

# 1ST SECURITY BANK

**FS BANCORP, INC.**

## INVESTOR PRESENTATION

January 2024



**“Build a truly  
great place to  
work and bank.”**

**-FSBW Vision Statement**

## Disclosure Statement

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## Forward Looking Statements

*This presentation may contain forward-looking statements within the meaning within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements often include the words or phrases "believe," "will," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "plans," or similar expressions. Forward looking statements are not historical facts but instead represent management's current expectations and forecasts regarding future events, many of which are inherently uncertain and outside of our control. Actual results may differ, possibly materially, from those currently expected or projected in these forward-looking statements.*

*Factors that could cause the Company's actual results to differ materially from those described in the forward-looking statements, include but are not limited to, the following: potential adverse impacts to economic conditions in the Company's local market areas, other markets where the Company has lending relationships, or other aspects of the Company's business operations or financial markets, including, without limitation, as a result of employment levels; labor shortages, the effects of inflation, a potential recession or slowed economic growth caused by increasing political instability from acts of war, including Russia's invasion of Ukraine, as well as increasing prices and supply chain disruptions, and any governmental or societal response to new COVID-19 variants; increased competitive pressures, changes in the interest rate environment, adverse changes in the securities markets, the Company's ability to successfully realize the anticipated benefits of the branch acquisitions, including customer acquisition and retention; the Company's ability to execute its plans to grow its residential construction lending, mortgage banking, and warehouse lending operations, and the geographic expansion of its indirect home improvement lending; challenges arising from expanding into new geographic markets, products, or services; secondary market conditions for loans and the Company's ability to originate loans for sale and sell loans in the secondary market; legislative and regulatory changes, including changes in banking, securities and tax law, in regulatory policies and principles, or the interpretation of regulatory capital or other rules; and other factors described in the Company's latest Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and other reports filed with and furnished to the SEC which are available on its website at [www.fsbwa.com](http://www.fsbwa.com) and on the SEC's website at [www.sec.gov](http://www.sec.gov).*

*Any of the forward-looking statements that the Company makes in this presentation and in the other public statements are based upon management's beliefs and assumptions at the time they are made and may turn out to be incorrect because of the inaccurate assumptions the Company might make, because of the factors illustrated above or because of other factors that cannot be foreseen by the Company. Therefore, these factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. The Company does not undertake and specifically disclaim any obligation to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements except as required by securities laws. These risks could cause the Company's actual results for 2024 and beyond to differ materially from those expressed in any forward-looking statements made by, or on behalf of the Company and could negatively affect its operating and stock performance.*

## FRANCHISE OVERVIEW

- **Total Assets:** \$2.97 billion (at December 31, 2023)
- **Headquartered:** Mountlake Terrace, WA
- **Branches:** 29\*
- **Loan Production Offices:** 14
- **ATM Locations:** 20
- **Year Established:** 1936
- **Quarterly Dividend:** \$0.26

\* Including headquarters and drive through banking in Aberdeen, WA.



## CULTURE & HISTORY

Vision

Build a truly great place to work and bank

Mission

Live our Core Values and 'WOW' each other  
and our customers every day

Guiding  
Principles

Employ smart,  
driven, and  
nice people

Emphasis on  
collaboration

Best idea wins

Jim Collins'  
Good-to-Great  
Lessons

Founded in 1936 as a credit union and converted to a state chartered mutual savings bank on April 1, 2004

Converted to a stocksavings bank on July 9, 2012

Raised \$27.6M in Capital (\$25.7M net) w/secondary offering

Forty-fourth consecutive quarterly cash dividend of \$0.26 per share

Four-branch acquisition in Q1 2016 resulting in \$186.0M in new relationship-based deposits

Completed Anchor Bancorp acquisition on November 15, 2018

Seven-branch acquisition in Q1 2023 resulting in \$425.5M in new relationship-based deposits

1936

2004

2012

2016

2017

2018

2023

## 2023 BRANCH ACQUISITION

Expanded our markets and growth prospects while maintaining safe and sound banking principles

- Desirable marketplace expansion that boasts similar characteristics to those in which we currently operate
- Low-cost source of funding to support our strong asset generation capabilities throughout the communities we serve, and to replace higher cost wholesale funding
- Efficient deployment of our capital to support our continued growth and profitability

