

FS Bancorp, Inc.  
Form S-4/A  
September 24, 2018

As filed with the Securities and Exchange Commission on September 24 , 2018.  
Registration No. 333-227224

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 2  
FORM S-4  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

FS BANCORP, INC.  
(Exact name of registrant as specified in its charter)

Washington 6036 45-4585178  
(State or other jurisdiction of (Primary Standard Industrial (I.R.S. Employer  
incorporation or organization) Classification Code Number) Identification No.)

6920 220th Street SW  
Mountlake Terrace, Washington 98043  
(425) 771-5299

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Joseph C. Adams  
Chief Executive Officer  
FS Bancorp, Inc.  
6920 220th Street SW  
Mountlake Terrace, Washington 98043

(425) 771-5299

(Name, address, including zip code, and telephone number, including area code, of agent for service)  
Copies of communications to:

Glen P. Garrison, Esq. Keller Rohrbach L.L.P. 1201 Third Avenue, Suite 3200 Seattle, Washington 98101 (206) 623-1900	John F. Breyer, Jr., Esq. Breyer & Associates PC 8180 Greensboro Drive, Suite 785 McLean, Virginia 22102 (703) 883-1100
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Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after the effective date of this registration statement and upon consummation of the transactions described herein.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [  ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [  ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [  ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", "non-accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [  ] Accelerated Filer [X]

Non-accelerated filer [  ] (Do not check if a smaller reporting company) Smaller reporting company [  ]

Emerging growth company [  ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) [  ]

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) [  ]

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CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per share	Proposed maximum aggregate offering price (2)	Amount of registration fee (3)
Common Stock, \$0.01 par value	725,585 shares	N/A	\$41,359,100	\$5,150*

\*Previously paid.

Represents an estimate of the maximum number of shares of FS Bancorp, Inc. ("FS Bancorp") common stock, (1) \$0.01 par value per share, estimated to be issuable upon consummation of the merger of Anchor Bancorp, ("Anchor") with and into FS Bancorp as described herein.

Estimated solely for purposes of calculating the registration fee pursuant to Rules 457(c) and 457(f)(1) and (3) under the Securities Act of 1933, as amended (the "Securities Act"). The proposed maximum aggregate offering price was calculated based upon the market value of shares of Anchor common stock (the securities to be cancelled in the merger) in accordance with Rule 457(c) as the product of (x) \$29.05, the average of the high and low prices of the Anchor common stock as reported on the Nasdaq Capital Market on September 5, 2018, multiplied by (y) 2,484,030, the estimated maximum number of shares of Anchor common stock to be received by FS Bancorp in exchange for the shares of FS Bancorp common stock being registered hereby, reduced by (z) the estimated amount of cash consideration (\$30,801,972, computed by multiplying (a) the cash consideration of \$12.40 per share of Anchor common stock by (b) the estimated maximum number of shares of Anchor common stock that may be cancelled in the merger) to be paid for such shares by FS Bancorp in the merger.

(3) Calculated in accordance with Rule 457(f) under the Securities Act by multiplying the proposed maximum aggregate offering price by 0.0001245.

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The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this proxy statement/prospectus is not complete and may be changed. We may not issue the securities offered by this proxy statement/prospectus until the registration statement filed with the Securities and Exchange Commission is effective. This document is not an offer to sell these securities, and we are not soliciting an offer to buy these securities, in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY PROXY STATEMENT/PROSPECTUS – SUBJECT TO COMPLETION–DATED SEPTEMBER 24 , 2018

To the Shareholders of Anchor Bancorp:

You are cordially invited to attend the special meeting of shareholders of Anchor Bancorp ("Anchor"). The special meeting will be held at the Lacey Community Center, 6729 Pacific Avenue SE, Lacey, Washington, 98503 on Tuesday, November 13 , 2018, at 10:00 a.m., local time.

As described in the enclosed proxy statement/prospectus, the board of directors of Anchor has approved the merger agreement that provides for the merger of Anchor with and into FS Bancorp, Inc. ("FS Bancorp"), with FS Bancorp being the surviving entity in the merger. We are seeking your vote on this important transaction, as well as the other matters to be considered at the special meeting.

If the merger is completed, each share of Anchor common stock that is outstanding immediately prior to the merger, other than dissenting shares and cancelled shares (as such terms are defined in the merger agreement) will be converted into the right to receive 0.2921 of a share of FS Bancorp common stock (the "exchange ratio") and \$12.40 in cash (together the "merger consideration") As of July 17, 2018, the closing price of FS Bancorp's common stock immediately prior to the public announcement of the merger agreement, was \$61.80 and on September 21 , 2018, the most recent trading day practicable before the printing of this proxy statement/prospectus, the closing price of FS Bancorp common stock was \$54.53 . We urge you to obtain current market quotations for FS Bancorp common stock (NASDAQ: trading symbol "FSBW") and Anchor common stock (NASDAQ: trading symbol "ANCB").

We cannot complete the merger unless the holders of a majority of the outstanding shares of Anchor common stock vote to approve the merger agreement. Your vote is very important. Anchor will hold its special meeting of shareholders on November 13 , 2018 to vote on the merger agreement. Your board of directors recommends that you vote FOR approval of the merger agreement and the other items to be considered at the special meeting. Whether or not you plan to attend the special meeting, please take the time to vote on the proposal to approve the merger agreement and the other matters to be considered by following the instructions that accompany your proxy card and casting your vote by internet, by telephone, or by returning your completed, signed and dated proxy card in the enclosed envelope (please allow a minimum of 10 days for your proxy card to be processed). Please vote as soon as possible to make sure that your shares are represented at the special meeting. If you do not vote, it will have the same effect as voting against the merger agreement.

We encourage you to read carefully the detailed information about the merger contained in this proxy statement/prospectus, including the section entitled "Risk Factors" beginning on page 14 . The proxy statement/prospectus incorporates important business and financial information and risk factors about FS Bancorp that are not included in or delivered with this document. See the section entitled "Where You Can Find More Information" on page 157 .

We look forward to seeing you at the special meeting.

Jerald L. Shaw  
President and Chief Executive Officer  
Anchor Bancorp

Neither the Securities and Exchange  
Commission nor any state securities  
commission or bank regulatory agency  
has approved or disapproved the shares  
of FS Bancorp common stock to be

issued in the merger or passed upon the adequacy or accuracy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.

The securities that FS Bancorp is offering through this proxy statement/prospectus are not savings or deposit accounts or other obligations of any bank or nonbank subsidiary of FS Bancorp or Anchor, and they are not insured by the Federal Deposit Insurance Corporation or any other government agency.

This proxy statement/prospectus is dated September 26 , 2018 and is first being mailed to Anchor shareholders or otherwise delivered to Anchor shareholders on or about October 4 , 2018.

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REFERENCES TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about FS Bancorp from documents filed with the Securities and Exchange Commission, or the SEC, that are not included in or delivered with this proxy statement/prospectus. You can obtain any of the documents filed with or furnished to the SEC by FS Bancorp at no cost from the SEC's website at [www.sec.gov](http://www.sec.gov) or by requesting them in writing or by telephone from FS Bancorp:

FS Bancorp, Inc.  
6920 220th Street SW  
Mountlake Terrace, Washington 98043  
Attn: Investor Relations  
(425) 771-5299

All website addresses given in this proxy statement/prospectus are for information only and are not intended to be an active link or to incorporate any website information into this proxy statement/prospectus. You should rely only on the information contained in, or incorporated by reference into, this proxy statement/prospectus. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this proxy statement/prospectus. This proxy statement/prospectus is dated September 26, 2018, and you should assume that the information in this proxy statement/prospectus is accurate only as of such date. You should assume that the information incorporated by reference into this proxy statement/prospectus is accurate as of the date of the document that includes such information. Neither the mailing of this proxy statement/prospectus to Anchor shareholders nor the issuance by FS Bancorp of shares of FS Bancorp common stock in connection with the merger will create any implication to the contrary.

Please note that copies of this proxy statement/prospectus provided to you will not include exhibits, unless the exhibits are specifically incorporated by reference into this proxy statement/prospectus.

This proxy statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Except where the context otherwise indicates, information contained in this proxy statement/prospectus regarding FS Bancorp has been provided by FS Bancorp and information contained in this proxy statement/prospectus regarding Anchor has been provided by Anchor.

If you would like to request documents, please do so by October 29, 2018 in order to receive them before Anchor's special meeting of shareholders. See the section entitled "Where You Can Find More Information" on page 157.

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Anchor Bancorp  
601 Woodland Square Loop SE  
Lacey, Washington 98503

NOTICE OF SPECIAL MEETING OF ANCHOR SHAREHOLDERS

- Date: November 13, 2018
- Time: 10:00 a.m., local time  
Lacey Community Center
- Place: 6729 Pacific Avenue SE  
Lacey, Washington 98503

TO OUR SHAREHOLDERS:

We are pleased to notify you of and invite you to a special meeting of shareholders. At the special meeting, you will be asked to vote on the following matters:

- approval of the Agreement and Plan of Merger, dated as of July 17, 2018, by and between FS Bancorp, Inc. ("FS Bancorp") and Anchor Bancorp ("Anchor") (the "merger agreement"). The merger agreement provides the terms and conditions under which it is proposed that Anchor merge with and into FS Bancorp, as described in the accompanying proxy statement/prospectus;
- a proposal of the Anchor board of directors to adjourn or postpone the special meeting, if necessary or appropriate to solicit additional proxies in favor of the merger agreement (which we refer to as the "adjournment proposal"); and
- any other business that may be properly submitted to a vote at the special meeting or any adjournment or postponement of the special meeting.

Only shareholders of record at the close of business on September 17, 2018 are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting. The affirmative vote of the holders of a majority of the outstanding shares of Anchor common stock as of that date is required to approve the merger agreement. The adjournment proposal will be approved if a majority of the votes cast are voted in favor of the proposal.

In connection with the proposed merger, you may exercise dissenters' rights as provided under the Revised Code of Washington. If you meet all of the requirements under applicable Washington law, and follow all of its required procedures, you may receive cash in the amount equal to the fair value of your shares of common stock. The procedure for exercising your dissenters' rights is summarized under the heading "Dissenters' Rights" in the attached proxy statement/prospectus. The relevant Washington statutory provisions regarding dissenters' rights are attached to this document as Appendix C.

Anchor's board of directors has unanimously approved the merger agreement, believes that the merger agreement and the transactions contemplated thereby, including the merger, are in the best interests of Anchor and its shareholders, and unanimously recommends that Anchor shareholders vote "FOR" the approval of the merger agreement and "FOR" the adjournment proposal.

Your vote is very important. To ensure that your shares are voted at the special meeting, please follow the instruction accompanying your proxy card and cast your vote by internet, by telephone by returning your completed, signed, and dated proxy card in the enclosed envelope.

BY ORDER OF  
THE BOARD OF  
DIRECTORS

October 4, 2018 Janice Sepulveda

Secretary

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE ANCHOR SPECIAL MEETING

The following are some of the questions that you, as a shareholder of Anchor, may have and answers to those questions. These questions and answers, as well as the following summary, are not meant to be a substitute for the information contained in the remainder of this document, and this information is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this document. We urge you to read this document in its entirety prior to making any decision as to your Anchor common stock and the merger agreement.

Q1: Why do Anchor and FS Bancorp want to merge?

We want to merge because we each believe the merger will benefit our community, customers, employees and shareholders. We each have long been committed to serving the various communities that comprise our local A1. customer bases. In addition, for Anchor, the merger will allow its customers access to a number of products and services that cannot be offered to them now on a cost-effective basis, and will expand the number of branch locations available to them.

Q2: What will Anchor shareholders receive in the merger?

Each outstanding share of Anchor common stock (except for dissenting shares and cancelled shares (as defined in the merger agreement)) will be converted into the right to receive, promptly following completion of the merger, 0.2921 of a share of FS Bancorp common stock and \$12.40 in cash (which are referred to as the "merger considerations"). FS Bancorp will not issue any fractional shares of FS Bancorp common stock in the merger.

A2: Anchor shareholders who would otherwise be entitled to a fractional share of FS Bancorp common stock upon completion of the merger will instead receive an amount in cash (rounded to the nearest cent) equal to the fractional share interest multiplied by the average of the daily volume weighted closing price (rounded to the nearest one ten thousandth) of FS Bancorp common stock on Nasdaq Stock Market, Inc. ("Nasdaq") for the five trading days ending on the trading day immediately preceding the closing date of the merger (which we refer to as the "FS Bancorp average closing price").

The following table sets forth the per share value of the merger consideration that Anchor shareholders would receive in the merger as calculated based on the last reported sales price per share of FS Bancorp common stock as of (i) July 17, 2018, the last trading day preceding public announcement of the signing of the merger agreement, and (ii) September 21, 2018, the last practicable date prior to the mailing of this proxy statement/prospectus, in each case applying the exchange ratio on such date:

Date	FS Bancorp closing price	Exchange ratio	Cash payment per share	Value of merger consideration per Anchor share <sup>1</sup>
July 17, 2018	\$61.80	0.2921	\$12.40	\$30.45
September 21, 2018	\$54.53	0.2921	\$12.40	\$28.33

<sup>1</sup> Calculated as the product of the exchange ratio multiplied by the FS Bancorp closing price, plus \$12.40 cash per Anchor share.

Q3: What is being voted on at the special meeting?

Anchor shareholders will be voting on the approval of the merger agreement, as well as any proposal of the A3: Anchor board of directors to adjourn or postpone the Anchor special meeting, if necessary or appropriate to solicit additional proxies in favor of the merger agreement (which we refer to as the "adjournment proposal").

Q4: Who is entitled to vote at the Anchor special meeting?

Anchor shareholders of record at the close of business on September 17, 2018, the record date for the Anchor A4: special meeting, are entitled to receive notice of and to vote on matters that come before the special meeting and any adjournments or postponements of the special meeting. However, an Anchor shareholder may only vote his or her shares if he or she is present in person or is represented by proxy at the Anchor special meeting.

Q5: How do I vote?

After carefully reading and considering the information contained in this document, please fill out, sign and date the proxy card, and then mail your signed proxy card in the enclosed envelope as soon as possible so that your shares may be voted at the special meeting. You may also vote by telephone or through the internet. Anchor

A5: shareholders may also attend the Anchor special meeting and vote in person. Even if you are planning to attend the special meeting, we request that you vote by telephone or internet or you fill out, sign and return your proxy card. For more detailed information, please see the section entitled "The Special Meeting of Anchor Shareholders" beginning on page 24 .

Q6: How many votes do I have?

Each share of Anchor common stock that you own as of the record date entitles you to one vote. As of the close of business on September 17 , 2018, there were 2,484,030 outstanding shares of Anchor common stock. As of that

A6: date, 5.6 % of the outstanding shares of Anchor common stock was held by directors and executive officers of Anchor and their respective affiliates.

Q7: What constitutes a quorum at the Anchor special meeting?

The presence of the holders of a majority of the shares entitled to vote at the Anchor special meeting constitutes a quorum. Presence may be in person or by proxy. You will be considered part of the quorum if you vote by

A7: telephone, if you vote by internet, if you return a signed and dated proxy card, or if you vote in person at the special meeting.

Q8: Why is my vote important?

If you do not vote by proxy or in person at the special meeting, it will be more difficult for Anchor to obtain the necessary quorum to hold its special meeting. In addition, if you fail to vote, by proxy or in person, it will have the same effect as a vote against approval of the merger agreement. The merger agreement must be approved by the holders of a majority of the outstanding shares of Anchor common stock entitled to vote at the Anchor special meeting. If you are the record holder of your shares (meaning a stock certificate has been issued in your name

A8: and/or your name appears on Anchor's stock ledger) and you respond but do not indicate how you want to vote, your proxy will be counted as a vote in favor of approval of the merger agreement, as well as a vote in favor of approval of the adjournment proposal. If your shares are held in street name with a broker, your broker will vote your shares on the merger agreement proposal only if you provide instructions to it on how to vote. Shares that are not voted because you do not properly instruct your broker will have the effect of votes against approval of the merger agreement.

If you respond and abstain from voting, your abstention will have the same effect as a vote against approval of the merger agreement but will have no effect on the adjournment proposal.

Q9: What is the recommendation of the Anchor board of directors?

A9: The Anchor board of directors unanimously recommends a vote "FOR" approval of the merger agreement and "FOR" approval of the adjournment proposal.

Q10: What if I return my proxy but do not mark it to show how I am voting?

If your proxy card is signed and returned without specifying your choice, your shares will be voted in favor of

A10: approval of both the merger agreement and adjournment proposal in accordance with the recommendation of the Anchor board of directors.

Q11: Can I change my vote after I have mailed my signed proxy card?

A11: Yes. If you are a holder of record of Anchor common stock, you may revoke your proxy at any time before it is voted by:

- signing and returning a proxy card with a later date,
- delivering a written revocation to Anchor's corporate secretary,

- attending the Anchor special meeting in person and voting by ballot at the special meeting, or
- voting by telephone or the internet at a later time but prior to the Anchor special meeting.

Attendance at the Anchor special meeting by itself will not automatically revoke your proxy. A revocation or later-dated proxy received by Anchor after the vote is taken at the Anchor special meeting will not affect your previously submitted proxy. Anchor's corporate secretary's mailing address is: Corporate Secretary, Anchor Bancorp, 601 Woodland Square Loop SE, Lacey, Washington 98503. If your shares are held in "street name" through a bank or broker, you should contact your bank or broker to change your voting instructions.

Q12: What regulatory approvals are required to complete the merger?

A12: Promptly following the merger, Anchor's subsidiary bank, Anchor Bank, will be merged with and into FS Bancorp's subsidiary bank, 1st Security Bank of Washington, which we often refer to in this document as the "bank merger." In order to complete the merger, FS Bancorp and Anchor must first obtain all regulatory approvals, consents and orders required in connection with the merger and the bank merger. Accordingly, the parties must obtain the approval of or waiver by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), the approval of the Federal Deposit Insurance Corporation (the "FDIC") and the approval of the Washington State Department of Financial Institutions (the "DFI"). Applications were filed with the FDIC and DFI on or about July 27, 2018. Approval from the DFI was received on September 6, 2018. A waiver request was submitted to the Federal Reserve Board on or about August 16, 2018 and the waiver was granted on August 29, 2018.

Q13: Do I have dissenters' or appraisal rights with respect to the merger?

A13: Yes. Under Washington law, you have the right to dissent from the merger. To exercise dissenters' rights of appraisal you must strictly follow the procedures prescribed by the Washington Business Corporation Act, or the WBCA. To review these procedures in more detail, see the section entitled "Dissenters' Rights" beginning on page 54, and Appendix C of this proxy statement/prospectus.

Q14: What are the material U.S. federal income tax consequences of the merger to me?

A14: The merger is expected to qualify for U.S. federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which we refer to throughout this proxy statement/prospectus as the Code. An Anchor shareholder generally will recognize gain, but not loss, in an amount equal to the lesser of (1) the amount of gain realized (i.e., the excess, if any, of the sum of the cash received (other than cash received in lieu of a fractional share) and the fair market value of the FS Bancorp common stock received pursuant to the merger over that holder's adjusted tax basis in its shares of Anchor common stock surrendered) and (2) the amount of cash received (other than cash received in lieu of a fractional share) pursuant to the merger. In addition, Anchor shareholders will recognize gain or loss with respect to the receipt of cash in lieu of fractional shares.

For further information concerning U.S. federal income tax consequences of the merger, see the section entitled "Material United States Federal Income Tax Consequences of the Merger" beginning on page 83.

Q15: What risks should I consider before I vote on the merger?

A15: We encourage you to read carefully the detailed information about the merger contained in this document, including the section entitled "Risk Factors" beginning on page 14.

Q16: When do you expect to complete the merger?

A16: We are working to complete the merger in the quarter ending December 31, 2018. We must first obtain the necessary regulatory approvals and the approval of Anchor's shareholders at the special meeting. In the event of delays, the date for completing the merger can occur as late as June 30, 2019, after which Anchor and FS Bancorp would need to mutually agree to extend the closing date of the merger. We cannot assure you as to if and when all the conditions to the merger will be met nor can we predict the exact timing. It is possible we will not complete the merger.

Q17: What happens if the merger is not completed?

A17: If the merger is not completed, holders of Anchor common stock will not receive any consideration for their shares in connection with the merger. Instead, Anchor will remain an independent public company and its common stock will continue to be listed and traded on Nasdaq. In addition, if the merger agreement is terminated in certain circumstances, a termination fee may be required to be paid by Anchor. See "The Merger Agreement – Termination of the Merger Agreement" beginning on page 66 for a complete discussion of the circumstances under which a termination fee will be required to be paid.

Q18: If I am a holder of Anchor common stock in certificated form, should I send in my Anchor stock certificates now?

A18: No. Please do not send in your Anchor stock certificates with your proxy. After completion of the merger, the exchange agent will send you instructions for exchanging Anchor stock certificates for the merger consideration. See "The Merger Agreement – Exchange Procedures."

Q19: What should I do if I hold my shares of Anchor common stock in book-entry form with Anchor's transfer agent or in street name with my broker?

A19: You are not required to take any special additional actions at the closing of the merger if your shares of Anchor common stock are held in book-entry form. After the completion of the merger, the Anchor shares held in book-entry form automatically will be exchanged for the merger consideration. See "The Merger Agreement – Exchange Procedures."

Q20: Whom should I contact with questions or to obtain additional copies of this document?

A20:

Anchor Bancorp  
601 Woodland Square Loop SE  
Lacey, Washington 98503  
Attn: Investor Relations  
(360) 491-2250

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## SUMMARY

This summary highlights selected information about the merger but may not contain all of the information that may be important to you. You should carefully read this entire document and the other documents to which this document refers for a more complete understanding of the matters being considered at the special meeting. See the section entitled "Where You Can Find More Information" beginning on page 157. Unless we have stated otherwise, all references in this document to FS Bancorp are to FS Bancorp, Inc., all references to Anchor are to Anchor Bancorp, and all references to the merger agreement are to the Agreement and Plan of Merger, dated as of July 17, 2018, between FS Bancorp and Anchor, a copy of which is attached as Appendix A to this document. In this document, we often refer to the "combined company," which means, following the merger, FS Bancorp and its subsidiaries, including Anchor's subsidiaries. References to "we," "us" and "our" in this document mean FS Bancorp and Anchor together.

The companies

FS Bancorp, Inc.  
6920 220th Street SW  
Mountlake Terrace, Washington 98043  
Attn: Investor Relations  
(425) 771-5299

FS Bancorp is a bank holding company incorporated under the laws of the State of Washington and the parent company of 1st Security Bank of Washington, a state-chartered, FDIC insured savings bank that currently operates 12 branch offices, one administrative office that accepts deposits and seven loan production offices in Washington. FS Bancorp is subject to regulation by the Federal Reserve Board. FS Bancorp had total consolidated assets of approximately \$1.1 billion, total deposits of approximately \$870.1 million and total consolidated stockholders' equity of approximately \$129.4 million at June 30, 2018. FS Bancorp's principal executive offices are located at 6920 220<sup>th</sup> Street SW, Mountlake Terrace, Washington 98043 and its telephone number is (425) 771-5299. FS Bancorp common stock trades on Nasdaq under the symbol of "FSBW."

Anchor Bancorp  
601 Woodland Square Loop SE  
Lacey, Washington 98503  
Attn: Investor Relations  
(360) 491-2250

Anchor is a bank holding company for Anchor Bank. Anchor's business activities generally are limited to passive investment activities and oversight of its investment in Anchor Bank. As a bank holding company, Anchor is subject to regulation by the Federal Reserve Board. Anchor Bank is examined and regulated by the DFI and by the Federal Deposit Insurance Corporation ("FDIC"). Anchor Bank is required to have certain reserves set by the Federal Reserve and is a member of the Federal Home Loan Bank of Des Moines ("FHLB" or "FHLB of Des Moines"), which is one of the 11 regional banks in the Federal Home Loan Bank System ("FHLB System"). Anchor Bank is a community-based savings bank primarily serving Western Washington through its nine full-service banking offices located within Grays Harbor, Thurston, Lewis and Pierce counties, and one loan production office located in King County, Washington. Anchor Bank is in the business of attracting deposits from the public and utilizing those deposits to originate loans. Anchor had total consolidated assets of approximately \$469.7 million, total deposits of approximately \$359.0 million and total consolidated stockholders' equity of approximately \$67.4 million at June 30, 2018. Anchor's principal executive offices are located at 601 Woodland Square Loop SE Lacey, Washington 98503, and its telephone number is (360) 491-2250. Anchor common stock trades on Nasdaq under the symbol "ANCB." For additional information about Anchor see "Information about Anchor."

The merger (Page 29)



We propose a merger in which Anchor will merge with and into FS Bancorp and a follow-up merger in which Anchor Bank will merge with and into 1st Security Bank of Washington. As a result of the mergers, Anchor will cease to exist as a separate corporation and Anchor Bank will cease to exist as a separate financial institution. In the merger, Anchor will merge with and into FS Bancorp, with FS Bancorp as the surviving corporation. Immediately following the merger, Anchor's wholly

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owned subsidiary savings bank, Anchor Bank, will merge with and into FS Bancorp's wholly owned subsidiary bank, 1st Security Bank of Washington.

Based on the number of shares of FS Bancorp common stock and Anchor common stock outstanding as of September 17, 2018, Anchor shareholders will collectively own up to approximately 5.6 % of the outstanding shares of FS Bancorp common stock after the merger. See the section entitled "The Merger – Consideration to be Received in the Merger."

We expect the merger of Anchor and FS Bancorp to be completed during the quarter ending December 31, 2018, although the merger could be delayed to as late as June 30, 2019, after which Anchor and FS Bancorp would need to mutually agree to extend the closing date of the merger.

Approval of the merger agreement requires the affirmative vote, in person or by proxy, of a majority of the outstanding shares of Anchor common stock. No vote of FS Bancorp shareholders is required (or will be sought) in connection with the merger.

The merger agreement (Page 58)

The merger agreement is described beginning on page 58. The merger agreement also is attached as Appendix A to this document. We urge you to read the merger agreement in its entirety because it contains important provisions governing the terms and conditions of the merger.

Consideration to be received in the merger (Page 58)

In the merger, Anchor shareholders will have the right, with respect to each of their Anchor common shares, to receive, as described below, an amount of FS Bancorp common shares equal to the exchange ratio, which is 0.2921 and \$12.40 in cash. The value of the stock portion of the consideration to be received by Anchor shareholders in the merger will vary with the trading price of FS Bancorp common shares between now and the completion of the merger. See "The Merger Agreement – Consideration to be Received in the Merger."

Anchor shareholders will own approximately 16.4% of the outstanding shares of FS Bancorp common stock after the merger (Page 58)

Based on the number of shares of FS Bancorp common stock and Anchor common stock outstanding as of September 17, 2018, and the closing price of FS Bancorp common stock on such date, Anchor shareholders will collectively own up to approximately 16.4 % of the outstanding shares of FS Bancorp common stock after the merger. See the section entitled "The Merger – Consideration to be Received in the Merger."

Recommendation of the Anchor board of directors and reasons of Anchor for the merger (Page 38)

The Anchor board of directors believes the merger is in the best interests of Anchor and the Anchor shareholders. The Anchor board of directors unanimously recommends that Anchor shareholders vote "FOR" the approval of the merger agreement. For the factors considered by the Anchor board of directors in reaching its decision to approve the merger agreement and making its recommendation, see "The Merger – Recommendation of the Anchor Board of Directors and Reasons of Anchor for the Merger."

Opinion of Anchor's financial advisor (Page 41)

In connection with the merger, Anchor's financial advisor, Keefe, Bruyette & Woods, Inc. or KBW, delivered a written opinion, dated July 17, 2018, to the Anchor board of directors as to the fairness, from a financial point of view as of such date, to the holders of Anchor common stock of the merger consideration to be received by them in the merger. The full text of the opinion, which describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW in preparing the opinion, is attached as Appendix B to this proxy statement/prospectus. The opinion was for the information of, and was directed to, the Anchor board of directors (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion did not address the underlying business decision of Anchor to engage in the merger or enter into the merger agreement or constitute a

recommendation to the Anchor board of directors in connection with the merger, and it does not constitute a recommendation to any holder of Anchor common stock or any shareholder of any other person as to how to vote in connection with the merger or any other matter.

Stock price information (Page 22)

FS Bancorp common stock is listed on Nasdaq under the symbol "FSBW." Anchor common stock is listed on Nasdaq under the symbol "ANCB."

The following table sets forth (a) the last reported sale prices per share of FS Bancorp common stock common stock on (i) July 17, 2018, the last trading day preceding public announcement of the signing of the merger agreement and (ii) September 21, 2018, the last practicable date prior to the mailing of this proxy statement/prospectus and (b) the equivalent price per Anchor share, determined by multiplying the exchange ratio of 0.2921 by such prices and then adding the cash consideration of \$12.40 per share.

Date	FS Bancorp closing price:	Exchange ratio:	Cash payment per share	Value of merger consideration per Anchor share <sup>1</sup>
July 17, 2018	\$61.80	0.2921	\$12.40	\$30.45
September 21, 2018	\$54.53	0.2921	12.40	\$28.33

Anchor's directors and executive officers have interests in the merger that differ from, or are in addition to, your interests in the merger (Page 54)

You should be aware that some of the directors and executive officers of Anchor have interests in the merger that are different from, or are in addition to, the interests of Anchor shareholders. These interests may create potential conflicts of interest. Anchor's board of directors was aware of and considered these interests, among other matters, when making its decisions to approve the merger agreement and in recommending that Anchor shareholders vote in favor of approving the merger agreement. These include the following:

- two executive officers will be entitled to receive change in control severance benefits under their employment agreements upon completion of the merger;
- other executive officers may be entitled to receive severance benefits under the Anchor Bank severance plan if their employment is terminated under certain circumstances within one year after completion of the merger;
- executive officers will become fully vested in their outstanding restricted shares upon completion of the merger;
- executive officers will receive a lump sum payment of the total value of their benefits under the Anchor Bank phantom stock plan within 60 days after completion of the merger;
- executive officers will receive enhanced benefits under the Anchor employee stock ownership plan by virtue of the allocation of suspense shares to their accounts upon completion of the merger and their accounts in the plan will become 100% vested immediately prior to the completion of the merger;
- directors and executive officers will receive indemnification from FS Bancorp for their past acts and omissions in their capacities as directors and officers as well as continuing insurance coverage with respect thereto for a period of six years after completion of the merger, to the fullest extent permitted under Anchor's organizational documents and to the fullest extent otherwise permitted by law;
- each director has entered into a voting agreement in favor of FS Bancorp agreeing to vote his or her shares of Anchor common stock for approval of the merger agreement and approval of the adjournment proposal; and

Terri L. Degner, Anchor's Chief Financial Officer and a director, has entered into a consulting agreement with 1st Security Bank of Washington for the provision of transition services at \$130 per hour for a period of up to three years following the completion of the merger, which consulting agreement may be terminated by either party at any time for any reason or no reason. Ms. Degner will be an independent contractor and will not be entitled to any pension, profit-sharing, insurance, or other employee or "fringe benefits" from FS Bancorp or 1st Security Bank.

For a more complete description of these interest interests, see "The Merger – Interests of Certain Persons in the Merger" on page 54 .

Material United States federal income tax considerations of the merger (Page 83)

The merger is expected to qualify for U.S. federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the Code. As a result, an Anchor shareholder generally will recognize gain, but not loss, in an amount equal to the lesser of (1) the amount of gain realized (i.e., the excess, if any, of the sum of the cash received (other than cash received in lieu of a fractional FS Bancorp common share) and the fair market value of the FS Bancorp common stock received pursuant to the merger over that holder's adjusted tax basis in its shares of Anchor common stock surrendered) and (2) the amount of cash received (other than cash received in lieu of a fractional FS Bancorp common share) pursuant to the merger. In addition, Anchor shareholders will recognize gain or loss with respect of the receipt of cash in lieu of fractional FS Bancorp common shares.

For further information concerning U.S. federal income tax consequences of the merger, please see "Material United States Federal Income Tax Consequences of the Merger" beginning on page 83 .

Tax matters are very complicated and the consequences of the merger to any particular Anchor shareholder will depend on that shareholder's particular facts and circumstances. Anchor shareholders are urged to consult their own tax advisors to determine their own tax consequences from the merger.

Following the merger, you will be entitled to receive dividends that FS Bancorp pays on its common stock, if any. (Page 22).

After the merger, you will receive dividends, if any, that FS Bancorp pays on its common stock. During 2017, FS Bancorp paid a quarterly dividend of \$0.10 per share on February 22, 2017, and \$0.11 per share on May 25, 2017, August 24, 2017, and November 22, 2017. During 2018, FS Bancorp paid a dividend of \$0.11 per share on February 21, 2018, and a dividend of \$0.14 per share on May 14, 2018, and August 23, 2018.

Accounting treatment (Page 54)

The merger will be accounted for as an acquisition of Anchor by FS Bancorp under the acquisition method of accounting in accordance with U.S. generally accepted accounting principles.

In order to complete the merger, we must first obtain certain regulatory approvals (Page 53)

In order to complete the merger, FS Bancorp and Anchor must first obtain all regulatory approvals, consents or waivers required in connection with the merger and the bank merger. Accordingly, the parties must obtain the approval of or waiver by the Federal Reserve Board, the approval of the FDIC and the approval of the DFI. The U.S. Department of Justice may review the impact of the merger and the bank merger on competition. Applications with the FDIC and the DFI were filed on or about July 27, 2018. Approval from the DFI was received on September 6, 2018. A waiver request was submitted to the Federal Reserve Board on or about August 16, 2018 and the waiver was granted on August 29, 2018.

There can be no assurance as to whether all regulatory approvals will be obtained or as to the dates of the approvals. There also can be no assurance that the regulatory approvals received will not contain a condition or requirement that results in a failure to satisfy the conditions to closing set forth in the merger agreement. See the section entitled "The Merger Agreement – Conditions to Completion of the Merger" on page 65 .

Anchor shareholders have dissenters' rights (Page 54)

Anchor shareholders have the right under Washington law to dissent from the merger, obtain an appraisal of the fair value of their Anchor common stock, and receive cash equal to the appraised fair value of their Anchor common stock (without giving effect to the merger) instead of receiving the merger consideration. To exercise dissenters' rights, among other things, an Anchor shareholder must (i) provide notice to Anchor that complies with the requirements of Washington law prior to the vote of its shareholders on the transaction of the shareholder's intent to demand payment for the shareholder's shares, and (ii) not vote in favor of the merger agreement. Submitting a properly signed proxy card that is received prior to the vote at the special meeting (and is not properly revoked) that does not direct how the shares of Anchor common stock represented by proxy are to be voted will constitute a vote in favor of the merger agreement and a waiver of such shareholder's statutory dissenters' rights.

If you dissent from the merger agreement and the conditions outlined above are met, then your shares of Anchor will not be exchanged for the merger consideration in the merger, and your only right will be to receive the fair value of your common stock as determined by mutual agreement between you and FS Bancorp or by appraisal if you are unable to agree. The appraised value may be more or less than the consideration you would receive under the terms of the merger agreement and will be based upon the value of shares of Anchor common stock without giving effect to the merger. If you exercise dissenters' rights, any cash you receive for your Anchor shares that results in a gain or loss will be immediately recognizable for federal income tax purposes. You should be aware that submitting a signed proxy card without indicating a vote with respect to the merger will be deemed a vote "FOR" the merger agreement and a waiver of your dissenters' rights. A vote "AGAINST" the merger agreement does not dispense with the other requirements to exercise dissenters' rights under Washington law.

