

FS BANCORP, INC.

March 29, 2018

Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders of FS Bancorp, Inc. to be held at the 1st Security Bank Administrative Office, located at 6920 220th Street SW, Mountlake Terrace, Washington, on Thursday, May 17, 2018 at 2:00 p.m., local time.

The notice of annual meeting of shareholders and proxy statement appearing on the following pages describe the formal business to be transacted at the meeting. During the meeting, we will also report on our operations. Directors and officers of FS Bancorp, Inc., as well as a representative of Moss Adams LLP, our independent auditor, will be present to respond to appropriate questions of shareholders.

It is important that your shares are represented at the meeting, whether or not you attend in person and regardless of the number of shares you own. To make sure your shares are represented, we urge you to complete and mail the enclosed proxy card. If you attend the meeting, you may vote in person even if you have previously mailed a proxy card.

We look forward to seeing you at the meeting.

Sincerely,

A handwritten signature in black ink that reads "Joe Adams". The signature is written in a cursive, flowing style.

Joseph C. Adams
Chief Executive Officer

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FS BANCORP, INC.
6920 220TH STREET SW
MOUNTLAKE TERRACE, WASHINGTON 98043
(425) 771-5299

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 17, 2018

Notice is hereby given that the annual meeting of shareholders of FS Bancorp, Inc. will be held at the 1st Security Bank Administrative Office, located at 6920 220th Street SW, Mountlake Terrace, Washington, on Thursday, May 17, 2018, at 2:00 p.m., local time, for the following purposes:

- Proposal 1. Election of two directors each for a three-year term.
- Proposal 2. Advisory (non-binding) approval of the compensation of our named executive officers as disclosed in this proxy statement.
- Proposal 3. Adoption of the FS Bancorp, Inc. 2018 Equity Incentive Plan.
- Proposal 4. Ratification of the Audit Committee's selection of Moss Adams LLP as our independent auditor for 2018.

We will also consider and act upon such other business as may properly come before the meeting, or any adjournment or postponement thereof. As of the date of this notice, we are not aware of any other business to come before the annual meeting.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to Be Held on May 17, 2018. Our proxy statement and 2017 Annual Report to Shareholders are available at <http://investorrelations.fsbwa.com/CorporateProfile>.

The Board of Directors has fixed the close of business on March 21, 2018 as the record date for the annual meeting. This means that shareholders of record at the close of business on that date are entitled to receive notice of and to vote at the meeting and any adjournment thereof. **To ensure that your shares are represented at the meeting, please take the time to vote by signing, dating and mailing the enclosed proxy card which is solicited by the Board of Directors. The proxy will not be used if you attend and vote at the annual meeting in person. Regardless of the number of shares you own, your vote is very important. Please act today.**

BY ORDER OF THE BOARD OF DIRECTORS



MATTHEW D. MULLET
SECRETARY

Mountlake Terrace, Washington
March 29, 2018

IMPORTANT: The prompt return of proxies will save us the expense of further requests for proxies in order to ensure a quorum. A pre-addressed envelope is enclosed for your convenience. No postage is required if mailed in the United States.

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**PROXY STATEMENT
OF
FS BANCORP, INC.
6920 220TH STREET SW
MOUNTLAKE TERRACE, WASHINGTON 98043
(425) 771-5299**

**ANNUAL MEETING OF SHAREHOLDERS
MAY 17, 2018**

The Board of Directors of FS Bancorp, Inc. is using this proxy statement to solicit proxies from our shareholders for use at our annual meeting of shareholders. We are first mailing this proxy statement and the enclosed form of proxy to our shareholders on or about March 29, 2018.

The information provided in this proxy statement relates to FS Bancorp, Inc. and its wholly-owned subsidiary, 1st Security Bank of Washington. FS Bancorp, Inc. may also be referred to as "FS Bancorp" and 1st Security Bank of Washington may also be referred to as "1st Security Bank" or the "Bank." References to "we," "us" and "our" refer to FS Bancorp and, as the context requires, 1st Security Bank.

INFORMATION ABOUT THE ANNUAL MEETING

Time and Place of the Annual Meeting

Our annual meeting will be held as follows:

Date: Thursday, May 17, 2018
Time: 2:00 p.m., local time
Place: 1st Security Bank Administrative Office
6920 220th Street SW, Mountlake Terrace, Washington

Matters to Be Considered at the Annual Meeting

At the meeting, you will be asked to consider and vote upon the following proposals:

- Proposal 1.** Election of two directors each for a three-year term.
- Proposal 2.** Advisory (non-binding) approval of the compensation of our named executive officers as disclosed in this proxy statement.
- Proposal 3.** Adoption of the FS Bancorp, Inc. 2018 Equity Incentive Plan.
- Proposal 4.** Ratification of the appointment of Moss Adams LLP as our independent auditor for 2018.

We also will transact any other business that may properly come before the annual meeting. As of the date of this proxy statement, we are not aware of any other business to be presented for consideration at the annual meeting other than the matters described in this proxy statement.

Who is Entitled to Vote?

We have fixed the close of business on March 21, 2018 as the record date for shareholders entitled to notice of and to vote at our annual meeting. Only holders of record of FS Bancorp's common stock on that date are entitled to notice of and to vote at the annual meeting. You are entitled to one vote for each share of FS Bancorp common stock you own, unless you own more than 10% of FS Bancorp's outstanding shares. As provided in our Articles of Incorporation, record holders of common stock who beneficially own in excess of 10% of FS Bancorp's outstanding

shares are not entitled to any vote in respect of the shares held in excess of the 10% limit unless our Board of Directors has granted permission in advance. On March 21, 2018, there were 3,695,552 shares of FS Bancorp common stock outstanding and entitled to vote at the annual meeting.

How Do I Vote at the Annual Meeting?

Proxies are solicited to provide all shareholders on the voting record date an opportunity to vote on matters scheduled for the annual meeting and described in these materials. This question provides voting instructions for shareholders of record. You are a shareholder of record if your shares of FS Bancorp common stock are held in your name. If you are a beneficial owner of FS Bancorp common stock held by a broker, bank or other nominee (i.e., in “street name”), please see the instructions below under “What if My Shares Are Held in Street Name?”

Shares of FS Bancorp common stock can only be voted if the shareholder is present in person or by proxy at the annual meeting. To ensure your representation at the annual meeting, we recommend you vote by proxy even if you plan to attend the annual meeting. You can always change your vote at the meeting if you are a shareholder of record.

Voting instructions are included on your proxy card. Shares of FS Bancorp common stock represented by properly executed proxies will be voted by the individuals named on the proxy card in accordance with the shareholder’s instructions. Where properly executed proxies are returned to us with no specific instruction as how to vote at the annual meeting, the persons named in the proxy will vote the shares FOR the election of each of our director nominees, FOR advisory approval of the compensation of our named executive officers as disclosed in this proxy statement, FOR adoption of the FS Bancorp, Inc. 2018 Equity Incentive Plan and FOR ratification of the appointment of Moss Adams LLP as our independent auditor. If any other matters are properly presented at the annual meeting for action, the persons named in the enclosed proxy and acting thereunder will have the discretion to vote on these matters in accordance with their best judgment. We do not currently expect that any other matters will be properly presented for action at the annual meeting.

You may receive more than one proxy card depending on how your shares are held. For example, you may hold some of your shares individually, some jointly with your spouse and some in trust for your children. In this case, you will receive three separate proxy cards to vote.

What if My Shares Are Held in Street Name?

If you are the beneficial owner of shares held in “street name” by a broker, bank or other nominee, the nominee, as the record holder of the shares, is required to vote the shares in accordance with your instructions. If your common stock is held in street name, you will receive instructions from the nominee that you must follow in order to have your shares voted. The nominee may allow you to deliver your voting instructions via telephone or the Internet. Please see the instruction form that accompanies this proxy statement. If you do not give instructions to the nominee, the nominee may nevertheless vote the shares with respect to discretionary items, but will not be permitted to vote your shares with respect to non-discretionary items, pursuant to current industry practice. In the case of non-discretionary items, shares not voted will be treated as “broker non-votes.” The proposal to elect directors, the advisory vote on executive compensation and the proposal to adopt the 2018 Equity Incentive Plan are considered non-discretionary items; therefore, you must provide instructions to the nominee in order to have your shares voted with respect to these proposals.

If your shares are held in street name, you will need proof of ownership to be admitted to the annual meeting. A recent brokerage statement or letter from the record holder of your shares are examples of proof of ownership. If you want to vote your shares of common stock held in street name in person at the annual meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

How Will My Shares of Common Stock Held in the Employee Stock Ownership Plan Be Voted?

We maintain the FS Bancorp, Inc. Employee Stock Ownership Plan (“ESOP”), which owns 6.95% of FS Bancorp’s common stock. Employees of FS Bancorp and 1st Security Bank participate in the ESOP. Each ESOP

participant may instruct the trustee how to vote the shares of FS Bancorp common stock allocated to his or her account under the ESOP by completing the vote authorization form. If an ESOP participant properly executes a vote authorization form, the ESOP trustee will vote the participant's shares in accordance with the participant's instructions. Allocated shares for which proper voting instructions are not received and unallocated shares held by the ESOP will be voted by the trustee in the same proportion as shares for which the trustee has received voting instructions. In order to give the trustees sufficient time to vote, all vote authorization forms from ESOP participants must be received by the transfer agent on or before May 14, 2018.

How Many Shares Must Be Present to Hold the Meeting?

A quorum must be present at the meeting for any business to be conducted. The presence at the meeting, in person or by proxy, of at least a majority of the shares of FS Bancorp common stock entitled to vote at the annual meeting as of the record date will constitute a quorum. Proxies received but marked as abstentions or broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting.

What if a Quorum Is Not Present at the Meeting?

If a quorum is not present at the scheduled time of the meeting, a majority of the shareholders present or represented by proxy may adjourn the meeting until a quorum is present. The time and place of the adjourned meeting will be announced at the time the adjournment is taken, and no other notice will be given unless the adjourned meeting is set to be held 120 days or more after the original meeting. An adjournment will have no effect on the business that may be conducted at the meeting.

Vote Required to Approve Proposal 1: Election of Directors

Directors are elected by a plurality of the votes cast, in person or by proxy, at the annual meeting by holders of FS Bancorp common stock. Accordingly, the two nominees for election as directors who receive the highest number of votes actually cast will be elected. Pursuant to our Articles of Incorporation, shareholders are not permitted to cumulate their votes for the election of directors. Votes may be cast for or withheld from each nominee. Votes that are withheld will have no effect on the outcome of the election because the two nominees receiving the greatest number of votes will be elected. **Our Board of Directors unanimously recommends that you vote FOR the election of each of its director nominees.**

Vote Required to Approve Proposal 2: Advisory Approval of Executive Compensation

Advisory (non-binding) approval of the compensation of our named executive officers, as disclosed in this proxy statement, requires the affirmative vote of a majority of the votes cast, in person or by proxy, at the annual meeting. Abstentions and broker non-votes will have no effect on the outcome of the proposal. **Our Board of Directors unanimously recommends that you vote FOR approval of the compensation of our named executive officers.**

Vote Required to Approve Proposal 3: Adoption of the 2018 Equity Incentive Plan

Adoption of the FS Bancorp, Inc. 2018 Equity Incentive Plan requires the affirmative vote of a majority of the votes cast, in person or by proxy, at the annual meeting. Any shareholder represented in person or by proxy at the meeting and entitled to vote on the subject matter may elect to abstain from voting on this proposal. If so, the abstention will not be counted as a vote cast on the proposal and, therefore, will have no effect on the outcome of the vote on the proposal. Provided there is a quorum of shareholders present in person or by proxy, shareholders not attending the meeting, in person or by proxy, will also have no effect on the outcome of this proposal. Broker non-votes do not constitute votes cast and will have no effect on the outcome of the proposal. **Our Board of Directors unanimously recommends that you vote FOR adoption of the 2018 Equity Incentive Plan.**

Vote Required to Approve Proposal 4: Ratification of the Selection of the Independent Auditor

Ratification of the selection of Moss Adams LLP as our independent auditor for the fiscal year ending December 31, 2018 requires the affirmative vote of a majority of the votes cast, in person or by proxy, at the annual

meeting. Abstentions will have no effect on the outcome of the proposal. **Our Board of Directors unanimously recommends that you vote FOR the ratification of the appointment of the independent auditor.**

May I Revoke My Proxy?

You may revoke your proxy before it is voted by:

- submitting a new proxy with a later date;
- notifying the Secretary of FS Bancorp in writing before the annual meeting that you have revoked your proxy; or
- voting in person at the annual meeting.

If you plan to attend the annual meeting and wish to vote in person, we will give you a ballot at the annual meeting. However, if your shares are held in street name, you must bring a validly executed proxy from the nominee indicating that you have the right to vote your shares.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 21, 2018, the voting record date, information regarding share ownership of:

- those persons or entities (or groups of affiliated person or entities) known by management to beneficially own more than five percent of FS Bancorp's common stock other than directors and executive officers;
- each director and director nominee of FS Bancorp;
- each executive officer of FS Bancorp or any of its subsidiaries named in the Summary Compensation Table appearing under "Executive Compensation" below (known as "named executive officers"); and
- all current directors and executive officers of FS Bancorp and its subsidiaries as a group.

Persons and groups who beneficially own in excess of five percent of FS Bancorp's common stock are required to file with the Securities and Exchange Commission ("SEC"), and provide us a copy of, reports disclosing their ownership pursuant to the Securities Exchange Act of 1934. To our knowledge, no other person or entity, other than the ones set forth below, beneficially owned more than five percent of the outstanding shares of FS Bancorp'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 Securities 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 the benefit of the named individuals, shares held in the ESOP, and other forms of ownership, over which shares the persons named in the table may possess voting and/or investment power. In addition, in computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to outstanding options that are currently exercisable or exercisable within 60 days after the voting record date are included in the number of shares beneficially owned by the person and are deemed outstanding for the purpose of calculating the person's percentage ownership. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

As of the voting record date, there were 3,695,552 shares of FS Bancorp common stock outstanding.