Aligned deposit and lending strategies should provide a smooth customer transition experience

- Expanded reach with seven new locations \*
- Retention of all branch and related personnel to support a smooth customer transition experience
- Ability to provide meaningful ongoing employment opportunities to acquired staff
- Preservation of a strong community banking culture

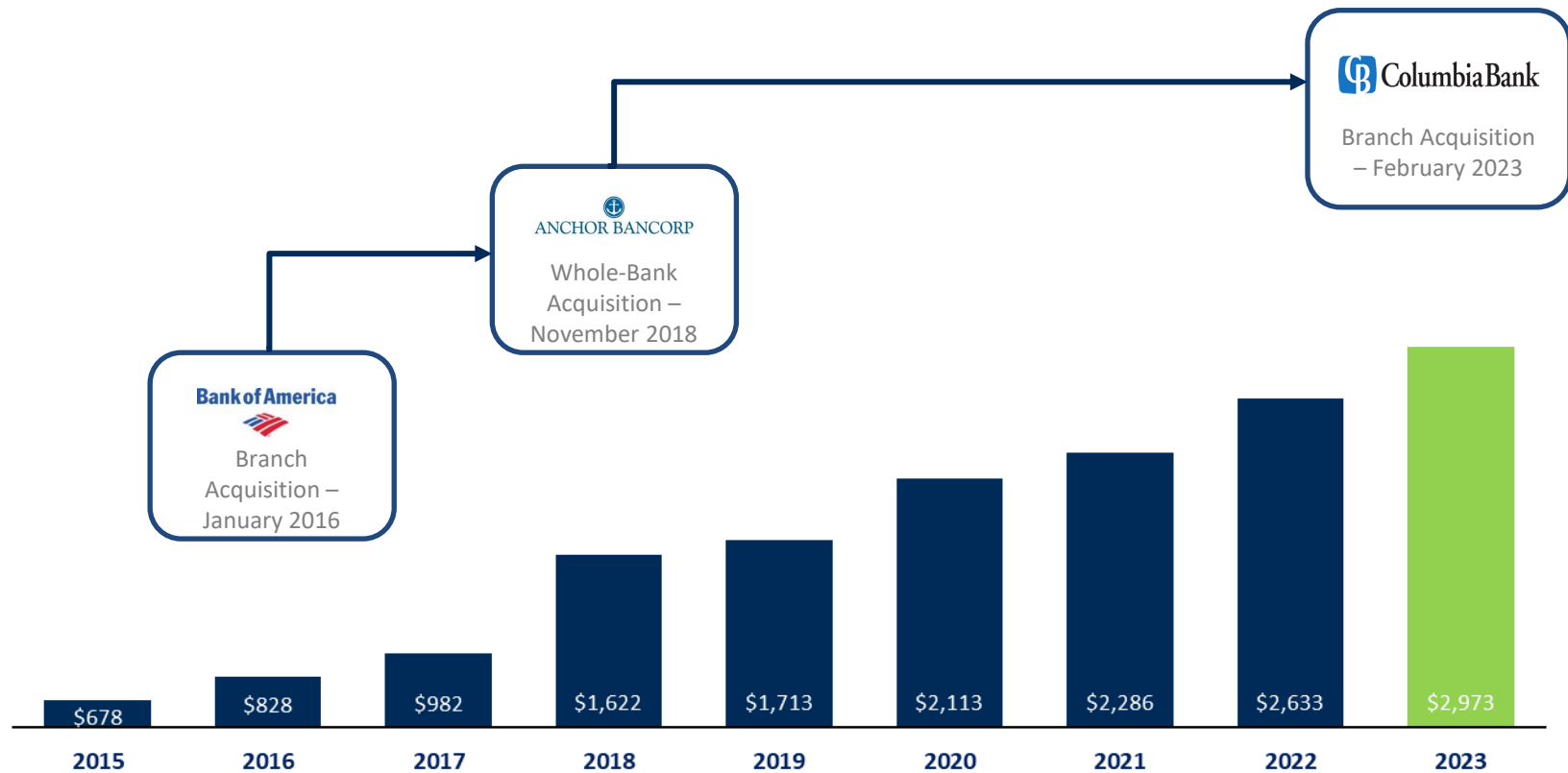
Continued strong focus on enterprise risk management and controls

- Strong compliance culture, BSA / AML systems and risk management platforms
- Strong regulatory capital at closing with attractive pro forma earnings to provide ongoing support
- Enhanced geographic reach and diversification

\* The transaction closed on February 24, 2023, with approximately \$66 million in loans and \$425 million in deposits

## FSBW Growth Profile

FS BANCORP, INC.



