

FS Bancorp Reports First Half 2019 Financial Results

We are pleased to report record earnings for the first half of 2019. Net income grew by 19% compared to the first half of 2018 increasing from \$5,195,000 in 2018 to \$6,201,000 in 2019. We are particularly pleased with our second quarter results. Net income for the three months ended June 30, 2019 increased 20% compared to the three months ended June 30, 2018.

During the first six months of 2019 our diluted earnings per share grew to \$2.80 compared to \$2.32 for the same period in the prior year. Our earnings were driven by strong growth in net interest income resulting from the overall growth of our balance sheet and improvement in our net interest margin.

	Key Ratios	
	2019	2018
Return on average assets - YTD	1.64%	1.49%
Return on average equity - YTD	16.69%	15.41%
Net interest margin - YTD	4.08%	3.91%

Portfolio loans grew 9% during the past twelve months, deposits grew 4%, and shareholders' equity grew 13%. Meaningful balance sheet growth has not compromised our conservative approach to sound banking. Loan delinquencies remain at historically low levels as we head into the third quarter of 2019, and we recognized net recoveries of \$212,000 during the first half of the year on loans previously charged off.

Noninterest income for the first six months of 2019 decreased slightly compared to 2018, which was primarily due to trust department income and a large gain on the sale of a foreclosed property during 2018.

We are also returning significant capital to our shareholders through our ongoing dividends and share repurchases. We have paid dividends of \$0.64 per share in 2019. We have also repurchased over 7,000 shares under our Stock Repurchase Program in 2019 at an average price of \$64.26 per share. We continue to focus on generating strong returns on your investment and delivering service that enhances customer loyalty.

FS Bancorp and Farmers State Bank

June 30, 2019

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FS Bancorp

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*Chairman, F S BANCORP
Chairman, Farmers State Bank
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CONSOLIDATED BALANCE SHEETS

June 30, 2019 and 2018 (Unaudited)

(Dollars in thousands)

	2019	2018
Assets		
Cash and due from banks	\$95,771	\$115,640
Investment securities	101,132	96,258
Federal Home Loan Bank stock	2,246	2,246
Total loans	573,152	525,401
Less deferred loan fees	(83)	(27)
Less allowance for loan losses	(6,090)	(5,577)
Loans, net	566,979	519,797
Premises and equipment, net	10,640	8,944
CSV-Insurance	13,919	13,615
Goodwill and other intangible assets	2,664	2,747
Other assets	5,504	5,771
Total Assets	\$798,855	\$765,018
Liabilities		
Deposits		
Noninterest-bearing demand	\$163,309	\$152,552
Interest-bearing demand	281,439	277,891
Savings	120,715	120,865
Time under \$100,000	49,732	48,485
Time \$100,000 and over	52,850	45,407
Total deposits	668,045	645,200
Repurchase agreements	5,110	3,572
Federal Home Loan Bank advances	43,405	43,391
Other liabilities	4,598	4,007
Total Liabilities	721,158	696,170
Shareholders' Equity		
Common stock: No par value, 5,000,000 shares authorized; 2,381,952 shares issued; and 2,193,337 and 2,195,290 shares outstanding 2019 and 2018*	149	149
Paid-in capital	3,493	3,706
Retained earnings	77,734	70,549
Net unrealized gains (losses) on securities	1,660	(817)
Less treasury stock, at cost; 188,615 and 186,662 shares 2019 & 2018*	(5,339)	(4,739)
Total Shareholders' Equity	77,697	68,848
Total Liabilities and Shareholders' Equity	\$798,855	\$765,018

* 2018 share amounts have been adjusted for our two-for-one stock split

CONSOLIDATED STATEMENTS OF INCOME

For the Three and Six Months Ended June 30, 2019 and 2018 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(Dollars in thousands except earnings per share)				
Interest Income				
Interest and fees on loans	\$7,448	\$6,454	\$14,666	\$12,591
Interest on investment securities	708	585	1,360	1,201
Other interest and dividend income	320	212	610	381
Total Interest Income	8,476	7,251	16,636	14,173
Interest Expense				
Interest on deposits	1,026	596	1,935	1,081
Interest on FHLB advances and other borrowings	172	177	340	360
Total Interest Expense	1,198	773	2,275	1,441
Net Interest Income	7,278	6,478	14,361	12,732
Provision for loan losses	108	180	218	334
Net Interest Income after Provision for Loan Losses	7,170	6,298	14,143	12,398
Noninterest Income				
Service charges on deposit accounts	493	471	954	904
Debit card income	567	505	1,072	983
Mortgage banking	58	57	97	129
Gains and losses on securities	4	3	27	3
Other income	317	486	623	848
Total Noninterest Income	1,439	1,522	2,773	2,867
Noninterest Expense				
Salaries and employee benefits	2,861	2,776	5,693	5,458
Occupancy expense of premises, net	259	243	522	498
Furniture and equipment, data processing expense	677	610	1,359	1,170
Advertising and marketing expense	107	104	226	214
Other expense	864	929	1,764	1,648
Total Noninterest Expense	4,768	4,662	9,564	9,093
Income Before Income Taxes	3,841	3,158	7,352	6,172
Provision for income taxes	627	473	1,151	977
Net Income	\$3,214	\$2,685	\$6,201	\$5,195
Basic Earnings per Common Share*	\$1.47	\$1.23	\$2.83	\$2.37
Diluted Earnings per Common Share*	\$1.46	\$1.21	\$2.80	\$2.34

* 2018 per share amounts have been adjusted for our two-for-one stock split.