<u>Name</u>	<u>Number of Shares Beneficially Owned (1)</u>	<u>Percent of Shares Outstanding (%)</u>
Beneficial Owners of More Than 5%		
FS Bancorp, Inc. Employee Stock Ownership Plan 6920 220th Street SW Mountlake Terrace, Washington 98043	256,733 (2)	6.95
T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, Maryland 21202	231,393 (3)	6.27
Wedbush Opportunity Capital, LLC 1000 Wilshire Boulevard Los Angeles, California 90017	195,722 (4)	5.30
Directors		
Joseph C. Adams*	90,796 (5)	2.43
Michael J. Mansfield	33,841 (6)	**
Ted A. Leech	32,287 (7)	**
Joseph P. Zavaglia	9,467 (8)	**
Judith A. Cochrane	21,466 (9)	**
Marina Cofer-Wildsmith	13,624 (10)	**
Margaret R. Piesik	17,821 (11)	**
Mark H. Tueffers	21,000 (12)	**
Named Executive Officers		
Donn C. Costa	60,030	1.62
Dennis V. O'Leary	49,399	1.33
All Executive Officers and Directors as a Group (14 persons)	445,695	11.63

* Mr. Adams is also a named executive officer of FS Bancorp.

** Less than one percent of shares outstanding.

- (1) Shares of restricted stock granted under the 2013 Equity Incentive Plan, as to which the holders have voting power but not investment power, are included as follows: Director Adams, 12,242 shares; Director Leech, 1,500 shares; Mr. Costa, 1,800 shares; Mr. O'Leary, 7,200 shares; and all executive officers and directors as a group, 31,924 shares. The amounts shown also include the following number of shares which the indicated individuals have the right to acquire within 60 days of the voting record date through the exercise of stock options granted pursuant to the 2013 Equity Incentive Plan: Director Adams, 40,000 shares; Directors Mansfield and Zavaglia, 2,600 shares each; Director Leech, 10,600 shares; Directors Cochrane and Piesik, 10,400 each; Director Cofer-Wildsmith, 10,200 shares; Director Tueffers, 7,800 shares; Mr. Costa, 3,500 shares; Mr. O'Leary, 14,000 shares; and all executive officers and directors as a group, 137,837 shares.
- (2) Represents shares held in the ESOP. The ESOP has shared voting and dispositive power over the shares reported.
- (3) Based solely on a Schedule 13G/A dated February 14, 2018, regarding shares owned as of December 31, 2017. According to the filing, T. Rowe Price Associates, Inc. has sole voting power over 33,089 shares and sole dispositive power over 231,393 shares and T. Rowe Price Small-Cap Value Fund, Inc. has sole voting power over 198,304 shares.
- (4) Based solely on a Schedule 13G dated February 2, 2016, regarding shares owned as of December 31, 2015. According to the filing, Wedbush Opportunity Capital, LLC has sole voting power over 171,379 shares and shared dispositive power over 24,343 shares and Wedbush Opportunity Partners, LP has sole voting and dispositive power over 171,379 shares.
- (5) Includes 23,278 shares held jointly with spouse.
- (6) Includes 18,331 shares held jointly with spouse and 7,310 shares held in an individual retirement account ("IRA").
- (7) Includes 7,187 shares held jointly with spouse and 1,000 shares held in trust.
- (8) Includes 750 shares held jointly with spouse and 4,807 shares held in an IRA.
- (9) Includes 4,754 shares held in an IRA.
- (10) Includes 974 shares held jointly with spouse.
- (11) Includes 626 shares held in an IRA.
- (12) Includes 13,100 shares held in an IRA and 100 shares held in his spouse's IRA.

PROPOSAL 1 – ELECTION OF DIRECTORS

Our Board of Directors currently consists of eight members and is divided into three classes. Approximately one-third of the directors are elected annually to serve for a three-year period or until their respective successors are elected and qualified. The table below sets forth information regarding each director of FS Bancorp and each nominee for director. The Nominating/Governance Committee of the Board of Directors selects nominees for election as directors. Joseph C. Adams and Joseph P. Zavaglia currently serve as FS Bancorp directors and have been nominated to each serve a three-year term.

Each nominee has consented to being named in this proxy statement and has agreed to serve if elected. If a nominee is unable to stand for election, the Board of Directors may either reduce the number of directors to be elected or select a substitute nominee. If a substitute nominee is selected, the proxy holders will vote your shares for the substitute nominee, unless you have withheld authority. At this time, we are not aware of any reason why a nominee might be unable to serve if elected.

The Board of Directors recommends a vote FOR the election of Joseph C. Adams and Joseph P. Zavaglia.

<u>Name</u>	<u>Age as of December 31, 2017</u>	<u>Year First Elected or Appointed Director (1)</u>	<u>Term to Expire</u>
Board Nominees			
Joseph C. Adams	58	2005	2021 (2)
Joseph P. Zavaglia	69	2011	2021 (2)
Directors Continuing in Office			
Judith A. Cochrane	71	2006	2019
Ted A. Leech	70	2005	2019
Marina Cofer-Wildsmith	50	2012	2019
Michael J. Mansfield	61	2008	2020
Margaret R. Piesik	67	2006	2020
Mark H. Tueffers	59	2016	2020

- (1) Includes prior service on the Board of Directors of 1st Security Bank, with the exception of Mr. Tueffers, who has served on the Bank's Board since 2013 but was first elected to FS Bancorp's Board in 2016.
- (2) Assuming reelection.

Information Regarding Nominees for Election. Set forth below is the present principal occupation and other business experience during at least the last five years of each nominee for election, as well as a brief discussion of the particular experience, qualifications, attributes and skills that led the Board to conclude that the nominee should serve as a director of FS Bancorp.

Joseph C. Adams is a director and has been the Chief Executive Officer of 1st Security Bank of Washington since July 2004. He has also served in those capacities for FS Bancorp since its formation in September 2011. He joined 1st Security Bank of Washington in April 2003 as its Chief Financial Officer. Mr. Adams served as Supervisory Committee Chairperson from 1993 to 1999 when the bank was Washington's Credit Union. Mr. Adams is a lawyer having worked for Deloitte as a tax consultant, K&L Gates as a lawyer and then at Univar USA as a lawyer and Director, Regulatory Affairs. He is a member of the Board of Directors of the Central Washington University Foundation. Mr. Adams received a Masters Degree equivalent from the Pacific Coast Banking School in 2007. Mr. Adams' legal and accounting backgrounds, as well as his duties as Chief Executive Officer of 1st Security Bank of Washington, bring a special knowledge of the financial, economic and regulatory challenges faced by the Bank which makes him well-suited to educating the Board on these matters.

Joseph P. Zavaglia has been the owner and operator of Zavaglia Consulting, L.L.C. since February 2008, which provides retail banking and small business advisory services to community banks. He also runs From the

Heart of Italy, an Italian cooking school. Mr. Zavaglia started his career with Rainier Bank in 1975 in branch operations and was ultimately promoted to manager, overseeing up to 13 branches. From 1987 until 2003, he served as a Senior Vice President and Regional Manager with Security Pacific Bank, which acquired Rainier Bank in 1987, and then with Bank of America, which acquired Security Pacific Bank in 1992. In February 2003, Mr. Zavaglia joined First Mutual Bank as its Executive Vice President, Retail Banking Group manager. After experiencing his seventh bank merger in 2008, he made the decision to begin his consulting company and cooking school. Mr. Zavaglia has formerly held Series 6, 63, and 26 securities licenses and his state insurance license for life and disabilities. He was a member of the board of Pacific Coast Banking School for nine years, was employed as the Director of Extension Programs for four years, and is a 1986 graduate of the program. He was a member of the Pete Gross House Board for 14 years, was chair of the Italian Studies board at the University of Washington, is past State Board Chair for the March of Dimes where he served for 15 years, and is a former mentor in the Seattle University mentorship program and a former member of the Dean's advisory board for the School of Business at Seattle University. Mr. Zavaglia is a member of the Athletic Hall of Fame, Chair of the Board of Regents, and a member of the Hall of Fame selection committee at Seattle University. Additionally, in 2012 he received a Distinguished Alumnus award from the Woodring College of Education of Western Washington University. Mr. Zavaglia's extensive banking experience, together with his numerous board experiences, educational background and active participation in the local community, brings valuable knowledge, experience and skills to our organization.

Information Regarding Incumbent Directors. Set forth below is the present principal occupation and other business experience during at least the last five years of each director continuing in office, as well as a brief discussion of the particular experience, qualifications, attributes and skills that led the Board to conclude that the director should serve on FS Bancorp's Board of Directors.

Judith A. Cochrane was the Vice President, Public Finance for Seattle-Northwest Securities Corporation from May 2006 until her retirement in February 2011. Prior to that, Ms. Cochrane was Vice President/Manager, Municipal Trading and Underwriting for BancAmerica Securities, LLC., where she was employed for 23 years. Ms. Cochrane is an arbitrator for Financial Industry Regulatory Authority (FINRA). She also served as Managing Director for Bank of America, in charge of Northwest Capital Markets. Ms. Cochrane's professional experience brings depth to the Board in the areas of finance and the capital markets.

Ted A. Leech, Chairman of the Board of FS Bancorp and 1st Security Bank, is retired from Univar Corporation. From January 2003 to February 2005, Mr. Leech was Vice President of Business Development where he conducted feasibility studies and investigated potential investments in China, Hong Kong, Singapore, Australia, Malaysia, Indonesia and Brazil. Prior to that, Mr. Leech was Senior Vice President of Administration for Univar USA where he was responsible for accounting, payables/receivables, information systems, treasury, legal, human resources and internal audit. As a result of his professional experiences, Mr. Leech brings strong leadership, management, finance, accounting and human resource skills to our board. Mr. Leech's expertise also qualifies him as a financial expert, which was the basis of his selection as Chairman of the Audit Committee.

Marina Cofer-Wildsmith has spent 25 years working in nonprofit management and business development. In her current position, she serves as Executive Director of Bainbridge Youth Services, a 54-year old non-profit that provides free and confidential counseling for youth and young adults. Between September 2009 and October 2012, Ms. Wildsmith worked as a business growth and development consultant for health care and real estate/investment companies. As a consultant, she assisted management in the development of business and marketing plans, as well as organizational effectiveness and accountability systems. She served as the Junior Varsity and Assistant Varsity soccer coach at Bainbridge High School on Bainbridge Island, Washington from May 2008 to October 2011. Prior to 2008, Ms. Wildsmith served as Chief Executive Officer for the American Lung Association of the Northwest (2005-2007) and in numerous capacities with the Northwest, Washington and Eastern Missouri chapters of the American Lung Association including: Chief Executive Officer, American Lung Association of Washington (2003-2005); Communications and Marketing Director; and Program Director (1990-1993; 1995-2003). Her career achievements include leading the Washington Smoke Free Restaurants and Bars Initiative, developing and mobilizing the air quality forecasting model used by the media nationally, establishing the first regional office of the American Lung Association in the Pacific Northwest, and advocating for other essential legislation to improve public health. Ms. Wildsmith is also very active in the community. She has served on several boards including eight years as a director for the Puget Sound Clean Agency (2005-2013) and three years as a director for the Rotary

Club of Bainbridge Island (2012-2015). She has her undergraduate degree in Biology and Anthropology from the College of William and Mary, Williamsburg, VA and her graduate degree in Educational Processes from Maryville University, St. Louis, Missouri. As a result of her professional experiences and active community involvement, Ms. Wildsmith brings strong leadership, management, organization and interpersonal skills to our organization.

Michael J. Mansfield spent 16 years with Deloitte LLP before joining Moss Adams LLP in 1995, where he was a partner for more than 10 years. During his time with Moss Adams, Mr. Mansfield served as the lead of the Business Owner Succession Services Practice in the Seattle office and he served as a member of the firm's Tax Committee. He provided taxation, business and financial accounting services to a variety of clients in the financial services, construction, manufacturing and distribution, and service industries. In January 2008, Mr. Mansfield left Moss Adams to start Family Fortunes, LLC, a consulting company aimed at assisting individuals and business owners develop and execute strategic plans, with the goals of enhancing value proposition and creating a legacy vision for families and business owners. Mr. Mansfield is also a minority owner/part-time Chief Financial Officer for two construction companies (Pacific Pile & Marine, L.P. and R Miller, Inc.) and Columbia Pacific Finance, LLC, a financial services company, in addition to serving on the advisory board of six other private companies. Mr. Mansfield's 29 years of experience as a public accountant, together with his experience of being part of the management/advisory team of several small- to medium-sized businesses, has provided him with strong leadership, financial and administrative insights that are valuable to FS Bancorp.

Margaret R. Piesik worked at Microsoft for 11 years until retiring in 1998. She served on the board of directors of the Providence Hospital Foundation from 2001 to 2003 and since 2004 has served as the President of Swedish Medical Center Service League. She is a co-owner of White Barn Farm, a family-owned organic flower and vegetable farm. She previously served on the board of the Kirkland Performance Center. Ms. Piesik is also active in several local service organizations. Ms. Piesik's managerial experience, together with her experience serving on several boards and active participation in the local community, brings valuable knowledge and skills to our organization.