A shareholder electing to dissent from the merger agreement must strictly comply with all procedures required under Washington law. These procedures are described more fully beginning on page 154 of this proxy statement/prospectus, and a copy of the relevant Washington statutory provisions regarding dissenters' rights is included as Appendix C to this proxy statement/prospectus.

Additional conditions to consummation of the merger (Page 65)

In addition to the regulatory approvals, the consummation of the merger depends on a number of conditions being met, including, among others:

- approval of the merger agreement by the holders of a majority of all outstanding shares of Anchor's common stock;
- authorization of the shares of FS Bancorp common stock to be issued in the merger for listing on Nasdaq;
- the effectiveness of a registration statement on Form S-4 with the SEC in connection with the issuance of FS Bancorp common stock in the merger;
- absence of any order, injunction, decree or law preventing or making illegal completion of the merger or the bank merger;
- receipt by each party of an opinion from such party's tax counsel that the merger will qualify as a tax-free reorganization for U.S. federal income tax purposes;
- accuracy of the representations and warranties of Anchor and FS Bancorp, subject to the standards set forth in the closing conditions of the merger agreement;
- performance in all material respects by Anchor and FS Bancorp of all obligations required to be performed by either of them under the merger agreement; and
- dissenting shares shall be less than 10% of the issued and outstanding shares of Anchor common stock.

Where the law permits, either FS Bancorp or Anchor could elect to waive a condition to its obligation to complete the merger although that condition has not been satisfied. We cannot be certain when (or if) the conditions to the merger will be satisfied or waived or that the merger will be completed.

In addition, after Anchor's shareholders have approved the merger agreement, we may not amend the merger agreement to reduce the amount or change the form of consideration to be received by the Anchor shareholders in the merger without the approval of Anchor shareholders as required by law.

We may decide not to complete the merger (Page 66)

Anchor and FS Bancorp, by mutual consent, can agree at any time not to complete the merger, even if the shareholders of Anchor have voted to approve the merger agreement. Also, either party can decide, without the consent of the other, not to complete the merger in a number of other situations, including:

- if any governmental entity that must grant a required regulatory approval of the merger or the bank merger has denied such approval and such denial has become final and nonappealable, unless the denial is due to the failure of the party seeking to terminate the merger agreement to perform or observe the covenants and agreements of that party set forth in the merger agreement;

- if any governmental entity of competent jurisdiction has issued a final nonappealable order, injunction or decree enjoining or otherwise prohibiting or making illegal the consummation of the merger or the bank merger;

- failure to complete the merger by June 30, 2019, unless the failure of the closing to occur by that date is due to the failure of the party seeking to terminate the merger agreement to perform or observe the covenants or agreements of that party;

- if the other party has breached any of its covenants, agreements, representations or warranties contained in the merger agreement based on the closing condition standards set forth in the merger agreement, and the party seeking to terminate is not then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement, and the breach is not cured within twenty (20) days following written notice to the party committing the breach, or which breach, by its nature, cannot be cured within such twenty (20) day period; and

- if the approval of the shareholders of Anchor contemplated by the merger agreement is not obtained by reason of the failure to obtain the vote required at the Anchor special meeting, except this right may not be exercised by Anchor if Anchor or its board of directors has committed an act that would entitle FS Bancorp to terminate the merger agreement and receive the termination fee specified in the merger agreement.

FS Bancorp, without the consent of Anchor, can terminate:

- if the board of directors of Anchor fails to recommend to its shareholders the approval of the merger agreement, or adversely changes, or publicly announces its intention to adversely change its recommendation, or Anchor breaches its obligation to call or hold the Anchor special meeting or materially breaches the merger agreement provisions outlined in the "Merger Agreement – Agreement Not to Solicit Other Offers" on page 62 .

Anchor, without the consent of FS Bancorp, can terminate:

- prior to obtaining shareholder approval in order to enter into an agreement relating to a superior proposal; provided, however, that Anchor has not materially breached the merger agreement provisions outlined in "The Merger Agreement – Agreement Not to Solicit Other Offers" on page 62 .

Under some circumstances, Anchor will be required to pay a termination fee to FS Bancorp if the merger agreement is terminated (Page 67)

Anchor must pay FS Bancorp a termination fee of \$2,702,000 if:

FS Bancorp terminates the merger agreement as a result of: (i) the Anchor board of directors failing to recommend the approval of the merger or adversely changing or publicly announcing its intention to adversely change its recommendation and the Anchor shareholders failing to approve the merger agreement; (ii) Anchor breaching its nonsolicitation or related obligations as provided in the merger agreement; or (iii) Anchor refuses to call or hold the special meeting for a reason other than that the merger agreement has been previously terminated;

Anchor terminates the merger agreement prior to obtaining shareholder approval in order to enter into an agreement relating to a superior proposal; provided, however, that Anchor has not materially breached its nonsolicitation and related obligations as provided in the merger agreement; and

if the merger agreement is terminated by either party as a result of the failure of Anchor's shareholders to approve the merger agreement and if, prior to such termination, there is publicly announced a proposal for a tender or exchange offer, for a merger or consolidation or other business combination involving Anchor or Anchor Bank or for the acquisition of a majority of the voting power in, or a majority of the fair market value of the business, assets or deposits of, Anchor or Anchor Bank and, within one year of the termination, Anchor or Anchor Bank either enters into a definitive agreement with respect to that type of transaction or consummates that type of transaction.

Comparison of shareholder rights (Page 154)

Upon completion of the merger, Anchor shareholders will become shareholders of FS Bancorp, and their rights will be governed by FS Bancorp's restated articles of incorporation and amended and restated bylaws. There are no material differences between the articles of incorporation and restated bylaws of FS Bancorp and the articles of incorporation and restated bylaws of Anchor.

The special meeting (Page 24)

#### Meeting Information and Vote Requirements

The special meeting of Anchor's shareholders will be held on Tuesday, November 13, 2018, at 10:00 a.m., local time, at the Lacey Community Center, located at 6729 Pacific Avenue SE, Lacey, Washington, 98503 unless adjourned or postponed. At the special meeting, Anchor's shareholders will be asked to:

·approve the merger agreement; and

·approve the adjournment proposal.

Shareholders will also be asked to act on any other business that may be properly submitted to a vote at the special meeting or any adjournments or postponements of the special meeting.

You may vote at the special meeting if you owned Anchor common stock as of the close of business on September 17, 2018. You may cast one vote for each share of Anchor common stock you owned at that time. Approval of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Anchor common stock. If you mark "ABSTAIN" on your proxy, or fail to submit a proxy and fail to vote in person at the Anchor special meeting or if your shares are held in street name and you fail to instruct your bank or broker how to vote with respect to the merger agreement, it will have the same effect as a vote "AGAINST" the merger agreement. Approval of the adjournment proposal requires the affirmative vote of a majority of the votes cast at the special meeting. If you mark "ABSTAIN" on your proxy, or fail to submit a proxy and fail to vote in person at the Anchor special meeting or if your shares are in street name and you fail to instruct your bank or broker how to vote with respect to the adjournment proposal, it will have no effect on such proposal.

## RISK FACTORS

By voting in favor of the merger agreement, you will be choosing to invest in the common stock of FS Bancorp as combined with Anchor. An investment in the combined company's common stock contains a high degree of risk. In addition to the other information included in this proxy statement/prospectus, including the matters addressed in the section entitled "Cautionary Statement Regarding Forward-Looking Statements" on page 17, you should carefully consider the matters described below in determining whether to vote in favor of approval of the merger agreement.

### Risks Related to the Merger

Because the market price of FS Bancorp common stock will fluctuate, Anchor shareholders cannot be sure of the value of the merger consideration they will receive.

Upon completion of the merger, each Anchor common share will be converted into the right to receive merger consideration consisting of a number of FS Bancorp common shares and cash pursuant to the terms of the merger agreement. The number of FS Bancorp common shares to be received by an Anchor shareholder will be determined based on a fixed exchange ratio of 0.2921 of a FS Bancorp common share for each Anchor common share.

Accordingly, the value of the stock portion of the merger consideration to be received by the Anchor shareholders will be based on the value of the FS Bancorp common shares. The value of the FS Bancorp common shares to be received by Anchor shareholders in the merger may vary from the value as of the date we announced the merger, the date that this document was mailed to Anchor shareholders, the date of the Anchor special meeting, and the closing date of the merger. Any change in the market price of FS Bancorp common shares prior to completion of the merger will affect the value of the stock portion of the merger consideration that Anchor shareholders will receive upon completion of the merger. Accordingly, at the time of the Anchor special meeting, Anchor shareholders will not know or be able to calculate the value of the stock portion of the merger consideration they would receive upon completion of the merger. Share price changes may result from a variety of factors, including general market and economic conditions, changes in our respective businesses, operations and prospects, and regulatory considerations, among other things. Many of these factors are beyond the control of FS Bancorp and Anchor. Anchor shareholders should obtain current market quotations for FS Bancorp common shares before voting their shares at the Anchor special meeting.

Anchor's shareholders will have less influence as shareholders of FS Bancorp than as shareholders of Anchor.

Anchor's shareholders currently have the right to vote in the election of the board of directors of Anchor and on other matters affecting Anchor. Following the merger, the shareholders of Anchor as a group will hold an ownership interest of approximately 16.4 % of FS Bancorp. When the merger occurs, each Anchor shareholder will become a shareholder of FS Bancorp with a percentage ownership of the combined company much smaller than such shareholder's percentage ownership of Anchor. Because of this, Anchor's shareholders will have less influence on the management and policies of FS Bancorp than they now have on the management and policies of Anchor.

If FS Bancorp is unable to integrate the combined operations successfully, its business and earnings may be negatively affected.

The merger involves the integration of companies that have previously operated independently. Successful integration of Anchor's operations will depend primarily on FS Bancorp's ability to consolidate operations, systems and procedures and to eliminate redundancies and costs. No assurance can be given that FS Bancorp will be able to integrate its post-merger operations without encountering difficulties including, without limitation, the loss of key employees and customers, the disruption of its respective ongoing businesses or possible inconsistencies in standards, controls, procedures and policies. Anticipated economic benefits of the merger are projected to come from various areas that FS Bancorp's management has identified through the due diligence and integration planning process. The elimination and consolidation of duplicate tasks are projected to result in annual cost savings. If FS Bancorp has difficulties with the integration, it might not fully achieve the economic benefits it expects to result from the merger. In addition, FS Bancorp may experience greater than expected costs or difficulties relating to the integration of the business of Anchor, and/or may not realize expected cost savings from the merger within the expected time frame.



The fairness opinion of Anchor's financial advisor received by Anchor's board of directors prior to signing of the merger agreement does not reflect changes in circumstances since the signing of the merger agreement. Changes in the operations and prospects of FS Bancorp or Anchor or general market and economic conditions, and other factors that may be beyond the control of FS Bancorp and Anchor, may alter the value of FS Bancorp or Anchor or the prices of shares of FS Bancorp common stock or Anchor common stock by the time the merger is completed. The opinion of Anchor's financial advisor, dated July 17, 2018, does not speak as of the time the merger will be completed or as of any date other than the date of such opinion. For a description of the opinion of Anchor's financial advisor, please refer to "The Merger – Opinion of Anchor's Financial Advisor." For a description of the other factors considered by the board of directors of Anchor in determining to approve the merger, please refer to "The Merger – Recommendation of the Anchor Board of Directors and Reasons of Anchor for the Merger."

The merger agreement limits Anchor's ability to pursue alternatives to the merger.

The merger agreement contains non-solicitation provisions that, subject to limited exceptions, limit Anchor's ability to discuss, facilitate or commit to competing third-party proposals to acquire all or a significant part of Anchor. Although Anchor's board of directors is permitted to take certain actions in connection with the receipt of a competing acquisition proposal if it determines in good faith that the failure to do so would violate its fiduciary duties, taking such actions could, and other actions (such as withdrawing or modifying its recommendation to Anchor shareholders that they vote in favor of approval of the merger agreement) would, entitle FS Bancorp to terminate the merger agreement and receive a termination fee of \$2,702,000. See the section entitled "The Merger Agreement – Termination of the Merger Agreement" on page 66 . These provisions might discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of Anchor from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share price than that proposed in the merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire Anchor than it might otherwise have proposed to pay. The payment of the termination fee by Anchor could also have an adverse impact on Anchor's financial condition.

Anchor will be subject to business uncertainties and contractual restrictions while the merger is pending.

FS Bancorp and Anchor have operated and, until the completion of the merger, will continue to operate, independently. Uncertainty about the effect of the merger on employees and customers may have an adverse effect on Anchor and consequently on FS Bancorp. These uncertainties may impair Anchor's ability to attract, retain or motivate key personnel until the merger is consummated, and could cause customers and others that deal with Anchor to seek to change existing business relationships with Anchor. Retention of certain employees may be challenging during the pendency of the merger, as certain employees may experience uncertainty about their future roles with FS Bancorp. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with FS Bancorp, FS Bancorp's business following the merger could be harmed. In addition, the merger agreement restricts Anchor from making certain acquisitions and taking other specified actions until the merger occurs without the consent of FS Bancorp. These restrictions may prevent Anchor from pursuing attractive business opportunities that may arise prior to the completion of the merger. See "The Merger Agreement – Conduct of Businesses Pending the Merger."

Anchor's directors and executive officers have additional interests in the merger.

In deciding how to vote on the approval of the merger agreement, you should be aware that Anchor's directors and executive officers might have interests in the merger that are different from, or in addition to, the interests of Anchor shareholders generally. See the section entitled "The Merger – Interests of Certain Persons in the Merger." Anchor's board of directors was aware of these interests and considered them when it recommended approval of the merger agreement to the Anchor shareholders.

Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated or that could have an adverse effect on FS Bancorp following the merger.

Before the merger and the bank merger may be completed, FS Bancorp and Anchor must obtain approvals from the FDIC and DFI and a waiver from the Federal Reserve Board. Other approvals, waivers or consents from regulators may also be required. An adverse development in either party's regulatory standing or other factors could result in an inability to obtain



approvals or delay their receipt. These regulators may impose conditions on the completion of the merger or the bank merger or require changes to the terms of the merger or the bank merger. While FS Bancorp and Anchor do not currently expect that any such conditions or changes will be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the merger or imposing additional costs on or limiting the revenues of FS Bancorp following the merger, any of which might have an adverse effect on FS Bancorp following the merger. FS Bancorp is not obligated to complete the merger if the regulatory approvals received in connection with the merger or bank merger impose any unduly burdensome condition upon FS Bancorp or 1st Security Bank of Washington. See "The Merger – Regulatory Approvals Required for the Merger" and "the Merger Agreement – Conditions to Completion of the Merger."

The merger is subject to certain closing conditions that, if not satisfied or waived, will result in the merger not being completed, which may cause the price of FS Bancorp common shares or Anchor common shares to decline.

The merger is subject to customary conditions to closing, including the receipt of required regulatory approvals and approval of Anchor's shareholders. If any condition to the merger agreement is not satisfied or waived, to the extent permitted by law, the merger will not be completed. In addition, FS Bancorp and Anchor may terminate the merger agreement under certain circumstances, even if Anchor's shareholders approve the merger agreement. If FS Bancorp and Anchor do not complete the merger, the trading prices of FS Bancorp common shares or Anchor common shares may decline. In addition, neither company would realize any of the expected benefits of having completed the merger. If the merger is not completed and Anchor's board of directors seeks another merger or business combination, Anchor shareholders cannot be certain that Anchor will be able to find a party willing to offer equivalent or more attractive consideration than the consideration FS Bancorp has agreed to provide. If the merger is not completed, additional risks could materialize, which could materially and adversely affect the business, financial condition and results of FS Bancorp and Anchor, including the recognition of the expenses relating to the merger without realizing the economic benefits of the merger. For more information on closing conditions to the merger agreement, see "The Merger Agreement – Conditions to Completion of the Merger" included elsewhere in this proxy statement/prospectus.

#### Risks Relating to Anchor and Anchor's Business

Anchor is, and will continue to be, subject to the risks described in Anchor's Annual Report on Form 10-K for the fiscal year ended June 30, 2018, as amended and as updated by subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, all of which are filed with the SEC.

#### Risks Relating to FS Bancorp and FS Bancorp's Business

FS Bancorp is, and will continue to be, subject to the risks described in FS Bancorp's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as updated by subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, all of which are filed with the SEC and incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information" included elsewhere in this proxy statement/prospectus.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document, including information included or incorporated by reference in this document, may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and FS Bancorp and Anchor intend for such forward-looking statements to be covered by the safe harbor provisions for forward looking statements contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, (i) statements about the benefits of the merger, including future financial and operating results, cost savings, enhancements to revenue and accretion to reported earnings that may be realized from the merger; (ii) statements about our respective plans, objectives, expectations and intentions and other statements that are not historical facts; (iii) statements about expectations regarding the timing of the closing of the merger and the ability to obtain regulatory approvals on a timely basis; and (iv) other statements identified by words such as "expects," "projects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "possible," "potential," "strategy," or words of similar meaning. These forward-looking statements are based on current beliefs and expectations of FS Bancorp's and Anchor's respective management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and beyond FS Bancorp's and Anchor's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- our ability to successfully integrate any assets, liabilities, customers, systems, and personnel; the required regulatory approvals for the merger and bank merger and/or the approval of the merger agreement by the shareholders of Anchor might not be obtained or other conditions to the completion of the merger set forth in the merger agreement might not be satisfied or waived;
- the growth opportunities and cost savings from the merger may not be fully realized or may take longer to realize than expected;
- operating costs, customer losses and business disruption following the merger, including adverse effects on relationships with employees, may be greater than expected;
- adverse governmental or regulatory policies may be enacted;
- the interest rate environment may change, causing margins to compress and adversely affecting net interest income;
- the global financial markets may experience increased volatility;
- we may experience adverse changes in our credit rating;
- we may experience competition from other financial services companies in our markets; and
- an economic slowdown may adversely affect credit quality and loan originations.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed under "Risk Factors" beginning on page 14 and in FS Bancorp's reports filed with the SEC. For any forward-looking statements made in this proxy statement/prospectus or in any documents incorporated by reference into this proxy statement/prospectus, FS Bancorp and Anchor claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this proxy statement/prospectus or the date of the applicable document incorporated by reference in this proxy statement/prospectus. FS Bancorp and Anchor do not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this proxy statement/prospectus and attributable to FS Bancorp, Anchor or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this proxy statement/prospectus.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION OF FS BANCORP

FS Bancorp is providing the following information to aid you in your analysis of the financial aspects of the merger. FS Bancorp derived the information as of and for the five years ended December 31, 2013 through December 31, 2017 from its historical audited consolidated financial statements for these fiscal years. The audited consolidated financial information contained herein is the same historical information that FS Bancorp has presented in its prior filings with the SEC. The historical consolidated financial data for the six months ended June 30, 2018 and 2017 is derived from unaudited consolidated financial statements. However, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation at such dates and for such periods have been made.

The operating results for the six months ended June 30, 2018 and 2017 are not necessarily indicative of the operating results that may be expected for any future interim period or the year ending December 31, 2018. This information is only a summary, and you should read it in conjunction with FS Bancorp's consolidated financial statements and notes thereto contained in FS Bancorp's 2017 Annual Report on Form 10-K, which has been incorporated by reference into this document. See the section entitled "Where You Can Find More Information" on page 157 .

	At or For the Six Months Ended June 30, (unaudited)		At or For the Year Ended December 31,				
	2018	2017	2017	2016	2015	2014	2013
	(Dollars in thousands, except per share data)						
<b>Balance Sheet</b>							
<b>Summary:</b>							
Total assets	\$1,132,542	\$928,582	\$981,783	\$827,926	\$677,561	\$509,754	\$419,187
Loans receivable, net	881,200	709,102	761,558	593,317	502,535	387,174	281,081
Mortgage-backed securities	49,063	42,751	39,734	45,195	22,835	20,244	27,454
Investment securities	49,402	36,181	42,746	36,680	32,382	28,500	28,785
Cash and cash equivalents	21,977	17,802	18,915	36,456	24,455	15,555	38,459
Customer accounts	870,113	785,697	829,842	712,593	485,178	420,444	336,876
FHLB advances	106,526	30,669	7,529	12,670	98,769	17,034	16,664
Stockholders' equity	129,371	88,824	122,002	81,033	75,340	65,836	62,313
Book value per share using common shares outstanding	\$35.94	\$30.40	\$34.47	\$28.32	\$25.18	\$22.48	\$20.55
Average equity to average assets	11.84	% 9.52	% 10.30	% 9.49	% 11.94	% 13.92	% 15.78
Non-performing assets to total assets	0.06	0.08	0.11	0.09	0.15	0.08	0.77
<b>Income Statement</b>							
<b>Summary:</b>							
Interest income	\$27,010	\$21,170	\$46,181	\$38,020	\$31,707	\$24,842	\$21,733
Interest expense	3,588	2,229	4,933	4,163	3,658	2,702	2,178
	23,422	18,941	41,248	33,857	28,049	22,140	19,555

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Net interest income										
Provision for loan losses	800	--	750	2,400	2,250	1,800	2,170			
Other income	10,638	12,377	24,074	23,569	17,593	10,033	8,915			
Other expense	23,179	21,321	43,993	38,923	29,643	23,902	20,361			
Income before income taxes	10,081	9,997	20,579	16,103	13,749	6,471	5,939			
Income taxes	1,502	3,045	6,494	5,604	4,873	1,931	2,019			
Net income	\$8,579	\$6,952	\$14,085	\$10,499	\$8,876	\$4,540	\$3,920			
Per Share Data:										
Basic earnings	\$2.40	\$2.40	\$4.55	\$3.63	\$2.98	\$1.52	\$1.29			
Diluted earnings	2.28	2.25	4.28	3.51	2.93	1.52	1.29			
Cash dividends	0.25	0.21	0.43	0.37	0.27	0.23	0.15			
Return on average stockholders' equity	13.92	% 16.91	% 14.80	% 13.84	% 12.73	% 7.19	% 6.43			%
Return on average assets	1.65	% 1.61	% 1.53	% 1.31	% 1.52	% 1.00	% 1.01			%
Efficiency ratio	68.05	% 68.08	% 67.35	% 67.78	% 64.95	% 74.29	% 71.52			%
Average Shares Outstanding										
Basic	3,573,560	2,891,116	3,094,586	2,896,209	2,978,165	2,979,099	3,032,757			
Diluted	3,762,079	3,084,392	3,291,700	2,990,159	3,032,517	2,986,064	3,032,757			

## SELECTED CONSOLIDATED FINANCIAL INFORMATION OF ANCHOR

The following selected financial data with respect to Anchor's balance sheets and its income statements for the fiscal years ended June 30, 2014 through June 30, 2018 have been derived from its historical audited financial statements for those fiscal years. The audited consolidated financial information contained herein is the same historical information that Anchor has presented in its prior filings with the SEC.

	At or For the Year Ended June 30,				
	2018	2017	2016	2015	2014
<b>Balance Sheet Summary:</b>					
Total assets	\$469,654	\$462,525	\$431,504	\$379,230	\$389,128
Securities	155	165	175	554	573
Mortgage-backed securities	21,154	25,954	29,781	36,628	47,109
Loans receivable, net	392,044	377,908	347,351	283,444	281,526
Deposits	359,021	345,187	300,894	299,812	311,034
FHLB advances	37,000	45,500	62,000	10,000	17,500
Total equity	67,444	65,851	63,196	63,723	53,674
<b>Income Statement Summary:</b>					
Total interest income	\$22,304	\$20,279	\$17,524	\$16,886	\$17,789
Total interest expense	4,078	3,321	2,830	3,076	3,681
Net interest income before provision for loan losses	18,226	16,958	14,694	13,810	14,108
Provision for loan losses	405	310	340	--	--
Net interest income after provision for loan losses	17,821	16,648	14,354	13,810	14,108
Noninterest income	4,043	4,264	4,205	4,503	4,075
Noninterest expense	15,711	17,523	18,025	16,807	17,760
Income before provision (benefit) for income tax	6,153	3,389	534	1,506	423
Total provision (benefit) for income tax	3,962	1,039	39	(8,321)	--
Net income	\$2,191	\$2,350	\$495	\$9,827	\$423
<b>Per Share Data:</b>					
Basic earnings	\$0.90	\$0.98	\$0.20	\$3.97	\$0.17
Diluted earnings	0.90	0.97	0.20	3.97	0.17
Cash dividends	--	--	--	--	--
Return on average stockholders' equity	3.63	% 4.00	% 0.86	% 3.10	% 0.83
Return on average assets	0.48	% 0.54	% 0.13	% 0.43	% 0.10
Efficiency ratio	70.60	% 82.60	% 95.40	% 91.80	% 97.70
<b>Average Shares Outstanding</b>					
Basic	2,423,882	2,402,106	2,452,455	2,477,423	2,466,983
Diluted	2,430,271	2,425,512	2,459,526	2,477,423	2,466,983

## SUMMARY UNAUDITED PRO FORMA DATA

The following table shows summary unaudited consolidated pro forma financial data reflecting the merger of Anchor with FS Bancorp, assuming the companies had been combined at January 1, 2017 and operated in calendar year 2017, and at or for the six months ended June 30, 2018. The pro forma amounts reflect certain acquisition accounting adjustments, which are based on estimates that are subject to change depending on fair values as of the merger completion date. These adjustments are described in the notes to unaudited pro forma combined condensed consolidated financial information contained elsewhere in this document under the heading "Unaudited Pro Forma Combined Condensed Consolidated Financial Information," beginning on page 71. The pro forma financial data in the table below does not include any projected cost savings, revenue enhancements or other possible financial benefits of the merger to the combined company and does not attempt to suggest or predict future results. This information also does not necessarily reflect what the historical financial condition or results of operations of the combined company would have been had FS Bancorp and Anchor been combined as of the dates and for the periods shown.

	For the Six Months Ended June 30, 2018	For the Year Ended December 31, 2017
(In thousands)		
Income Statement:		
Interest income	\$39,355	\$69,251
Interest expense	5,739	8,616
Net interest income	33,616	60,635
Provision for loan losses	1,025	1,090
Net interest income after provision for loan losses	32,591	59,545
Noninterest income	12,515	28,356
Noninterest expense	31,202	61,163
Income before income taxes	13,904	26,738
Income tax expense	2,284	10,671
Net income	\$11,620	\$16,067

	At June 30, 2018 (In thousands)
Balance Sheet:	
Total assets	\$1,570,462
Investment securities available for sale and held to maturity	119,690
Total loans receivable, net of allowance of \$11,571	1,266,682
Total deposits	1,228,544
Subordinated note	9,855
Accrued expenses and other liabilities	22,866
Total shareholders' equity	166,005



## Comparative Unaudited Pro Forma per Share Data

The table below sets forth the book value per common share, cash dividends per common share, and basic and diluted earnings per common share data for each of FS Bancorp and Anchor on a historical basis, for FS Bancorp on a pro forma combined basis and on a pro forma combined basis per Anchor equivalent share. The pro forma combined and pro forma combined per equivalent share information gives effect to the merger as if the merger occurred on June 30, 2018 or December 31, 2017, in the case of the book value data, and as if the merger occurred on January 1, 2017 and operated in calendar year 2017, and at or for the six months ended June 30, 2018, in the case of the cash dividends and earnings per common share data. The Pro Forma Combined Amounts for FS Bancorp data reflect certain acquisition accounting adjustments, which are based on estimates that are subject to change depending on fair values as of the merger completion date. These adjustments are described in the notes to unaudited pro forma combined condensed consolidated financial information contained elsewhere in this document under the heading "Unaudited Pro Forma Combined Condensed Consolidated Financial Information," beginning on page 71. The Pro Forma Combined per Anchor Equivalent Share data shows the effect of the merger from the perspective of an owner of Anchor common stock. The pro forma financial data in the table below is provided for illustrative purposes, does not include any projected cost savings, revenue enhancements or other possible financial benefits of the merger to the combined company and does not attempt to suggest or predict future results. This information also does not necessarily reflect what the historical financial condition or results of operations of the combined company would have been had FS Bancorp and Anchor been combined as of the dates and for the periods shown.

	FS Bancorp <u>Historical</u>	Anchor <u>Historical</u>	Pro Forma Combined Amounts for <u>FS</u> <u>Bancorp</u>	Pro Forma Combined per Anchor Equivalent <u>Share</u> <sup>(1)</sup>
Book value per common share at June 30, 2018 <sup>(3)</sup>	\$35.94	\$27.15	\$38.38	\$11.21
Book value per common share at December 31, 2017 <sup>(3)</sup>	34.47	26.19	37.19	10.86
Cash dividends per common share for the six months ended June 30, 2018 <sup>(2)</sup>	0.25	--	0.25	N/A
Cash dividends per common share for the year ended December 31, 2017 <sup>(2)</sup>	0.43	--	0.43	N/A
Basic earnings per common share for the six months ended June 30, 2018	2.40	1.05	2.70	0.79
Basic earnings per common share for the year ended December 31, 2017	4.55	0.41	4.21	1.23
Diluted earnings per common share for the six months ended June 30, 2018	2.28	1.05	2.59	0.76
Diluted earnings per common share for the year ended December 31, 2017	4.28	0.41	4.00	1.17

(1) Calculated by multiplying the Pro Forma Combined Amounts for FS Bancorp by 0.2921, which is the exchange ratio for the stock portion of the merger consideration payable to the holders of Anchor common stock, and, solely in the case of the book value per common share at June 30, 2018, and December 31, 2017, adding to that result, \$12.40, which is the per share cash merger consideration payable to holders of Anchor common stock. See "The Merger Agreement – Consideration to be Received in the Merger" on page 58.

(2) The pro forma combined cash dividends per common share for the six months ended June 30, 2018 and the year ended December 31, 2017 represent the actual cash dividends per share declared by FS Bancorp for those periods.

(3) The pro forma combined book value and common shares as of June 30, 2018 was \$166.0 million and 4,325,100, respectively. See the calculation for these amounts included in the section "Unaudited Pro Forma Combined Condensed Consolidated Financial Information" on page 71 and "– Note 2 – Purchase Price" on page 76 . The pro forma combined book value and common shares as of December 31, 2017 was estimated to be \$158.6 million and 4,265,211, respectively.

## MARKET PRICE DATA AND DIVIDEND INFORMATION

## Comparative Market Price Information

The following table presents trading information for FS Bancorp and Anchor common stock on Nasdaq on July 17, 2018, the last trading day prior to the announcement of the signing of the merger agreement, and on September 21, 2018, the last practical trading day for which information was available prior to the date of the printing of this proxy statement/prospectus.

	Historical market value per share of FS Bancorp	Historical market value per share of Anchor
July 17, 2018	\$ 61.80	\$ 28.35
September 21, 2018	54.53	27.60

You should obtain current market quotations for FS Bancorp common stock. The market price of FS Bancorp common stock will likely fluctuate between the date of this document and the date on which the merger is completed and after the merger. Because the market price of FS Bancorp common stock is subject to fluctuation, the value of the shares of FS Bancorp common stock that you may receive in the merger may increase or decrease prior to and after the merger.

## Historical Market Prices and Dividend Information

FS Bancorp common stock is listed on Nasdaq under the symbol "FSBW." Anchor common stock is listed on Nasdaq under the symbol "ANCB." The following table sets forth, for the calendar quarters indicated, the high and low sales prices per share of FS Bancorp common stock and Anchor common stock as reported on Nasdaq and the quarterly cash dividends per share declared.

	FS Bancorp		Dividends declared per share and paid	Anchor Bancorp		Dividends
	Market Price High	Low		Market Price High	Low	
2018						
Third quarter through September 21, 2018	\$ 65.49	\$ 53.86	\$ 0.14	\$ 27.80	\$ 27.50	\$ —
June 30, 2018	64.00	52.95	0.14	26.35	26.15	—
March 31, 2018	59.81	52.71	0.11	24.71	24.70	
2017						
December 31, 2017	\$ 58.00	\$ 48.16	\$ 0.11	\$ 24.80	\$ 24.80	\$ —
September 30, 2017	53.44	42.77	0.11	24.85	24.70	—
June 30, 2017	46.45	36.05	0.11	25.25	25.05	—
March 31, 2017	39.70	34.10	0.10	25.95	25.75	—
2016						
December 31, 2016	\$ 38.81	\$ 27.80	\$ 0.10	\$ 27.38	\$ 24.05	\$ —
September 30, 2016	29.51	25.13	0.10	26.24	23.11	—
June 30, 2016	26.26	24.32	0.10	25.44	23.00	—
March 31, 2016	26.48	22.05	0.07	25.06	22.61	—

As of June 30, 2018 there were 3,708,660 outstanding shares of FS Bancorp common stock held by approximately 133 shareholders of record, exclusive of shareholders holding their shares in street name. As of June 30, 2018, there

were 2,484,030 outstanding shares of Anchor common stock held by approximately 183 holders of

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record, exclusive of shareholders holding their shares in street name. Anchor has not paid any dividends to its shareholders.

The board of directors of FS Bancorp from time to time evaluates the payment of cash dividends. The timing and amount of any future dividends will depend upon earnings, cash and capital requirements, the financial condition of FS Bancorp and its subsidiaries, applicable government regulations and other factors deemed relevant by FS Bancorp's board of directors.

## THE SPECIAL MEETING OF ANCHOR SHAREHOLDERS

This proxy statement/prospectus constitutes the proxy statement of Anchor for use at the special meeting of Anchor's shareholders to be held on Tuesday, November 13, 2018, at the Lacey Community Center, 6729 Pacific Avenue SE, Lacey, Washington, 98503 at 10:00 a.m., local time, and any adjournments thereof.

At the special meeting, the shareholders of Anchor will consider and vote upon (i) approval of the merger agreement; and (ii) approval of the adjournment proposal.

Pursuant to the merger agreement, Anchor will merge with and into FS Bancorp, and Anchor's wholly owned subsidiary, Anchor Bank, will merge with and into 1st Security Bank of Washington. We expect to complete the merger of Anchor with and into FS Bancorp during the quarter ended December 31, 2018.

When we complete the merger, Anchor shareholders will receive a fractional share of FS Bancorp common stock and cash as merger consideration for each share of Anchor common stock they own, as described in "The Merger – Consideration to be Received in the Merger" on page 53.

Anchor has supplied all information contained in this proxy statement/prospectus with respect to Anchor. FS Bancorp has supplied all information contained in this proxy statement/prospectus with respect to FS Bancorp.

This proxy statement/prospectus is first being mailed to shareholders of Anchor on or about October 4, 2018.

### Voting and Proxy Procedure

#### Shareholders Entitled to Vote.

The close of business on September 17, 2018 was the record date for determining Anchor shareholders entitled to receive notice of and to vote at the special meeting. On the record date, there were 2,484,030 shares of Anchor common stock outstanding held by 183 holders of record. Anchor has no other class of voting securities outstanding. Each holder of Anchor common stock is entitled to one vote for each share of Anchor common stock in that holder's name on Anchor's books as of the record date on any matter submitted to the vote of the Anchor shareholders at the special meeting.

If you are a beneficial owner of Anchor common stock held by a broker, bank or other nominee (i.e., in "street name"), you will need proof of ownership to be admitted to the special meeting. A recent brokerage statement or letter from a bank or broker are examples of proof of ownership. If you want to vote your shares of Anchor common stock held in street name in person at the special meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

#### Voting Your Shares.

You can vote your shares using one of the following methods:

- Vote through the Internet at [[www.proxyvote.com](http://www.proxyvote.com)];
- Vote by telephone using the toll-free number shown on the proxy card; or
- Complete and return a written proxy card.

Votes submitted through the Internet or by telephone must be received by 11:59 p.m., Eastern Time, on November 12, 2018. Internet and telephone voting are available 24 hours a day, and if you use one of those methods, you do not need to return a proxy card.

You can also vote in person at the special meeting, and submitting your voting instructions by any of the methods mentioned above will not affect your right to attend the special meeting and vote.