Source: S&P Capital IQ Pro

## 1ST SECURITY BANK

Consumer  
Lending



Business  
Lending



Home Lending



Commercial  
Real Estate  
Lending



Retail  
Branches and  
Commercial  
Cash  
Management



The Five Pillars of 1SB

## LONG-TERM STRATEGIC PLAN

- Continued expansion of our commercial business lending programs
- Originations of residential mortgage loans which are primarily sold into the secondary market through our mortgage banking platform
- Remain focused on maintaining strong asset quality
- Emphasizing lower cost core deposits to reduce the costs of funding growth
- Offer a wide range of products and services to meet our customers' banking needs
- Expand into new markets based on current product offerings



## Environmental | Social | Governance

*FSBW's Core Values reflect our commitment to diversity, equality, inclusiveness and social awareness. To further our commitment of these values, our Governance and Nominating Committee expanded our scope and became the Nominating and Environmental, Social, Governance Committee in 2020. A copy of our Core Values, Business Philosophy, Vision and Mission Statements are available on our website at [www.FSBWA.com](http://www.FSBWA.com).*



### ENVIRONMENTAL

- Most recently-built branch is a LEED certified building (Montesano)
- Financing energy efficient home improvement projects including solar, efficient window replacement, siding and roofing
- Low flow faucets throughout our facilities; light and movement sensors installed in many locations turn off lights in unoccupied areas
- Recycling in all locations where permitted by the public utility
- Commitment to paperless processes
- Remote work environments to reduce commutes in traffic/pollution



### SOCIAL







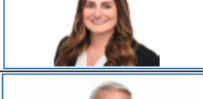


- Minimum wage increased to \$20/hour “Livable Wage” for all employees effective July 2021
- Health insurance cost increases absorbed by the company since 2014
- Provide 16 hours of paid volunteer time for all employees
- Offer a \$5,000 annual tuition reimbursement program to employees
- Financial and volunteer support of The IF Project, which assists soon-to-be released inmates prepare for life after incarceration



### GOVERNANCE

- Independent Board Chair
- Six of seven directors are independent
- Board committees are comprised entirely of independent directors
- Independent directors meet in regular executive sessions throughout the year
- Board and committees perform self-evaluations on a regular basis
- Policy restricts hedging and pledging of stock
- Alignment of director and shareholder interests
- Use of claw back provisions in executive pay

## EXECUTIVE MANAGEMENT

	Name	Position	Years with 1st Security Bank	Years in Industry
	Joseph Adams	<i>Chief Executive Officer</i>	20	20+
	Erin Burr	<i>EVP, Chief Risk Officer</i>	15	20+
	Matthew Mullet	<i>EVP, Chief Financial Officer</i>	12	20+
	Kelli Nielsen	<i>EVP, Retail Banking &amp; Marketing</i>	7	30+
	Ben Crowl	<i>EVP, Chief Lending Officer</i>	5	15+
	Vickie Jarman	<i>EVP, Chief Human Resources Officer</i>	21	20+
	Stephanie Nicklaus	<i>EVP, Chief Credit Officer</i>	1	20+
	Donn Costa	<i>EVP, Home Lending Production</i>	12	30+
	Shana Allen	<i>EVP, Chief Information Officer</i>	13	20+

Banks Headquartered in Snohomish County: December 31, 2008  
Total Assets \$9.4B

Banks Headquartered in Snohomish County: December 31, 2023  
Total Assets \$8.2B



\*Denotes a financial institution no longer headquartered in Snohomish County  
**\*\* As of September 31, 2023**  
 Note: Dollar amount are for assets  
 Source: FFIEC Central Data Repository's Public Bank Data Distribution website & S&P Capital IQ