Mark H. Tueffers is a retired owner of Gallina, LLP, a regional CPA firm serving businesses and individuals. Prior to joining Gallina, LLP in 2014, he was a founder and longtime owner of Seattle-area CPA firms, Tueffers, Guckian & Gamon, PLLC and Sutor & Tueffers. He served a diverse clientele including both general contractors and subcontractors. In the course of nearly 30 years of focusing solely on construction industry clients, he has developed a substantial expertise in matters of taxation. In the business and financial planning arena, his experience spans a wide range of capabilities. Mr. Tueffers has served as a director of 1st Security Bank since 2013. Prior to serving as a director of 1st Security Bank, he served as a Director of Golf Savings Bank from 2006 to 2010, when it was merged into Sterling Financial Corporation. Mr. Tueffers also served as a Special Advisor to the Board of the American Marine Corporation. He holds a Bachelors Degree in Business Administration (emphasis on accounting) from the University of Washington, and a Juris Doctorate degree from the University of Puget Sound. He recently retired from the Washington State Bar Association and the Washington Society of CPAs.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE MATTERS

Board of Directors

The Boards of Directors of FS Bancorp and 1st Security Bank conduct their business through board and committee meetings. During the fiscal year ended December 31, 2017, the Boards of Directors of FS Bancorp and 1st Security Bank each held ten meetings. No director of FS Bancorp or the Bank attended fewer than 75% of the total meetings of the boards and committees on which that person served during this period.

Committees and Committee Charters

The Board of Directors of FS Bancorp has standing Audit, Compensation and Nominating/Governance committees. The Board has adopted written charters for each of these committees, copies of which are available on our website at www.FSBWA.com under "Investor Relations."

Audit Committee. The Audit Committee consists of Directors Leech (Chairperson), Mansfield, Tueffers and Cofer-Wildsmith. The Audit Committee meets at least quarterly and its primary responsibilities are to (1) meet with both the internal and external auditors on behalf of the Board of Directors to review and discuss their findings, and to make recommendations to the Board regarding the selection of the external auditors and (2) work closely with our compliance officer to monitor compliance with all applicable laws and regulations. The Audit Committee met ten times during the year ended December 31, 2017.

Each member of the Audit Committee is “independent” in accordance with the requirements for companies listed on The Nasdaq Stock Market LLC (“Nasdaq”). In addition, the Board of Directors has determined that Mr. Leech and Mr. Mansfield meet the definition of “audit committee financial expert,” as defined by the SEC.

Compensation Committee. The Compensation Committee consists of Directors Mansfield (Chairperson), Leech and Zavaglia. The Committee is responsible for the recommendation to the Board of Directors of the Chief Executive Officer’s annual compensation package, as well as Board compensation, Chief Executive Officer evaluation, the review and approval of executive incentive packages and perquisite programs, and overseeing and administering our qualified, tax exempt benefit plans. Each member of the Committee is “independent,” in accordance with the requirements for companies listed on Nasdaq. This Committee met eight times during the year ended December 31, 2017.

Nominating/Governance Committee. The Nominating/Governance Committee, which consists of Directors Piesik (Chairperson), Cochrane and Cofer-Wildsmith, is responsible for developing and recommending corporate governance policies and guidelines for FS Bancorp, and identifying and recommending director and committee member candidates. The Committee meets at least four times a year. Each member of the Committee is “independent,” in accordance with the requirements for companies listed on Nasdaq. This Committee met six times during the year ended December 31, 2017.

Only those nominations made by the Nominating/Governance Committee or properly presented by shareholders will be voted upon at the annual meeting. In its deliberations for selecting candidates for nominees as director, the Committee considers the candidate’s knowledge of the banking business and involvement in community, business and civic affairs, and also considers whether the candidate would provide for adequate representation of 1st Security Bank’s market area. Any nominee for director made by the Committee must be highly qualified with regard to some or all these attributes. In searching for qualified director candidates to fill vacancies on the Board, the Committee solicits its current Board of Directors for names of potentially qualified candidates. Additionally, the Committee may request that members of the Board of Directors pursue their own business contacts for the names of potentially qualified candidates. The Committee would then consider the potential pool of director candidates, select the candidate it believes best meets the then-current needs of the Board, and conduct a thorough investigation of the proposed candidate’s background to ensure there is no past history that would cause the candidate not to be qualified to serve as one of our directors. Although the Nominating/Governance Committee charter does not specifically provide for the consideration of shareholder nominees for directors, the Committee will consider director candidates recommended by a shareholder that are submitted in accordance with our Articles of Incorporation. Because our Articles of Incorporation provide a process for shareholder nominations, the Committee did not believe it was necessary to provide for shareholder nominations of directors in its charter. If a shareholder submits a proposed nominee, the Committee would consider the proposed nominee, along with any other proposed nominees recommended by members of our Board of Directors, in the same manner in which the Committee would evaluate its nominees for director. For a description of the proper procedure for shareholder nominations, see “Shareholder Proposals” in this proxy statement.

Corporate Governance

We are committed to establishing and maintaining high standards of corporate governance. The Board of Directors adopted a corporate governance policy that covers the following:

- the duties and responsibilities of each director;
- the composition, responsibilities and operation of the Board of Directors;
- the establishment and operation of Board committees;

- succession planning;
- convening executive sessions of independent directors;
- the Board's interaction with management and third parties; and
- Board and Chief Executive Officer performance evaluations.

These initiatives are intended to comply with the provisions contained in the Sarbanes-Oxley Act of 2002, the rules and regulations of the SEC adopted thereunder, and Nasdaq rules. Our Board of Directors will continue to evaluate and improve our corporate governance principles and policies as necessary and as required.

Director Independence. Our common stock is listed on the Nasdaq Global Select Market. In accordance with Nasdaq requirements, at least a majority of our directors must be independent directors. The Board has determined that seven of our eight directors are independent, as defined by Nasdaq. Directors Cochrane, Cofer-Wildsmith, Leech, Mansfield, Piesik, Tueffers and Zavaglia are all independent. Only Joseph C. Adams, who is our Chief Executive Officer, is not independent.

Code of Business Conduct and Ethics. On December 15, 2016, the Board of Directors updated our Code of Business Conduct and Ethics, which is designed to deter wrongdoing and to promote honest and ethical conduct in every respect. The Code addresses conflicts of interest, the treatment of confidential information, general employee conduct and compliance with applicable laws, rules and regulations. The Code is applicable to each of our directors, officers, including the principal executive officer and senior financial officers, and employees and requires individuals to maintain the highest standards of professional conduct. A copy of the Code of Ethics is available on our website at www.FSBWA.com.

Shareholder Communication with the Board of Directors. The Board of Directors welcomes communication from shareholders. Shareholders may send communications to the Board of Directors, FS Bancorp, Inc., 6920 220th Street SW, Mountlake Terrace, Washington 98043. Shareholders should indicate clearly the director or director(s) to whom the communication is being sent so that each communication may be forwarded appropriately.

Annual Meeting Attendance by Directors. FS Bancorp encourages, but does not require, its directors to attend the annual meeting of shareholders. Five directors attended the 2017 annual meeting of shareholders.

Transactions with Related Persons. 1st Security Bank has followed a policy of granting loans to officers and directors, which fully complies with all applicable federal regulations. Loans to directors and executive officers are made in the ordinary course of business and on the same terms and conditions as those of comparable transactions with all customers prevailing at the time, other than those made under the Bank's employee loan program, which is described below. Loans to directors and officers are made in accordance with our underwriting guidelines, and do not involve more than the normal risk of collectibility or present other unfavorable features. These loans are reviewed by the Chief Credit Officer and are acted on by 1st Security Bank's Board of Directors.

The employee loan program applies to a mortgage loan to purchase or refinance a home. Standard loan terms and underwriting qualifications apply, as do the following benefits: (1) a credit of 1% of the base loan amount will be given to offset our standard loan origination fee; (2) an owner-occupied transaction will also be given an additional credit of \$995 to offset the processing fee; and (3) the wire transfer fee will be waived. The table below provides information regarding our directors and executive officers who had indebtedness and principal payable thereon pursuant to the employee loan program that exceeded \$120,000 during the years ended December 31, 2017 and 2016.

<u>Name</u>	<u>Year ended December 31,</u>	<u>Type of loan</u>	<u>Amount involved in the trans- action (\$)(1)</u>	<u>Amount out- standing at end of period (\$)</u>	<u>Principal paid during the period (\$)</u>	<u>Interest paid during the period (\$)</u>	<u>Interest rate (%)</u>
Donn C. Costa	2016	First mortgage	269,464	268,898	462	1,235	3.000 (2)
	2017	First mortgage	268,898	259,479	9,419	7,957	3.000 (2)
Drew B. Ness	2016	First mortgage	292,000	-- (3)	4,176	4,709	3.625 (4)
	2017	--	--	--	--	--	--

(1) Consists of the largest amount of principal outstanding during the year.

(2) Prevailing rate at time loan was made was 3.25%.

(3) Loan was sold.

(4) Prevailing rate at time loan was made was 3.875%.

We recognize that transactions between us and any of our directors or executive officers can present potential or actual conflicts of interest and create the appearance that these decisions are based on considerations other than our best interests. Therefore, as a general matter and in accordance with our Code of Business Conduct and Ethics, it is our preference to avoid such transactions. Nevertheless, we recognize that there are situations where such transactions may be in, or may not be inconsistent with, our best interests. Accordingly, the Code requires the Board of Directors or a committee of the Board to review and, if appropriate, to approve or ratify any such transaction. If a Board member is a participant in the transaction, then that member is required to abstain from the discussion, approval or ratification process. After its review, the Board or committee will only approve or ratify those transactions that are in, or are not inconsistent with, our best interests, as determined in good faith.

Leadership Structure

FS Bancorp has separated the roles of Chairman and Chief Executive Officer. The Chairman, who is an independent director, leads the Board and presides at all Board meetings. The Board supports having an independent director in a Board leadership position and has had an independent Chairman for many years. Having an independent Chairman enables non-management directors to raise issues and concerns for Board consideration without immediately involving management. The Chairman also serves as a liaison between the Board and senior management.

Board Involvement in Risk Management Process

As part of its overall responsibility to oversee the management, business and strategy of FS Bancorp, one of the primary responsibilities of our Board of Directors is to oversee the amounts and types of risk taken by management in executing the corporate strategy, and to monitor our risk experience against the policies and procedures set to control those risks. The Board's risk oversight function is carried out through its approval of various policies and procedures, such as our lending and investment policies; ratification or approval of investments and loans exceeding certain thresholds; and regular review of risk elements such as interest rate risk exposure, liquidity and problem assets. Some oversight functions are delegated to committees of the Board, with such committees regularly reporting to the full Board the results of their oversight activities. For example, the Audit Committee is responsible for oversight of the independent auditors and meets directly with the auditors at various times during the course of the year.

DIRECTORS' COMPENSATION

The following table shows the compensation paid to our directors for the year ended December 31, 2017, with the exception of Joseph C. Adams, who is our Chief Executive Officer and whose compensation is included in the section entitled "Executive Compensation."

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>All Other Compensation \$(1)</u>	<u>Total (\$)</u>
Judith A. Cochrane	47,350	1,276	48,626
Marina Cofer-Wildsmith	45,250	387	45,637
Ted A. Leech	60,850	2,761	63,611
Michael J. Mansfield	49,600	778	50,378
Margaret R. Piesik	48,350	1,011	49,361
Mark H. Tueffers	47,000	374	47,374
Joseph P. Zavaglia	44,500	1,139	45,639

(1) Consists of dividends paid on unvested restricted stock and tax equivalent value of life insurance premiums.

Each director of 1st Security Bank is also a director of FS Bancorp. The directors received no additional compensation for attendance at any meeting of FS Bancorp's Board of Directors during the year ended December 31, 2017. The directors are compensated for their service on 1st Security Bank's Board of Directors. In 2017, non-employee directors of 1st Security Bank received a retainer of \$2,500 per month, except for the Chairman of the Board, who received \$3,500 per month, for service on the Board. Directors also receive the following additional fees: for the committee chairs, an annual retainer of \$3,600; Board meeting attendance fees of \$750 for each meeting attended in person and \$250 for each meeting attended by teleconference; and a committee meeting attendance fee of \$500. 1st Security Bank's Compensation Committee recommends to the Board of Directors the amount of fees paid for service on the Board. For 2018, the Committee recommended no increases in the fees paid to non-employee directors. Directors are provided or reimbursed for travel and lodging and other customary out-of-pocket expenses incurred in attending board and committee meetings, industry conferences and continuing education seminars.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table shows information regarding compensation for the years ended December 31, 2017 and 2016 for our named executive officers: (1) Joseph C. Adams, our Chief Executive Officer; and (2) our two next most highly compensated executive officers, who are Donn C. Costa and Dennis V. O’Leary.

<i>Name and Principal Position</i>	<i>Year</i>	<i>Salary (\$)</i>	<i>Bonus (\$)</i>	<i>Non-equity Incentive Plan Compensation (\$)</i>	<i>All Other Compensation (\$)(1)</i>	<i>Total (\$)</i>
Joseph C. Adams	2017	342,148	250,000	350,000	45,619	987,767
Chief Executive Officer	2016	306,250	--	350,000	42,991	699,241
Donn C. Costa	2017	293,269	150,000	300,000	40,352	783,621
Executive Vice President- Home Lending	2016	256,250	150,000	300,000	51,049	757,299
Dennis V. O’Leary (2)	2017	293,269	100,000	300,000	43,220	736,489
Executive Vice President- Home Lending						

(1) For 2017, consists of 401(k) match of \$10,600, \$10,288 and \$10,600 for Messrs. Adams, Costa and O’Leary, respectively and an ESOP contribution of \$27,867 to each of Messrs. Adams, Costa and O’Leary. Also includes life insurance premiums and dividends on unvested restricted stock.

(2) Not a named executive officer in 2016.