#### Quorum.

The presence, in person or by proxy, of at least a majority of the total number of outstanding shares of Anchor common stock entitled to vote is necessary to constitute a quorum at the special meeting. Abstentions and broker non-votes will be counted as shares present and entitled to vote at the special meeting for purposes of determining the existence of a quorum.

#### Proxies; Proxy Revocation Procedures.

The Anchor board of directors solicits proxies so that each shareholder has the opportunity to vote on the merger agreement and any other proposal to be considered at the special meeting. When a proxy card is returned properly signed and dated, the shares represented thereby will be voted in accordance with the instructions on the proxy card. If a shareholder of record attends the special meeting and wishes to vote in person, he or she may vote by ballot. Where no instructions are indicated, proxies will be voted in accordance with the recommendations of the Anchor board of directors. The board recommends a vote:

- FOR approval of the merger agreement; and
- FOR the adjournment proposal.

Anchor shareholders may revoke a proxy at any time by: (i) sending written notice of revocation to the corporate secretary of Anchor prior to the special meeting; (ii) executing and delivering a proxy for the special meeting bearing a later date; (iii) a subsequent vote by telephone or internet; or (iv) attending the special meeting and voting in person. Attendance at the special meeting will not automatically revoke a proxy, but a shareholder in attendance may request a ballot and vote in person thereby revoking a prior granted proxy.

Written notices of revocation or other communications about revoking your proxy should be addressed to Anchor Bancorp, Attn: Corporate Secretary, 601 Woodland Square Loop SE, Lacey, Washington 98503.

Proxies that do not provide the proxy holders with direction in voting on the merger agreement or with respect to the adjournment proposal will be voted in favor of the merger agreement and the adjournment proposal, in accordance with the recommendation of the board of directors of Anchor. Anchor shareholders who provide no instruction with respect to the merger agreement will not be eligible to assert their dissenters' rights.

#### Participants in the Anchor Employee Stock Ownership Plan.

If you hold shares of Anchor common stock through the Anchor employee stock ownership plan, the trustee of the plan will vote the shares in your plan account in accordance with your instructions. Each participant in the plan is being sent a form of voting instructions card for this purpose. Cards properly completed, signed and returned to the trustee will constitute instructions to the trustee as to the manner in which shares of Anchor common stock allocated to the plan accounts of participants are to be voted. Shares of Anchor common stock allocated to accounts in the plan for which no voting instructions are given will be voted by the trustee in the same proportion as the shares for which the trustee has received voting instructions. The deadline for returning your voting instructions to the trustee is November 6, 2018. Only the trustee can vote the shares held in the plan, even if a plan participant attends the special meeting in person.

#### Vote Required; Voting Agreements.

The approval of the merger agreement will require the affirmative vote, in person or by proxy, of a majority of the outstanding shares of Anchor common stock. The directors of Anchor and their affiliates hold 5.6% of the outstanding shares entitled to vote.

The directors of Anchor have entered into voting agreements with FS Bancorp with respect to the shares of Anchor common stock they own, in which they have agreed, among other things, to vote, or cause to be voted, all of their shares of Anchor common stock in favor of the merger agreement. See the section entitled "The Merger Agreement – Voting Agreements" on page 69 . Because approval of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Anchor common stock, failure to vote, abstentions and broker non-votes will have the same effect as a vote against the merger agreement.

The adjournment proposal will be approved if a majority of the votes cast at the special meeting are voted in favor of the adjournment proposal. The failure to vote, abstentions and broker non-votes on the adjournment proposal will have no effect on such proposal.

#### Proxy Solicitation

The accompanying proxy is being solicited by the board of directors of Anchor. Anchor will bear the entire cost of solicitation of proxies from holders of its common shares. In addition to the solicitation of proxies by mail, certain officers, directors and employees of Anchor, without extra remuneration, may also solicit proxies in person, by telephone, facsimile or otherwise. Anchor will pay printing, postage and mailing costs of the proxy statement/prospectus. All other costs, including legal and accounting fees, shall be borne by the party incurring such costs. In addition, Anchor has engaged Regan & Associates, Inc. to assist in distributing proxy materials and soliciting proxies and has agreed to pay a fee of \$9,000, including out-of-pocket expenses, for its services to be rendered on behalf of Anchor.

#### Security Ownership of Management and Certain Beneficial Owners

The following table sets forth, as of September 17 , 2018, the voting record date, information regarding Anchor common stock ownership by:

- those persons or entities (or groups of affiliated person or entities) known by management to beneficially own more than five percent of Anchor's common stock other than directors and executive officers;
- each director and director nominee of Anchor;
- each executive officer of Anchor or Anchor Bank for whom compensation is required to be disclosed under Item 402 of SEC Regulation S-K (known as "named executive officers"); and
- all current directors and executive officers of Anchor and Anchor Bank as a group.

Persons and groups who beneficially own in excess of five percent of Anchor's common stock are required to file with the SEC, and provide Anchor a copy, reports disclosing their ownership pursuant to the Exchange Act. To Anchor's knowledge, no other person or entity, other than the ones set forth below, beneficially owned more than five percent of the outstanding shares of Anchor's common stock as of the close of business on the voting record date.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In accordance with Rule 13d-3 of the Exchange Act, a person is deemed to be the beneficial owner of any shares of common stock if he or she has voting and/or investment power with respect to those shares. Therefore, the table below includes shares owned by spouses, other immediate family members in trust, shares held in retirement accounts or funds for



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the benefit of the named individuals, shares held in the Anchor employee stock ownership plan, and other forms of ownership, over which shares the persons named in the table may possess voting and/or investment power.

As of the voting record date, there were 2,484,030 shares of Anchor common stock outstanding.

Number of Shares Beneficially Owned <sup>(1)</sup>	Percent of Shares Outstanding (%)
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Beneficial  
Owners  
of  
More  
Than  
5%

Context BH 247,208 Management, LP 401 City Avenue, Suite 800 Bala Cynwyd, Pennsylvania 19004	(2) 9.95
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Joel S. 225,000 Lawson, IV 2040 Grubbs Mill Road Berwyn, Pennsylvania 19312	(3) 9.06
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Light 26,050 Investment Partners,	5.03
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LLC  
 3801  
 PGA  
 Boulevard,  
 Suite  
 500  
 Palm  
 Beach  
 Gardens,  
 Florida  
 33410

M3  
~~19,465~~ 5.61  
 LLC  
 10  
 Exchange  
 Place,  
 Suite  
 510  
 Salt  
 Lake  
 City,  
 Utah  
 84111

Joseph  
~~236,466~~ (4) 9.52  
 Stilwell  
 111  
 Broadway,  
 12<sup>th</sup>  
 Floor

Yakira  
~~79,613~~ 7.23  
 LP  
 991  
 Post  
 Road  
 East,  
 Second  
 Floor  
 Westport,  
 Connecticut  
 06880

Directors  
~~2,700~~ (5) \*  
 D.

Ruecker Jerald \$7,258	(6) *
Shaw Douglas \$200	(7) *
Kay George \$7,200	(8) *
Donovan Terri \$8,659	(9) *
Degner Reid \$250	(7) *
Bates Gordon \$3,050 Stephenson	(10)*

Named  
Executive  
Officers  
Who  
Are  
Not  
Directors

Matthew \$3,324 Moran	(11)*
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All Executive Officers and Directors 140,216 as a Group (9 persons)	5.64
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(footnotes on the following page)

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\* Less than one percent of shares outstanding.

Shares of restricted stock granted under the 2015 Equity Incentive Plan, as to which the holders have voting

- (1) power but not investment power, are included as follows: Mr. Moran, 3,961 shares; and all executive officers and directors as a group, 3,495 shares.
- (2) According to a Schedule 13G filed February 13, 2018, Context BH Capital Management, LP has sole voting and dispositive power over the shares reported.
- (3) According to a Schedule 13D/A filed December 10, 2015, Mr. Lawson has sole voting and dispositive power over the shares reported.  
According to a Schedule 13D/A filed September 6, 2016, Stilwell Activist Fund, L.P., Stilwell Activist Investments, L.P., Stilwell Partners, L.P., Stilwell Value LLC and Joseph Stilwell have shared voting and dispositive power over the shares reported.
- (4) Includes shares of restricted stock noted in footnote (1); remaining shares are held in individual retirement account ("IRA").  
Includes shares of restricted stock noted in footnote (1), 9,500 shares held jointly with spouse, 849 shares held in
- (5) IRA, 2,217 shares held in the ESOP, 3,245 shares held in spouse's IRA and 3,406 shares held by Shaw Family I LLC.
- (6) Includes shares of restricted stock noted in footnote (1); remaining shares are held jointly with spouse.
- (7) Includes shares of restricted stock noted in footnote (1), 4,000 shares held jointly with spouse, 4,000 shares held by William M. Donovan Trust as to which Mr. Donovan is trustee, as well as 2,000 shares held for his children.
- (8) Includes shares of restricted stock noted in footnote (1), 10,000 shares held jointly with spouse and 1,409 shares held in the ESOP.
- (9) Consists of 1,000 shares held jointly with spouse, 1,000 shares held in his spouse's IRA and 1,050 shares held as
- (10) custodian for minors.
- (11) Includes shares of restricted stock noted in footnote (1).

## THE MERGER

### General

The boards of directors of FS Bancorp and Anchor have unanimously approved the merger agreement providing for the merger of Anchor with and into FS Bancorp, with FS Bancorp being the surviving entity, and the merger of Anchor Bank with and into 1st Security Bank of Washington, with 1st Security Bank of Washington being the surviving institution. We expect to complete the merger of Anchor with and into FS Bancorp during the quarter ending December 31, 2018.

### Background of the Merger

Anchor's board of directors regularly reviews and assesses Anchor's business strategies and objectives, with the goal of maximizing value for its shareholders. Following its mutual to stock conversion in January 2011, Anchor remained subject to a Cease and Desist Order with the FDIC and the DFI that was entered into in 2009. In connection with the lifting of the Cease and Desist Order in September 2012, Anchor entered into a Supervisory Directive with the Federal Reserve Bank of San Francisco ("Federal Reserve Bank") and Anchor Bank entered into a Supervisory Directive with the DFI.

On November 20, 2014, the DFI terminated its Supervisory Directive with Anchor Bank and on January 13, 2015, the Federal Reserve Bank terminated its Supervisory Directive with Anchor. Thereafter, the Anchor board of directors began assessing Anchor's business opportunities, including the possible acquisition of other financial institutions.

During 2015, Anchor's board of directors continued to review and assess its business strategies and objectives. With the termination of its supervisory directives, the shareholder activists that purchased shares in Anchor's offering of its common stock as part of its mutual to stock conversion began urging the Anchor board to maximize shareholder value through the sale of Anchor. In particular, two shareholder activists, Joel S. Lawson, and Joseph Stilwell and his affiliates (collectively, the "Stilwell Group") increased their demands on Anchor to find a potential acquisition partner.

During the months of September and October 2015, Mr. Lawson ran a proxy contest in connection with Anchor's October 2015 annual meeting of shareholders and he was successful in the appointment of his nominee, Varonica S. Ragan, to Anchor's and Anchor Bank's respective boards of directors on December 9, 2015. Ms. Ragan was also appointed as chairperson of the Anchor board of directors' strategic planning committee (the "Committee"). In connection with Ms. Ragan's appointment to Anchor's board of directors, Anchor also entered into a standstill agreement with Mr. Lawson and Ms. Ragan.

In March 2016, KBW, which had acted as financial advisor to Anchor in connection with the offering of Anchor's common stock in the mutual to stock conversion and maintained its relationship with Anchor following the conversion, met with the Anchor board of directors to discuss an analysis prepared by KBW regarding Anchor remaining independent versus a sale of Anchor.

On April 28, 2016, KBW indicated to the Committee that Company A could be a possible merger partner for Anchor. After discussion, the Committee decided to pursue this opportunity and authorized KBW to contact Company A regarding a possible transaction.

During the period that followed through July 22, 2016, Anchor entered into an engagement letter with KBW with respect to a possible acquisition of Anchor by Company A, unsuccessfully pursued a possible acquisition by Company A at proposed pricing to Anchor common shareholders of \$27.00 per share with 30% of the consideration in cash and 70% of the consideration in Company A common stock, and evaluated, and elected not to pursue, a possible purchase of branches by Anchor Bank from another financial institution.

During the period between June 15, 2016 and mid-July 2016, members of senior management of Anchor and Anchor's counsel Breyer & Associates PC, which we refer to in this document as "B&A" engaged in discussions with members of the Stilwell Group regarding the desire of the Stilwell Group for Anchor to be sold at this time and Anchor, after proper demand by the Stilwell Group, provided its shareholders list to a representative of the Stilwell Group.

On July 20, 2016, by conference call, KBW recommended that the Anchor board consider expanding its search for a merger partner and proposed next steps in the process. The Anchor board authorized KBW to develop a recommended list of potential partners, and to prepare a confidential offering memorandum and other documents required to present information on Anchor to potential interested parties. In connection with its determination to pursue other merger partners, the Anchor board decided, after discussions with B&A, to announce Anchor's engagement of KBW as its financial advisor to evaluate and pursue its strategic alternatives through a press release and filing of a Current Report on Form 8-K with the SEC.

On July 22, 2016, KBW provided Anchor with an amendment to its engagement letter with respect to a transaction with Company A to expand its engagement to include other potential merger partners approved by Anchor.

On July 25, 2016, Anchor distributed a press release and filed the press release on a Current Report on Form 8-K with the SEC to announce its engagement of KBW to assist Anchor in identifying and evaluating various strategic options and operating scenarios intended to maximize shareholder value, including the potential sale or merger of Anchor.

On July 27, 2016, the Stilwell Group's Schedule 13D/A filed with the SEC indicated that they would seek to appoint a nominee to the Anchor board unless Anchor announced a sale transaction prior to its annual meeting of shareholders in September 2016.

On July 28, 2016, KBW was contacted by Brent J. Beardall, the then President and Chief Banking Officer of Washington Federal, indicating that Washington Federal might possibly be interested in a transaction with Anchor.

On August 1, 2016, Anchor signed the amended engagement letter with KBW pursuant to which KBW was engaged to contact other potential merger partners in its capacity as financial advisor to Anchor.

On August 5, 2016, the Committee and B&A participated in a conference call with KBW to discuss potential interested parties. KBW identified five potential partners to contact on a confidential basis to ascertain their respective level of interest in acquiring Anchor. Discussion followed regarding each party and its ability to complete a proposed transaction.

On August 16, 2016, the Committee participated in a conference call with B&A and KBW to discuss the Stilwell Group nominee to the Anchor board and the Stilwell Group's desire to sell Anchor. The Committee discussed the options available to Anchor regarding putting the Stilwell Group's nominee on the Anchor board. KBW provided an update on calls it had received from potential interested parties, including a credit union. The Committee also discussed (i) a potential branch acquisition from Company B for \$32 or \$33 million in deposits with a 2% deposit premium, which Anchor elected not to pursue and (iii) contacting Company C, a smaller bank, regarding a potential transaction with Anchor.

On August 23, 2016, Mr. Shaw discussed with a representative of the Stilwell Group the possibility of the appointment of a Stilwell Group nominee to the Anchor board of directors. That same day a representative of the Stilwell Group provided forms of a standstill agreement and a non-disclosure agreement to B&A for its review on behalf of Anchor. Negotiation of these agreements between B&A and representatives of the Stilwell Group followed.

On August 29, 2016, the Anchor board of directors appointed Gordon Stephenson, the nominee of the Stilwell Group, to the Anchor board. Mr. Stephenson's appointment was pursuant to a standstill agreement and a



non-disclosure agreement between Anchor and the Stilwell Group, which also were approved by the Anchor board and executed by the parties. Anchor and the Stilwell Group distributed a joint press release announcing Mr. Stephenson's appointment, which was filed as an exhibit to a Current Report on Form 8-K and filed with the SEC.

During late August and early September 2016, in order to facilitate the sale process on behalf of Anchor, KBW prepared a confidential memorandum to be provided to interested parties to assist them in deciding whether to pursue a possible transaction with Anchor. The memorandum was compiled by KBW working with Anchor management and B&A.

On September 6, 2016, KBW provided the Committee, with B&A in attendance, with an expanded list of potential interested parties, which included a total of 13 financial institutions. Of the 13 potential institutions, KBW indicated that Company D might be a strong candidate, but had antitrust issues, as measured by the Herfindahl Hirschman Index ("HHI"), because it had a market overlap with Anchor. Committee chairperson, Ms. Ragan, requested that B&A provide her materials on HHI so she could better understand this issue. Materials were provided to her later that day. The Committee authorized KBW to contact the 13 financial institutions.

On September 13, 2016, KBW provided the Anchor board with an update of the non-disclosure agreements that had been requested and executed. Of the 13 institutions contacted, seven had requested non-disclosure agreements and four had signed non-disclosure agreements. This was in addition to the non-disclosure agreement previously signed by Company A and does not include the non-disclosure agreement signed at a later date by Company E that is described below.

On September 15, 2016, Company C indicated to KBW that based on Company C's analysis a transaction with Anchor was not a probability.

On October 5, 2016, the electronic data room was opened with access provided only to parties that had signed non-disclosure agreements. Due diligence ensued and four parties logged into the electronic data room.

On November 15, 2016, Director Ragan resigned from the Anchor and Anchor Bank boards of directors. As a result of her resignation, Director Stephenson was made chairperson of the Committee.

During the period October 7, 2016 through February 18, 2017, four parties, Company D, Company E, Company F and Washington Federal indicated an interest in a possible acquisition of Anchor with Company D providing a non-binding letter of intent with a transaction value of approximately \$67.6 million or \$27.00 per share with the consideration consisting of 50% cash at 50% in Company D common stock, Company F providing a verbal proposal with a transaction value of 95% of Anchor's shareholders tangible common equity with the consideration consisting solely of Company F common stock with a fixed exchange ratio and Washington Federal providing a non-binding letter of intent with a transaction value of approximately \$63.9 million or \$25.50 per share with the consideration consisting solely of Washington Federal common stock. Company E did not submit an offer. Anchor elected to pursue a possible transaction with Washington Federal because it presented the most favorable opportunity since the proposal from Company F with a higher implied value per share presented antitrust issues.

On February 24, 2017, KBW and B&A participated in a due diligence call with Mr. Beardall and Arian Colachis, General Counsel of Washington Federal. The purpose of the call was to discuss if there were any regulatory issues that could cause a problem for Washington Federal to obtain regulatory approval of the proposed transaction.

On February 28, 2017, a representative from the Stilwell Group contacted B&A regarding the expiration of the non-disclosure agreement with Anchor and a proposed extension for 30 days. The Anchor board of directors voted in favor of accepting the extension agreement. The Stilwell Group provided a signed copy of the extension agreement to Anchor, which was signed by Mr. Shaw.



On March 8, 2017, the Anchor board held a regular meeting to discuss the transaction with Washington Federal. KBW provided materials for the meeting and discussed financial aspects of the transaction. B&A also participated in the meeting by telephone and discussed the board's fiduciary duties and provisions to be included in

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the merger agreement for the transaction. That evening, KBW discussed with Mr. Beardall a proposed floating exchange ratio, which Mr. Beardall tentatively agreed with pending review of the proposed merger agreement in its entirety. The proposed floating exchange ratio provided for fixed pricing per share within a 20% collar. They also verbally agreed upon a walkaway right for Anchor in the event Washington Federal's stock price decreased in value more than 20% and such decrease exceeded an agreed upon index by more than 20%.

On March 14, 2017, B&A participated in a call with Anchor's board and reviewed the proposed merger agreement in detail with them. Following discussion regarding the merger agreement and questions to B&A regarding the agreement, B&A indicated that it would circulate a new draft to reflect the board's proposed changes.

On March 15, 2017, B&A provided a revised draft of the merger agreement to the Anchor board of directors for its review, which, among other revisions, reflected a change in the per share price from \$25.50 to \$25.75 as a result of the cancellation of certain shares in the transaction that were held by but unallocated under the Anchor employee stock ownership plan. The per share price increase did not change the aggregate consideration to be paid by Washington Federal in the transaction. This adjustment had been discussed with Washington Federal by KBW and was agreed to by Washington Federal.

On March 20, 2017, the Washington Federal board of directors and management reviewed and considered the proposed terms of the transaction, and approved and authorized management to execute and deliver the merger agreement, with any further revisions thereto deemed advisable by Washington Federal management, and delegated authority to Washington Federal management to take such further actions necessary to consummate the transaction.

On March 22, 2017, the Anchor board of directors met with representatives of the Washington Federal board of directors and management in Seattle, Washington to discuss the proposed transaction. KBW representatives also attended the meeting. During this meeting the Anchor board and KBW were given the opportunity to ask due diligence questions about Washington Federal and its operations and future prospects. Washington Federal indicated that it would be working with Davis Wright and would be reviewing the proposed merger agreement with them.

During the period March 28 through April 6, 2017, Anchor and Washington Federal through their respective counsel exchanged multiple drafts of the merger agreement. Each draft was circulated for review and comment by both parties and their representatives.

During the period April 6, 2017 through April 10, 2017, Anchor and Washington Federal exchanged and updated their respective disclosure schedules to the merger agreement.

On April 11, 2017, the Anchor board of directors and Washington Federal management reviewed, discussed and approved the final merger agreement and it was executed by the parties. At the Anchor meeting, KBW reviewed the financial aspects of the proposed merger and rendered to Anchor's board of directors an opinion to the effect that, as of that date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW as set forth in such opinion, the exchange ratio in the proposed merger was fair, from a financial point of view, to the holders of Anchor common stock. Announcement was made that Washington Federal was to acquire Anchor Bancorp for \$63.9 million in stock.

During the period April 14, 2017 through May 4, 2017, Anchor prepared information to be contained in the Bank Merger Application. On April 20, 2017 B&A provided its comments on the Bank Merger Application and the exemption request that would be filed with the Federal Reserve Board.

On May 4, 2017, Washington Federal filed the Bank Merger Application with the Office of the Comptroller of the Currency or OCC and other bank regulators and the exemption request with the Federal Reserve Board.

Between April 17, 2017 and May 23, 2017, Anchor prepared materials to be included in the registration statement on Form S-4 to be filed with the SEC by Washington Federal and reviewed and proposed comments to the drafts of the registration statement.

On May 23, 2017, Washington Federal filed its Form S-4 registration statement with the SEC.

On June 19, 2017, the SEC issued a comment letter and on June 23, 2018 Washington Federal filed an amendment to its registration statement on Form S-4 and did not receive any additional comments.

On June 29, 2017, Washington Federal informed Anchor that the OCC had opted to use a longer time period to evaluate the Bank Merger Application and they discussed whether there should be a delay in Form S-4 going effective.

On July 18, 2017, Anchor had a board meeting and it was reported that Washington Federal had not heard back from the OCC on the Bank Merger Application and it was not known when the Anchor special shareholders meeting to vote on the merger could be scheduled.

Between July 2017 and September 20, 2017, there were numerous communications between Anchor and Washington Federal concerning the delays in the regulatory process.

On September 21, 2017, Washington Federal indicated to Anchor that certain issues with respect to its subsidiary bank's procedures, systems and processes relating to its Bank Secrecy Act ("BSA") program had been identified.

On September 22, 2017, Anchor had a special board meeting and discussed some changes it would like to see to the merger agreement in light of the delay in closing the transaction.

- Repurchase of stock
- Dividends
- Increase in the merger pricing
- Increase in severance
- Reduce termination fee
- Retention bonuses
- More ability to diversify the loan portfolio and raise the limit on loans that require Washington Federal approval
- More flexibility on deposits
- Reimbursement of merger expenses

On September 24, 2017, counsel to Washington Federal provided a revised draft of the press release and Amendment No. 1 to the merger agreement for Anchor's review. Revisions to the documents were made between September 25, 2017 and September 27, 2017.

On September 26, 2017, the Anchor board met and discussed Amendment No.1 to the merger agreement. KBW explained that the proposed amendment would revise the pricing to 100.7% of tangible book value versus a specific dollar amount. The termination fee was reduced from 4% to 1.5%. Washington Federal withdrew its regulatory application and it would be resubmitted at a later date.

On September 27, 2017, Amendment No.1 to the merger agreement was signed and a press release was issued and the Form 8-K was filed. The press release announced that Washington Federal and Anchor had mutually agreed to amend their merger agreement. The amendment increased the pricing to 100.7% of tangible book value, decreased the termination fee from 4.0% to 1.5% and extended from December 31, 2017 to June 30, 2018 the date after which either party can elect to terminate the agreement if the transaction contemplated by the agreement has not yet been completed. The need for the amendment was due to the identification of certain issues with respect to procedures, systems and processes of Washington Federal's bank subsidiary, Washington Federal, National Association, relating to its BSA program. Washington Federal withdrew its regulatory application and it would be resubmitted at a later date. The amendment to the merger agreement also provided for up to three additional six month extensions beyond

June 30, 2018, and addressed certain Anchor operational matters in light of the extension.

On October 4, 2017, Washington Federal indicated it would have no objection to bonus and retention payments by Anchor Bank for its employees.

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On November 17, 2017, pursuant to Amendment No.1 to the merger agreement, Anchor announced that its board had authorized the repurchase of up to 40,000 shares.

On February 13, 2018, Brent Beardall met with the Anchor board to provide an update and he stated that it was not known when Washington Federal might expect regulatory approval. After Mr. Beardall left the meeting there was a lengthy discussion and the Anchor Board decided to request another amendment to the merger agreement that would provide Anchor with a 120 day go shop provision without the imposition of a breakup fee.

On March 13, 2018, there was a special meeting of the Anchor board to approve proceeding with Amendment No. 2 to the merger agreement to allow Anchor to pursue an alternative transaction, without penalty, for a 120 day period.

On April 2, 2018, there was a special meeting of the Anchor board and it approved Amendment No. 2 to the merger agreement and the Form 8-K to be filed with the SEC relative thereto.

On April 2, 2018, Amendment No. 2 to the merger agreement was signed and a Form 8-K filed by both companies on that date. The Amendment allowed Anchor and its representatives, notwithstanding any provision of the merger agreement or any amendment thereto, the right to solicit, pursue and otherwise take all action to facilitate a possible alternative transaction with a party other than Washington Federal for a 120 day period beginning on April 2, 2018 and ending on July 31, 2018. Amendment No. 2 also included the right of Anchor to terminate the merger agreement during that period, upon its acceptance of a non-binding letter of intent for an alternative transaction, without the payment of any termination fee or other penalty to Washington Federal. It also extended from June 30, 2018 to August 31, 2018 the date after which either party could elect to terminate the merger agreement if the merger transaction contemplated by the merger agreement had not yet been completed and left in place the three additional extension periods that were previously agreed to.

Beginning on April 2, 2018, on behalf of Anchor, KBW had contact with nine institutions concerning a potential alternative transaction with Anchor. Five of those institutions signed non-disclosure agreements. One of the five was FS Bancorp that signed a non-disclosure agreement on April 4, 2018.

On April 6, 2018, the President of Company G met with Mr. Shaw. Subsequent to that meeting, Company G engaged an investment banking firm to explore the possibility of an alternative transaction with Anchor.

On and after April 9, 2018, the parties that signed non-disclosure agreements were provided access to extensive information on Anchor contained in the data room created by Anchor with the assistance of KBW. Updated and additional information was added by Anchor to the data room frequently during the period subsequent to April 9, 2018.

On April 26, 2018, Mr. Shaw received a call from the President of Company G to schedule a lunch meeting.

On May 3, 2018, the President of Company G had lunch with Mr. Shaw. During lunch they discussed Company G's interest in acquiring Anchor and what the pro forma company would look like.

On May 4, 2018, there was an update from Mr. Beardall to Mr. Shaw on the remedial actions being taken by Washington Federal.

There was a joint meeting of the Committee and the Anchor board, with KBW in attendance, on May 8, 2018. KBW reviewed with the Committee and the Anchor board a list of the potential parties that had expressed an interest in Anchor. The board and Committee discussed that Mr. Shaw and Ms. Degner will be meeting with two of the potential interested parties over the coming week. There was a discussion of the differences in cash and stock transactions.

On May 10, 2018, there was a meeting with Mr. Shaw and Ms. Degner with representatives of Company H. The discussions focused on corporate strategies to determine if the cultures of the companies aligned. At the meeting

the representatives discussed loan philosophy as well as branch structure, deposit pricing as well as the personnel at the branch locations.

On May 16, 2018, Company G's investment banker provided a due diligence list for the meeting that was held on that date. The meeting was attended by the senior management team of Company G, Company G's investment banking firm and Mr. Shaw and Ms. Degner. KBW participated by conference call. Company G's representatives provided an overview of the process it anticipated and discussed information concerning Anchor, its governance, financials, deposits, loan portfolio, credit process and asset quality, whether there was any legal or regulatory issues and next steps in the process. Anchor discussed that minimizing execution risk is very important to them in evaluating a potential transaction.

On May 21, 2018, KBW received an additional data request from Company G's investment banker.

On May 24, 2018, KBW followed up with Raymond James & Associates, Inc. ("Raymond James"), FS Bancorp's investment banker, about the status of a proposal from FS Bancorp.

On May 29, 2018, a conference call was held between Mr. Shaw and Ms. Degner, KBW and B&A to discuss the proposals that had been received by KBW from the interested parties, Company G, Company H, Company I and FS Bancorp relating to an alternative transaction.

On May 30, 2018, there was a joint meeting of the Committee and Anchor's board with KBW and B&A in attendance via conference call. KBW provided an update regarding the process to pursue an alternative transaction. The four parties that did not sign NDAs elected not to pursue a transaction with Anchor. Two of those parties indicated that they were not interested because they were involved in other transactions. One party indicated that it did not wish to pursue a transaction with Anchor because it was not interested in Anchor's market area. The remaining party indicated that it did not wish to pursue a transaction because it believed Anchor's cost of funds and its concentration in real estate loans were both too high. Also, one of the parties that entered into a non-disclosure agreement decided not to provide a proposal. KBW discussed in detail the non-binding letters of intent received from the interested parties. After discussions, KBW was requested to reach out to the interested parties and ask that they re-evaluate their offers for the purpose of increasing their pricing. KBW and B&A were requested to assess whether other revisions should be considered to the letters of intent. KBW then discussed a target to have final proposals by the end of June 2018 for consideration by the Anchor board. Mr. Shaw updated the Board on his discussions with Washington Federal and that it sounded like the remedial actions were taking more time than originally anticipated.

The four non-binding letters of intent that were received contained the following pricing terms:

- Company G - \$30.00 per share or approximately \$74.5 million in the aggregate with 50% in cash and 50% in Company G common stock;
- Company H - \$29.30 per share or approximately \$72.8 million in the aggregate in an all cash transaction;
- Company I - \$26.00 per share or approximately \$64.7 million in the aggregate in an all cash transaction; and
- FS Bancorp - \$28.50 per share or approximately \$71 million in the aggregate with 40% in cash and 60% in FS Bancorp common stock.

On June 3, 2018, Anchor provided comments on the letters of intent of Company G, Company H and FS Bancorp and requested that revised letters of intent be provided on June 25, 2018. The comments generally covered:

- Whether the acquiror would be willing to use the form of merger agreement entered into by Anchor and Washington Federal and what material revisions (other than pricing terms) would be requested;
- Whether credit would be provided to the employees of Anchor and its subsidiaries for their prior service under the acquiror's benefit plans;





- Whether the three or four employees not covered in the Anchor Bank severance plan could be included;
- Whether the acquiror would be willing to use the voting and non-solicitation agreements previously agreed to in the Washington Federal transaction;
- Protection against execution risk if acquiror shareholder approval was required;
- The date by which the acquiror's due diligence would be completed;
- Whether the acquiror would allow Anchor shareholders to receive the economic benefit of the outstanding Anchor shares that will be cancelled in retirement of the loan indebtedness of the Anchor employee stock ownership plan; and
- That the acquiror submit its final and best offer by June 25, 2018.

On June 7, 2018, Anchor provided the same comments to Company I on its letter of intent. Company I, through its investment banker, indicated it was pursuing a different direction and would not be submitting an updated proposal.

On June 13, 2018, members of senior management of FS Bancorp met with Mr. Shaw and Ms. Degner in Lacey, Washington. Also present were representatives of Raymond James and KBW via conference call. At the meeting FS Bancorp discussed its corporate strategy, structure and vision, financial results, branch operations and key personnel and other business matters.

On June 14, 2018, Mr. Adams of FS Bancorp called Ms. Degner to discuss FS Bancorp's core values. Loan due diligence was conducted by Company G, Company H and FS Bancorp between June 18 and June 22, 2018. Loan diligence involved a review of loan files and the ability to ask questions of Anchor's lending personnel.

On June 19, 2018, officers of Anchor Bank had telephone conferences with seven representatives of a firm retained by Company G to discuss the credit culture of Anchor Bank.

On June 21, 2018, FS Bancorp had a meeting of its board of directors to discuss revisions to its letter of intent.

On June 21, 2018, B&A confirmed with Company H's Chief Legal Officer, Chief Compliance Officer and Treasurer by telephone that there was no impediment to the regulatory process and a representative of Company H contacted Mr. Shaw by telephone to indicate that they were looking forward to working together on the proposed transaction.

On June 22, 2018, according to its investment banking firm, Company G had a board meeting to revise its proposal.

On June 25, 2018, Anchor received letters of intents from the three remaining interested parties containing their pricing terms as follows:

- Company G - \$32.00 per share or approximately \$79.5 million in the aggregate with 50% in cash and 50% in Company G common stock;
- Company H - \$29.50 per share or approximately \$73.1 million in the aggregate in an all cash transaction; and
- FS Bancorp - \$31.00 per share or approximately \$77.2 million in the aggregate with 40% in cash and 60% in FS Bancorp common stock.

On June 25, 2018, there was additional due diligence by the firm Company G hired to perform due diligence on the Anchor credit card portfolio.

On June 26, 2018, KBW checked to see if Company H would increase its price.

On June 26, 2018, there was a conference call with Mr. Shaw, Ms. Degner, KBW and B&A to discuss the transaction process.



On June 27, 2018, KBW sent materials to Anchor comparing the provisions of the letters of intent submitted by the three remaining interested parties.

On June 28, 2018, Mr. Shaw spoke with Company H to request that they consider increasing their price and on that date Company H increased its price to \$30.10 per shares or \$74.8 million.

On June 29, 2018, there was a joint meeting of the Committee and the Anchor board. KBW reviewed the proposals that had been received, the status of each and the updated KBW presentation material it provided to the board. KBW noted that Jerry Shaw and Terri Degner had met with all three parties. KBW discussed potential factors that could affect the execution risk of each proposal and the relative attractiveness of the stock portions of the merger consideration being offered by Company G and FS Bancorp. The board reviewed the revised proposals and determined that the FS Bancorp proposal provided the best value to Anchor. Gordon Stephenson, a director of Anchor and Anchor Bank, discussed with the group that he owns a small amount of stock in FS Bancorp and it is the primary bank his company uses but that all the transactions were at arm's length. In selecting FS Bancorp over Company G the Anchor board considered that Company G does not pay a dividend, Company G would be required to obtain shareholder approval, FS Bancorp had superior earnings and share performance, the lack of liquidity in Company G's shares, and FS Bancorp would not be required to obtain shareholder approval and had previously completed a branch acquisition. The Anchor board directed KBW to request additional information from FS Bancorp as to whether it anticipated any regulatory impediments to the completion of the proposed transaction.

On June 29, 2018, FS Bancorp provided an update on conversations it had with regulators and indicated that it had no reason to believe that regulatory approval would not be obtained on the bank merger applications.

On June 29, 2018, all three remaining interested parties were notified of the results of the Anchor board meeting.