## FOURTH QUARTER 2023 HIGHLIGHTS

### Financial Highlights Q4 2023

- Net Income of \$9.8 million
- Sale of closed branch location (listed OREO)<sup>(1)</sup> for a \$148,000 gain
- Announced potential sale of \$8.1 million in book value Mortgage Servicing Rights

### Q4 2023 Capital

- Diluted earnings per share of \$1.23
- Tangible book value per share growth of \$1.91 to \$31.64<sup>(2)</sup>
- Announced forty-fourth consecutive quarterly cash dividend: \$0.26

### Selected Performance Ratios

- ROAA QTD of 1.32%
- ROAE QTD of 15.01
- Net Interest Margin QTD of 4.24%
- Efficiency Ratio QTD of 62.47%

### Credit Quality Ratios

- Nonperforming Assets (NPAs) as a percentage of total assets of 0.37%
- Allowance for credit losses on loans as a percentage of gross loans receivable, excluding loans held for sale of 1.30%

### Capital Position

- Repurchased 43,780 shares at an average price of \$30.53 per share
- \$3.7 million remaining in available share repurchases per the August 2023 plan

(1) Other real estate owned ("OREO")

(2) Non-GAAP financial measures. See appendix for reconciliation to book value per share (GAAP)

## 2023 HIGHLIGHTS

### Financial Highlights Year-End 2023

- Total assets of \$2.9 billion
- Gross portfolio loans of \$2.4 billion
- Net income of \$36.1 million

### YTD 2023

- Diluted earnings per share of \$4.56
- Tangible book value per share of \$31.64<sup>(1)</sup>
- Announced forty-fourth consecutive quarterly cash dividend: \$0.26

### Selected Performance Ratios

- ROAA YTD of 1.27%
- ROAE YTD of 14.36%
- Net Interest Margin YTD of 4.48%
- Efficiency Ratio YTD of 65.20%

### Credit Quality Ratios

- Nonperforming Assets (NPAs) as a percentage of total assets of 0.37%
- Allowance for credit losses on loans as a percentage of gross loans receivable, excluding loans held for sale of 1.30%

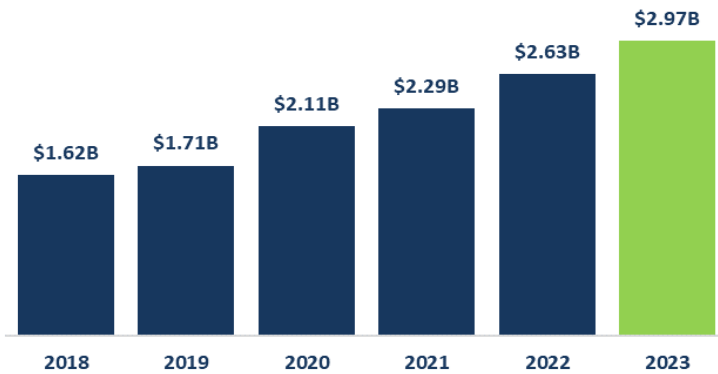
### Capital Position

- Currently, all Bank Holding Company (BHC) and Bank ratios are above those to be considered “Well-Capitalized”
- As of December 31, 2023, the Bank’s Common Equity Tier 1 (“CET1”) capital ratio was 12.12%

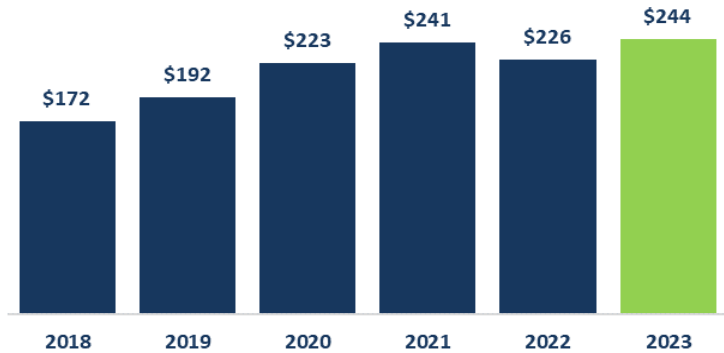
(1) Non-GAAP financial measures. See appendix for reconciliation to book value per share (GAAP)