Employee Benefits

Incentive Compensation Plan. In 2016, the Board revised our Executive Compensation Policy. The purpose of the policy is to outline the framework for developing executive compensation plans. The policy provides that plans must be structured to: (1) allow FS Bancorp to attract, retain and motivate superior executive talent; (2) ensure that incentives are appropriate in the context of Bank financial performance as compared to goals, industry averages and relevant peer groups; (3) provide sufficient discretion to recognize individual differences in performance; (4) align executive compensation with shareholder interests; (5) properly balance risk and reward; and (6) recognize the Bank’s commitment to building culture and teamwork. The policy further provides that the Compensation Committee is responsible for any plan’s design details, function and oversight.

The Executive Compensation Policy details the incentive awards and discretionary bonuses. Awards are based upon both Bank and individual performance and include multiple factors based upon the overall safety and soundness of 1st Security Bank. Payments must be made as soon as the year-end financial audit is completed but no later than 75 days from year end. The policy also includes a broad clawback policy that gives the Board the right to withhold or recoup awards in the event of fraud, restatement of the financial statements due to a material error, a loss or other injury to the Bank’s reputation because of an imprudent risk taken by a participant or a violation of the Bank’s Code of Ethics.

Participant target payout levels are set as a percentage of the participant’s base pay. For each of the named executive officers, 2017 payout levels ranged from 50% to 100% of salary. Awards may be based on a number of qualitative targets but must include return on average assets, return on average equity and profit. Other targets may include allowance for loan losses levels, loan growth/concentration, deposit growth, liquidity and capital levels. Based on the assessment of the results by the Compensation Committee, a payout level is recommended for each participant. The Chief Executive Officer will also provide a recommendation for payout levels for the other members of the executive management team. The Compensation Committee has the right to provide additional discretionary bonuses on a case by case basis if it deems that the performance warrants a payout beyond the set payout levels. The Compensation Committee awarded incentive bonuses to the named executive officers based on

1st Security Bank’s strong financial performance, as evidenced by its performance related to peers, return on average assets and earnings per share.

Equity Incentive Plan. In 2013, our Board of Directors unanimously adopted, and shareholders approved, the FS Bancorp, Inc. 2013 Equity Incentive Plan. The purposes of the plan are: (1) to promote the long-term growth and profitability of FS Bancorp; (2) to attract and retain individuals of outstanding competence; and (3) to provide participants with incentives that are closely linked to the interests of all shareholders of FS Bancorp. Currently, there are only 6,013 shares available for future awards under the 2013 Equity Incentive Plan. Proposal 3 to this proxy statement asks shareholders to adopt the FS Bancorp 2018 Equity Incentive Plan, which would provide for the issuance of 650,000 shares of common stock. It is our expectation that we will continue to use awards to attract and retain the executives and employees who are critical to our continued success.

401(k) Plan. 1st Security Bank offers a qualified, tax-exempt savings plan to our employees with a cash or deferred feature qualifying under Section 401(k) of the Internal Revenue Code. Generally, all employees, as of the first day of the month following the commencement of employment, who have attained age 18, are eligible to make 401(k) contributions. During 2017, participants were permitted to make salary reduction contributions to the 401(k) Plan of up to 90% of their annual salary, up to a maximum of \$18,000. In addition, participants who have attained age 50 may defer an additional \$6,000 annually as a 401(k) “catch-up” contribution. All contributions made by participants are either before-tax contributions or after-tax “Roth 401(k) contributions,” as elected by the participant. We have the ability to match 401(k) contributions. During 2017, we matched 100% of participant contributions up to 3% of the participant’s annual salary and 50% of participant contributions on the next 2% of the participant’s annual salary. We may also make a discretionary profit sharing contribution under the 401(k) Plan, though no such contribution was made in 2017. All participant 401(k) contributions and earnings, as well as all matching and profit sharing contributions and earnings, are fully and immediately vested.

ESOP. We have adopted a tax-qualified employee stock ownership plan (“ESOP”) for our employees. Employees who have been credited with at least 1,000 hours of service during a twelve month period are eligible to participate in the ESOP. Shares released from the ESOP suspense account will be allocated to each eligible participant’s ESOP account based on the ratio of each such participant’s eligible compensation to the total eligible compensation of all eligible ESOP participants, determined as of December 31. An employee is eligible for an employee stock ownership allocation if he is credited with 1,000 or more hours of service during the plan year, and either is actually employed on the last day of the plan year. Forfeitures will be reallocated among remaining participating employees in the same manner as an employee contribution. The account balances of participants within the employee stock ownership plan will become 100% vested upon completion of three years of service.

Outstanding Equity Awards

The following information with respect to outstanding equity awards as of December 31, 2017 is presented for the named executive officers.

<u>Name</u>	<u>Grant Date (1)</u>	<u>Option Awards (1)</u>				<u>Stock Awards (1)</u>	
		<u>Number of Securities Underlying Unexercised Options (#) Exercisable</u>	<u>Number of Securities Underlying Unexercised Options (#) Unexercisable</u>	<u>Option Exercise Price (\$)</u>	<u>Option Expiration Date</u>	<u>Number of Shares or Units of Stock That Have Not Vested (#)</u>	<u>Market Value of Shares or Units of Stock That Have Not Vested (\$)</u>
Joseph C. Adams	05/08/14	30,000	20,000	16.89	05/08/24	12,242	688,046
Donn C. Costa	05/08/14	--	7,000	16.89	05/08/24	1,800	98,226
Dennis V. O’Leary	05/08/14	10,500	7,000	16.89	05/08/24	7,200	392,904

(1) Awards vest pro rata over a five-year period from the grant date, with the first 20% vesting one year after the grant date.

Potential Payments Upon Termination

We have entered into agreements with the named executive officers that provide for potential payments upon disability, termination and death. In addition, our equity plans also provide for potential payments upon termination. The following table shows, as of December 31, 2017, the value of potential payments and benefits following a termination of employment under a variety of scenarios.

	<u>Death (\$)</u>	<u>Disability (\$)</u>	<u>Involuntary Termination (\$)</u>	<u>Change in Control (\$)</u>
<u>Joseph C. Adams</u>				
Severance Agreement	--	--	700,000	700,000
Equity Awards (1)	1,421,646	1,421,646	--	1,421,646
<u>Donn C. Costa</u>				
Change in Control Agreement	--	--	--	300,000
Equity Awards (1)	361,986	361,986	--	361,986
<u>Dennis V. O’Leary</u>				
Change in Control Agreement	--	--	--	300,000
Equity Awards (1)	656,662	656,662	--	656,662

(1) Amounts are based on FS Bancorp’s common stock closing price of \$54.57 on December 29, 2017.

Severance Agreement for Chief Executive Officer. 1st Security Bank entered into a severance agreement with Mr. Adams. The agreement provides that if (1) the Bank terminates Mr. Adams’ employment other than for cause, (2) Mr. Adams terminates his employment for “good reason” or (3) there is a change in control of the Bank, Mr. Adams would be entitled to receive from the Bank a lump sum payment equal to 24 months of his base compensation. “Good reason” means any one or more of the following: (1) reduction of Mr. Adams’ salary or elimination of any significant compensation, unless generally applicable to similarly-situated employees; (2) assignment to Mr. Adams without his consent any authorities or duties materially inconsistent with his position as of the date of the severance agreement; and (3) a relocation or transfer that would materially increase Mr. Adams’ commute.

Change in Control Agreements. 1st Security Bank entered into change in control agreements with Mr. Costa and Mr. O’Leary. These agreements provide that if there is a change in control of the Bank during the term of the agreement, the executive will be entitled to a severance payment if the executive suffers an involuntary termination within six months preceding or twelve months following the change in control. The severance payment will be twelve months of the executive’s then current salary, paid in a lump sum within 45 days of the termination. “Involuntary termination” means (1) termination of the executive’s employment other than for cause, (2) a reduction of the executive’s base salary, unless generally applicable to all senior officers of the Bank, (3) a material adverse change in the executive’s benefits, contingent benefits or vacation, unless generally applicable to all senior officers of the Bank, (4) a relocation of more than 20 miles from Mountlake Terrace, Washington or (5) a material demotion of the executive, including but not limited to a material diminution of the executive’s title, duties or responsibilities. Receipt of the severance payment is conditioned upon the executive signing a severance agreement containing a comprehensive release of claims.

Equity Awards. The 2013 Equity Incentive Plan provides for acceleration of awards if a recipient of an award terminates service early as a result of death or disability. In addition, awards are accelerated in connection with an actual change in control. Upon the occurrence of any of these events, all unexercisable options will become fully exercisable and all unvested awards of restricted stock will vest in full.

PROPOSAL 2 – ADVISORY VOTE ON EXECUTIVE COMPENSATION

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), we are required to periodically include in our annual meeting proxy statement and present at the meeting a non-binding

shareholder resolution to approve the compensation of our named executive officers, as disclosed in the proxy statement pursuant to the compensation disclosure rules of the SEC. This proposal, commonly known as a “say-on-pay” proposal, gives shareholders the opportunity to endorse or not endorse the compensation of FS Bancorp’s executives as disclosed in this proxy statement. The proposal will be presented at the annual meeting in the form of the following resolution:

RESOLVED, that the shareholders approve the compensation of FS Bancorp, Inc.’s named executive officers as disclosed in the compensation tables and related material in the proxy statement for the 2018 annual meeting of shareholders.

This vote will not be binding on our Board of Directors or Compensation Committee and may not be construed as overruling a decision by the Board or create or imply any additional fiduciary duty on the Board. It will also not affect any compensation paid or awarded to any executive. The Compensation Committee and the Board may, however, take into account the outcome of the vote when considering future executive compensation arrangements.

Our executive compensation policies are designed to establish an appropriate relationship between executive pay and the annual and long-term performance of FS Bancorp and 1st Security Bank, to reflect the attainment of short- and long-term financial performance goals, to enhance our ability to attract and retain qualified executive officers, and to align to the greatest extent possible the interests of management and shareholders. Our Board of Directors believes that our compensation policies and procedures achieve these objectives. **The Board of Directors unanimously recommends that you vote FOR approval of the compensation of our named executive officers as disclosed in this proxy statement.**

PROPOSAL 3 – ADOPTION OF THE FS BANCORP, INC. 2018 EQUITY INCENTIVE PLAN

Overview

On March 22, 2018, our Board of Directors unanimously adopted, subject to shareholder approval, the FS Bancorp, Inc. 2018 Equity Incentive Plan. The purposes of the plan are: (1) to promote the long-term growth and profitability of FS Bancorp; (2) to attract and retain individuals of outstanding competence; and (3) to provide participants with incentives that are closely linked to the interests of all shareholders of FS Bancorp.

Stock-based award grants align the interests of employees with those of shareholders. When FS Bancorp performs well, employees are rewarded along with other shareholders. We believe that stock-based award grants are of great value in recruiting and retaining highly qualified personnel who are in great demand. The Board of Directors believes that the ability to grant stock-based awards will be important to FS Bancorp’s future success by allowing it to remain competitive in attracting and retaining such key personnel.

The following summary is a brief description of the material features of the 2018 Equity Incentive Plan. This summary is qualified in its entirety by reference to the plan, a copy of which is attached to this proxy statement as [Appendix A](#).

Summary

Administration. The 2018 Equity Incentive Plan will be administered by a committee appointed by the Board of Directors, which will consist of at least two members, each of whom is a non-employee director and an independent director, as those terms are defined in the plan. We have determined that our Compensation Committee will administer the plan. Among other things, the Committee will (1) interpret the plan, (2) adopt rules for the administration of the plan, (3) select persons to receive awards from among the eligible participants, and (4) determine the types of awards and the number of shares to be awarded to participants.

Awards. The 2018 Equity Incentive Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code of 1986, non-qualified stock options, which do not satisfy the

requirements for treatment as incentive stock options, and shares of restricted stock. Subject to adjustments described below under “–Adjustments in the Event of Business Reorganization,” FS Bancorp has reserved 650,000 shares of its common stock for issuance under the plan in connection with the exercise of awards, which represents 17.59% of FS Bancorp’s common stock outstanding on the voting record date. Only shares actually issued to participants or retained or surrendered to satisfy tax withholding obligations for awards under the plan count against the 650,000 total shares available under the plan. The fair market value of these shares is \$35.6 million, based on the closing price of FS Bancorp’s common stock as of the close of business on the voting record date. Note that the fair market value does not reflect the value of the awards that may ultimately be issued under the 2018 Equity Incentive Plan, even if all available shares are awarded. This is because (1) the \$35.6 million amount reflects the full value of all awardable shares based on the closing price on the voting record date, (2) only 163,000 shares of restricted stock, which are the only full value awards available under the Plan, may be issued under the Plan, and (3) stock option awards have less value than restricted stock awards, since stock options must be awarded with an exercise price equal to the fair market value of the stock on the date of the award, and the value associated with stock option awards is the excess of the stock price (if any) upon exercise over the exercise price, in contrast to restricted stock which are full value awards.

The 2018 Equity Incentive Plan provides that the Compensation Committee may grant stock options up to the maximum of the shares of common stock authorized for issuance under the Plan. The Plan also provides that the aggregate fair market value of the shares to be issued upon the exercise of incentive stock options that first vested during the year may not exceed \$100,000 in any calendar year. The Compensation Committee may grant restricted stock for an aggregate of 163,000 shares of our common stock. This amount represents 4.41% of the total issued and outstanding shares.

The 2018 Equity Incentive Plan provides for the use of authorized but unissued shares or previously issued shares that have been reacquired by the FS Bancorp. The awards will have the effect of diluting the holdings of persons who own our common stock. Assuming all awards under the plan are awarded and exercised, current shareholders would be diluted by approximately 24.25% based on the number of shares outstanding as of the close of business on the voting record date.

