

## Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

**Part I Reporting Issuer**

<b>1</b> Issuer's name		<b>2</b> Issuer's employer identification number (EIN)	
FS Bancorp, Inc.		45-4585178	
<b>3</b> Name of contact for additional information	<b>4</b> Telephone No. of contact	<b>5</b> Email address of contact	
Matthew Mullet, CFO	425-697-8026	mattm@fsbwa.com	
<b>6</b> Number and street (or P.O. box if mail is not delivered to street address) of contact		<b>7</b> City, town, or post office, state, and ZIP code of contact	
6920 220th St SW		Mountlake Terrace, WA, 98043	
<b>8</b> Date of action		<b>9</b> Classification and description	
11/15/2018		Purchase of ANCB with 60% FSBW stock and 40% cash	
<b>10</b> CUSIP number	<b>11</b> Serial number(s)	<b>12</b> Ticker symbol	<b>13</b> Account number(s)
30263Y104		FSBW	

**Part II Organizational Action** Attach additional statements if needed. See back of form for additional questions.

**14** Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ Under terms of the merger, FS Bancorp will pay aggregate consideration to Anchor shareholders of 725,585 shares of FS Bancorp, Inc. common stock and \$30.8 million in cash. For each share of Anchor common stock, each Anchor shareholder will receive 0.2921 shares of FS Bancorp, Inc. common stock and \$12.40 cash and cash in lieu of any fractional shares. The merger will extend 1st Security Bank's footprint throughout Southwest Washington. The merger was completed at 11:58 pm on November 15, 2018.

**15** Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ The Merger was structured to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, as amended. The tax basis of the shares of FS Bancorp, Inc. common stock received by an Anchor shareholder will be the same as the basis of the shares of Anchor common stock surrendered in exchange for the shares of FS Bancorp common stock, plus any gain recognized by such shareholder in the Merger, and minus any cash received by the shareholder in the Merger. Pursuant to the applicable tax provision, gain is recognized as a result of the Merger to the extent that the fair market value of stock and cash received exceeds the basis in the shares, but gain shall not be recognized in excess of the amount of cash received. Loss is not recognized. The fair market value of FS Bancorp common stock, based on the stock price at the time of merger, as listed on the NASDAQ is \$46.54.

**16** Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ See statement for Part II, Box 15.

**Part II Organizational Action** (continued)

**17** List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ► \_\_\_\_\_  
FS Bancorp's acquisition of Anchor, pursuant to the Merger completed on November 15, 2018, was structured to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. In general, the income tax consequences to the shareholders are determined under Internal Revenue Code sections 302, 354, 356, 358, 368, and 1221.

**18** Can any resulting loss be recognized? ► In general, each Anchor shareholder who received FS Bancorp common stock and cash for all of his or her Anchor stock cannot recognize any loss. An Anchor shareholder who received cash in lieu of a fractional share of FS Bancorp common stock may recognize loss if the amount of cash received is less than the basis in the fractional share, as applicable.

**19** Provide any other information necessary to implement the adjustment, such as the reportable tax year ► \_\_\_\_\_  
In general, any adjustment to the tax basis that causes gain or loss recognized by the Anchor shareholder as a result of the completion of the Merger should be reported for the taxable year which includes November 15, 2018. A calendar year shareholder would report the transaction on a 2018 federal income tax return. The holding period of FS Bancorp common stock received in exchange for shares of Anchor common stock will include the holding period of the Anchor common stock for which it is exchanged. A holder of Anchor common stock who received cash in lieu of a fractional share of FS Bancorp common stock will generally be treated as having received the fractional share pursuant to the Merger and then as having sold the fractional share of FS Bancorp common stock for cash. As a result, a holder of Anchor common stock will generally recognize gain or loss equal to the difference between the amount of cash received and the basis in his or her fractional share interest. The gain or loss will generally be capital gain or loss, and will be long-term capital gain or loss if, as of the effective date of the Merger, the holding period for such shares is greater than one year. Capital losses deductibility may be subject to limitations.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

**Sign Here**

Signature ►  Date ► 12-20-2018  
 Print your name ► Matthew Mullet Title ► CFD

<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ►				Firm's EIN ►
	Firm's address ►				Phone no.