On June 29, 2018, Ms. Degner agreed to enter into consulting agreement with 1st Security Bank of Washington.

On July 1, 2018, Raymond James distributed a time and responsibility of the events up to the signing of the definitive merger agreement by Anchor and FS Bancorp and on July 2, 2018 there was a conference call between the parties and their representatives to discuss the schedule.

On July 2, 2018, on behalf of Anchor, KBW provided FS Bancorp and Raymond James with an information request list for reverse due diligence on FS Bancorp by Anchor.

On July 3, 2018, Keller Rohrback, L.L.P. counsel to FS Bancorp, commenced preparation of a definitive merger agreement based on the draft that Anchor entered into with Washington Federal.

On July 9, 2018, FS Bancorp performed additional loan due diligence on Anchor.

On July 10, 2018, FS Bancorp circulated to Anchor a draft of the merger agreement. Negotiation of the merger agreement continued until signing on July 17, 2018. Also, on July 10, 2018 FS Bancorp created a data room with the reverse due diligence information.

On July 11, 2018, Anchor discussed with Washington Federal that it was proceeding with an alternative transaction and proposed a mutual termination agreement.

On July 11, 2018, there was discussion between KBW and FS Bancorp on whether the price per share should be increased based on the cancellation of outstanding Anchor shares equal to the loan indebtedness of the Anchor employee stock ownership plan upon transaction completion.

On July 12, 2018, FS Bancorp indicated it had taken into account the cancellation of such shares in its revised proposal and would not increase its revised pricing.

On July 12, 2018, B&A on behalf of Anchor circulated a revised merger agreement and followed up on status of reverse due diligence.

On July 13, 2018, the merger agreement, the mutual termination agreement with Washington Federal and the proposed resolutions were distributed to the Anchor board of directors.

On July 13, 2018, Anchor provided its disclosure schedule to FS Bancorp.

On July 14, 2018, FS Bancorp and Anchor agreed to prepare a joint press release rather than having each party prepare a separate release.

On July 15, 2018, Anchor received a first draft of the press release from FS Bancorp.

On July 16, 2018, the Anchor board of directors met with members of FS Bancorp senior management in Lacey, Washington to discuss the proposed transaction. KBW representatives also attended the meeting via conference call. During this meeting the Anchor board and KBW were given the opportunity to ask questions about FS Bancorp and its operations and future prospects.

On July 16, 2018, there was a conference call between representatives of Anchor and FS Bancorp to discuss the possibility of salary increases and retention bonuses for Anchor Bank employees. Subsequent to the call, Anchor and FS Bancorp determined it would preferable to consider this at a later date.

On July 17, 2018, FS Bancorp provided its disclosure schedule to Anchor.

On July 17, 2018, the Anchor board of directors held a special meeting. Representatives from KBW and B&A participated in the meeting. At the meeting, the Anchor board of directors reviewed the mutual termination agreement with Washington Federal and the final merger agreement with FS Bancorp, ancillary agreements and related summaries and supplemental materials in detail. At the meeting, KBW reviewed the financial aspects of the proposed merger with FS Bancorp and rendered to Anchor's board of directors an opinion to the effect that, as of that date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW as set forth in such opinion, the merger consideration in the proposed merger was fair, from a financial point of view, to the holders of Anchor common stock. At the conclusion of the meeting, the Anchor board of directors unanimously approved the mutual termination agreement and the merger agreement and ancillary agreements.

On July 17, 2018, the FS Bancorp board of directors held a special meeting to vote on the merger agreement and ancillary agreements. At the meeting, FS Bancorp's legal counsel Keller Rohrback L.L.P. reviewed the legal aspects of the merger agreement with the board and representatives of Raymond James reviewed the financial aspects of the proposed merger. At the conclusion of the meeting, the FS Bancorp board of directors unanimously approved the merger agreement and ancillary agreements.

On July 17, 2018, Anchor and Washington Federal entered in to the mutual termination agreement and Anchor and FS Bancorp executed the merger agreement, the ancillary agreements were entered into, and the consulting agreement between Ms. Degner and 1st Security Bank of Washington and other ancillary agreements were executed.

A joint press release was issued on the evening of July 17, 2018 announcing the transaction.

#### Recommendation of the Anchor Board of Directors and Reasons of Anchor for the Merger

After careful consideration, at a meeting held on July 17, 2018, Anchor's board of directors unanimously determined that the merger agreement, including the merger and the other transactions contemplated thereby, is in the best interests of Anchor and its shareholders. Accordingly, Anchor's board of directors unanimously approved the merger agreement and recommends that Anchor's shareholders vote "FOR" approval of the merger agreement and "FOR" approval of the adjournment proposal.

In reaching its decision to approve the merger agreement, the merger and the other transactions contemplated by the merger agreement and recommend that its shareholders vote "FOR" the approval of the merger agreement, the Anchor board of directors evaluated the merger agreement, the merger and the other transactions contemplated by the merger agreement in consultation with Anchor management, as well as Anchor's independent financial and legal advisors, and considered a number of factors, including the following material factors:

its knowledge of Anchor's business, operations, financial condition, asset quality, earnings, loan portfolio, capital and prospects both as an independent organization, and as a part of a combined company with FS Bancorp;

its ability to terminate Anchor's current existing merger agreement with Washington Federal without penalty to enter into a merger or acquisition agreement with another party for an alternative transaction;

the sale process conducted by it for an alternative transaction to replace Anchor's merger transaction with Washington Federal;

its understanding of FS Bancorp's business, operations, regulatory and financial condition, asset quality, earnings, capital and prospects taking into account publicly available information and information furnished by FS Bancorp;

its belief that the merger will result in a stronger commercial banking franchise with a diversified revenue stream, strong capital ratios, a well-balanced loan portfolio and an attractive funding base that has the potential to deliver enhanced value to Anchor's shareholders as compared to continuing to operate as a stand-alone entity;

its belief that the two companies share a common vision of the importance of customer service and local decision-making and that management and employees of Anchor and FS Bancorp possess complementary skills and expertise, which it believes should facilitate integration and implementation of the transaction;

the expanded possibilities, including organic growth and future acquisitions, that would be available to FS Bancorp, given its larger size, asset base, capital, market capitalization, trading liquidity and footprint;

the anticipated pro forma financial impact of the merger on FS Bancorp, including potential synergies, and the expected impact on financial metrics such as earnings and tangible equity per share, as well as on regulatory capital levels;

the merits of competing proposals and its determination that the merger was the best overall transaction;

the financial presentation, dated July 17, 2018, of KBW to the Anchor board of directors and the opinion, dated July 17, 2018, of KBW to the Anchor board of directors as to the fairness, from a financial point of view and as of the date of the opinion, to the holders of Anchor common stock of the merger consideration in the proposed merger, as more fully described below under "--Opinion of Anchor's Financial Advisor";

the benefits to Anchor and its customers of operating as a larger organization, including enhancements in products and services, higher lending limits, and greater financial resources;

the increasing importance of operational scale and financial resources in maintaining efficiency and remaining competitive over the long term and in being able to capitalize on technological developments which significantly impact industry competitive conditions;

the expected social and economic impact of the merger on the constituencies served by Anchor, including its borrowers, customers, depositors, employees, suppliers and communities;





its understanding of the current and prospective environment in which Anchor and FS Bancorp operate, including national and local economic conditions, that portions of Anchor's primary market are experiencing challenging economic conditions and higher unemployment and slower population growth than the rest of Western Washington, the interest rate environment, increasing operating costs resulting from regulatory initiatives and compliance mandates. The continued rapid consolidation in the financial services industry and the competitive effects of the increased consolidation on smaller financial institutions such as Anchor;

·the ability of FS Bancorp to complete the merger from a financial and regulatory perspective;

the equity interest in the combined company that Anchor's existing shareholders will receive in the merger, which allows such shareholders to continue to participate in the future success of the combined company;

the greater market capitalization and trading liquidity of FS Bancorp common stock in the event that Anchor shareholders desired to sell the shares of FS Bancorp common stock to be received by them following completion of the merger;

·FS Bancorp has existing resources to fund the cash portion of the merger consideration;

·that FS Bancorp has paid cash dividends on its common stock every year since 2013;

its understanding that the merger will qualify as a "reorganization" under the Code, providing favorable tax consequences to Anchor's shareholders in the merger; and

Anchor's review with Anchor's independent legal advisor, B&A, of the material terms of the merger agreement, including the board's ability, under certain circumstances, to withhold, withdraw, qualify or modify its recommendation to Anchor's shareholders and to consider and pursue a better unsolicited acquisition proposal, subject to the payment by Anchor of a termination fee of approximately \$2.7 million to FS Bancorp, which the board of directors concluded was reasonable in the context of termination fees in comparable transactions and in light of the overall terms of the merger agreement, as well as the nature of the covenants, representations and warranties and termination provisions in the merger agreement.

The Anchor board of directors also considered a number of potential risks and uncertainties associated with the merger in connection with its deliberation of the proposed transaction, including, without limitation, the following:

the potential risk of diverting management attention and resources from the operation of Anchor's business and towards the completion of the merger;

the restrictions on the conduct of Anchor's business prior to the completion of the merger, which are customary for public company merger agreements involving financial institutions, but which, subject to specific exceptions, could delay or prevent Anchor from undertaking business opportunities that may arise or any other action it would otherwise take with respect to the operations of Anchor absent the pending merger;

the potential risks associated with achieving anticipated cost savings and successfully integrating Anchor's business, operations and workforce with those of FS Bancorp;

·the merger-related costs;

the fact that the interests of Anchor's directors and executive officers may be different from, or in addition to, the interests of Anchor's other shareholders as described below under the heading "–Interests of Certain Persons in the Merger";

the fact that, while Anchor expects that the merger will be consummated, there can be no assurance that all conditions to the parties' obligations to complete the merger agreement will be satisfied, including the risk that necessary regulatory approvals of the merger and the bank merger or

the Anchor shareholder approval of the merger agreement might not be obtained and, as a result, the merger may not be consummated;

the risk of potential employee attrition and/or adverse effects on business and customer relationships as a result of the pending merger;

the fact that: (i) Anchor would be prohibited from affirmatively soliciting acquisition proposals after execution of the merger agreement; and (ii) Anchor would be obligated to pay to FS Bancorp a termination fee of approximately \$2.7 million if the merger agreement is terminated under certain circumstances, all of which may discourage other parties potentially interested in a strategic transaction with Anchor from pursuing such a transaction; and

the other risks described under the section entitled "Risk Factors."

The foregoing discussion of the information and factors considered by the Anchor board of directors is not intended to be exhaustive, but includes the material factors considered by the Anchor board of directors. In reaching its decision to approve the merger agreement, the merger and the other transactions contemplated by the merger agreement, the Anchor board of directors did not quantify or assign any relative weights to the specific factors it considered, and individual directors may have given different weights to different factors. The Anchor board of directors considered all these factors as a whole, and overall considered the factors to be favorable to, and to support, its determination. Anchor's board of directors unanimously approved the merger agreement and recommends that Anchor's shareholders vote "FOR" approval of the merger agreement and "FOR" approval of the adjournment proposal. Anchor shareholders should be aware that Anchor's directors and executive officers have interests in the merger that are different from, or in addition to, those of other Anchor shareholders. The Anchor board of directors was aware of and considered these interests, among other matters, in evaluating and negotiating the merger agreement, and in recommending that the shareholders of Anchor approve the merger agreement. See "–Interests of Certain Persons in the Merger." This summary of the reasoning of Anchor's board of directors and other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the section entitled "Cautionary Statement Regarding Forward-Looking Statements."

#### Opinion of Anchor's Financial Advisor

Anchor engaged Keefe, Bruyette & Woods, Inc. ("KBW") to render financial advisory and investment banking services to Anchor, including an opinion to the Anchor board of directors as to the fairness, from a financial point of view, to the holders of Anchor common stock of the merger consideration to be received by such shareholders in the proposed merger of Anchor with and into FS Bancorp. Anchor selected KBW because KBW is a nationally recognized investment banking firm with substantial experience in transactions similar to the merger. As part of its investment banking business, KBW is continually engaged in the valuation of financial services businesses and their securities in connection with mergers and acquisitions.

As part of its engagement, representatives of KBW attended the meeting of the Anchor board held on July 17, 2018, at which the Anchor board evaluated the proposed merger. At this meeting, KBW reviewed the financial aspects of the proposed merger with the Anchor board and rendered to the Anchor board an opinion to the effect that, as of such date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW as set forth in its opinion, the merger consideration in the proposed merger was fair, from a financial point of view, to the holders of Anchor common stock. The Anchor board approved the merger agreement at this meeting.

The description of the opinion set forth herein is qualified in its entirety by reference to the full text of the opinion, which is attached as Appendix B to this document and is incorporated herein by reference, and describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW in preparing the opinion.



KBW's opinion speaks only as of the date of the opinion. The opinion was for the information of, and was directed to, the Anchor board (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion addressed only the fairness, from a financial point of view, of the merger consideration in the merger to the holders of Anchor common stock. It did not address the underlying business decision of Anchor to engage in the merger or enter into the merger agreement or constitute a recommendation to the Anchor board in connection with the merger, and it does not constitute a recommendation to any holder of Anchor common stock or any shareholder of any other entity as to how to vote in connection with the merger or any other matter, nor does it constitute a recommendation regarding whether or not any such shareholder should enter into a voting, shareholders' or affiliates' agreement with respect to the merger or exercise any dissenters' or appraisal rights that may be available to such shareholder.

KBW's opinion was reviewed and approved by KBW's Fairness Opinion Committee in conformity with its policies and procedures established under the requirements of Rule 5150 of the Financial Industry Regulatory Authority.

In connection with the opinion, KBW reviewed, analyzed and relied upon material bearing upon the financial and operating condition of Anchor and FS Bancorp and bearing upon the merger, including, among other things:

- a draft of the merger agreement dated July 13, 2018 (the most recent draft then made available to KBW);
- the audited financial statements and the Annual Reports on Form 10-K for the three fiscal years ended June 30, 2017 of Anchor;
- the unaudited quarterly financial statements and the Quarterly Reports on Form 10-Q for the fiscal quarters ended September 30, 2017, December 31, 2017 and March 31, 2018 of Anchor;
- the audited financial statements and the Annual Reports on Form 10-K for the three fiscal years ended December 31, 2017 of FS Bancorp;
- the unaudited quarterly financial statements and the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2018 of FS Bancorp;
- certain regulatory filings of Anchor and FS Bancorp and their respective subsidiaries, including the quarterly reports on Form FR Y-9C and call reports filed with respect to each quarter during the three-year period ended June 30, 2017 (in the case of Anchor) and the three-year period ended December 31, 2017 (in the case of FS Bancorp), as well as the quarters ended September 30, 2017 and December 31, 2017 (in the case of Anchor) and the quarter ended March 31, 2018 (in the case of Anchor and FS Bancorp);
- certain other interim reports and other communications of Anchor and FS Bancorp to their respective shareholders;
- and
- other financial information concerning the businesses and operations of Anchor and FS Bancorp that was furnished to KBW by Anchor and FS Bancorp or which KBW was otherwise directed to use for purposes of KBW's analyses.

KBW's consideration of financial information and other factors that it deemed appropriate under the circumstances or relevant to its analyses included, among others, the following:

- the historical and current financial position and results of operations of Anchor and FS Bancorp;
- the assets and liabilities of Anchor and FS Bancorp;
- the nature and terms of certain other merger transactions and business combinations in the banking industry;
- a comparison of certain financial and stock market information for Anchor and FS Bancorp with similar information for certain other companies the securities of which were publicly traded;
- publicly available research analyst "street estimates" of Anchor for 2018, as well as assumed Anchor growth rates for periods thereafter provided to KBW by Anchor management, all of which information was discussed with KBW by such management and used and relied upon by KBW based on such discussions, at the direction of Anchor management and with the consent of the Anchor board;



publicly available consensus "street estimates" of FS Bancorp for 2018 and 2019, as well as assumed FS Bancorp long-term growth rates that were provided to KBW by FS Bancorp management, all of which information was discussed with KBW by FS Bancorp management and used and relied upon by KBW based on such discussions, at the direction of Anchor management and with the consent of the Anchor board; and estimates regarding certain pro forma financial effects of the merger on FS Bancorp (including, without limitation, the cost savings and related expenses expected to result or be derived from the merger) that were prepared by, and provided to and discussed with KBW by, the management of FS Bancorp, and used and relied upon by KBW based on such discussions, at the direction of Anchor management and with the consent of the Anchor board.

KBW also performed such other studies and analyses as it considered appropriate and took into account its assessment of general economic, market and financial conditions and its experience in other transactions, as well as its experience in securities valuation and knowledge of the banking industry generally. KBW also participated in discussions with the managements of Anchor and FS Bancorp regarding the past and current business operations, regulatory relations, financial condition and future prospects of their respective companies and such other matters as KBW deemed relevant to its inquiry. In addition, KBW considered the results of the efforts undertaken, with KBW's assistance, by or on behalf of and at the direction of Anchor, to solicit indications of interest from third parties regarding a potential transaction with Anchor, including with respect to the terminated merger transaction with Washington Federal.

In conducting its review and arriving at its opinion, KBW relied upon and assumed the accuracy and completeness of all of the financial and other information that was provided to it or that was publicly available and did not independently verify the accuracy or completeness of any such information or assume any responsibility or liability for such verification, accuracy or completeness. KBW relied upon the management of Anchor as to the reasonableness and achievability of the publicly available research analyst "street estimates" of Anchor for 2018 and the assumed Anchor growth rates for periods thereafter referred to above, and KBW assumed that such information was reasonably prepared and represented, or in the case of the publicly available research analyst "street estimates" of Anchor that such estimates were consistent with, the best currently available estimates and judgments of Anchor management and that the forecasts, projections and estimates contained in all such information would be realized in the amounts and in the time periods estimated. KBW further relied, with the consent of Anchor, upon FS Bancorp management as to the reasonableness and achievability of the publicly available consensus "street estimates" of FS Bancorp and the estimates regarding certain pro forma financial effects of the merger on FS Bancorp (and the assumptions and bases therefor, including without limitation the cost savings and related expenses expected to result or be derived from the merger) referred to above, and KBW assumed, with the consent of Anchor, that all such information was reasonably prepared and represented, or in the case of the publicly available consensus "street estimates" of FS Bancorp that such estimates were consistent with, the best currently available estimates and judgments of FS Bancorp management and that the forecasts, projections and estimates contained in all such information would be realized in the amounts and in the time periods estimated.

It is understood that the portion of the foregoing financial information of Anchor and FS Bancorp that was provided to KBW was not prepared with the expectation of public disclosure and that all the foregoing financial information, including the publicly available "street estimates" of Anchor and FS Bancorp referred to above, was based on numerous variables and assumptions that are inherently uncertain, including, without limitation, factors related to general economic and competitive conditions and that, accordingly, actual results could vary significantly from those set forth in such information. KBW assumed, based on discussions with the respective managements of Anchor and FS Bancorp and with the consent of the Anchor board, that all such information provided a reasonable basis upon which KBW could form its opinion and KBW expressed no view as to any such information or the assumptions or bases therefor. KBW relied on all such information without independent verification or analysis and did not in any respect assume any responsibility or liability for the accuracy or completeness thereof.

KBW also assumed that there were no material changes in the assets, liabilities, financial condition, results of operations, business or prospects of either Anchor or FS Bancorp since the date of the last financial statements of each

such entity that were made available to KBW. KBW is not an expert in the independent verification of the adequacy of allowances for loan and lease losses and KBW assumed, without independent verification and with Anchor's consent, that the aggregate allowances for loan and lease losses for Anchor and FS Bancorp are adequate to cover such losses. In rendering its opinion, KBW did not make or obtain any evaluations or appraisals or physical inspection of the property, assets or liabilities (contingent or otherwise) of Anchor or FS Bancorp, the collateral



securing any of such assets or liabilities, or the collectability of any such assets, nor did KBW examine any individual loan or credit files, nor did it evaluate the solvency, financial capability or fair value of Anchor or FS Bancorp under any state or federal laws, including those relating to bankruptcy, insolvency or other matters. Estimates of values of companies and assets do not purport to be appraisals or necessarily reflect the prices at which companies or assets may actually be sold. Because such estimates are inherently subject to uncertainty, KBW assumed no responsibility or liability for their accuracy.

KBW assumed, in all respects material to its analyses:

that the merger and any related transaction (including the bank merger) would be completed substantially in accordance with the terms set forth in the merger agreement (the final terms of which KBW assumed would not differ in any respect material to KBW's analyses from the draft reviewed and referred to above) with no adjustments to the merger consideration and with no other consideration or payments in respect of the Anchor common stock;

that the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement were true and correct;

that each party to the merger agreement and all related documents would perform all of the covenants and agreements required to be performed by such party under such documents;

that there were no factors that would delay or subject to any adverse conditions, any necessary regulatory or governmental approval for the merger or any related transactions (including the bank merger) and that all conditions to the completion of the merger and such related transaction would be satisfied without any waivers or modifications to the merger agreement or any of the related documents; and

that in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger and any related transaction (including the bank merger), no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, would be imposed that would have a material adverse effect on the future results of operations or financial condition of Anchor, FS Bancorp or the pro forma entity, or the contemplated benefits of the merger, including without limitation the cost savings and related expenses expected to result or be derived from the merger.

KBW assumed that the merger would be consummated in a manner that complies with the applicable provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and all other applicable federal and state statutes, rules and regulations. KBW was further advised by representatives of Anchor that Anchor relied upon advice from its advisors (other than KBW) or other appropriate sources as to all legal, financial reporting, tax, accounting and regulatory matters with respect to Anchor, FS Bancorp, the merger and any related transaction (including the bank merger), and the merger agreement. KBW did not provide advice with respect to any such matters.

KBW's opinion addressed only the fairness, from a financial point of view, as of the date of the opinion, to the holders of Anchor common stock of the merger consideration to be received by such holders in the merger. KBW expressed no view or opinion as to any other terms or aspects of the merger or any term or aspect of any related transaction (including the bank merger), including without limitation, the form or structure of the merger (including the form of the merger consideration or the allocation thereof between cash and stock) or any such related transaction, any consequences of the merger or any related transaction to Anchor, its shareholders, creditors or otherwise, or any terms, aspects, merits or implications of any employment, consulting, voting, support, shareholder or other agreements, arrangements or understandings contemplated or entered into in connection with the merger or otherwise. KBW's opinion was necessarily based upon conditions as they existed and could be evaluated on the date of such opinion and the information made available to KBW through such date. Developments subsequent to the date of KBW's opinion may have affected, and may affect, the conclusion reached in KBW's opinion and KBW did not and does not have an obligation to update, revise or reaffirm its opinion. KBW's opinion did not address, and KBW expressed no view or opinion with respect to:

·the underlying business decision of Anchor to engage in the merger or enter into the merger agreement;



the relative merits of the merger as compared to any alternative transactions or strategies that are, have been or may be available to or considered by Anchor or the Anchor board, including without limitation the terminated merger transaction with Washington Federal;

the fairness of the amount or nature of any compensation to any of Anchor's officers, directors or employees, or any class of such persons, relative to the compensation to the holders of Anchor common stock;

the effect of the merger or any related transaction on, or the fairness of the consideration to be received by, holders of any class of securities of Anchor (other than the holders of Anchor common stock solely with respect to the merger consideration, as described in KBW's opinion and not relative to the consideration to be received by holders of any other class of securities) or holders of any class of securities of FS Bancorp or any other party to any transaction contemplated by the merger agreement;

whether FS Bancorp has sufficient cash, available lines of credit or other sources of funds to enable it to pay the aggregate cash consideration to the holders of Anchor common stock at the closing of the merger;

the actual value of FS Bancorp common stock to be issued in the merger;

the prices, trading range or volume at which Anchor common stock and FS Bancorp common stock would trade following the public announcement of the merger or the prices, trading range or volume at which FS Bancorp common stock would trade following the consummation of the merger;

any advice or opinions provided by any other advisor to any of the parties to the merger or any other transaction contemplated by the merger agreement; or

any legal, regulatory, accounting, tax or similar matters relating to Anchor, FS Bancorp, their respective shareholders, or relating to or arising out of or as a consequence of the merger or any related transaction (including the bank merger), including whether or not the merger would qualify as a tax-free reorganization for United States federal income tax purposes.

In performing its analyses, KBW made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of KBW, Anchor and FS Bancorp. Any estimates contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, KBW's opinion was among several factors taken into consideration by the Anchor board in making its determination to approve the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the Anchor board with respect to the fairness of the merger consideration. The type and amount of consideration payable in the merger were determined through negotiation between Anchor and FS Bancorp and the decision of Anchor to enter into the merger agreement was solely that of the Anchor board.

The following is a summary of the material financial analyses presented by KBW to the Anchor board in connection with its opinion. The summary is not a complete description of the financial analyses underlying the opinion or the presentation made by KBW to the Anchor board, but summarizes the material analyses performed and presented in connection with such opinion. The financial analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the financial analyses. The preparation of a fairness opinion is a complex analytic process involving various determinations as to appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, KBW did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion.



For purposes of the financial analyses described below, KBW utilized an implied value of the merger consideration of \$31.00 per share of Anchor common stock, consisting of the sum of (i) the implied value of the stock consideration of 0.2921 of a share of FS Bancorp common stock based on the volume weighted average closing price of FS Bancorp common stock for the 10-day period ended on July 13, 2018, and (ii) the cash consideration of \$12.40.

Anchor Selected Companies Analysis. Using publicly available information, KBW compared the financial performance, financial condition and market performance of Anchor to 19 selected publicly traded banks and thrifts which were headquartered in the Western U.S. and which had total assets between \$350 million and \$650 million. Merger targets were excluded from the selected companies.

The selected companies were as follows:

Private Bancorp of America, Inc.	Pacific Enterprise Bancorp
Santa Cruz County Bank	AltaPacific Bancorp
Baker Boyer Bancorp	California First National Bancorp
State Bank Corp.	Communities First Financial Corp.
1 <sup>st</sup> Capital Bank	Community Financial Group, Inc.
Summit State Bank	Broadway Financial Corporation
CommerceWest Bank	BEO Bancorp
Suncrest Bank	Summit Bank
American Riviera Bank	Pinnacle Bank
Bank of Southern California, NA	

To perform this analysis, KBW used profitability and other financial information as of, or for the latest 12 months ("LTM") or the most recent available completed fiscal quarter ("MRQ") ended, March 31, 2018 and market price information as of July 13, 2018. Where consolidated holding company level financial data for Anchor and the selected companies was unreported, subsidiary bank level data was utilized to calculate ratios. Certain financial data prepared by KBW, and as referenced in the tables presented below, may not correspond to the data presented in Anchor's historical financial statements as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented.

KBW's analysis showed the following concerning the financial performance of Anchor and the selected companies:

	Selected Companies				
	<u>Anchor</u>	<u>25<sup>th</sup> Percentile</u>	<u>Median</u>	<u>Average</u>	<u>75<sup>th</sup> Percentile</u>
MRQ Core Return on Average Assets <sup>(1)</sup>	1.18%	0.80%	1.16%	1.09%	1.25%
MRQ Core Return on Average Equity <sup>(1)</sup>	8.55%	6.85%	10.39%	9.85%	12.54%
MRQ Net Interest Margin	4.24%	3.76%	4.26%	4.22%	4.58%
MRQ Fee Inc. <sup>(2)</sup> / Revenue	16.6%	7.7%	11.8%	13.1%	18.9%
MRQ Efficiency Ratio	69.9%	71.5%	64.1%	66.0%	56.7%

(1) Core income excluded extraordinary items, non-recurring items, and gains/losses on sale of securities.

(2) Excluded gains / losses on sale of securities.

KBW's analysis also showed the following concerning the financial condition of Anchor and the selected companies:

	Selected Companies				
	<u>Anchor</u>	<u>25<sup>th</sup> Percentile</u>	<u>Median</u>	<u>Average</u>	<u>75<sup>th</sup> Percentile</u>
Tangible Common Equity / Tangible Assets	13.80%	9.05%	9.68%	12.13%	11.18%
Total Capital Ratio	16.80%	12.33%	14.47%	16.02%	16.82%
Loans / Deposits	111.8%	77.6%	88.7%	86.0%	92.0%
Cost of Deposits	0.97%	0.47%	0.23%	0.38%	0.15%
Loan Loss Reserve / Gross Loans	1.06%	1.02%	1.18%	1.27%	1.37%
Nonperforming Assets / Loans + OREO	1.29%	0.93%	0.28%	0.78%	0.10%
Net Charge-offs / Average Loans	(0.01%)	0.00%	(0.01%)	0.01%	(0.04%)

In addition, KBW's analysis showed the following concerning the market performance of Anchor and the selected companies (excluding the impact of the LTM earnings per share ("EPS") multiple for two of the selected companies, which multiples were considered to be not meaningful because they were greater than 30.0x):

	Selected Companies				
	<u>Anchor</u>	<u>25<sup>th</sup> Percentile</u>	<u>Median</u>	<u>Average</u>	<u>75<sup>th</sup> Percentile</u>
One-Year Stock Price Change	10.1%	12.5%	20.8%	30.7%	48.9%
Year-To-Date Stock Price Change	11.9%	(0.4%)	4.4%	12.9%	22.7%
Stock Price / Book Value per Share	1.04x	1.40x	1.59x	1.60x	1.69x
Stock Price / Tangible Book Value per Share	1.04x	1.42x	1.65x	1.65x	1.75x
Stock Price / LTM Adjusted EPS <sup>(1)</sup>	16.5x	15.2x	19.4x	19.1x	22.0x
Dividend Yield	0.0%	0.0%	0.0%	0.9%	2.0%
LTM Dividend Payout Ratio	0.0%	0.0%	0.0%	16.0%	33.1%

(1) EPS adjusted for one-time charges related to corporate tax reform in the fourth quarter of 2017.

No company used as a comparison in the above selected companies analysis is identical to Anchor. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

FS Bancorp Selected Companies Analysis. Using publicly available information, KBW compared the financial performance, financial condition and market performance of FS Bancorp to 14 selected major exchange-traded banks and thrifts which were headquartered in the Western U.S. and which had total assets between \$750 million and \$1.5 billion. Merger targets were excluded from the selected companies.

The selected companies were as follows:

Pacific Mercantile Bancorp	Oak Valley Bancorp
Bank of Commerce Holdings	Timberland Bancorp, Inc.
BayCom Corp	OP Bancorp
First Financial Northwest, Inc.	First Choice Bancorp
First Northwest Bancorp	Community West Bancshares
Provident Financial Holdings, Inc.	United Security Bancshares
Riverview Bancorp, Inc.	Eagle Bancorp Montana, Inc.

To perform this analysis, KBW used profitability and other financial information as of, or for the latest 12 months or the most recent available completed fiscal quarter ended, March 31, 2018 and market price information as of July 13, 2018. KBW also used 2018 and 2019 EPS estimates taken from consensus "street estimates" for FS Bancorp and the eight selected companies for which consensus "street estimates" were available. Where consolidated holding company level financial data for the selected companies was unreported, subsidiary bank level data was utilized to calculate ratios. Certain financial data prepared by KBW, and as referenced in the tables

presented below, may not correspond to the data presented in FS Bancorp's historical financial statements as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented.

KBW's analysis showed the following concerning the financial performance of FS Bancorp and the selected companies:

	Selected Companies				
	<u>FS Bancorp</u>	<u>25<sup>th</sup> Percentile</u>	<u>Median</u>	<u>Average</u>	<u>75<sup>th</sup> Percentile</u>
MRQ Core Return on Average Assets <sup>(1)</sup>	1.67%	0.93%	1.09%	1.15%	1.40%
MRQ Core Return on Average Equity <sup>(1)</sup>	13.79%	10.12%	11.08%	10.74%	13.11%
MRQ Net Interest Margin	4.70%	3.76%	3.98%	3.95%	4.21%
MRQ Fee Inc. <sup>(2)</sup> / Revenue	29.9%	7.6%	11.3%	14.8%	19.3%
MRQ Efficiency Ratio	66.8%	72.4%	64.5%	67.0%	58.4%

(1) Core income excluded extraordinary items, non-recurring items, and gains/losses on sale of securities.

(2) Excluded gains / losses on sale of securities.

KBW's analysis showed the following concerning the financial condition of FS Bancorp and the selected companies:

	Selected Companies				
	<u>FS Bancorp</u>	<u>25<sup>th</sup> Percentile</u>	<u>Median</u>	<u>Average</u>	<u>75<sup>th</sup> Percentile</u>
Tangible Common Equity / Tangible Assets	11.72%	8.83%	10.18%	10.37%	11.55%
Total Capital Ratio	15.76%	13.62%	16.08%	15.83%	17.41%
Loans / Deposits	95.3%	81.5%	91.2%	90.7%	97.5%
Loan Loss Reserve / Gross Loans	1.28%	1.12%	1.26%	1.17%	1.32%
Nonperforming Assets / Loans + OREO	0.08%	1.21%	0.93%	0.91%	0.33%
Net Charge-offs / Average Loans	(0.02%)	0.05%	0.01%	(0.09%)	(0.05%)

In addition, KBW's analysis showed the following concerning the market performance of FS Bancorp and the selected companies (excluding the impact of the LTM dividend payout ratio of one of the selected companies which ratio was considered to be not meaningful):

	Selected Companies				
	<u>FS Bancorp</u>	<u>25<sup>th</sup> Percentile</u>	<u>Median</u>	<u>Average</u>	<u>75<sup>th</sup> Percentile</u>
One-Year Stock Price Change	39.3%	13.0%	17.8%	24.8%	41.5%
Year-To-Date Stock Price Change	13.6%	2.4%	11.3%	14.1%	25.9%
Stock Price / Book Value per Share	1.76x	1.39x	1.62x	1.64x	1.92x
Stock Price / Tangible Book Value per Share	1.81x	1.39x	1.74x	1.73x	2.04x
Stock Price / 2018E EPS	12.9x	14.4x	15.1x	16.4x	15.9x
Stock Price / 2019E EPS	11.9x	12.8x	14.0x	14.1x	16.3x
Dividend Yield	0.9%	0.3%	1.4%	1.4%	1.8%
LTM Dividend Payout Ratio	12.1%	0.0%	25.6%	25.8%	32.3%





No company used as a comparison in the above selected companies analysis is identical to FS Bancorp. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

Selected Transactions Analysis. KBW reviewed publicly available information related to nine selected U.S. whole bank and thrift transactions announced since January 1, 2013 in which the acquired companies were headquartered in metropolitan statistical areas with populations between 50,000 and 100,000 and median household incomes less than \$55,000 and in which the acquired companies also had total assets between \$200 million and \$800 million.

Transactions without announced deal values were excluded from the selected transactions.

The selected transactions were as follows:

<u>Acquiror</u>	<u>Acquired Company</u>
Capstar Financial Holdings, Inc.	Athens Bancshares Corporation
RCB Holding Company, Inc.	Central Bank and Trust Co.
Peoples Bancorp Inc.	ASB Financial Corp.
Riverview Financial Corporation	CBT Financial Corporation
Simmons First National Corporation	Citizens National Bank
First Interstate BancSystem, Inc.	Flathead Bank of Bigfork, Montana
BNC Bancorp	South Street Financial Corp.
Home Bancorp, Inc.	Britton & Koontz Capital Corporation
Southern BancShares (N.C.), Inc.	Heritage Bancshares, Inc.

For each selected transaction, KBW derived the following implied transaction statistics, in each case based on the transaction consideration value paid for the acquired company and using financial data based on the acquired company's then latest publicly available financial statements prior to the announcement of the respective transaction:

price per common share to tangible book value per share of the acquired company (in the case of selected transactions involving a private acquired company, this transaction statistic was calculated as total transaction consideration divided by total tangible common equity);

tangible equity premium to core deposits (total deposits less time deposits greater than \$100,000) of the acquired company, referred to as core deposit premium; and

price per common share to LTM EPS of the acquired company (in the case of selected transactions involving a private acquired company, this transaction statistic was calculated as total transaction consideration divided by LTM net income).