Eligibility to Receive Awards. The Compensation Committee may grant awards under the 2018 Equity Incentive Plan to directors, advisory directors, directors emeriti, officers and employees of FS Bancorp and its affiliates. However, incentive stock options may only be awarded to employees. The Committee will select persons to receive awards among the eligible participants and determine the number of shares for each award granted. Currently, there are approximately 337 individuals who are eligible to receive awards under the plan.

Terms and Conditions of Stock Options. The Compensation Committee may grant stock options to purchase shares of the our common stock at a price that is not less than the fair market value of the common stock on the date the option is granted. The fair market value is the closing sales price as quoted on Nasdaq. Stock options may not be exercised later than 10 years after the grant date. Subject to the limitations imposed by the provisions of the Internal Revenue Code, certain of the options granted under the 2018 Equity Incentive Plan to officers and employees may be designated as “incentive stock options.” Options that are not designated and do not otherwise qualify as incentive stock options are referred to as “non-qualified stock options.”

The Compensation Committee will determine the time or times at which a stock option may be exercised in whole or in part and the method or methods by which, and the forms in which, payment of the exercise price with respect to the stock option may be made. However, no more than 32,500 shares may be awarded under the Plan, in total, that provide for an exercise date (in the case of options) or a vesting date (in the case of restricted stock) that is earlier than the first anniversary of the date the award is granted. Unless otherwise determined by the Committee or set forth in the written award agreement evidencing the grant of the stock option, upon termination of service of the participant for any reason other than for cause, all stock options then currently exercisable by the participant shall remain exercisable for one year for terminations due to death, disability or retirement, for three months for other terminations or until the expiration of the stock option by its terms if sooner. Upon any termination of service for cause, all stock options not previously exercised shall immediately be forfeited.

Prohibition Against Option Repricing. Except as provided under “–Adjustments in the Event of Business Reorganization,” neither the Compensation Committee nor the Board may amend or modify the exercise price of a stock option or cancel the stock option at a time when the exercise price is greater than the fair market value of FS Bancorp’s common stock in exchange for another award or other benefit, such as a cash payment.

Terms and Conditions of Restricted Stock Awards. The Compensation Committee is authorized to grant restricted stock, which are shares of FS Bancorp common stock that are subject to a substantial risk of forfeiture and limits on transfer until the shares vest. The Committee will establish a restricted period, subject to acceleration as described below under “Acceleration of Vesting,” during which, or at the expiration of which, the restricted stock awards vest and shares of common stock awarded shall no longer be subject to forfeiture or restrictions on transfer. However, no more than 32,500 shares may be awarded under the Plan, in total, that provide for an exercise date (in the case of options) or a vesting date (in the case of restricted stock) that is earlier than the first anniversary of the date the award is granted. During the vesting period, unless otherwise provided for in an award agreement, the recipient of restricted stock will have the power to vote his restricted stock. In addition, any dividends paid with respect to restricted stock during the vesting period will be held on behalf of the restricted stock recipient until the restricted stock vests (and if such vesting is accelerated, then payment of the dividends will accelerate as well). If the restricted stock recipient does not vest in the restricted stock, then the dividends related to that unvested restricted stock will be forfeited. Except as provided under “-Transferability of Awards”, shares of restricted stock generally may not be sold, assigned, transferred, pledged or otherwise encumbered by the participant before the shares vest. The Compensation Committee has the right to determine any other terms and conditions, not inconsistent with the 2018 Equity Incentive Plan, upon which a restricted stock award shall be granted.

Acceleration of Vesting. Unless otherwise provided in an award agreement, upon the termination of the award recipient’s service due to death or disability, all unvested awards under the 2018 Equity Incentive Plan shall become exercisable in the case of stock options, or vest in the case of restricted stock, as of the date of termination. In addition, unless otherwise provided in an award agreement, if a change in control as defined in the 2018 Equity Incentive Plan occurs prior to the vesting date of an award that is outstanding on the change in control date, and the participant experiences an involuntary separation from service, other than a termination for cause, during the 365-day period following the change in control date, then the vesting date for such non-vested outstanding award will be accelerated to the date of the participant’s involuntary separation from service. However, if upon the change in control the successor to FS Bancorp either does not assume the outstanding award or replace it with an award that is determined by the Compensation Committee to be at least equivalent in value to the outstanding award on the change in control date, then the vesting date of such outstanding award will be accelerated to the change in control date. Subject to compliance with applicable federal regulations, the Compensation Committee also has the authority, in its discretion, to accelerate the time at which any or all of the restrictions will lapse with respect to any awards, or to remove any or all of such restrictions, whenever it may determine that this action is appropriate by reason of changes in applicable tax or other laws or other changes in circumstances occurring after the grant date.

Forfeiture of Awards. If the holder of an unvested award terminates service other than due to death, disability or a change in control, other than as described above in “Acceleration of Vesting,” the unvested award will be forfeited by the holder. Upon any termination of service for cause, all stock options not previously exercised shall be forfeited immediately by the holder.

Transferability of Awards. Stock options and unvested restricted stock awards may be transferred upon the death of the holder to whom it was awarded, by will or the laws of inheritance, or pursuant to a domestic relations order. Furthermore, the Compensation Committee may approve the transfer of non-qualified stock options and restricted stock awards to certain family members.

Amendment and Termination of the Plan. The 2018 Equity Incentive Plan shall continue in effect for a term of 10 years, after which no further awards may be granted. The Board of Directors may at any time amend, suspend or terminate the plan or any portion thereof, except to the extent shareholder approval is necessary or required for purposes of any applicable federal or state law or regulation or the rules of any stock exchange or automated quotation system on which our common stock may then be listed or quoted. Shareholder approval will generally be required with respect to an amendment to the plan that will: (1) increase the aggregate number of securities that may be issued under the plan, except as specifically set forth under the plan; (2) materially increase

the benefits accruing to participants under the plan; (3) materially change the requirements as to eligibility for participation in the plan; or (4) change the class of persons eligible to participate in the plan. No amendment, suspension or termination of the plan, however, will impair the rights of any participant, without his or her consent, in any award already granted. All awards are subject to “clawback” provisions as required by law, rule, regulation or stock exchange listing, or a policy related thereto.

Adjustments in the Event of Business Reorganization

In the event any recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, exchange of shares or other securities, stock dividend or other special and nonrecurring dividend or distribution, liquidation, dissolution or other similar corporate transaction or event, affects the shares of FS Bancorp’s common stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of participants, the Compensation Committee must, in such manner as it deems equitable, adjust the number of shares as to which future awards may be made and the number of shares subject to and exercise prices of outstanding awards.

Important Considerations

The 2018 Equity Incentive Plan contains a number of provisions that we believe are consistent with, and protective of, the interests of shareholders, our compensation philosophy, recent developments in compensation practices and sound corporate governance practices, including:

- No liberal share counting. The 2018 Equity Incentive Plan prohibits the reuse of shares withheld or delivered to satisfy the exercise price of an option or to satisfy tax withholding requirements.
- No repricing of stock options. The 2018 Equity Incentive Plan prohibits the repricing of stock options, or the exchange of a stock option at a time when the exercise price exceeds the fair market value of the shares (i.e., when the shares are “underwater”).
- No discounted stock options. All stock options must have an exercise price equal to or greater than the fair market value of the underlying common stock on the date of grant.
- No dividends on unearned awards; delayed payment of dividends. Except for restricted stock, the 2018 Equity Incentive Plan prohibits the payment of dividends on unearned awards, unless provided in an award agreement. Also, dividends related to restricted stock will not be paid unless and until the restricted stock vests.
- Double trigger. The 2018 Equity Incentive Plan includes “double trigger” provisions that provide that in order to accelerate the vesting of nonvested awards after a change in control, a participant must be involuntarily terminated (other than for good reason) within 365 days after a change in control, unless the successor to FS Bancorp does not assume the award or provide an equivalent benefit.

FS Bancorp currently maintains the 2013 Equity Incentive Plan. Stock options and shares of restricted stock were awarded pursuant to this plan and outstanding awards will not be affected by adoption of the 2018 Equity Incentive Plan. As of March 1, 2018, only 6,013 shares were available for award under the 2013 Equity Incentive Plan. We believe that the availability of stock and incentive cash compensation programs is an important element of FS Bancorp’s overall retention, recruitment, incentive compensation and growth strategies and that the adoption of the 2018 Equity Incentive Plan will assist us in meeting the objectives of these strategies.

Information Regarding Share Usage and Dilution

The following table provides information as of March 1, 2018 regarding our total outstanding shares of common stock, shares underlying outstanding awards under our prior plan and shares that would be added upon shareholder approval of the 2018 Equity Incentive Plan:

As of March 1, 2018

Shares underlying outstanding awards	240,337
Shares outstanding	3,695,552
Overhang (shares underlying outstanding awards/shares outstanding)	6.50%
Shares available for grant under prior plans	6,013
Total overhang (shares underlying outstanding awards and plan shares available/shares outstanding)	6.67%
Shares Board seeks approval for	650,000
As a percentage of shares outstanding	17.59%

In determining the number of shares of common stock to allocate to the 2018 Equity Incentive Plan, the Board considered various factors, including potential dilution, industry plan cost standards, historical grant practices and anticipated equity compensation needs, as well as information and guidelines from proxy advisory firms. The potential dilution to current shareholders (or overhang) that could result from the future issuance of shares available under the 2018 Equity Incentive Plan, in addition to shares subject to awards outstanding under the Plan, would be approximately 24.25%. This level of dilution falls within the allowable benchmark of the companies in FS Bancorp's Global Industry Classification Standard industry classification and results in a plan cost under Institutional Shareholder Services' shareholder value transfer (SVT) model that management estimates is within the industry-specific SVT cap that applies to FS Bancorp.

Federal Income Tax Consequences

The following discussion provides a general overview of the federal tax consequences that apply to non-qualified stock options, incentive stock options and restricted stock awards, as of the date of this proxy statement.

Non-qualified Stock Options. Under current federal tax law, the non-qualified stock options granted under the 2018 Equity Incentive Plan will not result in any taxable income to the optionee or any tax deduction to FS Bancorp at the time of grant. Upon the exercise of a non-qualified stock option, the excess of the market value of the shares acquired over their exercise price is taxable to the optionee as compensation income and is generally deductible by FS Bancorp. The optionee's tax basis for the shares is the market value of the shares at the time of exercise.

Incentive Stock Options. Neither the grant nor the exercise of an incentive stock option under the 2018 Equity Incentive Plan will result in any federal tax consequences to either the optionee or FS Bancorp, although the difference between the market price on the date of exercise and the exercise price is an item of adjustment included for purposes of calculating the optionee's alternative minimum tax. Except as described below, at the time the optionee sells shares acquired pursuant to the exercise of an incentive stock option, the excess of the sale price over the exercise price will qualify as a long-term capital gain if the applicable holding period is satisfied. If the optionee disposes of the shares within two years of the date of grant or within one year of the date of exercise, an amount equal to the lesser of (a) the difference between the fair market value of the shares on the date of exercise and the exercise price, or (b) the difference between the exercise price and the sale price will be taxed as ordinary income and FS Bancorp will be entitled to a deduction in the same amount. The excess, if any, of the sale price over the sum of the exercise price and the amount taxed as ordinary income will qualify as long-term capital gain if the applicable holding period is satisfied. If the optionee exercises an incentive stock option more than three months after his or her termination of employment, he or she generally is deemed to have exercised a non-qualified stock option. The time frame in which to exercise an incentive stock option is extended in the event of the death or disability of the optionee.

Restricted Stock Awards. Recipients of restricted shares granted under the 2018 Equity Incentive Plan will recognize ordinary income on the date that the shares are no longer subject to a substantial risk of forfeiture, in an amount equal to the fair market value of the shares on that date. In certain circumstances, a holder may elect to recognize ordinary income and determine the fair market value on the date of the grant of the restricted stock. In that case, upon a subsequent sale of the shares, the holder will recognize capital gain or loss based on the difference between the amount received and the amount previously recognized as ordinary income. Recipients of shares granted under the plan will also recognize ordinary income equal to their dividend payments when these payments are received.

Proposed Awards Under the Plan

No awards have been proposed under the 2018 Equity Incentive Plan as of the date of this proxy statement.

Voting Recommendation

The Board of Directors recommends that shareholders vote FOR adoption of the FS Bancorp, Inc. 2018 Equity Incentive Plan.

Equity Compensation Plan Information

The following table summarizes share and exercise price information regarding our equity compensation plans as of December 31, 2017:

<i>Plan category</i>	<i>Number of securities to be issued upon exercise of outstanding options, warrants and rights</i>	<i>Weighted-average exercise price of outstanding options, warrants and rights</i>	<i>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</i>
	(a)	(b)	(c)
Equity compensation plans approved by security holders:	240,337	16.89	6,013
Equity compensation plans not approved by security holders:	--	N/A	--
Total	240,337		6,013

AUDIT COMMITTEE MATTERS

Audit Committee Charter

The Audit Committee operates pursuant to a charter approved by our Board of Directors. The Audit Committee reports to the Board of Directors and is responsible for overseeing and monitoring our financial accounting and reporting, the system of internal controls established by management and the audit process. The Audit Committee charter sets out the responsibilities, authority and specific duties of the Audit Committee. The charter specifies, among other things, the structure and membership requirements of the Audit Committee, as well as the relationship of the Audit Committee to the independent auditor, the internal audit department and management of FS Bancorp.