## FRANCHISE GROWTH

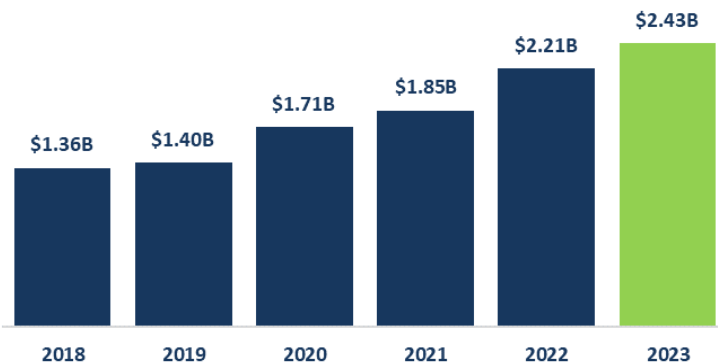
Total Assets (\$B)



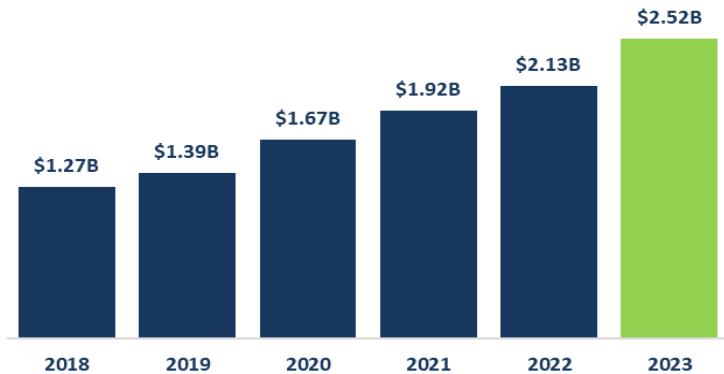
Tangible Common Equity (\$M) <sup>(1)</sup>



Total Net Loans (\$B) <sup>(2)</sup>



Total Deposits (\$B)



