State Bank

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December 31, 2018

Report of Condition

FS Bancorp



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CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017
(Unaudited - Dollars in thousands)

	2018	2017
Assets		
Cash and due from banks	\$76,335	\$94,148
Investment securities	98,503	104,752
Federal Home Loan Bank stock	2,246	2,246
Total loans	556,543	508,079
Less deferred loan fees	(44)	(17)
Less allowance for loan losses	(5,660)	(5,301)
Loans, net	550,839	502,761
Premises and equipment, net	10,242	8,516
CSV-insurance	13,769	13,462
Goodwill and other intangible assets	2,700	2,801
Other assets	5,919	5,322
Total Assets	\$760,553	\$734,008
Liabilities		
Deposits		
Noninterest-bearing demand	\$167,732	\$161,151
Interest-bearing demand	275,754	271,039
Savings	99,582	105,171
Time under \$100,000	47,927	46,832
Time \$100,000 and over	46,885	32,714
Total deposits	637,880	616,907
Repurchase agreements	4,589	4,627
Federal Home Loan Bank advances	43,398	43,384
Other liabilities	3,325	2,998
Total Liabilities	689,192	667,916
Shareholders' Equity		
Common stock: No par value, 5,000,000 shares authorized; 2,381,952 shares issued and 2,193,565 and 2,196,306 shares outstanding 2018 and 2017*	149	149
Paid-in capital	3,562	3,780
Retained earnings	72,937	66,716
Net unrealized gains (losses) on securities	(213)	(25)
Less treasury stock, at cost; 188,387 and 185,646 shares 2018 and 2017*	(5,074)	(4,528)
Total Shareholders' Equity	71,361	66,092
Total Liabilities and Shareholders' Equity	\$760,553	\$734,008

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

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2018 and 2017
(Unaudited - Dollars in thousands except earnings per share)

	2018	2017
Interest and Dividend Income		
Interest and fees on loans	\$26,430	\$22,534
Interest and dividend income on investment securities	2,460	2,382
Other interest and dividend income	849	487
Total Interest and Dividend Income	29,739	25,403
Interest Expense		
Interest on deposits	2,513	1,232
Interest on FHLB advances and other borrowings	702	629
Total Interest Expense	3,215	1,861
Net Interest Income	26,524	23,542
Provision for loan losses	513	454
Net Interest Income after Provision for Loan Losses	26,011	23,088
Other Income		
Service charges on deposit accounts	1,914	1,851
Trust department income	169	213
Debit card income	1,988	1,824
Mortgage banking	263	230
Security gains and losses	(29)	38
Other service charges, commissions and fees	1,481	1,117
Total Other Income	5,786	5,273
Other Expenses		
Salaries and employee benefits	10,707	9,958
Pension expense	3,207	300
Occupancy expense of premises, net	992	1,026
Furniture and equipment, data processing expense	2,395	2,238
Advertising and marketing expense	483	450
FDIC assessment	210	203
Other expenses	3,309	3,109
Total Other Expenses	21,303	17,284
Income Before Income Taxes	10,494	11,077
Provision for income taxes	1,111	3,557
Net Income	\$9,383	\$7,520
Basic Earnings per Common Share*	\$4.27	\$3.38
Diluted Earnings per Common Share*	\$4.22	\$3.35
Basic weighted average common shares outstanding*	2,194,943	2,221,736
Diluted weighted average common shares outstanding*	2,225,168	2,242,117

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