The Audit Committee of the FS Bancorp Board of Directors reports as follows with respect to FS Bancorp's audited financial statements for the fiscal year ended December 31, 2017:

- The Audit Committee has reviewed and discussed the 2017 audited financial statements with management;
- The Audit Committee has discussed with the independent auditor, Moss Adams LLP, the matters required to be discussed by Auditing Standard No. 1301, *Communications with Audit Committees*, as amended, as adopted by the Public Company Accounting Oversight Board;
- The Audit Committee has received written disclosures and the letter from the independent auditor required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor's communications with the audit committee concerning independence, and has discussed with the independent auditor its independence from FS Bancorp; and
- The Audit Committee has, based on its review and discussions with management of the 2017 audited financial statements and discussions with the independent auditor, recommended to the Board of Directors that FS Bancorp's audited financial statements for the year ended December 31, 2017 be included in its Annual Report on Form 10-K.

The foregoing report is provided by the following directors, who constitute the Audit Committee:

Audit Committee:	Ted A. Leech
	Michael J. Mansfield
	Mark H. Tueffers
	Marina Cofer-Wildsmith

This report shall not be deemed to be incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, and shall not otherwise be deemed filed under such acts.

PROPOSAL 4 – RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR

The Audit Committee of the Board of Directors has selected Moss Adams LLP as our independent auditor for the year ending December 31, 2018 and that selection is being submitted to shareholders for ratification. Although ratification is not required by our Bylaws or otherwise, the Board is submitting the selection of Moss Adams LLP to our shareholders for ratification as a matter of good corporate practice. If the selection is not ratified, the Audit Committee will consider whether it is appropriate to select another registered public accounting firm. Even if the selection is ratified, the Audit Committee in its discretion may select a different registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of FS Bancorp and our shareholders. Moss Adams LLP served as our independent auditor for the year ended December 31, 2017 and a representative of the firm will be present at the annual meeting to respond to shareholders' questions and will have the opportunity to make a statement if he or she so desires.

The Board of Directors unanimously recommends that you vote FOR the ratification of the appointment of Moss Adams LLP as our independent auditor.

The following table sets forth the aggregate fees billed to us by Moss Adams LLP for professional services rendered for the fiscal years ended December 31, 2017 and 2016.

	<i>Year Ended</i>	
	<i>December 31,</i>	
	<u>2017</u>	<u>2016</u>
Audit Fees.	\$263,700	\$155,000
Audit-Related Fees.	174,718	123,494
Tax Fees.	48,743	38,433
All Other Fees.	--	--
	<u>\$487,161</u>	<u>\$316,927</u>

The Audit Committee pre-approves all audit and permissible non-audit services to be provided by the independent auditor and the estimated fees for these services in connection with its annual review of its charter. In considering non-audit services, the Audit Committee will consider various factors, including but not limited to, whether it would be beneficial to have the service provided by the independent auditor and whether the service could compromise the independence of the independent auditor. All of the services provided by Moss Adams LLP in the year ended December 31, 2017 were approved by the Audit Committee.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act requires our directors and executive officers, and persons who own more than 10% of FS Bancorp’s common stock to report their initial ownership of the common stock and any subsequent changes in that ownership to the SEC. Directors, executive officers and greater than 10% shareholders are required by regulation to furnish us with copies of all Section 16(a) forms they file. The SEC has established filing deadlines for these reports and we are required to disclose in this proxy statement any late filings or failures to file. Based solely on our review of the copies of such forms we have received and written representations provided to us by the above referenced persons, we believe that, during the fiscal year ended December 31, 2017, all filing requirements applicable to our reporting officers, directors and greater than 10% shareholders were properly recorded and filed in a timely fashion.

MISCELLANEOUS

The Board of Directors is not aware of any business to come before the annual meeting other than those matters described in this proxy statement. However, if any other matters should properly come before the meeting, it is intended that proxies in the accompanying form will be voted in respect thereof in accordance with the judgment of the person or persons voting the proxies.

We will pay the cost of soliciting proxies. We have engaged Regan & Associates, Inc. to assist in the distribution and solicitation of proxies for a fee of \$8,000 (including out-of-pocket expenses). Regan & Associates, Inc. will assist with fulfillment of the broker-dealer search notification requirement, ensure actual delivery of proxy materials and solicit proxies from both street name and registered shareholders. Our directors, officers and employees may also supplement the proxy solicitor’s solicitation of proxies personally, electronically or by telephone without additional compensation. We will also reimburse brokers and other nominees for their expenses in sending these materials to you and obtaining your voting instructions.

Our annual report to shareholders, including the Annual Report on Form 10-K, has been mailed to all shareholders of record as of the close of business on the record date. Any shareholder who has not received a copy of the annual report may obtain a copy by writing to the Secretary, FS Bancorp, Inc., 6920 220th Street SW, Mountlake Terrace, Washington 98043. The annual report is not to be treated as part of the proxy solicitation material or as having been incorporated herein by reference.

SHAREHOLDER PROPOSALS

Proposals of shareholders intended to be presented at next year's annual of shareholders must be received at the executive office at 6920 220th Street SW, Mountlake Terrace, Washington 98043, no later than November 29, 2018. Any such proposals shall be subject to the requirements of the proxy rules adopted under the Securities Exchange Act, and as with any shareholder proposal (regardless of whether included in our proxy materials), our Articles of Incorporation and Bylaws.

Our Articles of Incorporation provide that in order for a shareholder to make nominations for the election of directors or proposals for business to be brought before a meeting, a shareholder must deliver notice of such nominations and/or proposals to the Secretary not less than 30 nor more than 60 days prior to the date of the meeting; provided that if less than 31 days' notice of the meeting is given to shareholders, such written notice must be delivered not later than the close of the tenth day following the day on which notice of the meeting was mailed to shareholders. We anticipate that, in order to be timely, shareholder nominations or proposals intended to be made at the annual meeting must be made by April 17, 2018. As specified in the Articles of Incorporation, the notice with respect to nominations for election of directors must set forth certain information regarding each nominee for election as a director, including the person's name, age, business address and number of shares of common stock held, a written consent to being named as a nominee and to serving as a director, if elected, and certain other information regarding the shareholder giving such notice. The notice with respect to business proposals to be brought before the annual meeting must state the shareholder's name, address and number of shares of common stock held, a brief discussion of the business to be brought before the annual meeting, the reasons for conducting such business at the meeting, and any interest of the shareholder in the proposal.

BY ORDER OF THE BOARD OF DIRECTORS



MATTHEW D. MULLET
SECRETARY

Mountlake Terrace, Washington
March 29, 2018

FS BANCORP, INC.
2018 EQUITY INCENTIVE PLAN

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FS Bancorp, Inc.
2018 Equity Incentive Plan

ARTICLE I
PURPOSE

Section 1.1 ***General Purpose of the Plan.***

The purpose of the Plan is to promote the long-term growth and profitability of FS Bancorp, Inc., to provide Plan Participants with an incentive to achieve corporate objectives, to attract and retain individuals of outstanding competence and to provide Plan Participants with incentives that are closely linked to the interests of all shareholders of FS Bancorp, Inc. The Plan is not intended to expose the Company to imprudent risks.

The Plan was originally adopted effective as of March 22, 2018 by the Board, and became effective on _____, 2018 (the "Effective Date"), the date the Plan was approved by the Company's shareholders.

As of the Effective Date, this Plan shall be treated as a new plan for purposes of Section 422 of the Code (as herein defined), so that an Option granted hereunder on a date that is not more than ten years after the Effective Date, and that is intended to qualify as an Incentive Stock Option under Section 422 of the Code, complies with the requirements of Section 422(b)(2) of the Code and the applicable regulations thereunder.

ARTICLE II
DEFINITIONS

The following definitions shall apply for the purposes of this Plan, unless a different meaning is plainly indicated by the context:

Affiliate means any "parent corporation" or "subsidiary corporation" of the Company, as those terms are defined in Section 424(e) and (f) respectively, of the Code.

Award means the grant by the Committee of an Incentive Stock Option, a Non-Qualified Stock Option, a Restricted Stock Award or any other benefit under this Plan.

Award Agreement means a written instrument evidencing an Award under the Plan and establishing the terms and conditions thereof.

Beneficiary means the Person designated by a Participant to receive any Shares subject to a Restricted Stock Award made to such Participant that become distributable, to have the right to exercise any Options granted to such Participant that are exercisable or to receive any cash paid out under a Cash Award to such Participant where such payout is made, following the Participant's death.

Board means the Board of Directors of FS Bancorp, Inc. and any successor thereto.

Change in Control means any of the following events:

(a) any third Person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of Shares with respect to which 25% or more of the total number of votes that may be cast for the election of the Board (other than a tax-qualified plan of the Company or its Affiliate);

(b) consummation of a plan of reorganization, merger, acquisition, consolidation, sale of all or substantially all of the assets of the Company or a similar transaction in which the Company is not the resulting entity;

(c) as a result of, or in connection with, any cash tender offer, merger or other business combination, sale of assets or contested election(s), or combination of the foregoing, the individuals who were members of the

Board of Directors on the date of adoption of this Plan (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date of adoption of this Plan whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by the Company's shareholders was approved by the nominating committee serving under an Incumbent Board, shall be considered a member of the Incumbent Board; or

(d) a tender offer or exchange offer for 25% or more of the total outstanding Shares is completed (other than such an offer by the Company).

Code means the Internal Revenue Code of 1986, as amended from time to time.

Committee means the Committee described in Article IV.

Company means FS Bancorp, Inc., a Washington corporation, and any successor thereto.

Disability means a total and permanent disability, within the meaning of Code Section 22(e)(3), as determined by the Committee in good faith, upon receipt of sufficient competent medical advice from one or more individuals, selected by the Committee, who are qualified to give professional medical advice.

Domestic Relations Order means a domestic relations order that satisfies the requirements of Section 414(p)(1)(B) of the Code, or any successor provision, as if such section applied to the applicable Award.

Effective Date means the date on which the Plan is approved by the shareholders of FS Bancorp, Inc.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Exercise Period means the period during which an Option may be exercised.

Exercise Price means the price per Share at which Shares subject to an Option may be purchased upon exercise of the Option. If the Fair Market Value for Exercise Price purposes is determined to be less than fair market value of the underlying Shares as determined under Section 409A (the "Section 409A Fair Market Value"), then the Exercise Price shall automatically adjusted to be the Section 409A Fair Market Value. The Committee may take such actions as it determines necessary to carry out the preceding sentence.

Fair Market Value means, with respect to a Share on a specified date:

(a) If the Shares are listed on any U.S. national securities exchange registered under the Securities Exchange Act of 1934 ("National Exchange"), the closing sales price for such stock (or the closing bid, if no sales were reported) as reported on that exchange on the applicable date, or if the applicable date is not a trading day, on the trading day immediately preceding the applicable date;

(b) If the Shares are not listed on a National Exchange but are traded on the over-the-counter market or other similar system, the mean between the closing bid and the asked price for the Shares at the close of trading in the over-the-counter market or other similar system on the applicable date, or if the applicable date is not a trading day, on the trading day immediately preceding the applicable date; and

(c) In the absence of such markets for the Shares, the Fair Market Value shall be determined in good faith by the Committee.

In no event shall the Fair Market Value for Exercise Price purposes be less than fair market value of the underlying Shares as determined under Section 409A.

Family Member means with respect to any Participant, any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the Participant's

household (other than a tenant or employee), a trust in which these persons have more than fifty percent of the beneficial interest, a foundation in which these persons (or the Participant) control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty percent of the voting interests.

Incentive Stock Option means a right to purchase Shares that is granted to an employee of the Company or any Affiliate that is designated by the Committee to be an Incentive Stock Option and that is intended to satisfy the requirements of Section 422 of the Code.

Involuntary Separation from Service means the first to occur of the following:

- (a) The Participant's Service is unilaterally terminated by the Company or an Affiliate;
- (b) The Participant voluntarily terminates Service after the Company or the Affiliate reduces the Participant's base salary to a rate that is lower than the rate in effect immediately prior to the Change in Control, or as the same may have been increased thereafter; or
- (c) The Participant voluntarily terminates Service after the Company or an Affiliate requires the Participant to change the Participant's job location or office, so that such Participant will be based at a location more than thirty-five (35) miles from the location of the Participant's job or office immediately prior to the Change in Control, provided that such new location is not closer to Participant's home.

For the avoidance of doubt, an Involuntary Separation from Service does not include a Termination for Cause.

Non-Qualified Stock Option means a right to purchase Shares that is not intended to qualify as an Incentive Stock Option or does not satisfy the requirements of Section 422 of the Code.

Option means either an Incentive Stock Option or a Non-Qualified Stock Option.

Option Holder means, at any relevant time with respect to an Option, the person having the right to exercise the Option.

Participant means any director, emeritus director, officer, employee or advisory director of the Company or any Affiliate who is selected by the Committee to receive an Award.

Permitted Transferee means, with respect to any Participant, a Family Member of the Participant to whom an Award has been transferred as permitted hereunder.

Person means an individual, a corporation, a partnership, a limited liability company, an association, a joint-stock company, a trust, an estate, an unincorporated organization and any other business organization or institution.

Plan means the FS Bancorp, Inc. 2018 Equity Incentive Plan, as amended from time to time.

Restricted Stock Award means an award of Shares pursuant to Article VI.

Retirement means the termination of a Participant's employment with the Company and its Affiliates, other than a Termination for Cause, after the Participant has attained age 59½.

Section 409A means Section 409A of the Code and any regulations or guidance of general applicability thereunder.

Service means, unless the Committee provides otherwise in an Award Agreement, service in any capacity as a director, emeritus director, officer, employee or advisory director of the Company or any Affiliate.

Share means a share of common stock, par value \$.01 per share, of FS Bancorp, Inc.