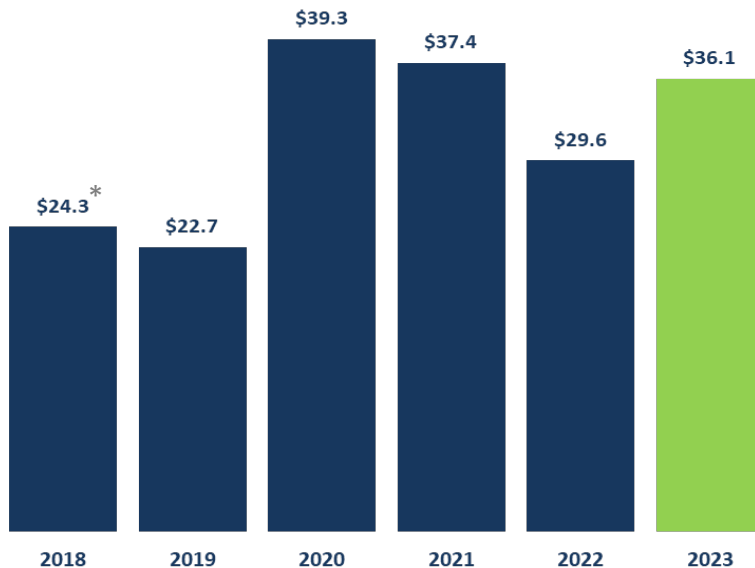
Source: Company documents

(1) Non-GAAP financial measure

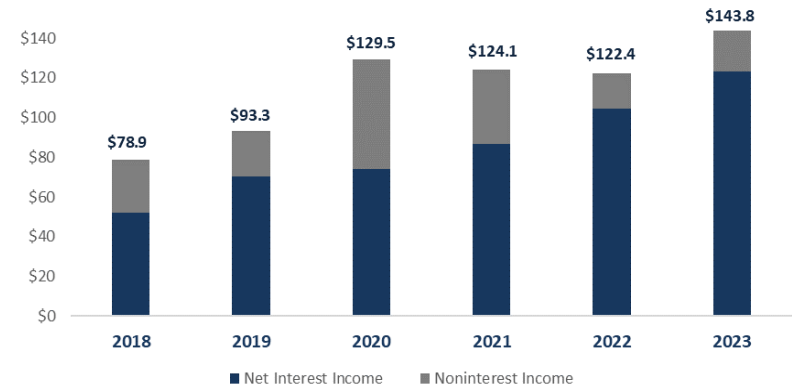
(2) Includes loans held for sale

## INCOME STATEMENT TRENDS

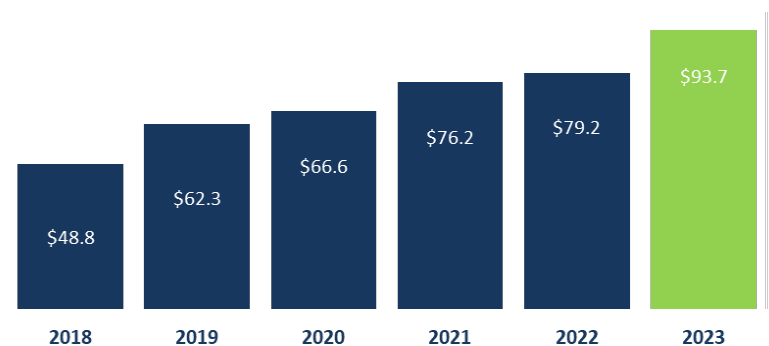
### Net Income (\$M)



### Total Revenues (\$M)



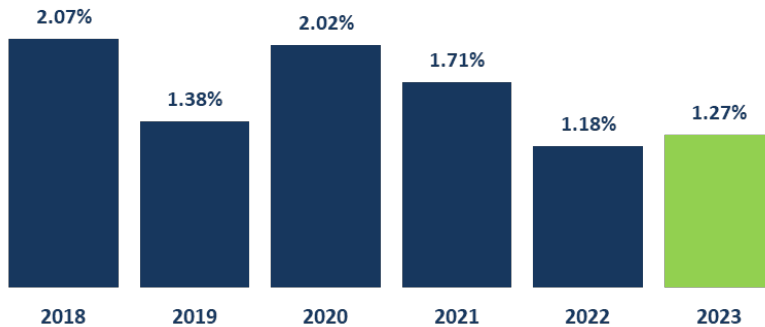
### Total Noninterest Expense (\$M)



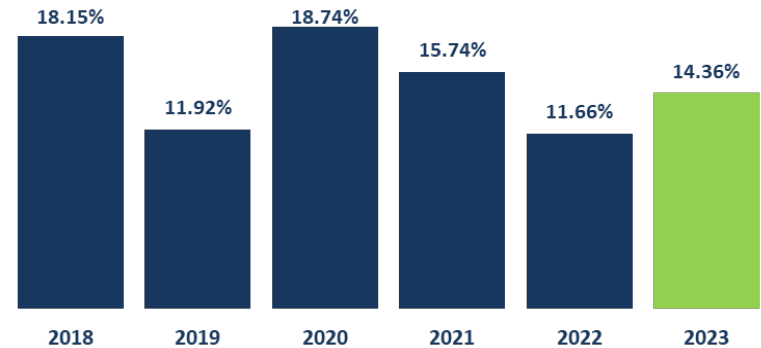
\*Includes \$7.4 million in Bargain Purchase Gain (BPG)