KBW also reviewed the price per common share paid for the acquired company for the four selected transactions in which the acquired company was publicly traded as a premium to the closing price of the acquired company one day prior to the announcement of the respective transaction (expressed as a percentage and referred to as the one-day market premium). The above transaction statistics for the selected transactions were compared with the corresponding transaction statistics for the proposed merger based on the implied value of the merger consideration of \$31.00 per share of Anchor common stock and using historical financial information for Anchor as of or for the 12-month period ended March 31, 2018 and the closing price of Anchor common stock on July 13, 2018.

The results of the analysis are set forth in the following table (excluding the impact of the LTM EPS multiples for two of the selected transactions, which multiples were considered to be not meaningful because they were greater than 30.0x):

	<u>Anchor</u>	Selected Transactions			
		<u>25<sup>th</sup> Percentile</u>	<u>Median</u>	<u>Average</u>	<u>75<sup>th</sup> Percentile</u>
Transaction Value / Tangible Book Value (x)	1.16x/1.24x <sup>(1)</sup>	1.06x	1.27x	1.35x	1.50x
Core Deposit Premium (%)	4.1%	1.1%	4.3%	5.2%	7.6%
Transaction Value / LTM EPS <sup>(2)</sup> (x)	18.5x	14.5x	15.8x	16.7x	17.8x
One-day Market Premium (%)	11.7%	10.9%	20.2%	29.5%	38.7%

(1) Second transaction statistic based on adjusted tangible book value for Anchor normalized to reflect a tangible common equity to tangible assets ratio of 9.50%.

(2) In the case of Anchor and Athens Bancshares Corporation, EPS was adjusted for one-time charges related to corporate tax reform in the fourth quarter of 2017. In the case of three acquired companies which were S-corporations, EPS was tax-effected.

No company or transaction used as a comparison in the above selected transactions analysis is identical to Anchor or the proposed merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

**Relative Contribution Analysis.** KBW analyzed the relative standalone contribution of FS Bancorp and Anchor to various pro forma balance sheet and income statement items and the pro forma market capitalization of the combined entity. This analysis did not include acquisition accounting adjustments or cost savings. To perform this analysis, KBW used (i) historical balance sheet data for FS Bancorp and Anchor as of March 31, 2018, (ii) 2018 and 2019 net income estimates for FS Bancorp taken from publicly available consensus "street estimates" of FS Bancorp and 2018 and 2019 net income estimates for Anchor taken from a publicly available research analyst EPS estimate of Anchor for 2018 and an assumed Anchor long-term earnings growth rate provided by Anchor management, and (iii) market price data as of July 13, 2018. The results of KBW's analysis are set forth in the following table, which also compares the results of KBW's analysis with the implied pro forma ownership percentages of FS Bancorp and Anchor shareholders in the combined company based on the stock consideration of 0.2921 shares of FS Bancorp common stock and also hypothetically assuming 100% stock consideration in the proposed merger for illustrative purposes:

	<u>FS Bancorp as a</u> <u>% of Total</u>	<u>Anchor as a</u> <u>% of Total</u>
Ownership		
At 0.2921x Merger Exchange Ratio	84%	16%
Assuming 100% stock consideration	75%	25%
Balance Sheet		
Total Assets	68%	32%
Gross Loans Held For Investment	67%	33%
Deposits	70%	30%
Borrowings	46%	54%
Tangible Common Equity	65%	35%
Income Statement		
2018 Estimated Net Income	77%	23%
2019 Estimated Net Income	78%	22%
Market Capitalization	76%	24%

Forecasted Pro Forma Financial Impact Analysis. KBW performed a pro forma financial impact analysis that combined projected income statement and balance sheet information of FS Bancorp and Anchor. Using (i) closing balance sheet data as of December 31, 2018 for FS Bancorp and Anchor extrapolated from historical data using growth rates taken from publicly available consensus "street estimates" of FS Bancorp and publicly available research analyst estimates of Anchor, (ii) publicly available consensus "street estimates" of FS Bancorp for 2018 and 2019 and assumed FS Bancorp long-term growth rates provided by FS Bancorp management, (iii) publicly available research analyst estimates of Anchor for 2018 and assumed Anchor growth rates for periods thereafter provided by Anchor management, and (iv) pro forma assumptions (including certain acquisition accounting adjustments, cost savings and related expenses) provided by FS Bancorp management, KBW analyzed the potential financial impact of the merger on certain projected financial results of FS Bancorp. This analysis indicated the merger could be accretive to FS Bancorp's estimated 2019 EPS and estimated 2020 EPS (excluding one-time merger related charges at closing) and accretive to FS Bancorp's estimated tangible book value per share as of December 31, 2018. Furthermore, the analysis indicated that each of FS Bancorp's tangible common equity to tangible assets ratio, leverage ratio, Common Equity Tier 1 Risk-Based Capital Ratio and Total Risk Based Capital Ratio as of December 31, 2018 could be lower. For all of the above analysis, the actual results achieved by FS Bancorp following the merger may vary from the projected results, and the variations may be material.

Anchor Discounted Cash Flow Analysis. KBW performed a discounted cash flow analysis of Anchor to estimate a range for the implied equity value of Anchor. In this analysis, KBW used publicly available research analyst estimates of Anchor for 2018 and assumed Anchor growth rates for periods thereafter provided by Anchor management, and assumed discount rates ranging from 13.0% to 17.0%. The range of values was derived by adding (i) the present value of the estimated excess cash flows that Anchor could generate over the period from December 31, 2018 to December 31, 2023 as a standalone company, and (ii) the present value of Anchor's implied terminal value at the end of such period. KBW assumed that Anchor would maintain a tangible common equity to tangible assets ratio of 9.00% and would retain sufficient earnings to maintain that level. In calculating the terminal value of Anchor, KBW applied a range of 11.0x to 14.0x Anchor's estimated 2024 net income. This discounted cash flow analysis resulted in a range of implied values per share of Anchor common stock of \$27.31 per share to \$34.18 per share.

The discounted cash flow analysis is a widely used valuation methodology, but the results of such methodology are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates, and discount rates. The foregoing discounted cash flow analyses did not purport to be indicative

of the actual values or expected values of Anchor.

FS Bancorp Discounted Cash Flow Analysis. KBW performed a discounted cash flow analysis of FS Bancorp to estimate a range for the implied equity value of FS Bancorp. In this analysis, KBW used publicly available consensus "street estimates" of FS Bancorp for 2018 and 2019 and assumed FS Bancorp long-term growth

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rates provided by FS Bancorp management, and assumed discount rates ranging from 9.0% to 13.0%. The range of values were derived by adding (i) the present value of the estimated excess cash flows that FS Bancorp could generate over the period from December 31, 2018 to December 31, 2023 as a standalone company, and (ii) the present value of FS Bancorp's implied terminal value at the end of such period. KBW assumed that FS Bancorp would maintain a tangible common equity to tangible assets ratio of 9.00% and would retain sufficient earnings to maintain that level. In calculating the terminal value of FS Bancorp, KBW applied a range of 13.0x to 16.0x FS Bancorp's estimated 2024 net income. This discounted cash flow analysis resulted in a range of implied values per share of FS Bancorp common stock of \$70.40 per share to \$95.57 per share.

The discounted cash flow analysis is a widely used valuation methodology, but the results of such methodology are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates, and discount rates. The foregoing discounted cash flow analyses did not purport to be indicative of the actual values or expected values of FS Bancorp or the pro forma combined company.

Miscellaneous. KBW acted as financial advisor to Anchor in connection with the proposed merger and the terminated merger transaction with Washington Federal and not as an advisor to or agent of any other person. As part of its investment banking business, KBW is continually engaged in the valuation of bank and bank holding company securities in connection with acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for various other purposes. As specialists in the securities of banking companies, KBW has experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of its and their broker-dealer businesses and further to certain existing sales and trading relationships with each of Anchor and FS Bancorp, KBW and its affiliates may from time to time purchase securities from, and sell securities to, Anchor and FS Bancorp. In addition, as a market maker in securities, KBW and its affiliates may from time to time have a long or short position in, and buy or sell, debt or equity securities of Anchor or FS Bancorp for its and their own accounts and for the accounts of its and their respective customers and clients.

Pursuant to the KBW engagement agreement, Anchor agreed to pay KBW a cash fee currently estimated to be approximately \$870,000, \$100,000 of which became payable with the rendering of KBW's opinion and the balance of which is contingent upon the completion of the merger. KBW also received a fee from Anchor upon the rendering of its opinion in connection with the terminated merger transaction with Washington Federal, which fee will be credited against the portion of KBW's fee contingent upon the completion of the merger. Anchor also agreed to reimburse KBW for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify KBW against certain liabilities relating to or arising out of KBW's engagement or KBW's role in connection therewith. Other than in connection with the merger, its associated process, the terminated merger transaction with Washington Federal and its associated process, during the two years preceding the date of its opinion, KBW has not provided investment banking and financial advisory services to Anchor. During the two years preceding the date of its opinion, KBW did not provide investment banking and financial advisory services to FS Bancorp. KBW may in the future provide investment banking and financial advisory services to Anchor or FS Bancorp and receive compensation for such services.

#### Reasons of FS Bancorp for the Merger

The merger will enable FS Bancorp to expand and strengthen its community banking presence in Western Washington. During its deliberation regarding the adoption of the merger agreement, the board of directors of FS Bancorp considered a number of factors, including, but not limited to, the following:

- Anchor's strong existing customer base and reputation for providing quality customer service;
- the compatibility of the merger with FS Bancorp's long-term community banking strategy;
- Anchor Bank's branch locations in Washington complement FS Bancorp's existing footprint;
- the ability of the combined company to offer a broader array of products and services to Anchor's customers;
- Anchor's financial performance and strong asset quality; and
- potential opportunities to reduce operating costs and enhance revenue.



FS Bancorp based these assumptions on its present assessment of where savings could be realized based upon the present independent operations of Anchor. Actual savings in some or all of these areas could be higher or lower than currently expected.

In reaching its decision to approve the merger agreement, FS Bancorp's board of directors also considered the risks associated with the transaction, and, after due consideration, concluded that the potential benefits of the proposed transaction outweighed the risks associated with the proposed transaction.

The foregoing information and factors considered by FS Bancorp's board of directors are not intended to be exhaustive. In view of the variety of factors and the amount of information considered, FS Bancorp's board of directors did not find it practicable to, and did not, quantify, rank or otherwise assign relative weights to the specific factors it considered in approving the transaction. In addition, individual members of FS Bancorp's board of directors may have given different weights to different factors. FS Bancorp's board of directors considered all of these factors as a whole, and overall considered them to be favorable to and to support its determination.

#### Consideration to be Received in the Merger

In the merger, Anchor shareholders will have the right to receive merger consideration with respect to each of their Anchor common shares consisting of 0.2921 of a share of FS Bancorp common stock, or the exchange ratio, and cash of \$12.40 per share.

If, prior to the effective time of the merger, the outstanding FS Bancorp common shares are increased, decreased, changed into or exchanged for a different number or kind of shares or securities as a result of a reorganization, recapitalization, reclassification, stock dividend, stock split or other similar change in capitalization, an appropriate and proportionate adjustment will be made to the exchange ratio.

The value of the FS Bancorp common shares to be received by Anchor shareholders in the merger may vary from the value as of the date we announced the merger, the date that this document was mailed to Anchor shareholders, the date of the meeting of Anchor shareholders and the date of completion of the merger. Any change in the market price of FS Bancorp common shares prior to completion of the merger will affect the value of the stock portion of the merger consideration that Anchor shareholders will receive upon completion of the merger. Accordingly, at the time of the Anchor special meeting, Anchor shareholders will not know or be able to calculate the value of the stock portion of the merger consideration they would receive upon completion of the merger. See "Risk Factors" on page 14. No fractional share interests will be issued in connection with the merger. Instead, FS Bancorp will make a cash payment to each Anchor shareholder who would otherwise receive a fractional FS Bancorp share in an amount equal to the fractional share multiplied by the FS Bancorp average closing price. An Anchor shareholder also has the right to obtain the fair value of his or her Anchor shares in lieu of receiving the merger consideration under the merger agreement by strictly following the procedures under Washington law, as discussed under "Dissenters' Rights" beginning on page 154 .

#### Conversion of Shares and Exchange of Certificates

As soon as reasonably practicable after the effective time of the merger, each holder of a certificate formerly representing shares of Anchor common stock who surrenders the certificate, and upon receipt and acceptance of the certificate together with duly executed transmittal materials by American Stock Transfer & Trust Company, as exchange agent, shall be entitled to a certificate representing FS Bancorp common stock as the stock portion of the merger consideration, the cash portion of the merger consideration, and cash in lieu of any fractional share interest.

#### Regulatory Approvals Required for the Merger

The closing of the merger is conditioned upon the receipt of all approvals of regulatory authorities required for the merger and the bank merger. Under the terms of the merger agreement, FS Bancorp and Anchor have agreed to use their commercially reasonable best efforts to obtain all necessary permits, consents, approvals and authorizations from any governmental authority necessary, proper or advisable to consummate the merger and the bank merger.



The merger of FS Bancorp and Anchor is subject to prior approval by the FDIC and the DFI and the receipt of a waiver or prior approval from the Federal Reserve Board. Accordingly, the parties must obtain the approval of or waiver by the Federal Reserve Board, the approval of the FDIC and the approval of the DFI. Applications with the FDIC and the DFI were filed on or about July 27, 2018. Approval from the DFI was received on September 6, 2018. A waiver request was submitted to the Federal Reserve Board on or about August 16, 2018 and the waiver was granted on August 29, 2018.

There can be no assurance as to whether all regulatory approvals will be obtained or as to the dates of the approvals. There also can be no assurance that the regulatory approvals received will not contain a condition or requirement that results in a failure to satisfy the conditions to closing set forth in the merger agreement. See the section entitled "The Merger Agreement – Conditions to Completion of the Merger."

#### Accounting Treatment

The costs related to the merger are expected to be approximately \$5.9 million after tax, and the merger will be accounted for by applying the acquisition method in accordance with accounting principles generally accepted in the United States. For purposes of preparing FS Bancorp's consolidated financial statements, FS Bancorp will establish a new accounting basis for Anchor's assets and liabilities based upon their fair values, the merger consideration and the costs of the merger as of the acquisition date. FS Bancorp will record any excess of cost over the fair value of the net assets acquired, including any intangible assets with definite lives, of Anchor as goodwill. A final determination of the intangible asset values and required acquisition accounting adjustments, including the allocation of the purchase price to the assets acquired and liabilities assumed based on their respective fair values, has not yet been made. FS Bancorp will determine the fair value of Anchor's assets and liabilities and will make appropriate acquisition accounting adjustments including the calculation of any intangible assets with definite lives, upon completion of the acquisition. Goodwill will be periodically reviewed for impairment. Other intangible assets will be amortized against the combined company's earnings following completion of the merger.

#### Interests of Certain Persons in the Merger

Anchor shareholders should be aware that Anchor's directors and executive officers have interests in the merger that are different from, or in addition to, those of Anchor's shareholders generally. Anchor's board of directors was aware of these interests and considered these interests, among other matters, when making its decision to approve the merger agreement, and in recommending that Anchor shareholders vote in favor of the merger agreement.

These interests include the following:

Anchor's Chief Executive Officer and director, Jerald L. Shaw, and Anchor's Chief Financial Officer and director, Terri L. Degner, will be entitled to receive change in control severance benefits under their existing employment agreements in a single lump sum payment upon completion of the merger in an amount up to \$1.4 million and \$945,000 respectively (these respective amounts are not inclusive of the cash value of non-cash health and related benefits and these respective amounts are subject to cut-backs for potential tax penalties).

Each other executive officer may be entitled to a severance payment equal to his or her annual cash compensation in effect at the time of employment termination if such employment termination occurs within one year after completion of the merger due to any of (i) termination by the employer without just cause or (ii) termination by the executive officer because the employer (A) changes by more than 35 miles the location for performance of the executive's services, (B) reduction in the executive's base salary or rate of compensation or (C) material reduction in the executive's benefits and perquisites, taken as a whole.

Accelerated vesting of all outstanding restricted stock awards held by directors and named executive officers, representing a total of 7,456 shares of Anchor common stock as more fully described below.

Enhancement of the value of benefits under the Anchor Bank phantom stock plan by virtue of the payment of the total benefit amounts in lump sum within 60 days after completion of the merger instead of such benefit amounts being paid over a stated term in monthly installments. The total amount to be paid to

directors and executive officers as a group under the Anchor Bank phantom stock plan as of June 30, 2018 is \$1.3 million. Approximately \$571,689 of such total amount is an enhanced benefit due to payment of all benefits being made in lump sum within 60 days after completion of the merger. The amount to be paid by each director and executive officer under the Anchor Bank Phantom Stock Plan as of June 30, 2018 is as follows:

Participant	Payment Amount
George W. Donovan	\$130,980
Douglas A. Kay	186,540
Robert D. Ruecker	242,110
Teri L. Degner	462,465
Jerald L. Shaw	293,117
Total	\$1,315,212

The Anchor employee stock ownership plan provides for the allocation of unearned suspense shares to the accounts of participants upon termination of the plan. The plan will be terminated immediately prior to completion of the merger. The amount and value of the suspense shares to be allocated to the plan accounts of executive officers upon plan termination cannot be determined at this time, but it is expected the amount and value thereof to any individual executive officer, or to the executive officers as a group, will not be material. Also, the termination of the plan will result in the acceleration of vesting of the unvested portion of the accounts of participants. The accounts of all named executive officers other than Matthew F. Moran are fully vested. Therefore, no named executive officer other than Mr. Moran will receive any benefit from vesting acceleration under the plan. Mr. Moran's unvested benefits under the plan are an insubstantial amount that will become 100% vested upon completion of the merger.

Terri L. Degner, Anchor's Chief Financial Officer and director, has entered into a consulting agreement with 1st Security Bank of Washington for a period of up to three years after completion of the merger, which consulting agreement may be terminated by either party at any time for any reason or no reason. The consulting agreement provides for compensation to Ms. Degner, as an independent contractor, of \$130 per hour for transition services she provides.

Further, pursuant to the merger agreement the rights to indemnification and associated insurance coverage for directors and executive officers is preserved for a period of six years following completion of the merger. Each director has entered into a voting agreement, and a resignation, non-solicitation and confidentiality agreement, in favor of FS Bancorp, each in the form attached as an exhibit to the merger agreement for no additional consideration. Equity Interests of Directors and Executive Officers.

Restricted Stock. Each Anchor restricted stock award that is outstanding and subject to vesting or other lapse restriction immediately prior to the merger will fully vest at the effective time of the merger and will be converted automatically into a right to receive the merger consideration. The following table sets forth the number of restricted shares of Anchor common stock that will become vested in the merger for each director and named executive officer and the aggregate value thereof based upon merger consideration with a value of \$122,791.

Name	Shares of Restricted Stock	Aggregate Value
Matthew F. Moran	3,961	\$ 122,791
(All executives as a group)	7,456	231,163

#### Indemnification and Insurance

As described under the section entitled, "The Merger Agreement – Indemnification and Continuance of Directors and Officer Liability Coverage," FS Bancorp will, for a period of six years, maintain and preserve the rights to indemnification of Anchor's directors and executive officers, to the maximum extent permitted by Anchor's articles of incorporation, bylaws and applicable law, in connection with claims arising out of or relating to matters existing or occurring at or prior to completion of the merger, and will provide directors' and officers' liability insurance with respect to such claims.

#### Voting Agreements

As described under the section entitled, "The Merger Agreement – Voting Agreements", all of the Anchor directors have entered into voting agreements in favor of FS Bancorp providing that they will vote their shares of Anchor common stock for approval of the merger agreement and forbear from taking other actions that would be inconsistent with such obligation or precludes their shares from being voted in favor of the merger agreement.

#### Resignation, Non-Solicitation and Confidentiality Agreements

Each Anchor director has entered into a resignation, non-solicitation and confidentiality agreement with FS Bancorp in connection with the execution of the merger agreement (which we refer to herein as the "restrictions agreement"). Pursuant to the restrictions agreement each director has agreed (i) to resign as a director of Anchor at the effective time of the merger and resign as a director of Anchor Bank at the time the bank merger becomes effective, (ii) not at any time use for personal benefit or disclose any confidential information of Anchor or Anchor Bank, and (iii) not to (A) solicit or offer employment to any officer or employee of FS Bancorp or any of its subsidiaries or take any action to cause any officer, employee or others doing business with FS Bancorp or any of its subsidiaries to terminate his, her or its employment or business relationship with FS Bancorp or any of its subsidiaries or (B) make any derogatory statements or remarks regarding FS Bancorp or any of its subsidiaries, any of their respective products or services, or any of their respective directors, officers, employees, agents or representatives.

#### Consulting Agreement

In connection with the execution of the merger agreement, Terri L. Degner, Anchor's Chief Financial Officer and director, entered into a consulting agreement with 1st Security Bank of Washington. The consulting agreement becomes effective upon completion of the merger and provides compensation to Ms. Degner of \$130 per hour for transition services performed. The consulting agreement does not require Ms. Degner to work any minimum or specified number of hours. The consulting agreement is for a term of up to three years, but may be terminated by either party at any time for any reason or no reason. The consulting agreement also imposes lifetime restrictions upon Ms. Degner relating to the disclosure of confidential information. These restrictions are in addition to the non-compete, non-solicitation and related restrictions imposed upon Ms. Degner for a one year period following completion of the merger under her existing employment agreement and the resignation, non-solicitation and confidentiality agreement she entered into with FS Bancorp in connection with the execution of the merger agreement.

#### Method of Effecting the Acquisition

Subject to the consent of Anchor, which may not be unreasonably withheld or delayed. FS Bancorp may at any time change the method of effecting the acquisition of Anchor and its subsidiaries (including by providing for the merger of a wholly-owned subsidiary of FS Bancorp with Anchor). However, no change may: (i) alter or change the amount or kind of consideration to be issued to holders of the common stock of Anchor, as provided for in the merger agreement; (ii) have an adverse effect on the tax treatment of Anchor's shareholders as a result of receiving the merger consideration; or (iii) impede or materially delay completion of the transactions contemplated by the merger agreement.

#### Effective Time

The effective time of the merger will be the time and date when the merger becomes effective, as set forth in the articles of merger that will be filed with the Washington Secretary of State on the closing date of the merger. The closing date will occur on a date to be specified by FS Bancorp and Anchor. Subject to applicable law, this date

will be no later than the last day of the month (but no earlier than five (5) business days) after the latest to occur of: (i) receipt of all required regulatory approvals and the expiration of all required waiting periods; (ii) the approval of the merger agreement by the shareholders of Anchor and (iii) the satisfaction or waiver (subject to applicable law) of the other closing conditions set forth in the merger agreement (other than those conditions that by their nature are to be satisfied or waived at the closing), unless extended by mutual agreement of FS Bancorp and Anchor.

We anticipate that the merger will be completed during the quarter ended December 31, 2018. However, completion of the merger could be delayed if there is a delay in obtaining the required regulatory approvals or in satisfying other conditions to the merger. The date for completing the merger can occur as late as June 30, 2019, after which Anchor or FS Bancorp would need to mutually agree to extend the closing date of the merger. See the sections entitled "The Merger – Regulatory Approvals Required for the Merger" and "–Conditions to Consummation of the Merger."

#### Declaration and Payment of Dividends

Holders of Anchor common stock will accrue but will not be paid dividends or other distributions declared after the effective time with respect to FS Bancorp common stock into which their shares of Anchor common stock have been converted until they surrender their Anchor stock certificates for exchange after the effective time of the merger. Upon surrender of those certificates after the effective time of the merger, the combined company will pay any unpaid dividends or other distributions, without interest. After the effective time of the merger, there will be no transfers on the stock transfer books of Anchor of shares of Anchor common stock issued and outstanding immediately prior to the effective time. If certificates representing shares of Anchor common stock are presented for transfer after the effective time of the merger, they will be cancelled and exchanged for the cash portion of the merger consideration, certificates representing the applicable number of shares of FS Bancorp common stock issued as the stock portion of the merger consideration, and any cash in lieu of fractional shares and unpaid dividends or other distributions which respect to the shares of FS Bancorp common stock represented thereby.

#### No Fractional Shares

No fractional shares of FS Bancorp common stock will be issued to any shareholder of Anchor upon completion of the merger. For each fractional share that would otherwise be issued, FS Bancorp will pay cash in an amount equal to the fraction of a share of FS Bancorp common stock which the holder would otherwise be entitled to receive, multiplied by the FS Bancorp average closing price. No interest will be paid or accrued on cash payable to holders of those certificates in lieu of fractional shares.

#### Stock Matters

None of FS Bancorp, Anchor, the exchange agent or any other person will be liable to any former shareholder of Anchor for any amount delivered in good faith to a public official pursuant to applicable abandoned property, escheat or similar laws.

If a certificate for Anchor common stock has been lost, stolen or destroyed, the exchange agent will issue the consideration properly payable under the merger agreement upon the making of an affidavit by the person claiming that loss, theft or destruction and the posting of a bond in an amount reasonably necessary as indemnity against any claim that may be made against FS Bancorp with respect to that lost certificate.

For a description of FS Bancorp common stock and a description of the differences between the rights of the holders of Anchor common stock compared to the rights of the holders of FS Bancorp common stock, see the sections entitled "Description of FS Bancorp Capital Stock" and "Comparison of Rights of Anchor Common Stock and FS Bancorp Common Stock."

#### Public Trading Markets

FS Bancorp's common stock and Anchor's common stock are listed on Nasdaq under the symbols "FSBW" and "ANCB," respectively. Upon completion of the merger, Anchor common stock will be delisted from Nasdaq and thereafter will be deregistered under the Exchange Act. The shares of FS Bancorp common stock issuable in the merger for shares of Anchor common stock will be listed on Nasdaq.

## THE MERGER AGREEMENT

The following is a summary of the material provisions of the merger agreement. This summary is qualified in its entirety by reference to the merger agreement, a copy of which is attached as Appendix A to this proxy statement/prospectus and is incorporated herein by reference. You should read the merger agreement in its entirety, as it is the legal document governing the merger.

### The Merger

The boards of directors of FS Bancorp and Anchor have each unanimously approved the merger agreement, which provides for the merger of Anchor into FS Bancorp, with FS Bancorp as the surviving corporation of the merger. The merger agreement provides that after the effective time of the merger FS Bancorp intends to merge Anchor Bank, a wholly owned subsidiary of Anchor, with and into 1st Security Bank of Washington, a wholly owned subsidiary of FS Bancorp, with 1st Security Bank of Washington as the surviving institution. We refer to the merger of 1st Security Bank of Washington and Anchor Bank as the "bank merger."

### Effective Time and Completion of the Merger

The merger agreement provides that unless both FS Bancorp and Anchor agree to a later date, the filings necessary to make the merger effective, consisting of articles of merger to be filed with the Secretary of State of the State of Washington, will be made on or before the last day of the month (but no earlier than five business days) after all of the conditions to completion of the merger have been satisfied or waived (other than those that by their nature are to be satisfied or waived at the closing of the merger).

We currently expect that the merger will be completed in the quarter ended December 31, 2018, subject to the approval of the merger agreement by Anchor shareholders, the receipt of all necessary regulatory approvals and the expiration of all regulatory waiting periods. However, completion of the merger could be delayed if there is a delay in obtaining the required regulatory approvals or in satisfying any other conditions to the merger. There can be no assurances as to whether, or when, FS Bancorp and Anchor will obtain the required approvals or complete the merger. See " – Conditions to Completion of the Merger."

### Consideration to be Received in the Merger

Under the terms of the merger agreement, upon completion of the merger, each share of Anchor common stock that is outstanding immediately prior to the merger, other than shares described below, will be converted into the right to receive 0.2921 of a share of FS Bancorp common stock (the "exchange ratio") and \$12.40 in cash.

Shares of Anchor common stock for which dissenters' rights have been properly exercised will not be converted into the merger consideration (See "Dissenters' Rights" on page 154 ). Also, shares of Anchor common stock, which are beneficially owned by Anchor or FS Bancorp, will be cancelled for no consideration. Lastly, certain shares of Anchor common stock owned by, but which are held in an unallocated suspense account under, the Anchor employee stock ownership plan will be cancelled, based upon the value of the merger consideration at the effective time of the merger, in retirement of the loan indebtedness of the Anchor employee stock ownership plan to Anchor.

All outstanding shares of Anchor restricted stock will become fully vested upon completion of the merger and will be converted to a right to receive the merger consideration in the same manner as other outstanding shares of Anchor common stock. Outstanding restricted stock awards are included in the Anchor outstanding shares throughout this document.

No fractional shares of FS Bancorp common stock will be issued in connection with the merger. Instead, FS Bancorp will make a cash payment to each Anchor shareholder who would otherwise receive a fractional FS Bancorp share, equal to the fractional share amount multiplied by the closing price. An Anchor shareholder also has the right to obtain the fair value of his or her Anchor shares in lieu of receiving the merger consideration under the merger agreement by strictly following the procedures under the Washington Business Corporation Act, or WBCA, as

discussed under "Dissenters' Rights," beginning on page 154 .

The value of the shares of FS Bancorp common stock to be issued in the merger will fluctuate during the period up to and including the completion of the merger. We cannot assure you whether or when the merger will be

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completed, and you are advised to obtain current market prices for FS Bancorp common stock. See "Risk Factors" on page 14 . Because the market price of FS Bancorp common stock will fluctuate, you cannot be sure of the value of the stock portion of the merger consideration you will receive.

If, prior to the effective time of the merger, the outstanding shares of FS Bancorp common stock are increased, decreased, changed into or exchanged for a different number or kind of shares or securities as a result of a reorganization, recapitalization, reclassification, stock dividend, stock split or other similar change in capitalization, an appropriate and proportionate adjustment will be made to the Exchange Ratio.

#### Exchange Procedures

Prior to the effective time of the merger, FS Bancorp will appoint as the exchange agent under the merger agreement, its transfer agent, American Stock Transfer & Trust Company. As soon as reasonably practicable after the effective time of the merger, the exchange agent will mail to each holder of record of Anchor common stock who does not exercise dissenters' rights a letter of transmittal and instructions for the surrender of the holder's Anchor stock certificate(s) and/or conversion of shares for the merger consideration and cash in lieu of any fractional FS Bancorp share.

Anchor shareholders should not send in their stock certificates until they receive the letter of transmittal and instructions.

Upon surrender to the exchange agent of the certificate(s) representing his or her shares of Anchor common stock, accompanied by a properly completed letter of transmittal, an Anchor shareholder will be entitled to promptly receive the merger consideration and cash in lieu of any fractional FS Bancorp share. Until surrendered, each such certificate will represent after the effective time of the merger, for all purposes, only the right to receive, without interest, the merger consideration and cash in lieu of any fractional FS Bancorp share. FS Bancorp or the exchange agent will be entitled to deduct and withhold from any cash consideration payable under the merger agreement to any holder of Anchor common stock, the amounts it is required to deduct and withhold under the Code or any provision of state, local or foreign tax law. If any such amounts are withheld and paid over to the appropriate governmental authority, these amounts will be treated for all purposes of the merger agreement as having been paid to the persons from whom they were withheld.

No dividends or other distributions with respect to FS Bancorp common stock after completion of the merger will be paid to the holder of any unsurrendered Anchor stock certificates with respect to the FS Bancorp common stock represented by those certificates until those certificates have been properly surrendered. Following the proper surrender of any such previously unsurrendered Anchor stock certificate, the holder of the certificate will be entitled to receive, without interest, (i) the amount of unpaid dividends or other distributions with a record date after the effective time of the merger payable with respect to the whole shares of FS Bancorp common stock represented by that certificate and/or (ii) at the appropriate payment date, the amount of dividends or other distributions payable with respect to shares of FS Bancorp common stock represented by that certificate with a record date after the effective time of the merger (but before the date on which the certificate is surrendered) and with a payment date subsequent to the issuance of the shares of FS Bancorp common stock issuable in exchange for that certificate.

The merger consideration and cash in lieu of any fractional FS Bancorp share may be issued or paid in a name other than the name in which the surrendered Anchor stock certificate is registered if (i) the certificate surrendered is properly endorsed or otherwise in a proper form for transfer, and (ii) the person requesting the payment or issuance pays any transfer or other similar taxes due or establishes to the satisfaction of FS Bancorp that such taxes have been paid or are not applicable.

After the effective time of the merger, there will be no transfers on the stock transfer books of Anchor other than to settle transfers of shares of Anchor stock that occurred prior to the effective time. If, after the effective time of the

merger, certificates for Anchor stock are presented for transfer to the exchange agent, the certificates will be cancelled and exchanged for the merger consideration, cash in lieu of any fractional FS Bancorp shares and any unpaid dividends or distributions on FS Bancorp common stock deliverable with respect thereto, in each case without interest.



Any portion of the merger consideration and cash to be paid in lieu of fractional FS Bancorp shares that has been deposited with the exchange agent and remains unclaimed by Anchor shareholders at the expiration of six months after the effective time of the merger may be returned to FS Bancorp. In that case, former Anchor shareholders who have not yet surrendered their Anchor stock certificates may after that point look only to FS Bancorp with respect to the merger consideration, any cash in lieu of any FS Bancorp fractional shares and any unpaid dividends and distributions on the shares of FS Bancorp common stock to which they are entitled, in each case, without interest. None of FS Bancorp, the exchange agent or any other person will be liable to any former Anchor shareholder for any amount delivered in good faith to a public official pursuant to applicable abandoned property, escheat or similar laws.

In the event any Anchor stock certificate is lost, stolen or destroyed, in order to receive the merger consideration and any cash in lieu of any fractional FS Bancorp share, the holder of that certificate must provide an affidavit of that fact and, if reasonably required by FS Bancorp or the exchange agent, post a bond in such amount as FS Bancorp determines is reasonably necessary to indemnify it against any claim that may be made against it with respect to that certificate.

#### Conduct of Business Pending the Merger

Pursuant to the merger agreement, Anchor and FS Bancorp have agreed to certain restrictions on their activities until the merger is completed or terminated. In general, each party has agreed that, except as otherwise permitted by the merger agreement, or as required by applicable law or a governmental entity or with the prior written consent of the other party, it will:

- use commercially reasonable best efforts to maintain and preserve intact its business organization and advantageous business relationships;

- not take any action that is intended to or that would reasonably be expected to adversely affect or materially delay the ability of either party or its subsidiaries to obtain any necessary regulatory approvals or to complete the merger or the bank merger;

- not take any action that is intended or that would reasonably be expected to cause the merger or the bank merger to fail to qualify as a reorganization under Section 368(a) of the Code or cause any of its representations and warranties in the merger agreement to be untrue in any material respect or any of the conditions in the merger agreement to be unsatisfied or to result in a violation of any provision of the merger agreement; and

- not take any action that is likely to materially impair its ability to perform any of its obligations under the merger agreement or its subsidiary bank to perform any of its obligations under the bank merger agreement.

FS Bancorp has also agreed that it will not and will not amend its articles of incorporation or bylaws in a manner that would materially and adversely affect the economic benefits of the merger to Anchor's shareholders.

FS Bancorp has also agreed that it will not declare any special or extraordinary dividend or distribution on FS Bancorp common stock.