Termination for Cause means termination upon an intentional failure to perform stated duties, a breach of a fiduciary duty involving personal dishonesty which results in material loss to the Company or one of its Affiliates or a willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or a final cease-and-desist order which results in material loss to the Company or one of its Affiliates. No act or failure to act on Participant's part shall be considered willful unless done, or omitted to be done, not in good faith and without reasonable belief that the action or omission was in the best interest of the Company. Notwithstanding the above, if a Participant is subject to a different definition of termination for cause in an employment or severance or similar agreement with the Company or any Affiliate, such other definition shall control.

Vesting Date means the date or dates on which the grant of an Option is eligible to be exercised or the date or dates on which a Restricted Stock Award ceases to be forfeitable.

ARTICLE III AVAILABLE SHARES

Section 3.1 Shares Available Under the Plan.

Subject to adjustment under Article VIII, the aggregate number of Shares representing Awards shall not exceed 650,000 Shares.

Section 3.2 Shares Available for Options.

Subject to adjustment under Article XI, the maximum aggregate number of Shares with respect to which Options may be granted under the Plan shall be 650,000 Shares. The maximum aggregate number of Shares with respect to which Incentive Stock Options may be granted under the Plan shall be 650,000 Shares.

Section 3.3 Shares Available for Restricted Stock Awards.

Subject to adjustment under Article XI, the maximum aggregate number of Shares with respect to which Restricted Stock Awards may be granted under the Plan shall be 163,000 Shares

Section 3.4 Computation of Shares Issued.

For purposes of this Article III, Shares shall be considered issued pursuant to the Plan only if actually issued upon the exercise of an Option or in connection with a Restricted Stock Award. Any Award subsequently forfeited, in whole or in part, shall not be considered issued. If any Award granted under the Plan terminates, expires, or lapses for any reason, any Shares subject to such Award again shall be available for the grant of an Award under the Plan. Shares used to pay the Exercise Price of an Option and Shares used to satisfy tax withholding obligations shall not be available for future Awards under the Plan. To the extent that Shares are delivered pursuant to the exercise of an Option, the number of underlying Shares as to which the exercise related shall be counted against the number of Shares available for Awards, as opposed to only counting the Shares issued.

ARTICLE IV ADMINISTRATION

Section 4.1 Committee.

(a) The Plan shall be administered by a Committee appointed by the Board for that purpose and consisting of not less than two (2) members of the Board. Each member of the Committee shall be a "Non-Employee Director" within the meaning of Rule 16b-3(b)(3)(i) under the Exchange Act or a successor rule or regulation and an "Independent Director," and shall satisfy any other membership requirements, under the corporate governance rules and regulations imposing independence and other membership standards on committees performing similar functions promulgated by any national securities exchange or quotation system on which Shares are listed.

(b) The act of a majority of the members present at a meeting duly called and held shall be the act of the Committee. Any decision or determination reduced to writing and signed by all members shall be as fully effective as if made by unanimous vote at a meeting duly called and held.

(c) The Committee's decisions and determinations under the Plan need not be uniform and may be made selectively among Participants, whether or not such Participants are similarly situated.

Section 4.2 Committee Powers.

Subject to the terms and conditions of the Plan and such limitations as may be imposed by the Board, the Committee shall be responsible for the overall management and administration of the Plan and shall have such authority as shall be necessary or appropriate in order to carry out its responsibilities, including, without limitation, the authority:

(a) to interpret and construe the Plan, and to determine all questions that may arise under the Plan as to eligibility for participation in the Plan, and the number of Shares subject to Awards to be issued or granted;

(b) with the consent of the Participant, to the extent deemed necessary by the Committee, to amend or modify the terms of any outstanding Award or accelerate or defer the Vesting Date thereof;

(c) to adopt rules and regulations and to prescribe forms for the operation and administration of the Plan; and

(d) to take any other action not inconsistent with the provisions of the Plan that it may deem necessary or appropriate.

All decisions, determinations and other actions of the Committee made or taken in accordance with the terms of the Plan shall be final and conclusive and binding upon all parties having an interest therein.

**ARTICLE V
STOCK OPTIONS**

Section 5.1 Grant of Options.

(a) Subject to the limitations of the Plan, the Committee may, in its discretion, grant to a Participant an Option to purchase Shares. An Option must be designated as either an Incentive Stock Option or a Non-Qualified Stock Option and, if not designated as either, shall be a Non-Qualified Stock Option. Only employees of the Company or its Affiliates may receive Incentive Stock Options.

(b) Any Option granted shall be evidenced by an Award Agreement which shall:

(i) specify the number of Shares covered by the Option;

(ii) specify the Exercise Price;

(iii) specify the Exercise Period;

(iv) specify the Vesting Date; and

(v) contain such other terms and conditions not inconsistent with the Plan as the Committee may, in its discretion, prescribe.

Section 5.2 *Size of Option.*

Subject to the restrictions of the Plan, the number of Shares as to which a Participant may be granted Options shall be determined by the Committee, in its discretion.

Section 5.3 *Exercise Price.*

The price per Share at which an Option may be exercised shall be determined by the Committee, in its discretion; *provided, however*, that the Exercise Price shall not be less than the Fair Market Value of a Share on the date on which the Option is granted.

Section 5.4 *Exercise Period.*

The Exercise Period during which an Option may be exercised shall commence on the Vesting Date. It shall expire on the earliest of:

- (a) the date specified by the Committee in the Award Agreement;
- (b) unless otherwise determined by the Committee and set forth in the Award Agreement, the last day of the three-month period commencing on the date of the Participant's termination of Service, other than on account of death, Disability, Retirement or a Termination for Cause;
- (c) unless otherwise determined by the Committee and set forth in the Award Agreement, the last day of the one-year period commencing on the date of the Participant's termination of Service due to death, Disability or Retirement;
- (d) as of the time and on the date of the Participant's termination of Service due to a Termination for Cause; or
- (e) the last day of the ten-year period commencing on the date on which the Option was granted.

An Option that remains unexercised at the close of business on the last day of the Exercise Period shall be canceled without consideration at the close of business on that date.

Section 5.5 *Vesting Date.*

- (a) Subject to any restrictions set forth in this Plan:
 - (i) the Vesting Date for each Option Award shall be determined by the Committee and specified in the Award Agreement; and
 - (ii) notwithstanding Section 5.5(a)(i), no more than 32,500 Shares in total may be awarded under the Plan, whether pursuant to an Option or a Restricted Stock Award, with a Vesting Date that is earlier than the first anniversary of the date the Award is granted (taking into account Shares whose Vesting Date is accelerated by the Committee pursuant to Section 4.2(b) to a date that is earlier than the first anniversary of the date the Award is granted).
- (b) Unless otherwise determined by the Committee and specified in the Award Agreement:
 - (i) if the Participant of an Option Award terminates Service prior to the Vesting Date for any reason other than death or Disability, or prior to a Change in Control, any unvested Option shall be forfeited without consideration;

(ii) if the Participant of an Option Award terminates Service prior to the Vesting Date on account of death or Disability, the Vesting Date shall be accelerated to the date of the Participant's termination of Service; and

(iii) if a Change in Control occurs prior to the Vesting Date of an Option Award that is outstanding on the date of the Change in Control, and the Participant experiences an Involuntary Separation from Service other than a Termination for Cause during the 365-day period following the date of such Change in Control, then the Vesting Date for any non-vested Option Award shall be accelerated to the date of the Participant's Involuntary Separation from Service. Notwithstanding the preceding sentence, if at the effective time of the Change in Control the successor to the Company's business and/or assets does not either assume the outstanding Option Award or replace the outstanding Option Award with an award that is determined by the Committee to be at least equivalent in value to such outstanding Option Award on the date of the Change in Control, then the Vesting Date of such outstanding Option Award shall be accelerated to the earliest date of the Change in Control.

Section 5.6 Additional Restrictions on Incentive Stock Options.

An Option designated by the Committee to be an Incentive Stock Option shall be subject to the following provisions:

(a) Notwithstanding any other provision of this Plan to the contrary, no Participant may receive an Incentive Stock Option under the Plan if such Participant, at the time the award is granted, owns (after application of the rules contained in Section 424(d) of the Code) stock possessing more than ten (10) percent of the total combined voting power of all classes of stock of the Company or its Affiliates, unless (i) the option price for such Incentive Stock Option is at least 110 percent of the Fair Market Value of the Shares subject to such Incentive Stock Option on the date of grant and (ii) such Option is not exercisable after the date five (5) years from the date such Incentive Stock Option is granted.

(b) Each Participant who receives Shares upon exercise of an Option that is an Incentive Stock Option shall give the Company prompt notice of any sale of Shares prior to a date which is two years from the date the Option was granted or one year from the date the Option was exercised. Such sale shall disqualify the Option as an Incentive Stock Option.

(c) The aggregate Fair Market Value (determined with respect to each Incentive Stock Option at the time such Incentive Stock Option is granted) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year (under this Plan or any other plan of the Company or an Affiliate) shall not exceed \$100,000 and the term of the Incentive Stock Option shall not be more than ten years.

(d) Any Option under this Plan which is designated by the Committee as an Incentive Stock Option but fails, for any reason, to meet the foregoing requirements shall be treated as a Non-Qualified Stock Option.

Section 5.7 Method of Exercise.

(a) Subject to the limitations of the Plan and the Award Agreement, an Option Holder may, at any time on or after the Vesting Date and during the Exercise Period, exercise his or her right to purchase all or any part of the Shares to which the Option relates; *provided, however*, that the minimum number of Shares which may be purchased at any time shall be 100, or, if less, the total number of Shares relating to the Option which remain unpurchased. An Option Holder shall exercise an Option to purchase Shares by:

(i) giving written notice to the Committee, in such form and manner as the Committee may prescribe, of his or her intent to exercise the Option;

(ii) delivering to the Committee full payment for the Shares as to which the Option is to be exercised; and

(iii) satisfying such other conditions as may be prescribed in the Award Agreement.

(b) The Exercise Price of Shares to be purchased upon exercise of any Option shall be paid in full:

(i) in cash (by certified or bank check or such other instrument as the Company may accept);

or

(ii) if and to the extent permitted by the Committee, in the form of Shares already owned by the Option Holder as of the exercise date and having an aggregate Fair Market Value on the date the Option is exercised equal to the aggregate Exercise Price to be paid; or

(iii) if and to the extent permitted by the Committee, by the Company withholding Shares otherwise issuable upon the exercise having an aggregate Fair Market Value on the date the Option is exercised equal to the aggregate Exercise Price to be paid; or

(iv) by a combination thereof.

Payment for any Shares to be purchased upon exercise of an Option may also be made by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds to pay the purchase price and applicable tax withholding amounts (if any), in which event the Shares acquired shall be delivered to the broker promptly following receipt of payment.

(c) When the requirements of this Section have been satisfied, the Committee shall take such action as is necessary to cause the issuance of a stock certificate or cause Shares to be issued by book-entry procedures, in either event evidencing the Option Holder's ownership of such Shares. The Person exercising the Option shall have no right to vote or to receive dividends, nor have any other rights with respect to the Shares, prior to the date the Shares are transferred to such Person on the stock transfer records of the Company, and no adjustments shall be made for any dividends or other rights for which the record date is prior to the date as of which the transfer is effected.

Section 5.8 *Limitations on Options.*

(a) An Option by its terms shall not be transferable by the Option Holder other than by will or the laws of descent and distribution, or pursuant to the terms of a Domestic Relations Order, and shall be exercisable, during the life of the Option Holder, only by the Option Holder or an alternate payee designated pursuant to such a Domestic Relations Order; *provided, however*, that a Participant may, at any time at or after the grant of a Non-Qualified Stock Option under the Plan, apply to the Committee for approval to transfer all or any portion of such Non-Qualified Stock Option which is then unexercised to such Participant's Family Member. The Committee may approve or withhold approval of such transfer in its sole and absolute discretion. If such transfer is approved, it shall be effected by written notice to the Company given in such form and manner as the Committee may prescribe and actually received by the Company prior to the death of the person giving it. Thereafter, the transferee shall have, with respect to such Non-Qualified Stock Option, all of the rights, privileges and obligations which would attach thereunder to the Participant. If a privilege of the Option depends on the life, Service or other status of the Participant, such privilege of the Option for the transferee shall continue to depend upon the life, Service or other status of the Participant. The Committee shall have full and exclusive authority to interpret and apply the provisions of the Plan to transferees to the extent not specifically addressed herein.

(b) The Company's obligation to deliver Shares with respect to an Option shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the Option Holder to whom such Shares are to be delivered, in such form as the Committee shall determine to be necessary or advisable to comply with the provisions of applicable federal, state or local law. It may be provided that any such representation shall become inoperative upon a registration of the Shares or upon the occurrence of any other event eliminating the necessity of such representation. The Company shall not be required to deliver any Shares under the Plan prior to:

(i) the admission of such Shares to listing on any stock exchange or trading on any automated quotation system on which Shares may then be listed or traded; or

(ii) the completion of such registration or other qualification under any state or federal law, rule or regulation as the Committee shall determine to be necessary or advisable.

(c) An Option Holder may designate a Beneficiary to receive any Options that may be exercised after his death. Such designation and any change or revocation of such designation shall be made in writing in the form and manner prescribed by the Committee. In the event that the designated Beneficiary dies prior to the Option Holder, or in the event that no Beneficiary has been designated, any Options that may be exercised following the Option Holder's death shall be transferred to the Option Holder's estate. If the Option Holder and his or her Beneficiary shall die in circumstances that cause the Committee, in its discretion, to be uncertain which shall have been the first to die, the Option Holder shall be deemed to have survived the Beneficiary.

Section 5.9 Prohibition Against Option Repricing.

Except as provided in Section 8.3 and notwithstanding any other provision of this Plan, neither the Committee nor the Board shall have the right or authority following the grant of an Option pursuant to the Plan to amend or modify the Exercise Price of any such Option, or to cancel the Option at a time when the Exercise Price is greater than the Fair Market Value of the Shares in exchange for another Option, Award or other form of compensation (e.g., a cash payment).