## SELECTED PERFORMANCE RATIO TRENDS

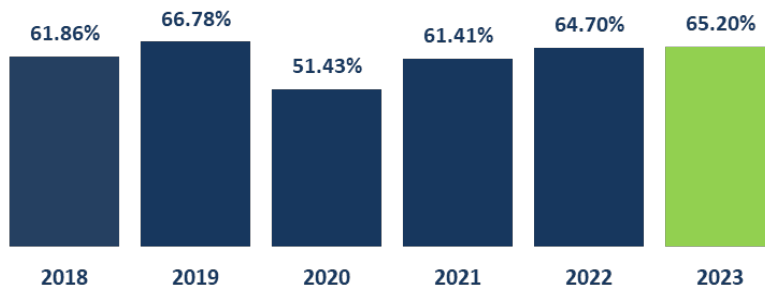
### ROAA



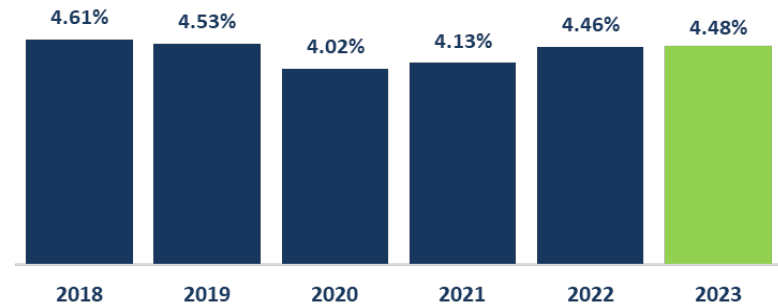
### ROE



### Efficiency Ratio



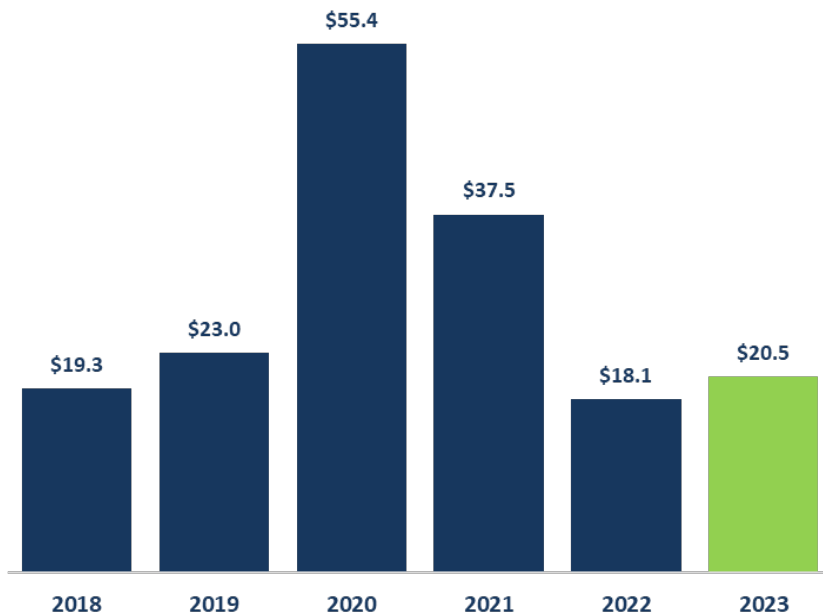
### Net Interest Margin



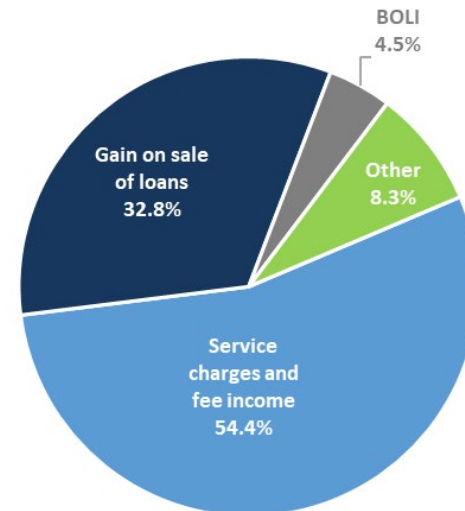


## NONINTEREST INCOME

Noninterest Income (\$M)