Anchor has also agreed that it will, and will cause each of its subsidiaries to, conduct its business in the ordinary course consistent with past practice. Anchor has further agreed that it will not, and will not permit any of its subsidiaries, to do any of the following, except as required by law or a governmental entity, expressly contemplated or permitted by the merger agreement, or with the prior written consent of FS Bancorp:

- issue, sell or otherwise permit to become outstanding, or authorize the creation of, any additional shares of its capital stock, other ownership interests or any warrants, options, other equity-based awards, convertible securities or other arrangements or commitments to acquire capital stock or other ownership interest;

issue any other capital securities, including trust preferred or other similar securities, voting debt securities or other securities;

pay any dividends or other distributions on its capital stock or other ownership interests, other than dividends from wholly owned subsidiaries to Anchor or to another wholly owned subsidiary of Anchor; or directly or indirectly adjust, split, combine, redeem, reclassify, purchase or otherwise acquire any shares of its capital stock, other ownership interests, or rights with respect to the foregoing;

(i) enter into, modify, renew or terminate any employment, consulting, severance, change in control or similar agreement or arrangement with any director, officer, employee, or service provider, or grant any salary or wage increase or increase any employee benefit (including incentive or bonus payments) other than (A) at will agreements, (B) normal increases in salary and bonuses pursuant to plans currently in effect, and (C) severance in accordance with past practice; (ii) hire any new officers; (iii) promote any employee to a rank of vice president or higher; or (iv) pay expenses in excess of a specified amount for employees and directors to attend conventions or similar meetings;

establish, modify, renew or terminate any employee benefit plan or accelerate the vesting of benefits under any employee benefit plan;

sell, transfer, lease or encumber any of its assets, except in the ordinary course of business consistent with past practice, and in the case of a sale or transfer, at fair value, or sell or transfer any of its deposit liabilities;

enter into, modify or renew any data processing contract, service provider agreement or any lease, license or maintenance agreement relating to real or personal property or intellectual property or information technology assets, other than the annual renewal of an agreement that is necessary to operate its business in the ordinary course consistent with past practice, or permit to lapse its rights in any material intellectual property or information technology assets;

acquire the assets, business, deposits or properties of any person, other than pursuant to foreclosure, in a fiduciary capacity or in satisfaction of debts contracted prior to the date of the merger agreement;

sell or acquire any loans (excluding originations) or loan participations, except in the ordinary course of business consistent with past practice (but, in the case of a sale, after giving FS Bancorp or 1st Security Bank of Washington a first right of refusal to acquire such loan or participation), or sell or acquire any loan servicing rights;

amend its articles of incorporation or bylaws or similar governing documents;

materially change its accounting principles, practices or methods, except as may be required by accounting principles generally accepted in the United States or any governmental entity;

enter into, materially modify, terminate or renew any Anchor Contract (as such term is defined in the merger agreement);

settle any legal claims involving an amount in excess of \$25,000, excluding amounts paid or reimbursed under any insurance policy;

foreclose upon any real property without obtaining a phase one environmental report, except for one- to four-family non-agricultural residential properties of five acres or less which it does not have reason to believe contains hazardous substances or might be in violation of or require remediation under environmental laws;

in the case of Anchor Bank, (i) voluntarily make a material change in its deposit mix; (ii) increase or decrease the interest rate paid on its time deposits or certificates of deposit except in a manner consistent with past practice and competitive factors in the marketplace; (iii) incur any liability or

- obligation relating to retail banking and branch merchandising, marketing and advertising activities and initiatives except in the ordinary course of business consistent with past practice; (iv) open any new branch or deposit taking facility; or (v) close or relocate any existing branch or other facility;
- acquire any investment securities outside of the limits specified in the merger agreement;
  - make capital expenditures outside the limits specified in the merger agreement;
  - materially change its loan underwriting policies, make loans on extensions of credit in excess of amounts specified in the merger agreement or acquire any loan pools or participations;
  - invest in any new or existing joint venture or any new real estate development or construction activity;
  - materially change its interest rate and other risk management policies and practices;
  - incur any debt for borrowed funds other than in the ordinary course of business consistent with past practice with a term of one year or less;
  - become responsible for any of the obligations or liabilities of any other person or entity, other than the issuance of letters of credit permitted by the merger agreement;
  - create any lien on any of Anchor's assets or properties other than pursuant to agreements with the Federal Home Loan Bank of Des Moines and federal funds transactions;
  - make charitable contributions in excess of limits specified in the merger agreement;
  - enter into any new lines of business;
  - make, change or revoke any tax election, amend any tax return, enter into any tax closing agreement, or settle any liability with respect to disputed taxes; or
  - agree or commit to do any of the foregoing.

#### Agreement Not to Solicit Other Offers

Anchor has agreed that, from the date of the merger agreement until the effective time of the merger or, if earlier, the termination of the merger agreement, it will not, and will cause its subsidiaries not to, directly or indirectly: (i) initiate, solicit, encourage or knowingly facilitate inquiries or proposals with respect to, or engage in any discussions or negotiations concerning, or provide to any person any confidential or nonpublic information concerning, its and its subsidiaries' business, properties or assets; or (ii) have any discussions with any person or entity relating to an acquisition proposal.

Notwithstanding this agreement, if Anchor receives an unsolicited written acquisition proposal prior to Anchor shareholder approval of the merger agreement that Anchor's board of directors determines in good faith constitutes or is reasonably likely to constitute a transaction that is more favorable from a financial point of view to the shareholders of Anchor than the merger with FS Bancorp (referred to as a "superior proposal"), Anchor may provide confidential information to and negotiate with the third party that submitted the acquisition proposal if the Anchor board of directors determines in good faith, after consulting with counsel, that the failure to do so would violate the board's fiduciary duties. In order to constitute a superior proposal, an acquisition proposal must be for a tender or exchange offer, for a merger or consolidation or other business combination involving Anchor or Anchor Bank or for the acquisition of a majority of the voting power in, or a majority of the fair market value of the business, assets or deposits of, Anchor or Anchor Bank. Anchor must promptly advise FS Bancorp of any acquisition proposal received and keep it apprised of any related developments.

The merger agreement generally prohibits the Anchor board of directors from withdrawing or modifying in a manner adverse to FS Bancorp the board's recommendation that Anchor's shareholders vote to approve and adopt the merger agreement (referred to as a "change in recommendation"). At any time prior to the approval of the merger agreement by Anchor's shareholders, however, the Anchor board of directors may effect a change in recommendation in response to a bona fide written unsolicited acquisition proposal that the board determines in good faith, after consultation with counsel, constitutes a superior proposal. The Anchor board of directors may not make a change in recommendation in response to a superior proposal, or terminate the merger agreement to pursue a superior proposal, unless it has given FS Bancorp at least four business days to propose a modification to the merger agreement and, after considering any such proposed modification, the Anchor board of directors determines in good faith, after consultation with counsel, that the third party unsolicited proposal continues to constitute a superior proposal.

If FS Bancorp terminates the merger agreement based on a change in recommendation by the Anchor board of directors or Anchor terminates the merger agreement to pursue a superior proposal, Anchor would be required to pay FS Bancorp a termination fee of \$2,702,000 in cash. See " – Termination of the Merger Agreement."

#### Representations and Warranties

The representations and warranties described below and included in the merger agreement were made only for purposes of the merger agreement and as of specific dates, are solely for the benefit of FS Bancorp and Anchor, may be subject to limitations, qualifications or exceptions agreed upon by the parties, including those included in confidential disclosures made for the purposes of, among other things, allocating contractual risk between FS Bancorp and Anchor rather than establishing matters as facts, and may be subject to standards of materiality that differ from those standards relevant to shareholders. You should not rely on the representations and warranties or any description thereof as characterizations of the actual state of facts or condition of FS Bancorp, Anchor or any of their respective subsidiaries or affiliates. Moreover, information concerning the subject matter of the representations and warranties may change after the date of the merger agreement, which subsequent information may or may not be fully reflected in public disclosures by FS Bancorp or Anchor. The representations and warranties and other provisions of the merger agreement should not be read alone, but instead should be read only in conjunction with the information provided elsewhere in this proxy statement/prospectus and in the documents incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information."

The merger agreement contains customary representations and warranties of each of FS Bancorp and Anchor relating to their respective businesses. The representations and warranties in the merger agreement do not survive completion of the merger.

The representations and warranties made by each of Anchor and FS Bancorp in the merger agreement relate to a number of matters, including the following:

- corporate matters, including due organization and qualification and subsidiaries;
- capitalization;
- authority relative to execution and delivery of the merger agreement and the absence of conflicts with, or violations of, organizational documents or other obligations as a result of the merger or bank merger;
- required governmental and other regulatory filings, consents and approvals in connection with the merger and the bank merger;
- reports to regulatory authorities;
- financial statements, internal controls, books and records, and absence of undisclosed liabilities;
- in the case of Anchor, broker's fees payable in connection with the merger;
- the absence of certain changes or events;



- legal proceedings;
- tax matters;
- employee benefit matters;
- SEC Reports;
- compliance with applicable laws;
- in the case of Anchor, certain contracts;
- absence of agreements with regulatory authorities;
- derivative instruments and transactions;
- environmental matters;
- investment securities, commodities and, in the case of Anchor, bank owned life insurance;
- title to real property and other assets;
- intellectual property and information technology assets;
- in the case of Anchor, related party transactions;
- in the case of Anchor, inapplicability of takeover statutes;
- absence of action or circumstance that would prevent the merger or the bank merger from qualifying as a reorganization under Section 368(a) of the Code;
- in the case of Anchor, receipt of a fairness opinion from Anchor's financial advisor;
- the accuracy of information supplied for inclusion in this proxy statement/prospectus and other documents;
- loan matters;
- insurance matters;
- in the case of Anchor, the creation and maintenance of a liquidation account for eligible account holders;
- in the case of Anchor, the accuracy and completeness of corporate and stock ownership records; and
- in the case of Anchor, the absence of claims requiring indemnification.

Certain representations and warranties of FS Bancorp and Anchor are qualified as to "materiality" or "material adverse effect." For purposes of the merger agreement, a "material adverse effect," when used in reference to either FS Bancorp, Anchor or the combined company, means:

- a material adverse effect on the business, properties, results of operations or financial condition of such party and its subsidiaries taken as a whole (provided that a material adverse effect will not be deemed to include the impact
- (1) of (A) changes, after the date of the merger agreement, in generally accepted accounting principles or applicable regulatory accounting requirements, (B) changes,

after the date of the merger agreement, in laws, rules or regulations of general applicability to companies in the industries in which such party and its subsidiaries operate, or interpretations thereof by courts or governmental entities, (C) changes, after the date of the merger agreement, in global, national or regional political conditions (including the outbreak of war or acts of terrorism) or in economic or market (including equity, credit and debt markets, as well as changes in interest rates) conditions affecting the financial services industry generally, (D) public disclosure of the transactions contemplated by the merger agreement or actions or inactions expressly required by the merger agreement or that are taken with the prior written consent of the other party in contemplation of the transactions contemplated by the merger agreement, (E) expenses reasonably incurred by a party in connection with the merger agreement or in consummation of the transactions contemplated thereby, or (F) a decline in the trading price of a party's common stock or the failure, in and of itself, to meet earnings projections, but not, in either case, including the underlying causes thereof; except, with respect to subclauses (A), (B), or (C), to the extent that the effects of such change are materially disproportionately adverse to the business, properties, assets, liabilities, results of operations or financial condition of such party and its subsidiaries, taken as a whole, as compared to other companies in the industry in which such party and its subsidiaries operate); or

- (2) a material adverse effect on the ability of such party or its bank subsidiary to timely consummate the merger or bank merger.

#### Special Meeting and Recommendation of Anchor's Board of Directors

Anchor has agreed to, and to cause its board of directors to take all action to, hold the special meeting for the purpose of voting upon the merger agreement and to use commercially reasonable best efforts to obtain from its shareholders the vote required to approve the merger agreement, including by communicating to its shareholders its recommendation (and including such recommendation in this proxy statement/prospectus) that they approve the merger agreement.

Notwithstanding any change in recommendation by the board of directors of Anchor, unless the merger agreement has been terminated in accordance with its terms, Anchor is required to convene the special meeting and to submit the merger agreement to a vote of its shareholders. Anchor will adjourn or postpone the special meeting if there are insufficient shares of Anchor stock, represented (either in person or by proxy) to constitute a quorum necessary to conduct the business of such meeting.

#### Conditions to Completion of the Merger

**Mutual Closing Conditions.** The obligations of FS Bancorp and Anchor to complete the merger are subject to the satisfaction of the following conditions:

- approval of the merger agreement by Anchor's shareholders;
- authorization for listing on Nasdaq of the shares of FS Bancorp common stock to be issued in the merger; the registration statement on Form S-4, of which this proxy statement/prospectus is a part, being effective and not subject to any stop order by the SEC;
- absence of any injunction or other legal restraint blocking the merger or the bank merger; and required regulatory approvals are received without the imposition of any unduly burdensome condition as reasonably determined by the FS Bancorp board of directors.

**Additional Closing Conditions for the Benefit of FS Bancorp.** In addition to the mutual closing conditions, FS Bancorp's obligation to complete the merger is subject to the satisfaction or waiver of the following conditions:

accuracy of the representations and warranties made by Anchor subject to the closing condition standards set forth in the merger agreement and the receipt by FS Bancorp of a certificate signed by the Chief Executive Officer or Chief Financial Officer of Anchor to that effect;

performance in all material respects by Anchor of the obligations required to be performed by it at or prior to the effective time of the merger and the receipt by FS Bancorp of a certificate signed by the Chief Executive Officer or Chief Financial Officer of Anchor to that effect;

the holders of less than 10% of the outstanding shares of Anchor common stock exercising dissenters' rights under Washington law; and

the receipt by FS Bancorp of an opinion of its legal counsel to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code.

**Additional Closing Conditions for the Benefit of Anchor.** In addition to the mutual closing conditions, Anchor's obligation to complete the merger is subject to the satisfaction or waiver of the following conditions:

accuracy of the representations and warranties made by FS Bancorp subject to the closing condition standards set forth in the merger agreement and the receipt by Anchor of a certificate signed by the Chief Executive Officer or Chief Financial Officer of FS Bancorp to that effect;

performance in all material respects by FS Bancorp of the obligations required to be performed by it at or prior to the effective time of the merger and the receipt by Anchor of a certificate signed by the Chief Executive Officer or Chief Financial Officer of FS Bancorp to that effect; and

the receipt by Anchor of an opinion of its legal counsel to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code.

#### Termination of the Merger Agreement

FS Bancorp and Anchor can jointly agree to terminate the merger agreement at any time. Either company may also terminate the merger agreement:

if a regulatory or other governmental authority has denied approval of the merger or the bank merger and such denial has become final and non-appealable, provided that the denial is not due to the failure of the company seeking termination to fulfill its obligations under the merger agreement, or if a court or regulatory other governmental authority issues a final, non-appealable order, injunction or decree permanently enjoining or otherwise prohibiting or making illegal the merger or the bank merger;

if the merger has not been completed by June 30, 2019, unless due to the failure of the company seeking termination to perform or observe its covenants and agreements set forth in the merger agreement;

if the other company breaches any representation, warranty, covenant or other agreement (provided that the terminating company is not then in material breach of representation, warranty, covenant or other agreement) , which breach results in a failure to satisfy the closing conditions of the company seeking termination and such breach is not cured within twenty (20) days following written notice to the breaching company or by its nature or timing cannot be cured within that time period; or

if the provision giving FS Bancorp the right to terminate the merger agreement as described in the next sentence is not applicable and the shareholders of Anchor fail to approve the merger agreement at the special meeting of Anchor shareholders.

In addition to the circumstances described above, FS Bancorp may terminate the merger agreement if (i) the board of directors of Anchor fails to recommend that Anchor shareholders approve the merger agreement or makes a change in recommendation; (ii) Anchor materially breaches any of the provisions relating to acquisition



proposals, as described under "- Agreement Not to Solicit Other Offers"; or (iii) Anchor refuses to call or hold the shareholder meeting for a reason other than that the merger agreement has been previously terminated. Immediately following such a termination by FS Bancorp, Anchor must pay to FS Bancorp a termination fee of \$2,702,000 in same day funds.

In addition to the circumstances described above, Anchor may terminate the merger agreement prior to obtaining shareholder approval in order to enter into an agreement relating to a superior proposal; provided, however, that Anchor has (i) not materially breached the merger agreement provisions outlined in "- Agreement Not to Solicit Other Offers" and (ii) paid the \$2,702,000 termination fee.

Anchor must also pay the \$2,702,000 termination fee to FS Bancorp if the merger agreement is terminated by either company as a result of the failure of Anchor's shareholders to approve the merger agreement and if, prior to such termination, there is publicly announced a proposal for a tender or exchange offer, for a merger or consolidation or other business combination involving Anchor or Anchor Bank or for the acquisition of a majority of the voting power in, or a majority of the fair market value of the business, assets or deposits of, Anchor or Anchor Bank and, within one year of the termination, Anchor or Anchor Bank either enters into a definitive agreement with respect to that type of transaction or consummates that type of transaction.

#### Employee and Benefit Plan Matters

Full time employees of Anchor and its subsidiaries who are retained following the merger will become eligible to participate in FS Bancorp's employee benefit plans, programs or policies. Prior service credit for employment with Anchor or an Anchor subsidiary since the most recent hire date will be given for purposes of eligibility, participation and vesting with respect to all of FS Bancorp's retirement plans, employee benefit plans, practices and policies to the extent that such crediting of service does not result in duplication of benefits, but not for accrual of benefits under any defined benefit or actuarially calculated benefit.

Anchor has agreed to take, and cause its subsidiaries to take, other than with respect to the Anchor Bank severance plan, all actions requested by FS Bancorp that may be necessary or appropriate to (i) cause one or more Anchor benefit plan to cease as of the effective time of the merger, or as of the date immediately preceding the effective time of the merger, (ii) cause benefit accruals and entitlements under any Anchor benefit plan to cease as of the effective time of the merger, or as of the date immediately preceding the effective time of the merger, (iii) cause the continuation on and after the effective time of the merger, of any contract, arrangement or insurance policy relating to any Anchor benefit plan for such period as may be requested by FS Bancorp, or (iv) facilitate the merger of any Anchor benefit plan into any employee benefit plan maintained by FS Bancorp or a FS Bancorp subsidiary.

FS Bancorp has agreed that 1st Security Bank of Washington will assume the Anchor Bank severance plan, as further set forth in the merger agreement, subject to the Anchor Bank severance plan being amended by Anchor Bank prior to the effective time of the merger to provide for (i) the inclusion therein as an employee of each executive officer of Anchor Bank who is not a party to a separate written employment or change in control agreement with Anchor Bank and (ii) the execution and delivery of a general release by each employee as a condition to his or her right or entitlement to a severance benefit and that payment of the severance benefit shall be made within ten (10) days after the expiration of any opt-out period provided in the release, which amendment shall be made in compliance with Section 409A of the Code.

The merger agreement permits FS Bancorp to amend or terminate any Anchor benefit plan or other employee benefit plan after the effective time of the merger, to the extent such an amendment or termination is permitted by the terms of the applicable plan and would otherwise be consistent with the terms of the merger agreement. The merger agreement does not require that FS Bancorp retain the employment of any particular Anchor employee for any fixed period of time following the effective time of the merger.

Anchor is required to take all actions necessary to terminate the Anchor employee stock ownership plan no later than the day immediately prior to the effective time of the merger. The accounts of all participants and beneficiaries in the Anchor employee stock ownership time as of the effective time of the merger shall become fully vested upon termination of the Anchor employee stock ownership plan. In connection with such termination, (i) the loan indebtedness of the Anchor employee stock ownership plan to Anchor shall be extinguished; (ii) the unallocated shares of Anchor common stock held by the Anchor employee stock ownership plan that are applied to retire loan indebtedness of the Anchor employee stock ownership plan at the effective time shall be cancelled; and

(iii) the merger consideration, if any, received in the merger for the remaining unallocated shares of Anchor Common Stock held by the Anchor employee stock ownership plan shall be allocated to participant accounts in accordance with the terms of the Anchor employee stock ownership plan. Prior to the termination date of the Anchor employee stock ownership plan, Anchor and its subsidiaries shall make a contribution to the plan in an amount sufficient to reduce the loan indebtedness of the plan to approximately \$470,426.

As soon as practicable after of the effective time of the merger, the account balances in the Anchor employee stock ownership plan shall be either distributed to participants and beneficiaries or rolled over to an eligible tax-qualified retirement plan or individual retirement account as a participant or beneficiary may direct; provided however, that nothing contained in the merger agreement shall delay the distribution or transfer of account balances in the Anchor employee stock ownership plan in the ordinary course for reasons other than the termination of such plan. FS Bancorp has agreed to permit full-time active employees of Anchor and its subsidiaries to rollover their account balances in the Anchor employee stock ownership plan to a FS Bancorp benefit plan that is intended to be qualified under Section 401(a) of the Code, provided they are still employed by FS Bancorp or a FS Bancorp subsidiary at the time of such rollover. Anchor shall, or shall direct the fiduciaries of the Anchor employee stock ownership plan to (to the extent permitted by law), provide FS Bancorp and its counsel with a draft of each resolution, amendment, participant communication or other document relating to the termination of the Anchor employee stock ownership plan at least five business days before such document is adopted, filed or distributed. Prior to the effective time of the merger, Anchor shall provide FS Bancorp with the final documentation evidencing that these actions, as further set forth in the merger agreement, have been effectuated.

As of the effective time of the merger, Section 14 of the Anchor Bank phantom stock plan shall apply for Anchor and Anchor Bank employees. Accordingly, each participant in such plan employed by Anchor or Anchor Bank as of the day immediately preceding the effective time of the merger shall have a 100% vested interest in his or her benefit under such plan. In addition, no later than sixty days following the effective time of the merger, each participant in such plan (inclusive of current participants and participants in pay status) shall receive a cash lump sum equal to the total value (not present value) of his or her entire benefit or remaining benefit (in the case of a participant in pay status) determined as of the effective time of the merger. All such amounts payable shall be paid without any interest and subject to any required tax withholding, and shall be conditioned on the recipient executing an acknowledgment in a form reasonably satisfactory to FS Bancorp that the payment represents the full satisfaction of all obligations and liabilities with respect to the recipient's rights under such plan.

Upon consummation of the merger, FS Bancorp has agreed to cause 1st Security Bank of Washington to, honor each change in control provision in the employment or change in control severance agreements to which Anchor or Anchor Bank is a party with any of its employees. FS Bancorp has agreed that the merger constitutes a change in control as defined in each such employment or change in control severance agreement, and it has agreed to terminate or cause to be terminated, at the effective time of the merger, the employment without cause of each employee of Anchor and Anchor Bank who is party to an employment or change in control severance agreement and to pay at such time the change in control benefits owed to each such employee under the terms of his or her employment or change in control severance agreement.

In connection with the execution of the merger agreement, Terri L. Degner, Anchor's Chief Financial Officer and director, entered into a consulting agreement with 1st Security Bank of Washington. The consulting agreement becomes effective upon completion of the merger and provides compensation to Ms. Degner of \$130 per hour for transition services performed. The consulting agreement does not require Ms. Degner to work any minimum or specified number of hours. The consulting agreement is for a term of up to three years, but may be terminated by either party at any time for any reason or no reason. The consulting agreement also imposes lifetime restrictions upon Ms. Degner relating to the disclosure of confidential information. These restrictions are in addition to the non-compete, non-solicitation and related restrictions imposed upon Ms. Degner for a one year period following completion of the merger under her existing employment agreement and the resignation, non-solicitation and

confidentiality agreement she entered into with FS Bancorp in connection with the execution of the merger agreement.

**Indemnification and Continuance of Director and Officer Liability Coverage**

For a period of six years following the merger, FS Bancorp will maintain and preserve the rights to indemnification of the current and former directors and officers of Anchor and its subsidiaries to the maximum extent permitted by applicable organizational documents and to the fullest extent otherwise permitted by law, in

connection with any claims arising out of or relating to matters existing or occurring at or prior to the effective time of the merger, including the transactions contemplated by the merger agreement.

For a period of six years following the effective time of the merger, FS Bancorp will provide, at FS Bancorp's expense, directors' and officers' liability insurance covering the persons who are presently covered by Anchor's current officers' and directors' liability insurance policy with respect to claims arising from facts or events occurring at or before the effective time of the merger, including the transactions contemplated by the merger agreement. This insurance must be equivalent to the coverage currently provided by Anchor, but the maximum cost thereof is limited to 200% of Anchor's current annual premium for such insurance. Instead of this insurance coverage, Anchor may, or at the request of FS Bancorp shall, prior to the effective time of the merger, purchase a tail policy for directors' and officers' liability insurance on the terms described in the preceding sentence but with single limit equivalent coverage provided that the cost thereof shall not exceed 200% of Anchor's current annual premium for such insurance. If the prepaid tail policy has been obtained by Anchor prior to the Effective Time, FS Bancorp will cause such policy to be maintained in full force and effect for its full term and will cause all obligations thereunder to be honored by the combined company after the merger.

#### Expenses

All expenses incurred in connection with the merger will be paid by the party incurring the expenses, except that Anchor will bear the costs and expenses of printing and mailing this proxy statement/prospectus and FS Bancorp has paid the filing fee for the registration statement on Form S-4 of which this proxy statement/prospectus is a part.

#### Amendment, Waiver and Extension of the Merger Agreement

Subject to compliance with applicable law, the merger agreement may be amended by the parties at any time before or after approval of the merger agreement by the shareholders of Anchor, except that after approval of the merger agreement by the shareholders of Anchor, there may not be, without further approval of such shareholders, any amendment of the merger agreement that requires further approval of such shareholders under applicable law.

At any time prior to completion of the merger, the parties may, to the extent legally allowed, extend the time for the performance of any of the obligations or other acts of the other party, waive any inaccuracies in the representations and warranties contained in the merger agreement or in any document delivered pursuant to the merger agreement, and waive compliance with any of the agreements or satisfaction of any conditions contained in the merger agreement, except that after approval of the merger agreement by the Anchor shareholders, there may not be, without further approval of such shareholders, any extension of the merger agreement or any performance obligation or any waiver of any portion of the merger agreement that requires further approval of such shareholders under applicable law.

#### Voting Agreements

As an inducement to FS Bancorp to enter into the merger agreement, the directors of Anchor have entered into voting agreements with FS Bancorp with respect to the shares of Anchor common stock they own. The following summary of the voting agreements is qualified in its entirety by reference to the form of voting agreement, a copy of which is attached as Exhibit A to the merger agreement, which is included in Appendix A to this proxy statement/prospectus.

Pursuant to the voting agreements, the directors of Anchor have agreed:

to vote, or cause to be voted, all of their shares of Anchor common stock (i) in favor of approval of the merger agreement and approval of the merger and any action required in furtherance thereof and (ii) against any proposal made in opposition to or in competition with the consummation of the merger;  
not to sell, transfer or otherwise dispose of any such shares of Anchor common stock until after shareholder approval of the merger agreement, excluding (i) a transfer where the transferee has

agreed in writing to abide by the terms of the voting agreement in a form reasonably satisfactory to FS Bancorp, (ii) a transfer by will or operation of law, or (iii) a transfer made with the prior written consent of FS Bancorp; and not to bring or aid any legal action that challenges the validity of or seeks to enjoin the operation of any provision of the voting agreement or the merger agreement.

The obligations under each voting agreement will terminate concurrently with any termination of the merger agreement.

#### Resignation, Non-Compete and Confidentiality Agreements

Each Anchor director has entered into resignation, non-compete and confidentiality agreements with FS Bancorp whereby the director has, if applicable, agreed to resign as a director, upon consummation of the merger and for 18 months thereafter the individual will not, subject to limited exceptions in certain cases, without the prior written consent of FS Bancorp:

- refer any customers to any financial institution other than the financial institution subsidiaries of FS Bancorp;
- solicit the business of any customer of Anchor for any other person or entity for the purpose of providing services on behalf of any person or entity other than FS Bancorp or any of its financial institution subsidiaries;
- solicit or induce any customer to terminate or reduce any aspects of its relationship with FS Bancorp or any of its financial institution subsidiaries;
- participate as an officer, director, employee or consultant, or invest in any financial institution (other than the purchase of less than 5% of the outstanding shares), or financial institution in formation; or
- directly or indirectly, solicit or offer employment to any officer or employee of FS Bancorp or any of its subsidiaries, or take any action intended or reasonably expected to cause any officer or employee or entity doing business with, FS Bancorp or any of its subsidiaries to terminate his, her or its employment or business relationship with FS Bancorp or any of its subsidiaries.

The agreement also provides that the Anchor director may not during the term of the agreement make derogatory statements about FS Bancorp or any of its subsidiaries or any of their respective directors, officers, employees, agents, or representatives, in each case subject to standard exceptions. Each director and applicable executive officer has also agreed to not disclose confidential information about the Anchor entities.

UNAUDITED PRO FORMA COMBINED CONDENSED  
CONSOLIDATED FINANCIAL INFORMATION

The following is the unaudited pro forma combined condensed consolidated financial information for FS Bancorp and Anchor, giving effect to the merger. The unaudited pro forma combined condensed consolidated balance sheet as of June 30, 2018 gives effect to the merger as if it occurred on that date. The unaudited pro forma combined condensed consolidated income statement for the six months ended June 30, 2018 and the year ended December 31, 2017 give effect to the merger as if it occurred on January 1, 2017.

The unaudited pro forma combined condensed consolidated financial information has been prepared using the acquisition method of accounting for business combinations under GAAP. FS Bancorp is the acquirer for accounting purposes.

A final determination of the fair values of Anchor's assets and liabilities, which cannot be made prior to the completion of the merger, will be based on the actual net tangible and intangible assets of Anchor that exist as of the date of completion of the transaction. Consequently, fair value adjustments and amounts preliminarily allocated to goodwill and identifiable intangibles could change significantly from those allocations used in the unaudited pro forma combined condensed consolidated financial information presented herein and could result in a material change in amortization of acquired intangible assets. In addition, the value of the final purchase price of the merger will be based on the closing price of FS Bancorp common stock on the closing date of the merger. For purposes of the accompanying pro forma financial information, the closing price of FS Bancorp common stock on August 30, 2018, the most practicable date prior to the filing of this proxy statement/prospectus with the SEC, was used for purposes of presenting the pro forma combined condensed consolidated balance sheet as of June 30, 2018.

In connection with the plan to integrate the operations of FS Bancorp and Anchor following the completion of the merger, FS Bancorp anticipates that nonrecurring charges, such as costs associated with systems implementation, severance and other costs related to exit or disposal activities, will be incurred. FS Bancorp is not able to determine the timing, nature and amount of these charges as of the date of this document. However, these charges will affect the results of operations of FS Bancorp and Anchor, as well as those of the combined company following the completion of the merger, in the period in which they are recorded. The unaudited pro forma combined condensed consolidated income statement do not include the effects of the non-recurring costs associated with any restructuring or integration activities resulting from the merger, as they are nonrecurring in nature and not factually supportable at this time. Additionally, the unaudited pro forma adjustments do not give effect to any nonrecurring or unusual restructuring charges that may be incurred as a result of the integration of the two companies or any anticipated disposition of assets that may result from such integration.

The actual amounts recorded as of the completion of the merger may differ materially from the information presented in the unaudited pro forma combined condensed consolidated financial information as a result of:

- changes in the trading price for FS Bancorp's common stock;
- capital used or generated in Anchor's operations between the signing of the merger agreement and completion of the merger;
- changes in the fair values of Anchor's assets and liabilities;
- other changes in Anchor's net assets that occur prior to the completion of the merger, which could cause material changes in the information presented below; and
- the actual financial results of the combined company.

The unaudited pro forma combined condensed consolidated financial information is provided for informational purposes only. The unaudited pro forma combined condensed consolidated financial information is not necessarily, and should not be assumed to be, an indication of the results that would have been achieved had the transaction been completed as of the dates indicated or that may be achieved in the future. The preparation of the unaudited pro forma combined condensed consolidated financial information and related adjustments required management to make certain assumptions and estimates. The unaudited pro forma combined condensed consolidated financial information is based on, and should be read together with, the historical consolidated financial statements and related notes of FS Bancorp incorporated into this document by reference from its Quarterly Report on Form 10-Q for the six months ended June 30, 2018 and its Annual Report on Form 10-K for the year ended





December 31, 2017. Anchor's fiscal year end is June 30. The unaudited pro forma combined condensed consolidated financial information of Anchor as of and for the six months ended June 30, 2018 was derived from Anchor's financial statements for the year ended June 30, 2018 which are included in this proxy statement/prospectus and the Quarterly Report on Form 10-Q for the six months ended December 31, 2017. The unaudited pro forma combined condensed consolidated financial information of Anchor as of December 31, 2017 was derived from Anchor's financial statements included in this proxy statement/prospectus for the year ended June 30, 2017, and the Quarterly Reports on Form 10-Q for the six months ended December 31, 2016 and 2017.

FS BANCORP AND ANCHOR  
 UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED  
 BALANCE SHEET  
 As of June 30, 2018  
 (In thousands)

	FS Bancorp <sup>(1)</sup>	Anchor <sup>(1)</sup>	Pro Forma Adjustments	Notes	Pro Forma
<b>ASSETS</b>					
Cash and cash equivalents	\$39,588	\$17,568	\$(36,695)	) A	\$20,461
Investment securities available for sale	98,465	17,725	--		116,190
Investment securities held to maturity	--	3,584	(84)	) B	3,500
Loans held for sale, at fair value	55,191	98	--		55,289
Loans receivable, net of unearned income	892,771	396,414	(10,932)	) C	1,278,253
Less: Allowance for loan losses	11,571	4,370	(4,370)	) D	11,571
Total loans receivable, net	881,200	392,044	(6,562)	)	1,266,682
Other real estate owned	--	737	--		737
Core deposit intangible, net	1,164	--	4,970	E	6,134
Goodwill	2,312	--	6,454	F	8,766
BOLI	13,498	20,546	--		34,044
Other assets (includes MSR)	41,124	17,352	183	G	58,659
<b>TOTAL ASSETS</b>	<b>\$1,132,542</b>	<b>\$469,654</b>	<b>\$(31,734)</b>	)	<b>\$1,570,462</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>LIABILITIES</b>					
Deposits	\$870,113	\$359,021	\$(590)	) H	\$1,228,544
Borrowings	106,526	37,000	(334)	) I	143,192
Securities sold under agreement to repurchase	--	--	--		--
Subordinated note less unamortized debt issuance costs	9,855	--	--		9,855
Accrued expenses and other liabilities	16,677	6,189	--		22,866
<b>Total liabilities</b>	<b>1,003,171</b>	<b>402,210</b>	<b>(924)</b>	)	<b>1,404,457</b>
<b>STOCKHOLDERS' EQUITY</b>					
Common stock	37	25	(18)	) J	44
Additional paid-in capital	56,344	22,298	20,222	K	98,864
Retained earnings	76,102	46,776	(52,669)	) L	70,209
Accumulated other comprehensive (loss) income, net	(2,127)	(1,115)	1,115	M	(2,127)
Unearned shares – Employee Stock Ownership Plan	(985)	(540)	540	N	(985)
Total stockholders' equity	129,371	67,444	(30,810)	)	166,005
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$1,132,542</b>	<b>\$469,654</b>	<b>\$(31,734)</b>	)	<b>\$1,570,462</b>

(1)

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FS Bancorp and Anchor information is as of June 30, 2018 and is unaudited. FS Bancorp's information is derived from its unaudited financial statements included in its Quarterly Report on Form 10-Q for June 30, 2018. Anchor's information is derived from the audited financial information included in its financial statements which are included in this proxy statement/prospectus.