**ARTICLE VI
RESTRICTED STOCK AWARDS**

Section 6.1 In General.

(a) Each Restricted Stock Award shall be evidenced by an Award Agreement which shall specify:

(i) the number of Shares covered by the Restricted Stock Award;

(ii) the amount, if any, which the Participant shall be required to pay to the Company in consideration for the issuance of such Shares;

(iii) the date of grant of the Restricted Stock Award;

(iv) the Vesting Date for the Restricted Stock Award and the performance conditions, if any, which must be satisfied in order for the Vesting Date to occur;

(v) the rights of the Participant with respect to dividends, voting rights and other rights and preferences associated with such Shares; and

such other terms and conditions not inconsistent with the Plan as the Committee may, in its discretion, prescribe.

(b) All Restricted Stock Awards shall be in the form of issued and outstanding Shares that shall be registered in the name of the Participant, subject to written transfer restriction instructions issued to the Company's stock transfer agent, together with an irrevocable stock power executed by the Participant in favor of and held by the Committee or its designee, pending the vesting or forfeiture of the Restricted Stock Award. The Shares shall at all times prior to the applicable Vesting Date be subject to the following restriction, communicated in writing to the Company's stock transfer agent:

These shares of common stock are subject to the terms of an Award Agreement between FS Bancorp, Inc. and [Name of Participant] dated [Award Date] made pursuant to the terms of the FS Bancorp, Inc. 2018 Equity Incentive Plan, copies of which are on file at the executive

offices of FS Bancorp, Inc. and may not be sold, encumbered, hypothecated or otherwise transferred, except in accordance with the terms of such Plan and Award Agreement.

or such other restrictive communication or legend as the Committee, in its discretion, may specify.

(c) Unless otherwise set forth in the Award Agreement, a Restricted Stock Award by its terms shall not be transferable by the Participant other than by will or by the laws of descent and distribution, or pursuant to the terms of a Domestic Relations Order; *provided, however*, that a Participant may, at any time at or after the grant of a Restricted Stock Award under the Plan, apply to the Committee for approval to transfer all or any portion of such Restricted Stock Award which is then unvested to such Participant's Family Member. The Committee may approve or withhold approval of such transfer in its sole and absolute discretion. If such transfer is approved, it shall be effected by written notice to the Company given in such form and manner as the Committee may prescribe and actually received by the Company prior to the death of the person giving it. Thereafter, the transferee shall have, with respect to such Restricted Stock Award, all of the rights, privileges and obligations which would attach thereunder to the Participant. If a privilege of the Restricted Stock Award depends on the life, Service or other status of the Participant, such privilege of the Restricted Stock Award for the transferee shall continue to depend upon the life, Service or other status of the Participant. The Committee shall have full and exclusive authority to interpret and apply the provisions of the Plan to transferees to the extent not specifically addressed herein.

Section 6.2 Vesting Date.

(a) Subject to any restrictions set forth in the Plan:

(i) the Vesting Date for each Restricted Stock Award shall be determined by the Committee and specified in the Award Agreement; and

(ii) notwithstanding Section 6.2(a)(i), no more than 32,500 Shares in total may be awarded under the Plan, whether pursuant to an Option or a Restricted Stock Award, with a Vesting Date that is earlier than the first anniversary of the date the Award is granted (taking into account Shares whose Vesting Date is accelerated by the Committee pursuant to Section 4.2(b) to a date that is earlier than the first anniversary of the date the Award is granted).

(b) Unless otherwise determined by the Committee and specified in the Award Agreement:

(i) if the Participant of a Restricted Stock Award terminates Service prior to the Vesting Date for any reason other than death or Disability, or prior to a Change in Control, any unvested Shares shall be forfeited without consideration;

(ii) if the Participant of a Restricted Stock Award terminates Service prior to the Vesting Date on account of death or Disability, the Vesting Date shall be accelerated to the date of termination of the Participant's Service with the Company; and

(iii) if a Change in Control occurs prior to the Vesting Date of a Restricted Stock Award that is outstanding on the date of the Change in Control, and the Participant experiences an Involuntary Separation from Service other than a Termination for Cause during the 365-day period following the date of such Change in Control, then the Vesting Date for any non-vested Restricted Stock Award shall be accelerated to the date of the Participant's Involuntary Separation from Service. Notwithstanding the preceding sentence, if at the effective time of the Change in Control the successor to the Company's business and/or assets does not either assume the outstanding Restricted Stock Award or replace the outstanding Restricted Stock Award with an award that is determined by the Committee to be at least equivalent in value to such outstanding Restricted Stock Award on the date of the Change in Control, then the Vesting Date of such outstanding Restricted Stock Award shall be accelerated to the earliest date of the Change in Control.

Section 6.3 *Dividend Rights.*

Any dividends or distributions (collectively referred to herein as “Dividends”) declared and paid with respect to Shares subject to a Restricted Stock Award, whether or not in cash, shall be held by the Company on behalf of the Participant. If the Participant becomes vested in his Shares that are subject to the Restricted Stock Award, then the Company shall pay the Dividends related to those Shares to the Participant or his Beneficiary in a lump sum, without interest, no later than thirty (30) days following the Vesting Date of those Shares. The Participant and his Beneficiaries heirs, successors or assigns shall have no legal or equitable rights, interests or claims in any property or assets of the Company or an Affiliate with respect to held Dividends, and such Dividends shall, until paid, remain general, unpledged and unrestricted assets of the Company. The Company’s obligation under the Plan with respect to held Dividends shall be merely of an unfunded and unsecured promise to pay money in the future.

Section 6.4 *Voting Rights.*

Unless otherwise specified in the Award Agreement, voting rights appurtenant to the Shares subject to the Restricted Stock Award shall be exercised by the Participant.

Section 6.5 *Designation of Beneficiary.*

A Participant who has received a Restricted Stock Award may designate a Beneficiary to receive any unvested Shares that become vested on the date of the Participant’s death. Such designation (and any change or revocation of such designation) shall be made in writing in the form and manner prescribed by the Committee. In the event that the Beneficiary designated by a Participant dies prior to the Participant, or in the event that no Beneficiary has been designated, any vested Shares that become available for distribution on the Participant’s death shall be paid to the executor or administrator of the Participant’s estate.

Section 6.6 *Manner of Distribution of Awards.*

The Company's obligation to deliver Shares with respect to a Restricted Stock Award shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the Participant or Beneficiary to whom such Shares are to be delivered, in such form as the Committee shall determine to be necessary or advisable to comply with the provisions of applicable federal, state or local law. It may be provided that any such representation shall become inoperative upon a registration of the Shares or upon the occurrence of any other event eliminating the necessity of such representation. The Company shall not be required to deliver any Shares under the Plan prior to (i) the admission of such Shares to listing on any stock exchange or trading on any automated quotation system on which Shares may then be listed or traded, or (ii) the completion of such registration or other qualification under any state or federal law, rule or regulation as the Committee shall determine to be necessary or advisable.

**ARTICLE VII
ADDITIONAL TAX PROVISION**

Section 7.1 *Tax Withholding Rights.*

The Company shall have the power and the right to deduct or withhold, or require a Person to remit to the Company, an amount sufficient to satisfy Federal, state and local taxes (including the Participant’s FICA obligation) required by law to be withheld with respect to any grant, exercise or payment made under or as a result of the Plan. In this regard, where any Person is entitled to receive Shares, the Company shall have the right to require such Person to pay to the Company the amount of any tax which the Company is required to withhold with respect to such Shares, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of Shares to cover the minimum amount required to be withheld, *provided, however*, that (a) no Shares are withheld with a value exceeding the maximum amount of tax that may be required to be withheld by law (or such other amount as may be permitted while still avoiding classification of the Award as a liability for financial accounting purposes), and (b) with respect to an Award held by any Participant who is subject to the filing requirements of Section 16 of the

Exchange Act, any such share withholding must be specifically approved by the Compensation Committee as the applicable method that must be used to satisfy the tax withholding obligation or such share withholding procedure must otherwise satisfy the requirements for an exempt transaction under Section 16(b) of the Exchange Act.

ARTICLE VIII AMENDMENT AND TERMINATION

Section 8.1 Termination

The Board may suspend or terminate the Plan in whole or in part at any time prior to the tenth anniversary of the Effective Date by giving written notice of such suspension or termination to the Committee. Unless sooner terminated, the Plan shall terminate automatically on the tenth anniversary of the Effective Date. In the event of any suspension or termination of the Plan, all Awards previously granted under the Plan that are outstanding on the date of such suspension or termination of the Plan shall remain outstanding and exercisable for the period and on the terms and conditions set forth in the Award Agreements evidencing such Awards.

Section 8.2 Amendment.

The Board may amend or revise the Plan in whole or in part at any time; *provided, however*, that, to the extent required to avoid or comply with the application of Section 409A, or the corporate governance standards imposed under the listing or trading requirements imposed by any national securities exchange or automated quotation system on which the Company lists or seeks to list or trade Shares, no such amendment or revision shall be effective if it amends a material term of the Plan unless approved by the holders of a majority of the votes cast on a proposal to approve such amendment or revision.

Section 8.3 Adjustments in the Event of Business Reorganization.

In the event any recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, exchange of Shares or other securities, stock dividend or other special and nonrecurring dividend or distribution (whether in the form of cash, securities or other property), liquidation, dissolution, or other similar corporate transaction or event, affects the Shares such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Participants under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of:

- (i) the number and kind of securities deemed to be available thereafter for grants of Awards in the aggregate to all Participants;
- (ii) the number and kind of securities that may be delivered or deliverable in respect of outstanding Awards; and
- (iii) the Exercise Price of Options.

In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards (including, without limitation, cancellation of Awards in exchange for the in-the-money value, if any, of the vested portion thereof, or substitution of Awards using stock of a successor or other entity) in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Affiliate or the financial statements of the Company or any Affiliate, or in response to changes in applicable laws, regulations, or accounting principles.

**ARTICLE IX
MISCELLANEOUS**

Section 9.1 Status as an Employee Benefit Plan; Non-Application of Section 409A.

This Plan is not intended to satisfy the requirements for qualification under Section 401(a) of the Code or to satisfy the definitional requirements for an "employee benefit plan" under Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended. It is intended to be a non-qualified incentive compensation program that is exempt from the regulatory requirements of the Employee Retirement Income Security Act of 1974, as amended. The Plan shall be construed and administered so as to effectuate this intent. Since only Options and Restricted Stock Awards that qualify for the exemption under Section 409A may be awarded under the Plan, Section 409A shall not apply to Awards granted hereunder. Accordingly, no Award may granted hereunder that is subject to Section 409A, and any Award so granted shall be void *ab initio*. It is also intended that Dividends that are held as described in Section 6.3 shall, if payable, be paid promptly enough to cause such payment to qualify as a "short-term deferral" that is exempt from the application of Section 409A.

Section 9.2 No Right to Continued Service.

Neither the establishment of the Plan nor any provisions of the Plan nor any action of the Board or Committee with respect to the Plan shall be held or construed to confer upon any Participant any right to a continuation of his or her position as a director, emeritus director, officer, employee or advisory director of the Company or any Affiliate. The Company reserves the right to remove any participating member of the Board or dismiss any Participant or otherwise deal with any Participant to the same extent as though the Plan had not been adopted.

Section 9.3 Construction of Language.

Whenever appropriate in the Plan, words used in the singular may be read in the plural, words used in the plural may be read in the singular, and words importing the masculine gender may be read as referring equally to the feminine or the neuter. Any reference to an Article or Section number shall refer to an Article or Section of this Plan unless otherwise indicated.

Section 9.4 Severability.

In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

Section 9.5 Governing Law.

The Plan shall be construed, administered and enforced according to the laws of the State of Washington without giving effect to the conflict of laws principles thereof. The federal and state courts located in the County or contiguous counties in which the Company's headquarters are located shall have exclusive jurisdiction over any claim, action, complaint or lawsuit brought under the terms of the Plan. By accepting any Award granted under this Plan, the Participant, and any other person claiming any rights under the Plan, agrees to submit himself, and any such legal action as he shall bring under the Plan, to the sole jurisdiction of such courts for the adjudication and resolution of any such disputes.

Section 9.6 Headings.

The headings of Articles and Sections are included solely for convenience of reference. If there is any conflict between such headings and the text of the Plan, the text shall control.

Section 9.7 Non-Alienation of Benefits.

The right to receive a benefit under the Plan shall not be subject in any manner to anticipation, alienation or assignment, nor shall such right be liable for or subject to debts, contracts, liabilities, engagements or torts.

Section 9.8 Notices.

Any communication required or permitted to be given under the Plan, including any notice, direction, designation, comment, instruction, objection or waiver, shall be in writing and shall be deemed to have been given at such time as it is delivered personally or three (3) days after mailing if mailed, postage prepaid, by registered or certified mail, return receipt requested, addressed to such party at the address listed below, or at such other address as one such party may by written notice specify to the other party:

- (a) If to the Committee:

FS Bancorp, Inc.
6920 220th Street, SW
Mountlake Terrace, Washington 98043
Attention: Corporate Secretary

- (b) If to a Participant, to such person's address as shown in the Company's records.

Section 9.9 Approval of Shareholders.

The Plan shall be subject to approval by the Company's shareholders within twelve (12) months before or after the date the Board adopts the Plan.

Section 9.10 Clawback.

All Awards (whether vested or unvested) shall be subject to such clawback (recovery) as may be required to be made pursuant to law, rule, regulation or stock exchange listing requirement or any policy of the Company adopted pursuant to any such law, rule, regulation or stock exchange listing requirement.