

## FS Bancorp Reports First Half 2018 Financial Results

We are pleased to report record earnings for the first half of 2018. Net income grew by 30% compared to the first half of 2017, increasing from \$3,977,000 in 2017 to \$5,195,000 in 2018. During the first six months of 2018 our basic earnings per share grew to \$4.73 compared to \$3.56 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 \$370,000 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 16%.

Key Ratios	
	2018
Return on average assets - YTD	1.49%
Return on average equity - YTD	15.41%
Net interest margin - YTD	3.91%

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. While we continue to see solid balance sheet growth, it is worth noting that we experienced a temporary increase in municipal deposits near the end of our second quarter. These municipal deposits are included in interest-bearing demand deposits, and we expect that much of those funds could leave the bank in the third quarter. 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 2018.

During the second quarter, Farmers State Bank made a decision to cease providing certain trust related services. While the exact timing of these changes has not yet been determined, we believe the changes to our services will be effective around September 30, 2018. Most of the customers of our trust department will have the opportunity to continue to have their financial needs met by Farmers State Bank. Additionally, Farmers State Bank customers may choose to utilize the services of the investment professionals located in our LaGrange branch or other qualified investment professionals to meet their investment needs. For customers that are receiving trust services where Farmers State Bank serves in the capacity of trustee for an established trust, Farmers State Bank has entered into a definitive agreement with First State Bank of Middlebury for it to serve as successor trustee. That change is anticipated to occur around September 30, 2018. During the second quarter we incurred approximately \$90,000 of expenses in connection with the termination of trust department activities. We do not expect the impact of these changes to be material to our financial statements in future periods.

We are also returning significant capital to our shareholders through our ongoing dividends and share repurchases. We paid a \$0.62 per share dividend in June. We have also repurchased over 4,000 shares under our new Stock Repurchase Program at an average price of \$92.38 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

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

**Roger A. Bird**  
*Chairman, F S BANCORP  
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**Jordi Disler**  
*President, Parkview LaGrange Hospital*

**James M. Ingledue**  
*Founder, Jim Ingledue Construction, Inc.*

**Winford Jones**  
*Owner, Yoder's Shipshewana Hardware  
Owner, Yoder's Bremen Hardware*

**Kevin Lambright**  
*Owner, KC Squared Farms, LLC*

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

**Freeman D. Schlabach**  
*Owner/President, Rock Run Industries*

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

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

**Honorary Directors**  
*Frederic J. Brown  
Jerry O. Grogg  
Thomas L. Miller  
James W. Perkins  
Miles S. Perkins  
Ruth R. Perry  
Joseph G. Pierce  
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June 30, 2018

# Report of Condition

FS Bancorp



# Farmers State Bank

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# CONSOLIDATED BALANCE SHEETS

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

	2018	2017
<b>Assets</b>		
Cash and due from banks .....	\$115,640	\$66,775
Investment securities .....	96,258	105,432
Federal Home Loan Bank stock .....	2,246	1,723
Total loans .....	525,401	469,147
Less deferred loan fees .....	(27)	(5)
Less allowance for loan losses .....	(5,577)	(5,174)
Loans, net .....	519,797	463,968
Premises and equipment, net .....	8,944	8,196
CSV-Insurance .....	13,615	13,305
Goodwill and other intangible assets .....	2,747	2,867
Other assets .....	5,771	4,969
<b>Total Assets</b>	<b>\$765,018</b>	<b>\$667,235</b>
<b>Liabilities</b>		
Deposits		
Noninterest-bearing demand .....	\$152,552	\$170,854
Interest-bearing demand .....	277,891	188,814
Savings .....	120,865	117,100
Time under \$100,000 .....	48,485	46,669
Time \$100,000 and over .....	45,407	33,723
Total deposits .....	645,200	557,160
Repurchase agreements .....	3,572	4,371
Federal Home Loan Bank advances .....	43,391	36,877
Other liabilities .....	4,007	3,112
<b>Total Liabilities</b>	<b>696,170</b>	<b>601,520</b>
<b>Shareholders' Equity</b>		
Common stock: No par value, 5,000,000 shares authorized; 1,190,976 shares issued; and 1,097,645 and 1,110,498 shares outstanding 2018 and 2017 .....	149	149
Paid-in capital .....	3,706	3,762
Retained earnings .....	70,549	64,689
Net unrealized gains (losses) on securities .....	(817)	554
Less treasury stock, at cost; 93,331 and 80,478 shares 2018 & 2017 .....	(4,739)	(3,439)
<b>Total Shareholders' Equity</b>	<b>68,848</b>	<b>65,715</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$765,018</b>	<b>\$667,235</b>

# CONSOLIDATED STATEMENTS OF INCOME

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

	2018	2017
<b>Interest Income</b>		
Interest and fees on loans .....	\$12,591	\$10,860
Interest on investment securities .....	1,201	1,159
Other interest and dividend income .....	381	214
<b>Total Interest Income</b>	<b>14,173</b>	<b>12,233</b>
<b>Interest Expense</b>		
Interest on deposits .....	1,081	521
Interest on FHLB advances and other borrowings .....	360	255
<b>Total Interest Expense</b>	<b>1,441</b>	<b>776</b>
<b>Net Interest Income</b> .....	12,732	11,457
Provision for loan losses .....	334	136
<b>Net Interest Income after Provision for Loan Losses</b> .....	12,398	11,321
<b>Other Income</b>		
Service charges on deposit accounts .....	904	904
Trust department income .....	109	107
Debit card income .....	983	914
Mortgage banking .....	129	91
Security gains and losses .....	3	38
Other service charges, commissions and fees .....	739	556
<b>Total Other Income</b>	<b>2,867</b>	<b>2,610</b>
<b>Other Expenses</b>		
Salaries and employee benefits .....	5,458	5,067
Occupancy expense of premises, net .....	498	494
Furniture and equipment, data processing expense .....	1,170	1,106
Advertising and marketing expense .....	214	222
FDIC assessment .....	105	101
Other expenses .....	1,648	1,617
<b>Total Other Expenses</b>	<b>9,093</b>	<b>8,607</b>
<b>Income Before Income Taxes</b> .....	6,172	5,324
Provision for income taxes .....	977	1,347
<b>Net Income</b>	<b>\$5,195</b>	<b>\$3,977</b>
<b>Basic Earnings per Common Share</b> .....	<b>\$4.73</b>	<b>\$3.56</b>
(Based on 1,097,844 and 1,116,481 average shares outstanding in 2018 and 2017)		