See accompanying Notes to Unaudited Pro Forma Combined Condensed Consolidated Financial Information

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FS BANCORP AND ANCHOR  
 UNAUDITED PROFORMA COMBINED CONDENSED CONSOLIDATED  
 INCOME STATEMENTS

For the Six Months Ended June 30, 2018

(In thousands, except per share data)

	FS Bancorp <sup>(1)</sup>	Anchor <sup>(1)</sup>	Pro Forma Adjustments	Notes	Pro Forma
Interest income:					
Interest and fees on loans	\$25,391	\$11,146	\$1,093	O	\$37,630
Other	1,619	337	(231	) P	1,725
Total interest income	27,010	11,483	862		39,355
Interest expense:					
Deposits	2,675	1,750	--		4,425
Subordinated note	337	--	--		337
Other borrowings	576	401	--		977
Total interest expense	3,588	2,151	--		5,739
Net interest income	23,422	9,332	862		33,616
Provision for loan losses	800	225	--		1,025
Net interest income after provision for loan losses	22,622	9,107	862		32,591
Noninterest income:					
Service charges and other fees	1,329	1,373	--		2,702
Income from sale of mortgage loans	8,649	18	--		8,667
Other income	660	486	--		1,146
Total noninterest income	10,638	1,877	--		12,515
Noninterest expense:					
Compensation and employee benefits	14,719	4,393	--		19,112
Operations	2,901	1,584	(59	) Q	4,426
Occupancy and equipment	1,353	872	5	R	2,230
Data processing	1,319	997	--		2,316
Loan costs	1,332	--	--		1,332
Professional and board fees	907	--	--		907
Other real estate owned, net	--	(163	) --		(163
Other expense	648	104	290	S	1,042
Total noninterest expense	23,179	7,787	236		31,202
Income before income taxes	10,081	3,197	626		13,904
Income tax expense	1,502	647	135	T	2,284
Net income	\$8,579	\$2,550	\$491		\$11,620
Earnings per common share:					
Basic	\$2.40	\$1.05	\$--	U	\$2.70
Diluted	2.28	1.05	--	U	2.59
Average common shares outstanding:					
Basic	3,573,560	2,428,704	(1,703,119	) V	4,299,145
Diluted	3,762,079	2,435,421	(1,709,836	) V	4,487,664

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FS Bancorp and Anchor information is for the six months ended June 30, 2018 and is unaudited. FS Bancorp's information is derived from its unaudited financial statements included in its Quarterly Report on Form 10-Q for (1) June 30, 2018. Anchor's information is derived from the audited financial information included in the financial information included in this proxy statement/prospectus and the unaudited financial statements included in its Quarterly Report on Form 10-Q for the six months ended December 31, 2017.

See accompanying Notes to Unaudited Pro Forma Combined Condensed Consolidated Financial Information

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FS BANCORP AND ANCHOR  
 UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED  
 INCOME STATEMENT

For the Year Ended December 31, 2017

(In thousands, except per share data)

	FS Bancorp <sup>(1)</sup>	Anchor <sup>(1)</sup>	Pro Forma Adjustments	Notes	Pro Forma	
Interest income:						
Interest and fees on loans	\$43,457	\$20,689	\$2,186	O	\$66,332	
Other Interest Income	2,724	657	(462	) P	2,919	
Total interest income	46,181	21,346	1,724		69,251	
Interest expense:						
Deposits	3,920	3,163	--		7,083	
Subordinated note	679	--	--		679	
Other borrowings	334	520	--		854	
Total interest expense	4,933	3,683	--		8,616	
Net interest income	41,248	17,663	1,724		60,635	
Provision for loan losses	750	340	--		1,090	
Net interest income after provision for loan losses	40,498	17,323	1,724		59,545	
Noninterest income:						
Service charges and other fees	3,548	2,777	--		6,325	
Income from sale of mortgage loans	17,985	241	--		18,226	
Gain on sale of mortgage servicing rights	1,062	--	--		1,062	
Other income	1,479	1,264	--		2,743	
Total noninterest income	24,074	4,282	--		28,356	
Noninterest expense:						
Compensation and employee benefits Operations	26,595	8,717	--		35,312	
Occupancy and equipment	6,205	3,550	(118	) Q	9,637	
Data processing	2,672	1,809	10	R	4,491	
Loan costs	2,521	2,107	--		4,628	
Professional and board fees	2,652	--	--		2,652	
Other real estate owned, net	1,697	--	--		1,697	
Other expense	--	(5	) --		(5	)
Total noninterest expense	1,651	521	579	S	2,751	
Income before income taxes	43,993	16,699	471		61,163	
Income tax expense	20,579	4,906	1,253		26,738	
Net income	6,494	3,908	269	T	10,671	
	\$14,085	\$998	\$984		\$16,067	
Earnings per common share:						
Basic	\$4.55	\$0.41	\$--	U	\$4.21	
Diluted	4.28	0.41	--	U	4.00	
Average common shares outstanding:						
Basic	3,094,586	2,407,883	(1,682,298	) V	3,820,171	
Diluted	3,291,700	2,424,781	(1,699,196	) V	4,017,285	

(1)

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Anchor information is for the twelve months ended December 31, 2017. FS Bancorp's information is derived from its audited financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2017. Anchor's information is derived from its audited financial statements for the year ended June 30, 2017 included in this proxy statement/prospectus and the unaudited financial statements included in its Quarterly Reports on Form 10-Q for the six months ended December 31, 2016 and 2017.

See accompanying Notes to Unaudited Pro Forma Combined Condensed Consolidated Financial Information.

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Notes to Unaudited Pro Forma Combined Condensed Consolidated Financial Information

Note 1 – Basis of Presentation

The unaudited pro forma combined condensed consolidated financial information has been prepared under the acquisition method of accounting for business combinations. The unaudited pro forma combined condensed consolidated income statement for the year ended December 31, 2017 and six months ended June 30, 2018, are presented as if the acquisition occurred on January 1, 2017. The unaudited pro forma combined condensed consolidated balance sheet as of June 30, 2018 is presented as if the acquisition occurred as of that date. This information is not intended to reflect the actual results that would have been achieved had the acquisition actually occurred on those dates. The pro forma adjustments are preliminary, based on estimates, and are subject to change as more information becomes available and after final analyses of the fair values of both tangible and intangible assets acquired and liabilities assumed are completed. Accordingly, the final fair value adjustments may be materially different from those presented in this document.

Under the acquisition method of accounting, the assets and liabilities and any identifiable intangible assets of Anchor will be recorded at the respective fair values on the merger date. The fair values on the merger date are to represent management's best estimates based on available information and facts and circumstances in existence on the merger date. For fixed assets, the assumed fair value was reflected at the fair value based on management's estimates of materiality. The pro forma allocation of purchase price reflected in the unaudited pro forma combined condensed consolidated financial information is subject to adjustment and may vary from the actual purchase price allocation that will be recorded at the time the merger is completed. Adjustments may include, but not be limited to, changes in (i) Anchor's balance sheet through the effective time of the merger; (ii) total merger related expenses if consummation and/or implementation costs vary from currently estimated amounts; and (iii) the underlying values of assets and liabilities if market conditions differ from current assumptions.

Certain historical data of Anchor has been reclassified on a pro forma basis to conform to FS Bancorp's classifications. The accounting policies of both FS Bancorp and Anchor are in the process of being reviewed in detail. Upon completion of such review, conforming adjustments or financial statement reclassifications may be determined.

Note 2 – Purchase Price

Each share of Anchor common stock will be converted into the right to receive, promptly following completion of the merger, (1) 0.2921 shares of FS Bancorp common stock and (2) \$12.40 in cash, representing an aggregate consideration mix of approximately 60% FS Bancorp stock and 40% cash, excluding restricted stock awards. All then-outstanding unvested restricted stock awards of Anchor fully vest upon the effective time of the merger and will be converted to restricted stock unit awards of FS Bancorp as provided in the merger agreement. FS Bancorp will not issue any fractional shares of stock in the merger as the value of calculated fractional shares will be paid in cash. For purposes of the pro forma combined condensed consolidated financial information presentation, FS Bancorp has made the assumption that all restricted stock awards will be immediately exercised at the merger date for approximately 7,456 Anchor shares that will be converted to 2,177 shares of FS Bancorp and \$93,000 cash. In total, FS Bancorp will issue approximately 725,585 shares of common stock in the merger, resulting in approximately 4,434,245 shares of common stock outstanding after the merger, and pay aggregate cash consideration in the merger of approximately \$30.8 million. The August 30, 2018 stock price was used for this proxy statement/prospectus as the most recent stock price at the time of the September 7, 2018 filing with the SEC for a transaction that has yet to be consummated. The total consideration transferred approximates \$73.3 million.



## Note 3 –Purchase Price Allocation of Anchor

At the merger effective time, Anchor's assets and liabilities are required to be recorded at to their estimated fair values. The assumptions used to determine the relevant fair value adjustments are discussed in detail below in Note 4 – Pro Forma Combined Condensed Consolidated Financial Information Adjustments. The purchase price is then allocated to the identifiable assets and liabilities based on the fair value. The excess of the purchase price over the fair value of the net assets acquired is allocated to goodwill.

The pro forma purchase price was preliminarily allocated to the assets acquired and liabilities assumed based on their estimated fair values as summarized in the following table:

	At June 30, 2018 (In thousands)
Pro forma purchase price of Anchor	
Fair value of FS Bancorp common stock at \$58.61 <sup>(1)</sup> per share for 725,585 shares	\$42,527
Cash to be paid	30,802
Total pro forma purchase price	\$73,329
Fair value of assets acquired:	
Cash	\$ 17,568
Investment securities available for sale	17,725
Investment securities held to maturity	3,500
Loans held for sale	98
Loans receivable	385,482
Other real estate owned	737
Intangible assets - CDI	4,970
Other assets	38,081
Total assets and identifiable intangible assets acquired	\$468,161
Fair value of liabilities assumed:	
Deposits	\$358,431
Borrowings	36,666
Accrued expenses and other liabilities	6,189
Total liabilities assumed	\$401,286
Fair value of net assets and identifiable intangible assets acquired	\$66,875
Excess of consideration to be paid over the net assets and identifiable intangible assets acquired	\$ 6,454

(1) Stock price is as of close of business August 30, 2018.

Note 4 – Pro Forma Combined Condensed Consolidated Financial Information Adjustments.

The following pro forma adjustments have been included in the unaudited pro forma combined condensed consolidated financial information. Estimated fair value adjustments are based upon available information, and certain assumptions considered reasonable, and may be revised as additional information becomes available. The following are the pro forma adjustments made to record the transaction and to adjust Anchor's assets and liabilities to their estimated fair values at June 30, 2018.

Balance Sheet  
At June 30, 2018  
(In thousands)

	\$
A. Adjustments to Cash and cash equivalents	(36,695 )
To reflect cash used to purchase Anchor (2,484,030 Anchor common shares outstanding at June 30, 2018 at \$12.40 cash consideration per share).	)
	(30,802
To reflect projected cash used for merger costs. See Note 5 - Merger Costs.	(5,893 )
B. Adjustment to Securities held to maturity	
To reflect the estimated fair market value of securities held to maturity	(84 )
C. Adjustments to Loans receivable, excluding allowance for loan losses and fees not yet recognized	(10,932 )
To reflect the discount on loans at merger date. FS Bancorp estimated the fair value using portfolio performance and yield compared to market and will receive an independent third party review at closing. Based on the due diligence, a total discount of approximately 2.75% of gross loans (\$397,524 x 2.75% = \$10,932) was calculated on the loans.	
D. Adjustments to Allowance for loan losses	(4,370 )
To remove the Anchor allowance for loan losses at period end date as the credit risk is accounted for in the fair value adjustment for the loans receivable in Adjustment B above.	
E. Adjustments to Intangible asset, net	4,970
To record the estimated fair value of the core deposit intangible asset ("CDI") identified in the merger as estimated prior to close date and validated at close by an independent third party and to eliminate the Anchor core deposit intangible created in its prior acquisitions.	
F. Adjustment to Goodwill	6,454
To record the difference between the consideration transferred and the estimated fair value of net assets acquired and net liabilities assumed in the merger. See Note 3 – Allocation of Purchase Price of Anchor Bank, above.	
G. Adjustments to Other assets	183
To reflect the fair value of the other assets in the merger as follows:	
Deferred tax asset, net	87
Subtotal of fair value adjustments is \$1.4 million at FS Bancorp's estimated statutory rate of 21.5%	
Fixed Assets	96
Owned properties to reflect the estimated fair market value of the owned properties	
(Table continued on following page)	

Balance  
Sheet  
At June  
30,  
2018

H. Adjustment to Deposits		\$ (590 )
To reflect estimated fair market value of deposits based on current interest rates		
I. Adjustment to Borrowings		(334 )
To reflect estimated fair market value of borrowings based on current interest rates		
J. Adjustments to Common stock		(18 )
To record the issuance of FS Bancorp common stock as purchase price consideration and to eliminate the common stock of Anchor		
Issuance of FS Bancorp common stock to Anchor shareholders (725,585 shares at \$0.01 value)	7	
Elimination of the historical Anchor common stock	(25 )	
K. Adjustment to Additional Paid-in Capital		20,222
To eliminate the historical Anchor additional paid in capital	(22,298)	
To record additional paid-in capital for stock valued purchase price	42,527	
To record par value of FS Bancorp common stock to Anchor shareholders	(7 )	
L. Adjustment to Retained earnings		(52,669)
To eliminate the historical Anchor retained earnings	(46,776)	
To record estimated merger costs	(5,893 )	
M. Adjustment to Accumulated other comprehensive income (loss)		1,115
To eliminate the historical Anchor accumulated other comprehensive loss.		
N. Adjustment to Employee Stock Ownership Plan		540
To eliminate the historical Anchor unearned shares of the Employee Stock Ownership Plan		

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For purposes of determining the pro forma effect of the merger on the Income Statements, the following pro forma adjustments have been made as if the acquisition occurred as of January 1, 2017:

Income Statements  
(In thousands)

	For the Six Months Ended June 30, 2018	For the Year Ended December 31, 2017
O. Adjustments to Interest income: Interest and fees on loans To reflect the accretion of interest component of the loan discount resulting from the pro forma loan fair value adjustment in Adjustment B above. The accretion was calculated using an effective yield method over the weighted average life of 5 years at the merger date. The sum of the accumulated discount accretion for the first twelve months and subsequent six months was estimated to be the accretion for the year ended December 31, 2017 and the six months ended June 30, 2018, respectively.	\$1,093	\$2,186
P. Adjustments to Interest income: Other To recognize the reduction in other cash reflected for the merger at an estimated yield of 1.5% annualized.	(231 )	(462 )
Q. Adjustments to Noninterest expense: Operations To reflect the elimination of the Director expenses at Anchor Bancorp.	(59 )	(118 )
R. Adjustments to Noninterest expense: Occupancy and equipment To reflect additional depreciation expense based on estimated fair value adjustment	5	10
S. Adjustments to Noninterest expense: Other expense To reflect estimated CDI amortization	290	579
T. Adjustments to Noninterest expense: Income tax expense Adjusted the tax rate for additional income earned from the combined company to 21.5% for income in 2018 and 35.5% for additional income earned in 2017.	135	269
U. Earnings per common share, basic and diluted, were calculated using the calculated pro forma net income less dividends and undistributed earnings allocated to participating securities divided by the calculated pro forma basic and dilutive average shares outstanding.		
V. Basic and diluted average common shares outstanding were calculated by adding the shares assumed to be issued by FS Bancorp in the merger (725,585 shares, including restricted stock award shares not yet vested) to the historical average FS Bancorp shares outstanding for the six months ended June 30, 2018 and for the year ended December 31, 2017.		

Note 5 – Merger Costs

In connection with the merger, the plan to integrate FS Bancorp's and Anchor's operations is still being developed. Over the next several months, the specific details of these plans will continue to be refined. Management of both companies are currently in the process of assessing the two companies' personnel, benefit plans, computer systems, service contracts and other key factors to determine the most beneficial structure for the combined

company. Certain decisions arising from these assessments may involve involuntary termination of employees, changing information systems, canceling contracts with service providers and other actions. To the extent there are costs associated with these actions, the costs will be recorded based on the nature and timing of these integration actions. Most acquisition and restructuring costs are recognized separately from a business combination and generally will be expensed as incurred.

The table below reflects FS Bancorp's current estimate of the aggregate estimated merger costs of \$7.5 million, or \$5.9 million net of \$1.6 million of income tax benefit, computed using the statutory federal tax rate of 21.5%, expected to be incurred in connection with the merger, which are included in the pro forma financial information. While a portion of these costs may be required to be recognized over time, the current estimate of these costs, primarily comprised of anticipated cash charges, include the following:

	At June 30, 2018 (In thousands)
Professional fees	\$1,500
Change of control payments	2,961
Severance and retention plan	2,575
Data processing, termination and conversion	471
Pre-tax merger costs	7,507
Income tax benefit at 21.5% rate	1,614
Net merger costs	\$5,893

FS Bancorp's cost estimates are forward-looking. While the costs represent FS Bancorp's current estimate of merger costs associated with the merger that will be incurred, the ultimate level and timing of recognition of these costs will be based on the final integration in connection with consummation of the merger. Readers are cautioned that the completion of this integration and other actions that may be taken in connection with the merger will impact these estimates. The type and amount of actual costs incurred could vary materially from these estimates if future developments differ from the underlying assumptions used by management in determining the current estimate of these costs. These costs are not expected to materially impact the combined company's ability to maintain an adequate level of liquidity necessary to fund loan originations and deposit withdrawals, satisfy other financial commitments and fund operations. See "Cautionary Statement Regarding Forward-Looking Statements" on page 17 .

## MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

This discussion addresses the material United States federal income tax consequences of the merger to U.S. holders (as defined below) of Anchor common stock. The discussion is based on provisions of the Code, U.S. Treasury regulations, administrative rulings of the Internal Revenue Service, or IRS, and judicial decisions, all as currently in effect and all of which are subject to change (possibly with retroactive effect) and to differing interpretations.

For purposes of this discussion, we use the term "U.S. holder" to mean:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof or the District of Columbia;
- a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) such trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or
- an estate that is subject to U.S. federal income taxation on its income regardless of its source.

This discussion applies only to U.S. holders that hold their Anchor common stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment), and does not address all aspects of U.S. federal income taxation that may be relevant to a particular U.S. holder in light of the holder's particular circumstances or to U.S. holders subject to special treatment under the U.S. federal income tax laws, including without limitation the following:

- banks and other financial institutions;
- pass-through entities and investors therein;
- persons liable for the alternative minimum tax;
- insurance companies;
- tax-exempt organizations;
- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting;
- persons that hold Anchor common stock as part of a straddle, hedge, constructive sale, conversion or other integrated transaction;
- mutual funds;
- regulated investment companies;
- real estate investment trusts;
- retirement plans, individual retirement accounts or other tax-deferred accounts;



- persons whose "functional currency" is not the U.S. dollar;
- U.S. expatriates and former residents of the United States; and
- persons who acquired their Anchor common stock through the exercise of an Anchor option, through a tax qualified retirement plan or otherwise as compensation.

Furthermore, this discussion does not address any state, local, or non-U.S. tax consequences, or U.S. federal estate, gift, alternative minimum tax or other non-income tax consequences.

If a partnership or other entity taxed as a partnership for U.S. federal income tax purposes holds Anchor common stock, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partnerships and partners in such a partnership should consult their tax advisors about the tax consequences of the merger to them.

The actual U.S. federal income tax consequences of the merger to you may be complex and will depend on your specific situation and on factors that are not within our control. This discussion does not constitute tax advice. You should consult with your own tax advisor as to the tax consequences of the merger in your particular circumstances, including the applicability and effect of the alternative minimum tax, the estate and gift tax, and any state, local or non-U.S. and other tax laws and of changes in those laws.

#### Tax Consequences of the Merger Generally

It is a condition to Anchor's obligation to complete the merger that Anchor receives a written opinion of its special counsel, Silver, Freedman, Taff & Tiernan LLP, dated as of the closing date, to the effect that the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code. It is a condition to FS Bancorp's obligation to complete the merger that FS Bancorp receives a written opinion of its special counsel, Keller Rohrback L.L.P., dated as of the closing date, to the effect that the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code. These opinions will be based on the assumption that the merger will be completed in the manner set forth in the merger agreement and the registration statement on Form S-4 of which this proxy statement/prospectus forms a part, and on representation letters provided by Anchor and FS Bancorp to be delivered at the time of the closing. Those opinions will also be based on the assumption that the representations set forth in the merger agreement and the representation letters are, as of the effective time of the merger, true and complete without qualification and that the representation letters are executed by appropriate and authorized officers of Anchor and FS Bancorp. If any of the assumptions or representations upon which such opinions are based is inconsistent with the actual facts with respect to the merger, the U.S. federal income tax consequences of the merger could be adversely affected.

In addition, neither of the tax opinions given in connection with the merger or in connection with the filing of the registration statement will be binding on the IRS. Neither Anchor nor FS Bancorp intends to request any ruling from the IRS as to the U.S. federal income tax consequences of the merger, and consequently, there is no assurance that the IRS will treat the merger as a "reorganization" within the meaning of Section 368(a) of the Code.

Assuming that the merger is completed in the manner set forth in the merger agreement and the registration statement on Form S-4 of which this proxy statement/prospectus forms a part, and that the representations found in the merger agreement and in the representation letters provided by Anchor and FS Bancorp delivered at the time of closing will be true and complete without qualification as of the effective time of the merger, it is the opinion of each of Silver, Freedman, Taff & Tiernan LLP and Keller Rohrback L.L.P. that the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code.

Based solely on the information set forth herein and subject to the assumptions, qualifications and limitations set forth herein and in their respective federal income tax opinions filed as exhibits to the registration statement on Form S-4, this discussion of the material U.S. federal income tax consequences of the merger, to the extent such discussion expresses conclusions as to the application of U.S. federal income tax law, constitutes the opinions of Silver, Freedman, Taff & Tiernan LLP, special counsel to Anchor, and Keller Rohrback L.L.P., special

counsel to FS Bancorp. In rendering their respective tax opinions, each counsel relied upon representations and covenants, including those contained in certificates of officers of Anchor and FS Bancorp, reasonably satisfactory in form and substance to each such counsel. If any of the representations, covenants or assumptions upon which the opinions are based are inconsistent with the actual facts, the U.S. federal income tax consequences of the merger could be adversely affected. Copies of the tax opinions are attached as Exhibits 8.1 and 8.2 to the registration statement on Form S-4.

Subject to the foregoing, the material U.S. federal income tax consequences of the merger to U.S. holders of Anchor common stock will be as follows:

gain (but not loss) will be recognized on the receipt of the merger consideration in exchange for Anchor common stock pursuant to the merger in an amount equal to the lesser of (1) the amount by which the sum of the fair market value of the FS Bancorp common stock on the date of the completion of the merger and cash (other than cash received instead of a fractional FS Bancorp common share) received by a holder of Anchor common stock exceeds such holder's tax basis in its Anchor common stock, and (2) the amount of cash received by such holder of Anchor common stock (other than cash received instead of a fractional share of FS Bancorp common stock, which will be taxed as discussed in the section entitled "Cash Received Instead of a Fractional Share of FS Bancorp Common Stock" below);

the aggregate basis of the FS Bancorp common stock received in the merger will be the same as the aggregate basis of the Anchor common stock for which it is exchanged, decreased by the amount of cash received in the merger (except with respect to any cash received instead of a fractional share of Anchor common stock), decreased by any basis attributable to a fractional share of Anchor common stock for which cash is received, and increased by the amount of any gain recognized on the exchange (regardless of whether such gain is classified as capital gain, or as ordinary dividend income, as discussed below, but excluding any gain or loss recognized with respect to fractional interests in FS Bancorp common stock for which cash is received); and

the holding period of FS Bancorp common stock received in exchange for Anchor common stock will include the holding period of the Anchor common stock for which it is exchanged.

If a U.S. holder of Anchor common stock acquired different blocks of Anchor common stock at different times or at different prices, any gain or loss, when recognized, will be determined separately with respect to each block of Anchor common stock and such holder's basis and holding period will be determined by reference to each block of Anchor common stock. If a U.S. holder determines that it has a loss with respect to any block of shares, such loss cannot be recognized as part of the merger and cannot be used to offset any gain recognized in the merger. Any such holder should consult its tax advisor regarding the manner in which gain or loss should be determined for each identifiable block of Anchor common stock surrendered in the merger and with respect to determining the bases or holding periods of the FS Bancorp common stock received in the merger.

#### Cash Received Instead of a Fractional Share of FS Bancorp Common Stock

A U.S. holder of Anchor common stock that receives cash in lieu of a fractional share of FS Bancorp common stock will be treated as having received the fractional share pursuant to the merger and then as having exchanged the fractional share for cash in a redemption by FS Bancorp. As a result, a U.S. holder generally will recognize gain or loss equal to the difference between the amount of cash received and the basis in the fractional share, as set forth above. This gain or loss will be long-term capital gain or loss if, as of the effective time of the merger, the holding period for such stock is greater than one year. The deductibility of capital losses is subject to limitations.

#### Cash Received on Exercise of Dissenter's Rights

A U.S. holder of Anchor common stock that receives cash in exchange for such holder's Anchor common stock upon exercise of dissenter's rights will recognize gain or loss equal to the difference between the amount of

cash received and the holder's adjusted tax basis in the Anchor common stock exchanged therefor. Each U.S. holder of Anchor common stock is urged to consult such holder's tax advisor regarding the manner in which gain or loss should be calculated among different blocks of Anchor common stock exchanged in the merger. Such gain or loss will be long-term or short-term capital gain or loss, depending on the U.S. holder's holding period in the Anchor common stock exchanged. The tax consequences of cash received may vary depending upon your individual circumstances. Each holder of Anchor common stock who contemplates exercising statutory dissenters' rights should consult its tax adviser as to the possibility that all or a portion of the payment received pursuant to the exercise of such rights will be treated as dividend income.

#### Possible Treatment of Gain as a Dividend

Any gain recognized by a U.S. holder of Anchor common stock in connection with the merger generally will be capital gain unless such holder's receipt of cash has the effect of a distribution of a dividend, in which case the gain will be treated as a dividend to the extent of such holder's ratable share of Anchor's accumulated earnings and profits, as calculated for U.S. federal income tax purposes. For purposes of determining whether your receipt of cash has the effect of a distribution of a dividend, you will be treated as if you first exchanged all of your Anchor common stock solely in exchange for FS Bancorp common stock and then FS Bancorp immediately redeemed a portion of those shares for the cash that you actually received in the merger (referred to herein as the "deemed redemption"). Receipt of cash will generally not have the effect of a dividend to you if such receipt is "not essentially equivalent to a dividend" or "substantially disproportionate," each within the meaning of Section 302(b) of the Code. In order for the deemed redemption to be "not essentially equivalent to a dividend," the deemed redemption must result in a "meaningful reduction" in your deemed percentage stock ownership of FS Bancorp following the merger. The determination generally requires a comparison of the percentage of the outstanding stock of FS Bancorp that you are considered to have owned immediately before the deemed redemption to the percentage of the outstanding stock of FS Bancorp that you own immediately after the deemed redemption. The IRS has indicated in rulings that any reduction in the interest of a minority shareholder that owns a small number of shares in a publicly and widely held corporation and that exercises no control over corporate affairs would result in capital gain (as opposed to dividend) treatment. For purposes of applying the foregoing tests, a shareholder will be deemed to own the stock the shareholder actually owns and the stock the shareholder constructively owns under the attribution rules of Section 318 of the Code. Under Section 318 of the Code, a shareholder will be deemed to own the shares of stock owned by certain family members, by certain estates and trusts of which the shareholder is a beneficiary, and by certain affiliated entities, as well as shares of stock subject to an option actually or constructively owned by the shareholder or such other persons. If, after applying these tests, the deemed redemption results in a capital gain, the capital gain will be long-term if your holding period for your Anchor common stock is more than one year as of the date of the exchange. If, after applying these tests, the deemed redemption results in the gain recognized being classified as a dividend, such dividend will be treated as either ordinary income or qualified dividend income. Any gain treated as qualified dividend income will be taxable to you at the long-term capital gains rate, provided you held the shares giving rise to such income for more than 60 days during the 121-day period beginning 60 days before the effective time of the merger. The determination as to whether you will recognize a capital gain or dividend income as a result of your exchange of Anchor common stock for a combination of FS Bancorp common stock and cash in the merger is complex and is determined on a shareholder-by-shareholder basis. Accordingly, we urge you to consult your own tax advisor with respect to any such determination that is applicable to your individual situation.

#### Net Investment Income Tax

A U.S. holder of Anchor common stock that is an individual is subject to a 3.8% tax on the lesser of: (1) his or her "net investment income" for the relevant taxable year, or (2) the excess of his or her modified adjusted gross income for the taxable year over a certain threshold (between \$125,000 and \$250,000 depending on the individual's U.S. federal income tax filing status). Estates and trusts are subject to similar rules. Net investment income generally would include any capital gain recognized in connection with the merger (including any gain treated as a dividend), as well as, among other items, other interest, dividends, capital gains and rental or royalty income received by such



individual. Holders of Anchor common stock should consult their tax advisors as to the application of this additional tax to their circumstances.

#### Backup Withholding and Information Reporting

A non-corporate U.S. holder may be subject to backup withholding (currently at a rate of 24%) on any cash received in the merger, including cash received in lieu of a fractional share of FS Bancorp common stock. Backup withholding generally will not apply, however, to such U.S. holders who:

furnish a correct taxpayer identification number, certify that they are not subject to backup withholding on Form W-9 or successor form and otherwise comply with all the applicable requirements of the backup withholding rules; or provide proof that they are otherwise exempt from backup withholding.

Any amounts withheld under the backup withholding rules will generally be allowed as a refund or credit against the U.S. holder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

A U.S. holder receiving shares of FS Bancorp common stock as a result of the merger will be required to retain records pertaining to the merger. Each U.S. holder that is required to file a U.S. federal income tax return and is a "significant holder" will be required to file a statement with the holder's U.S. federal income tax return setting forth the holder's basis (determined immediately before the exchange) in the Anchor common stock surrendered and the fair market value (determined immediately before the exchange) of the Anchor common stock that is exchanged by such holder pursuant to the merger. A "significant holder" is a U.S. holder that receives shares of FS Bancorp common stock in the merger and that, immediately before the merger, owned at least 5% of the outstanding stock of Anchor (by vote or value) or securities of Anchor with a tax basis of \$1 million or more.

The preceding discussion is intended only as a summary of material U.S. federal income tax consequences of the merger. Tax matters regarding the merger are very complicated, and the tax consequences of the merger to any particular Anchor shareholder will depend on that shareholder's particular situation. Anchor shareholders are strongly encouraged to consult their own tax advisor as to the specific tax consequences resulting from the merger, including tax return reporting requirements, the applicability and effect of federal, state, local, and other tax laws and the effect of any proposed changes in the tax laws to them.

#### INFORMATION ABOUT FS BANCORP

FS Bancorp, a Washington corporation, was organized in September 2011 for the purpose of becoming the holding company of 1st Security Bank of Washington upon 1st Security Bank of Washington's conversion from a mutual to a stock savings bank. The conversion was completed on July 9, 2012. At June 30, 2018, FS Bancorp had consolidated total assets of approximately \$1.1 billion, total deposits of approximately \$870.1 million, and stockholders' equity of \$129.4 million. FS Bancorp has not engaged in any significant activity other than holding the stock of 1st Security Bank of Washington.

1st Security Bank of Washington is a relationship-driven community bank. It delivers banking and financial services to local families, local and regional businesses and industry niches. It emphasizes long-term relationships with families and businesses within the communities served, working with them to meet their financial needs. It is also actively involved in community activities and events within these market areas, which further strengthens relationships within these markets

1st Security Bank of Washington currently operates 12 branch offices, one administrative office that accepts deposits and seven loan production offices in Washington.

1st Security Bank of Washington is examined and regulated by DFI, its primary regulator, and by the FDIC. 1st Security Bank of Washington is required to have certain reserves set by the Board of Governors of the Federal

Reserve System and is a member of the Federal Home Loan Bank of Des Moines, which is one of the 11 regional banks in the Federal Home Loan Bank System.

The principal executive offices of FS Bancorp are located at 6920 220th Street SW, Mountlake Terrace, Washington 98043 and its telephone number is (425) 771 5299.

## INFORMATION ABOUT ANCHOR

### General

Anchor, a Washington corporation, was formed for the purpose of becoming the bank holding company for Anchor Bank in connection with Anchor Bank's conversion from mutual to stock form, which was completed on January 25, 2011. In connection with the mutual to stock conversion, Anchor Bank changed its name from "Anchor Mutual Savings Bank" to "Anchor Bank." At June 30, 2018, Anchor had total assets of \$469.7 million, total deposits of \$359.0 million and total stockholders' equity of \$67.4 million. Anchor's business activities generally are limited to passive investment activities and oversight of its investment in Anchor Bank.

Anchor is a bank holding company and is subject to regulation by the Board of Governors of the Federal Reserve System. Anchor Bank is examined and regulated by the Washington State Department of Financial Institutions, Division of Banks and by the Federal Deposit Insurance Corporation. Anchor Bank is required to have certain reserves set by the Federal Reserve and is a member of the Federal Home Loan Bank of Des Moines ("FHLB" or "FHLB of Des Moines"), which is one of the 11 regional banks in the Federal Home Loan Bank System ("FHLB System").

Anchor Bank is a community-based savings bank primarily serving Western Washington through nine full-service banking offices located within Grays Harbor, Thurston, Lewis, and Pierce counties, and one loan production office located in King County, Washington. Anchor Bank is in the business of attracting deposits from the public and utilizing those deposits to originate loans. It offers a wide range of loan products to meet the demands of its customers, however, at June 30, 2018, 90.9% of its loans were collateralized by real estate and 52.3% of its loans were collateralized by commercial and multi-family real estate. Historically, Anchor Bank's principal lending activity has consisted of the origination of loans secured by first mortgages on owner-occupied, one-to-four family residences and loans for the construction of one-to-four family residences, as well as consumer loans, with an emphasis on home equity loans and lines of credit. Since 1990, Anchor Bank has been actively offering commercial real estate loans and multi-family loans primarily in Western Washington.

The executive office of Anchor is located at 601 Woodland Square Loop SE, Lacey, Washington 98503, and its telephone number is (360) 491-2250.

### Market Area

Anchor Bank is a community-based financial institution primarily serving Western Washington including Grays Harbor, Thurston, Lewis, and Pierce counties. Based on information from the Washington Center for Real Estate Research, for the quarter ended June 30, 2018, the median home price in the four-county market area was \$271,525 a 13.3% increase compared to the quarter ended June 30, 2017. Existing home sales in the four-county primary market area for the quarter ended June 30, 2018 totaled \$25.0 million, which reflected a 7.5% increase compared to the quarter ended June 30, 2017. According to the Department of Labor, the unemployment rate in the four-county primary market area averaged 5.7% during June 2018 compared to 5.8% during June 2017. These unemployment rates are higher than the national unemployment rates of 4.0% and 4.4%, as of June 2018 and June 2017, respectively. A continuation of the overall economic weakness in the counties in the market area could negatively impact lending opportunities and profitability.

Grays Harbor County has a population of 72,697 and a median household income of \$44,521 according to the latest 2017 information available from the U.S. Census Bureau. The economic base in Grays Harbor has been historically dependent on the timber and fishing industries. Other industries that support the economic base are

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tourism, manufacturing, agriculture, shipping, transportation and technology. Based on information from the Washington Center for Real Estate Research, for the quarter ended June 30, 2018, the median home price in Grays Harbor County was \$188,800 compared to \$164,700 for the quarter ended June 30, 2017 and represents an increase of 14.6%. In addition, existing home sales in Grays Harbor County for the quarter ended June 30, 2018 increased by 12.3% from the total for the quarter ended June 30, 2017. According to the U.S. Department of Labor, the unemployment rate in Grays Harbor County decreased to 6.2% at June 30, 2018 from 6.4% at June 30, 2017. Anchor Bank has five branches (including its home office) located throughout this County.

Thurston County has a population of 280,588 and a median household income of \$62,854 according to the latest 2017 information available from the U.S. Census Bureau. Thurston County is home of Washington State's capital (Olympia) and its economic base is largely driven by state government related employment. Based on information from the Washington Center for Real Estate Research, for the quarter ended June 30, 2018, the median home price in Thurston County was \$319,300 compared to \$289,800 for the quarter ended June 30, 2017, and represents a 10.2% increase. In addition, existing home sales in Thurston County for the quarter ended June 30, 2018 increased by 8.2% from the quarter ended June 30, 2017. According to the U.S. Department of Labor, the unemployment rate for the Thurston County area remained the same at 4.7% for June 30, 2018 and June 30, 2017. Anchor Bank currently has two branches in Thurston County. Thurston County has a stable economic base primarily attributable to the state government presence.

Lewis County has a population of 78,200 and a median household income of \$44,526 according to the latest 2017 information available from the U.S. Census Bureau. The economic base in Lewis County is supported by manufacturing, retail trade, local government and industrial services. Based on information from the Washington Center for Real Estate Research, for the quarter ended June 30, 2018, the median home price in Lewis County was \$224,300 compared to \$190,400 for the quarter ended June 30, 2017, and represents a 17.8% increase. In addition, existing home sales in Lewis County for the quarter ended June 30, 2018 increased by 6.5% from the quarter ended June 30, 2017. According to the U.S. Department of Labor, the unemployment rate in Lewis County decreased to 6.0% at June 30, 2018 from 6.1% at June 30, 2017. Anchor Bank has one branch located in Lewis County.

Pierce County is the second most populous county in the state and has a population of 876,764 and a median household income of \$61,468 according to the latest 2017 information available from the U.S. Census Bureau. The economy in Pierce County is diversified with the presence of military related government employment (Lewis/McChord JBLM Base), transportation and shipping employment (Port of Tacoma), and aerospace related employment (Boeing). Based on information from the Washington Center for Real Estate Research, for the quarter ended June 30, 2018, the median home price in Pierce County was \$353,700 compared to \$313,200 for the quarter ended June 30, 2017, and represents a 12.9% increase. In addition, existing home sales in Pierce County for the quarter ended June 30, 2018 increased by 6.9% from the quarter ended June 30, 2017. According to the U.S. Department of Labor, the unemployment rate for the Pierce County area remained the same at 5.1% for June 30, 2018 and June 30, 2017. Anchor Bank has one branch located in Pierce County.

For a discussion regarding the competition in Anchor Bank's primary market area, see "– Competition."

#### Lending Activities

General. Historically, Anchor Bank's principal lending activity has consisted of the origination of loans secured by first mortgages on owner-occupied, one-to-four family residences and loans for the construction of one-to-four family residences, as well as consumer loans, with an emphasis on home equity loans and lines of credit. Since 1990, Anchor Bank has been actively offering commercial real estate loans and multi-family loans primarily in Western Washington and beginning in 2014 increased its focus on construction lending. A substantial portion of its loan portfolio is secured by real estate, either as primary or secondary collateral, located in its primary market area. As of June 30, 2018, the net loan portfolio totaled \$392.0 million and represented 83.5% of Anchor Bank's total assets. As of June



30, 2018, 15.6% its total loan portfolio was comprised of one-to-four family loans, 3.1% of home equity loans and lines of credit, 37.8% of commercial real estate loans, 14.5% of multi-family real estate loans, 5.1% of commercial business loans, 23.0% of construction loans, and the remaining less than 1% various consumer loans.

As a state chartered savings bank chartered under Washington law, Anchor Bank is subject to 20% of total risk based capital plus reserves of the statutory lending limit to one borrower or \$13.5 million at June 30, 2018.

At June 30, 2018, there were no borrowing relationships that were over the legal amount. Anchor Bank's ten largest credit relationships at June 30, 2018 were as follows:

- Anchor Bank's largest single borrower relationship totaled \$10.8 million and consisted of four loans secured by congregate care facilities located in Lewis, Pierce, and Grays Harbor counties;
- The second largest borrower relationship is one loan for \$10.6 million secured by a hotel located in Pierce County;
- The third largest borrower relationship totaled \$9.6 million and consists of one unsecured credit line and three loans secured by hospitality properties located in King and Pierce counties;
- The fourth largest borrower relationship totaled \$9.2 million (excluding \$717,000 of available credit) and consisted of two loans secured by an airport parking lot located in King County;
- The fifth largest borrower relationship is one loan for \$8.6 million which is a purchased minority interest in a loan participation secured by an entertainment, hospitality and dining complex located in Lewis County;
- The sixth largest borrower relationship is one loan with \$8.5 million disbursed (excluding \$292,000 of undisbursed loan commitment) secured by an apartment building under construction located in King County;
- The seventh largest borrower relationship is one loan with \$8.2 million disbursed (excluding \$305,000 of undisbursed loan commitment) secured by an apartment building under construction located in Kitsap County;
- The eighth largest borrower relationship is one loan for \$8.1 million secured by an apartment building located in King County;
- The ninth largest borrower relationship is one loan for \$8.0 million secured by an apartment building located in King County; and
- The tenth largest borrower relationship totaled \$7.7 million (excluding \$594,000 of undisbursed loan commitment) and consisted of four loans secured by one multi-family and six single family residential units, and a fifth loan secured by an additional multi-family residential structure under construction located in Pierce and Thurston counties.

All of the properties securing these loans are located in Anchor Bank's primary market area in Grays Harbor, Thurston, Lewis, and Pierce counties or secondary market area in other parts of Washington State. These loans were all performing according to their repayment terms as of June 30, 2018.

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Loan Portfolio Analysis. The following table sets forth the composition of Anchor Bank's loan portfolio by type of loan at the dates indicated:

	At June 30, 2018		2017		2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Real estate:										
One-to-four family	\$62,110	15.6 %	\$59,735	15.6 %	\$61,230	17.4 %	\$57,944	20.1 %	\$63,009	21.9 %
Multi-family	57,639	14.5	60,500	15.8	53,742	15.3	43,249	15.0	47,507	16.5
Commercial	150,050	37.8	155,525	40.6	149,527	42.5	128,306	44.5	107,828	37.6
Construction	85,866	21.6	49,151	12.8	21,793	6.2	11,731	4.1	19,690	6.9
Land loans	5,515	1.4	8,054	2.1	6,839	1.9	4,069	1.4	4,126	1.4
Total real estate	\$361,180	90.9 %	\$332,965	86.9 %	\$293,131	83.3 %	\$245,299	85.1 %	\$242,160	84.3 %
Consumer:										
Home equity	12,291	3.1	13,991	3.6	16,599	4.7	17,604	6.1	20,894	7.3
Credit cards	2,284	0.6	2,596	0.7	2,969	0.8	3,289	1.1	3,548	1.2
Automobile	372	0.1	627	0.2	597	0.2	686	0.2	1,073	0.4
Other	960	0.2	1,524	0.4	1,933	0.5	2,347	0.8	2,838	1.0
Total consumer	15,907	4.0	18,738	4.9	22,098	6.2	23,926	8.3	28,353	9.9
Commercial business	20,329	5.1	31,603	8.2	36,848	10.5	18,987	6.6	16,737	5.8
Total loans	397,416	100.0%	383,306	100.0%	352,077	100.0%	288,212	100.0%	287,250	100.0%
Less:										
Deferred loan fees and loan premiums, net	1,002		1,292		947		1,047		1,100	
Allowance for loan losses	4,370		4,106		3,779		3,721		4,624	
Loans receivable, net	\$392,044		\$377,908		\$347,351		\$283,444		\$281,526	

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The following table shows the composition of Anchor Bank's loan portfolio by fixed- and adjustable-rate loans at the dates indicated:

	At June 30, 2018		2017		2016		2015		2014		
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
<b>FIXED-RATE LOANS</b>											
(Dollars in thousands)											
Real estate:											
One-to-four family	\$36,667	9.2 %	\$35,566	9.3 %	\$38,107	10.8%	\$46,686	16.2%	\$50,778	17.7%	
Multi-family	26,267	6.6	29,610	7.7	22,666	6.4	23,716	8.2	32,813	11.4	
Commercial	24,750	6.2	19,050	5.0	14,555	4.1	25,048	8.7	34,776	12.1	
Land loans	3,677	0.9	4,765	1.2	3,731	1.1	2,667	0.9	3,137	1.1	
Total real estate	91,361	22.9	88,991	23.2	79,059	22.4	98,117	34.0	121,504	42.3	
Real estate construction:											
One-to-four family	11,890	3.0	6,604	1.7	2,498	0.7	—	—	312	0.1	
Multi-family	10,760	2.7	2,309	0.6	—	—	—	—	—	—	
Commercial	1,510	0.4	7,759	2.0	1,738	0.5	—	—	6,523	2.3	
Total real estate construction	24,160	6.1	16,672	4.3	4,236	1.2	—	—	6,835	2.4	
Consumer:											
Home equity	8,138	2.1	7,301	1.9	8,431	2.4	9,888	3.4	12,042	4.2	
Automobile	372	0.1	627	0.2	597	0.2	686	0.2	1,073	0.4	
Other	960	0.2	1,522	0.4	1,931	0.5	2,345	0.8	2,838	1.0	
Total consumer	9,470	2.4	9,450	2.5	10,959	3.1	12,919	4.5	15,953	5.6	
Commercial business	10,147	2.6	11,221	2.9	13,145	3.7	12,404	4.3	11,717	4.1	
Total fixed-rate loans	\$135,138	34.0	\$126,334	33.0	\$107,399	30.5	\$123,440	42.8	\$156,009	54.4	
<b>ADJUSTABLE-RATE LOANS</b>											
Real estate:											
One-to-four family	\$25,443	6.4	\$24,169	6.3	\$23,123	6.6	\$11,258	3.9	\$12,231	4.3	
Multi-family	31,372	7.9	30,890	8.1	31,076	8.8	19,533	6.8	14,694	5.1	
Commercial	125,300	31.5	136,475	35.6	134,972	38.3	103,258	35.8	73,052	25.4	
Land loans	1,838	0.5	3,289	0.9	3,108	0.9	1,402	0.5	989	0.3	
Total real estate	183,953	46.3	194,823	50.8	192,279	54.6	135,451	47.0	100,966	35.1	
Real estate construction:											
One-to-four family	16,854	4.2	10,119	2.6	9,475	2.7	2,119	0.7	2,697	0.9	
Multi-family	34,229	8.6	19,423	5.1	1,083	0.3	9,353	3.2	3,432	1.2	
Commercial	10,623	2.7	2,937	0.8	6,999	2.0	259	0.1	6,726	2.3	
Total real estate construction	61,706	15.5	32,479	8.5	17,557	5.0	11,731	4.1	12,855	4.4	

(table continued on following page)

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	At June 30, 2018		2017		2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)										
Consumer:										
Home equity	4,153	1.0	6,690	1.7	8,168	2.3	7,716	2.7	8,852	3.1
Automobile Credit cards	—	—	—	—	—	—	—	—	—	—
Other	2,284	0.6	2,596	0.7	2,969	0.8	3,289	1.1	3,548	1.2
Total consumer	—	—	2	—	2	—	2	—	—	—
Commercial business	6,437	1.6	9,288	2.4	11,139	3.2	11,007	3.8	12,400	4.3
Total adjustable rate loans	10,182	2.6	20,382	5.3	23,703	6.7	6,583	2.3	5,020	1.8
Total loans	262,278	66.0	256,972	67.0	244,678	69.5	164,772	57.2	131,241	45.6
Less:	397,416	100.0%	383,306	100.0%	352,077	100.0%	288,212	100.0%	287,250	100.0%
Deferred loan fees and loan premiums, net	1,002		1,292		947		1,047		1,100	
Allowance for loan losses	4,370		4,106		3,779		3,721		4,624	
Loans receivable, net	\$392,044		\$377,908		\$347,351		\$283,444		\$281,526	

Commercial and Multi-Family Real Estate Lending. As of June 30, 2018, \$207.7 million, or 52.3% of Anchor Bank's total loan portfolio was secured by commercial and multi-family real estate property located in its market area. Of this amount, \$41.3 million was identified as owner occupied commercial real estate, and the remaining \$166.4 million, or 41.9% of its total loan portfolio was secured by income producing, or non-owner occupied commercial real estate. Anchor Bank's commercial real estate loans include loans secured by properties classified as office, hospitality, mini storage, mobile home park, congregate care, retail, education/worship, airport parking lot and other non-residential.

As of June 30, 2018, commercial real estate loans totaled \$150.1 million, or 37.8% of Anchor Bank's portfolio. Multi-family real estate totaled \$57.6 million, or 14.5% of its portfolio at June 30, 2018.

Commercial real estate and multi-family loans generally are priced at a higher rate of interest than one-to-four family loans. Typically, these loans have higher loan balances, are more difficult to evaluate and monitor, and involve a greater degree of risk than one-to-four family loans. Often payments on loans secured by commercial or multi-family properties are dependent on the successful operation and management of the property; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. Anchor Bank generally requires and obtains loan guarantees from financially capable parties based upon the review of personal financial statements. If

the borrower is a corporation, Anchor Bank generally requires and obtains personal guarantees from the corporate principals based upon a review of the personal financial statements and individual credit reports.

The average loan size in its commercial and multi-family real estate portfolio was \$915,000 as of June 30, 2018. Anchor Bank targets individual commercial and multi-family real estate loans to small and mid-size owner occupants and investors in its market area, between \$1.0 million and \$6.0 million. At June 30, 2018, the largest commercial real estate loan in its portfolio was a loan of \$10.6 million secured by a hotel located in Pierce County. Its largest multi-family loan as of June 30, 2018, was an \$8.0 million loan secured by a 65 unit apartment complex located in King County.

Anchor Bank offers both fixed and adjustable rates on commercial and multi-family real estate loans. Loans originated on a fixed rate basis generally are originated at terms up to ten years, with amortization terms up to 30 years. A substantial amount of the commercial and multi-family real estate loans have adjustable interest rates. As a result, these loans may experience a higher rate of default in a rising interest rate environment. As of June 30, 2018, Anchor Bank had \$26.3 million and \$31.4 million in fixed and adjustable rate multi-family loans,

respectively, and \$24.7 million and \$125.3 million in fixed and adjustable rate commercial real estate loans, respectively.

Commercial and multi-family real estate loans are originated with rates that generally adjust after an initial period ranging from three to ten years. Adjustable rate multi-family and commercial real estate loans are generally priced utilizing the applicable FHLB or U.S. Treasury Term Borrowing Rate plus an acceptable margin. These loans are typically amortized for up to 30 years with a prepayment penalty. The maximum loan-to-value ratio for commercial and multi-family real estate loans is generally 75%. Anchor Bank requires appraisals of all properties securing commercial and multi-family real estate loans, performed by independent appraisers it designates. Anchor Bank requires commercial and multi-family real estate loan borrowers with outstanding balances in excess of \$750,000, or a loan-to-value ratio in excess of 60% to submit annual financial statements and rent rolls on the subject property. The properties that fit within this profile are also inspected annually, and an inspection report and photograph are included. Anchor Bank generally requires a minimum pro forma debt coverage ratio of 1.20 times for loans secured by commercial and multi-family properties.

The following is an analysis of the types of collateral securing Anchor Bank's commercial real estate and multi-family loans at June 30, 2018:

Collateral	Amount (Dollars in thousands)	Percent of Total	
Multi-family	\$57,639	27.7	%
Office	16,381	7.9	
Hospitality	30,251	14.6	
Mini storage	24,258	11.7	
Mobile home park	6,006	2.9	
Congregate care	13,452	6.5	
Retail	26,899	13.0	
Education/Worship	9,636	4.6	
Airport parking lot	4,403	2.1	
Other non-residential	18,764	9.0	
Total	\$207,689	100.0	%

If Anchor Bank forecloses on a multi-family or commercial real estate loan, its holding period for the collateral typically is longer than for one-to-four family mortgage loans because there are fewer potential purchasers of the collateral. Additionally, as a result of its increasing emphasis on this type of lending, a portion of its multi-family and commercial real estate loan portfolio is relatively unseasoned and has not been subjected to unfavorable economic conditions. As a result, Anchor Bank may not have enough payment history with which to judge future collectability or to predict the future performance of this part of its loan portfolio. These loans may have delinquency or charge-off levels above Anchor Bank's historical experience, which could adversely affect future performance. Further, multi-family and commercial real estate loans generally have relatively large balances to single borrowers or related groups of borrowers. Accordingly, if Anchor Bank makes any errors in judgment in the collectability of commercial real estate loans, any resulting charge-offs may be larger on a per loan basis than those incurred with residential or consumer loan portfolios. At June 30, 2018, there were no commercial or multi-family real estate loans that were on nonaccrual status. Commercial real estate loan charge offs for the years ended June 30, 2018 and 2017 were \$200,000 and \$110,000, respectively. There were no multi-family loans charged-off for the years ended June 30, 2018 and 2017.

One-to-Four Family Real Estate Lending. As of June 30, 2018, \$62.1 million, or 15.6%, of Anchor Bank's total loan portfolio consisted of permanent loans secured by one-to-four family residences. Anchor Bank originates both fixed rate and adjustable rate loans in its residential lending program and uses Federal Home Loan Mortgage Corporation ("Freddie Mac") underwriting guidelines. None of its residential loan products allow for negative amortization of principal. Anchor Bank typically bases its decision on whether to sell or retain secondary market quality loans on the rate and fees for each loan, market conditions and its liquidity needs. Although Anchor



Bank has sold the majority of residential loans over the last two years, Anchor Bank does not sell all qualified loans on the secondary market as it holds in its portfolio many residential loans that may not meet all of Freddie Mac's guidelines yet meet Anchor Bank's investment and liquidity objectives.

At June 30, 2018, \$36.7 million of Anchor Bank's loan portfolio consisted of fixed rate loans which were 59.0% of total one-to-four family portfolio and 9.2% of total loans at that date. Specifically, Anchor Bank offers fixed rate, residential mortgages from 10 to 30 year terms and uses Freddie Mac daily pricing to set its pricing. Borrowers have a variety of buy-down options with each loan and most mortgages have a duration of less than ten years. The average loan duration is a function of several factors, including real estate supply and demand, current interest rates, expected future rates and interest rates payable on outstanding loans.

Additionally, Anchor Bank offers a full range of adjustable rate mortgage products. These loans offer three, five or seven year fixed-rate terms with annual adjustments thereafter. The annual adjustments are limited to increases or decreases of no more than two percent and carry a typical lifetime cap of five percent above the original rate. At this time, Anchor Bank holds these adjustable rate mortgages in its portfolio. Similar to fixed rate loans, borrower demand for adjustable rate mortgage loans is a function of the current rate environment, the expectations of future interest rates and the difference between the initial interest rates and fees charged for each type of loan. The relative amount of fixed rate mortgage loans and adjustable rate mortgage loans that can be originated at any time is largely determined by the demand for each in a competitive environment.

While adjustable rate mortgages in Anchor Bank's loan portfolio help reduce its exposure to changes in interest rates, it is possible that, during periods of rising interest rates, the risk of default on adjustable rate mortgage loans may increase as a result of annual repricing and the subsequent higher payment to the borrower. In some rate environments, adjustable rate mortgages may be offered at initial rates of interest below a comparable fixed rate and could result in a higher risk of default or delinquency. Another consideration is that although adjustable rate mortgage loans allow Anchor Bank to decrease the sensitivity of its asset base as a result of changes in the interest rates, the extent of this interest sensitivity is limited by the periodic and lifetime interest rate adjustment limits. Anchor Bank's historical experience with adjustable rate mortgages has been very favorable. Anchor Bank does not, however, offer adjustable rate mortgages with initial teaser rates. At June 30, 2018, \$25.4 million of its permanent one-to-four family mortgage loans were adjustable rate loans which were 41.0% of its total one-to-four family loan portfolio and 6.4% of its total loans at that date.

Regardless of the type of loan, Anchor Bank underwrites residential loans based on Freddie Mac's Loan Prospector guidelines. This underwriting considers a variety of factors such as credit history, debt to income, property type, loan-to-value, and occupancy, to name a few. Generally, Anchor Bank uses the same Freddie Mac criteria for establishing maximum loan-to-values and also considers whether a transaction is a purchase, rate and term refinance, or cash-out refinance. For loans above 80% loan-to-value, Anchor Bank typically requires private mortgage insurance in order to reduce its risk exposure should the loan default. Regardless of the loan-to-value, one-to-four family loans are appraised by independent fee appraisers that have been approved by Anchor Bank and generally carry no prepayment restrictions. Anchor Bank also requires title insurance, hazard insurance, and if necessary, flood insurance in an amount not less than the current regulatory requirements.

Anchor Bank also has additional products designed to make home ownership available to qualified low to moderate income borrowers. The underwriting guidelines for these programs are usually more flexible in the areas of credit or work history. For example, some segments of the low to moderate income population have non-traditional credit histories and pay cash for many of their consumer purchases. They may also work in seasonal industries that do not offer a standard work schedule or salary. Loans such as Freddie Mac's "Homestart Program" are designed to meet this market's needs and often require a borrower to show a history of saving and budgeting. These types of programs also provide education on the costs and benefits of homeownership.

Anchor Bank does not actively engage in subprime lending, either through advertising, marketing, underwriting and/or risk selection, and has no established program to originate or purchase subprime loans to be held in its portfolio. Residential mortgage loans identified as subprime, with FICO scores of less than 660, were originated and managed in the ordinary course of business, and totaled \$4.1 million at June 30, 2018, representing 1.0% of total loans, 6.6% of one-to-four family mortgage loans, and 6.5% of Tier 1 Capital. Anchor Bank's weighted average seasoning for these loans (the number of months since the funding date of the loans) was 93 months as of June 30,

2018. Anchor Bank's one-to-four family mortgage loans identified as subprime based on the borrower's FICO score at time the loan was originated do not represent a material part of its lending activity. Accordingly, these loans are identified as "exclusions" as defined pursuant to regulatory guidance issued by the FDIC in Financial Institutions Letter FIL-9-2001 on subprime lending. At June 30, 2018, \$507,000 of one-to-four family loans were in nonaccrual status. No one-to-four family loans were charged off during the year ended June 30, 2018 compared to \$21,000 of one-to-four family loans that were charged-off during the year ended June 30, 2017.

Mortgage reform rules mandated by the Dodd-Frank Act became effective in January 2014, requiring lenders to make a reasonable, good faith determination of a borrower's ability to repay any consumer closed-end credit transaction secured by a dwelling and to limit prepayment penalties. Increased risks of legal challenge, private right of action and regulatory enforcement are presented by these rules. Anchor Bank does not originate loans that do not meet the regulatory definition of a qualified mortgage.

Construction and Land Loans. Anchor Bank has been an active originator of real estate construction loans in its market area since 1990. At June 30, 2018, its construction loans totaled \$85.9 million, or 21.6%, of the total loan portfolio, an increase of \$36.7 million or 74.7% since June 30, 2017. Construction loans are for the construction of multi-family and for the construction of one-to-four family residences.

Anchor Bank generally provides an interest reserve for funds on its builder construction loans that have been advanced. Interest reserves are a means by which a lender builds in, as a part of the loan approval and as a component of the cost of the project, the amount of the monthly interest required to service the debt during the construction period of the loan.

At June 30, 2018, the construction loan portfolio contained 16 loans totaling \$36.3 million which had been previously extended or renewed due to a delay in the permitting process. The entire construction loan portfolio at June 30, 2018 consisted of 70 loans requiring interest only payments, 40 of which totaled \$26.1 million and were relying on the interest reserve to make this payment. At June 30, 2018, no construction loans were delinquent. No construction loans were charged-off during the years ended June 30, 2018 and 2017.

At the dates indicated, the composition of Anchor Bank's construction portfolio was as follows:

	At June 30,		
	2018	2017	2016
	(In thousands)		
One-to-four family:			
Speculative	\$27,054	\$15,416	\$11,220
Permanent	—	—	—
Custom	1,690	1,306	753
Land acquisition and development loans	4,276	3,870	156
Multi-family	44,989	21,732	1,083
Commercial real estate:			
Construction	7,857	6,827	8,581
Total construction <sup>(1)</sup>	\$85,866	\$49,151	\$21,793

<sup>(1)</sup> Loans in process for these loans at June 30, 2018, 2017 and 2016 were \$28.6 million, \$61.6 million and \$37.9 million, respectively.

For the year ended June 30, 2018, Anchor Bank originated 54 builder construction loans to fund the construction of one-to-four family properties totaling \$41.6 million, as compared to 27 builder construction loans for \$26.6 million during the year ended June 30, 2017, and 28 builder construction loans for \$25.0 million during the year ended June

30, 2016. Anchor Bank originates construction and site development loans to experienced contractors and builders in its market area primarily to finance the construction of single-family homes and subdivisions, which homes typically have an average price ranging from \$200,000 to \$500,000. All builders were qualified using the same standards as other commercial loan credits, requiring minimum debt service coverage ratios and established cash reserves to carry projects through construction completion and sale of the project. The

maximum loan-to-value limit on both pre-sold and speculative projects is generally up to 75% of the appraised market value or sales price upon completion of the project. Development plans are required from builders prior to making the loan. Anchor Bank also requires that builders maintain adequate insurance coverage. Maturity dates for residential construction loans are largely a function of the estimated construction period of the project, and generally do not exceed 18 months for residential subdivision development loans at the time of origination. Anchor Bank's residential construction loans typically have adjustable rates of interest based on The Wall Street Journal prime rate and during the term of construction, the accumulated interest is added to the principal of the loan through an interest reserve. Construction loan proceeds are disbursed periodically in increments as construction progresses and based on inspections by Anchor Bank's approved inspectors. At June 30, 2018, Anchor Bank's largest builder relationships consisted of three loans for \$5.7 million, including \$2.5 million which was undisbursed.

Anchor Bank also makes construction loans for commercial development projects. These projects include multi-family, apartment, retail, office/warehouse and office buildings. These loans generally have an interest-only phase during construction, rely on an interest reserve to fund interest payments and generally convert to permanent financing when construction is completed. Disbursement of funds is at Anchor Bank's sole discretion and is based on the progress of the construction. The maximum loan-to-value limit applicable to these loans is generally 75% of the appraised post-construction value. Additional analysis and underwriting of these loans typically results in lower loan-to-value ratios based on the debt service coverage analysis, including its interest rate and vacancy stress testing. Anchor Bank's target minimum debt coverage ratio is 1.20 for loans on these projects. At June 30, 2018, the portfolio of construction loans for commercial and multi-family projects included 16 loans totaling \$57.1 million, and there was an additional \$10.5 million undisbursed. These loan commitments range in size from \$659,000 to \$8.8 million with an average disbursed balance of \$3.6 million. These loans were for the construction of ten multi-family complexes, one office, one industrial facility and four land developments, all of which are located in Washington. Monitoring construction progress and managing advances during construction are risks not present when lending on complete commercial properties. In order to mitigate these risks Anchor Bank requires the use of an approved third-party construction process monitoring firm for inspections, progress reports and construction budget oversight and utilizes construction loan management software to assist in assuring that advances are consistent with the progress that has been confirmed.

Properties which are the subject of a construction loan are monitored for progress through Anchor Bank's construction loan administration department, and include monthly site inspections, inspection reports and photographs provided by a qualified staff inspector or a licensed and bonded third party inspection service contracted by and for Anchor Bank. If Anchor Bank makes a determination that there is deterioration, or if the loan becomes nonperforming, Anchor Bank halts any disbursement of those funds identified for use in paying interest and bill the borrower directly for interest payments. Construction loans with interest reserves are underwritten similarly to construction loans without interest reserves.

Anchor Bank also originates land loans which are typically made to individual consumers to buy a lot or parcel of land for the future construction of the buyer's primary residence and are included in "land loans". At June 30, 2018, land loans totaled \$5.5 million or 1.4% of the total loan portfolio, none of which were on nonaccrual status.

Construction and land loans are based upon estimates of costs in relation to values associated with the completed project. Construction and land lending involves additional risks when compared with permanent residential lending because funds are advanced upon the collateral for the project based on an estimate of costs that will produce a future value at completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation on real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the completed project loan-to-value ratio. Changes in the demand, such as for new housing and higher than anticipated building costs may cause actual results to vary significantly from those estimated. If the appraisal of the value of a completed project proves to be overstated, Anchor Bank may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. Because construction loans require active monitoring of the building process, including

cost comparisons and on-site inspections, these loans are more difficult and costly to monitor. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. In addition, generally during the term of a construction loan, no payment from the

borrower is generally required since the accumulated interest is added to the principal of the loan through an interest reserve.

Properties under construction are often difficult to sell and typically must be completed in order to be successfully sold which also complicates the process of working out problem construction loans. This may require Anchor Bank to advance additional funds and/or contract with another builder to complete construction and assume the market risk of selling the project at a future market price, which may or may not enable Anchor Bank to fully recover unpaid loan funds and associated construction and liquidation costs. Increases in market rates of interest may have a more pronounced effect on construction loans by rapidly increasing the end-purchasers' borrowing costs, thereby reducing the overall demand for the project. In addition, speculative construction loans to a builder are often associated with homes that are not pre-sold, and thus pose a greater potential risk to Anchor Bank than construction loans to individuals on their personal residences because there is the added risk associated with identifying an end-purchaser for the finished project.

Land loans also pose additional risk because of the lack of income being produced by the property and the potential illiquid nature of the collateral. These risks can be significantly impacted by the supply and demand conditions. As a result, construction lending often involves the disbursement of substantial funds with repayment dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property rather than the ability of the borrower or guarantor themselves to repay principal and interest.

**Consumer Lending.** Anchor Bank offers a variety of consumer loans, including home equity loans and lines of credit, automobile loans, credit cards and personal lines of credit. At June 30, 2018, the largest component of the consumer loan portfolio consisted of home equity loans and lines of credit, which totaled \$12.3 million, or 3.1%, of the total loan portfolio. Home equity loans are risk priced using credit score, loan-to-value and overall credit quality of the applicant. Home equity loans and lines of credit are made for a variety of purposes including improvement of residential properties. The majority of these loans are secured by a second deed of trust on owner-occupied primary single family residential property. Home equity lines of credit include a maximum total term of 30 years, including an initial period of 10 years with interest-only payments and a variable rate of interest tied to the Prime Rate, plus a margin (the "draw" period), followed by 20 years of principal and interest payments under a level amortization schedule and an interest rate that is fixed for the 20 years at the fully indexed accrual rate as of the time of variable-to-fixed rate conversion. Home equity loans are closed-end loans with a term of 20 years and have level amortization with regular monthly payments of principal and interest. The interest rate is risk based and reflects both credit and collateral risk. Both home equity lines and home equity loans are available up to 95% of the combined loan to value ratio as determined by Anchor Bank.

Anchor Bank's credit card portfolio includes both VISA and MasterCard brands, and totaled \$2.3 million, or 0.6% of the total loan portfolio at June 30, 2018. Anchor Bank has been offering credit cards for more than 20 years and all credit cards have interest rates and credit limits determined by the creditworthiness of the borrower. Anchor Bank uses credit bureau scores in addition to other criteria such as income in the underwriting decision process on these loans.

Anchor Bank's automobile loan portfolio totaled \$372,000 or 0.1% of the total loan portfolio at June 30, 2018. Anchor Bank offers several options for vehicle purchase or refinance with a maximum term of 84 months for newer vehicles and 72 months for older vehicles. As with its home equity loans, Anchor Bank's vehicle and recreational vehicle loans are risk priced based on creditworthiness, loan term and loan-to-value. Anchor Bank currently accesses a Carfax Vehicle Report to ensure that the collateral being loaned against is acceptable and to protect borrowers from a "lemon" or other undesirable histories. Other consumer loans, consisting primarily of unsecured personal lines of credit totaled \$960,000 or 0.2% of the total loan portfolio at June 30, 2018.

Consumer loans entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciating assets such as automobiles. In these cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal



and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans. These risks are not as prevalent with respect to the consumer loan portfolio because a large percentage of the portfolio consists of home equity lines of credit that are underwritten in a manner such that they result in credit risk that is substantially similar to one-to-four family mortgage loans. Nevertheless, home equity lines of credit have greater credit risk than one-to-four family mortgage loans because they are secured by mortgages subordinated to the existing first mortgage on the property, which Anchor Bank may or may not hold and do not have private mortgage insurance coverage. At June 30, 2018, \$207,000 of consumer loans were on nonaccrual status. Consumer loans of \$52,000 were charged off during the year ended June 30, 2018 compared to \$193,000 of consumer loans that were charged-off during the year ended June 30, 2017.

**Commercial Business Lending.** These loans are primarily originated as conventional loans to business borrowers, which include lines of credit, term loans and letters of credit. These loans are typically secured by collateral and are used for general business purposes, including working capital financing, equipment financing, capital investment and general investments. Loan terms vary from one to seven years. The interest rates on such loans are generally floating rates indexed to The Wall Street Journal prime rate. Inherent with the extension of business credit is the business deposit relationship which frequently includes multiple accounts and related services from which Anchor Bank realizes low cost deposits plus service and ancillary fee income.

Commercial business loans typically have shorter maturity terms and higher interest spreads than real estate loans, but generally involve more credit risk because of the type and nature of the collateral. Anchor Bank is focusing its efforts on small- to medium-sized, privately-held companies with local or regional businesses that operate in its market area. Anchor Bank's commercial business lending policy includes credit file documentation and analysis of the borrower's background, capacity to repay the loan, the adequacy of the borrower's capital and collateral, as well as an evaluation of other conditions affecting the borrower. Analysis of the borrower's past, present and future cash flows is also an important aspect of its credit analysis. Anchor Bank generally obtains personal guarantees on its commercial business loans. At June 30, 2018, commercial business loans totaled \$20.3 million or 5.1% of the loan portfolio and was comprised of 118 loans in 56 different business classifications as identified by the North American Industrial Classification System. The largest commercial business relationship at June 30, 2018 consisted of one loan for \$4.8 million which is an operating line collateralized by an airport parking facility located in King County, Washington. The largest commercial business relationship at June 30, 2017 consisted of one loan for \$9.0 million which is a purchased minority interest in a line of credit to provide warehouse lending to a financial services company which is collateralized by an assignment of financial notes receivable on residential housing secured by properties located in Washington, Oregon and Utah.

Repayment of the commercial business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value. Commercial business loans are originated primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral consists of accounts receivable, inventory or equipment. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing other loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. For the years ended June 30, 2018 and 2017 there were no commercial business loan charge-offs. At June 30, 2018, there was one \$222,000 commercial business loan on nonaccrual status.

**Loan Maturity and Repricing.** The following table sets forth certain information at June 30, 2018 regarding the dollar amount of loans maturing in Anchor Bank's portfolio based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated maturity, are reported as due in one year or less. Loan balances do not include undisbursed loan proceeds,

unearned discounts, unearned income and allowance for loan losses.

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	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Beyond 10 Years	Total
(In thousands)						
Real estate:						
One-to-four family	\$6,817	\$1,991	\$4,349	\$16,861	\$32,092	\$62,110
Multi-family	4,184	1,111	2,245	21,425	28,674	57,639
Commercial	6,205	4,313	31,263	105,176	3,093	150,050
Construction	83,909	1,957	—	—	—	85,866
Land loans	2,063	1,010	1,845	147	450	5,515
Total real estate	103,178	10,382	39,702	143,609	64,309	361,180
Consumer:						
Home equity	1,753	150	760	2,699	6,929	12,291
Credit cards	2,284	—	—	—	—	2,284
Automobile	1	77	182	—	—	—