Noninterest Income Composition<sup>(1)</sup>

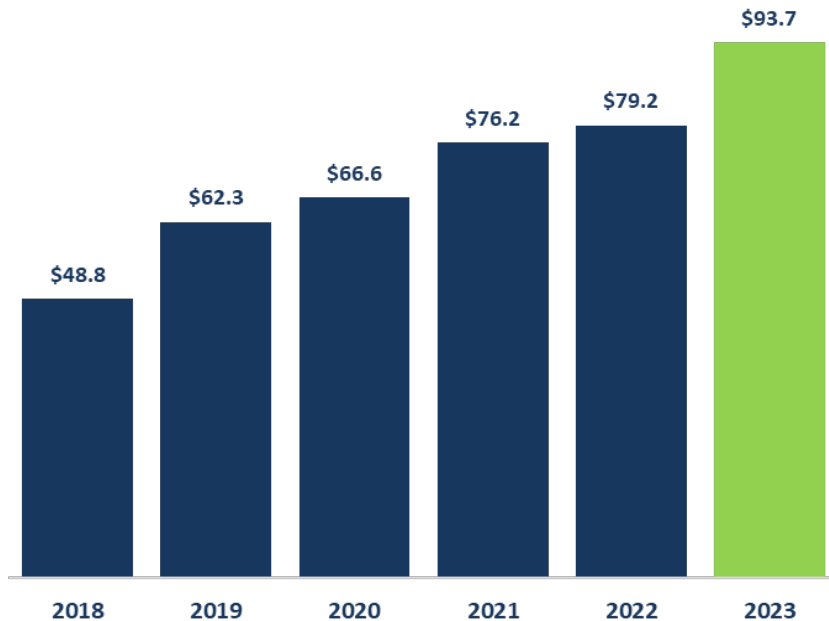


Note: In 2020, noninterest income year-over-year growth due in part to increased gain on sale revenue resulting from low interest rate environment.

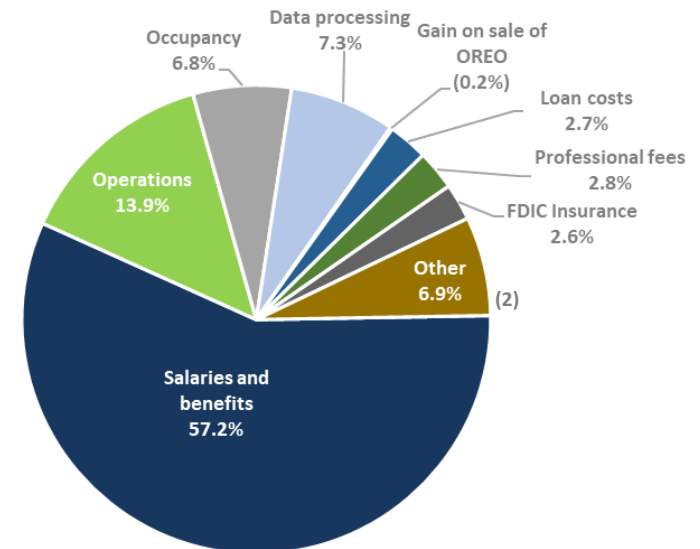
(1) Year ended December 31, 2023

## NONINTEREST EXPENSE

Noninterest Expense (\$M)



Noninterest Expense Composition<sup>(1)</sup>



(1) Year ended December 31, 2023

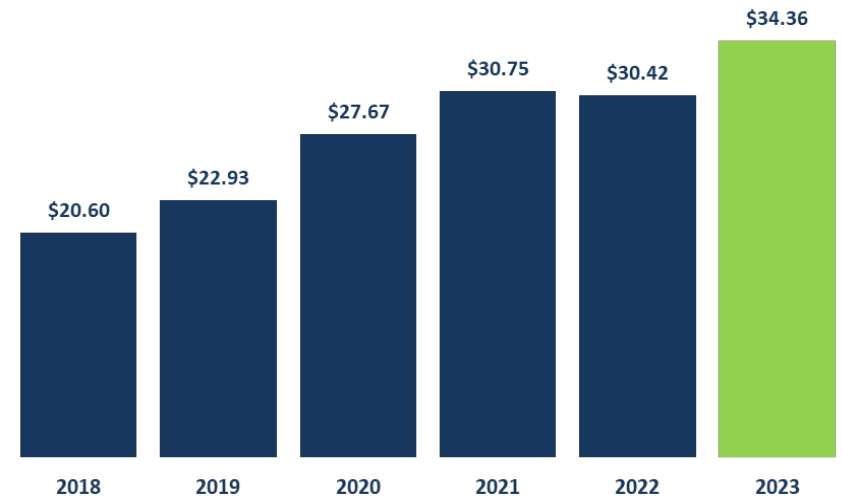
(2) Other = marketing and advertising, acquisition costs, amortization of core deposit intangible and impairment of servicing rights

## BUILDING STOCKHOLDER VALUE

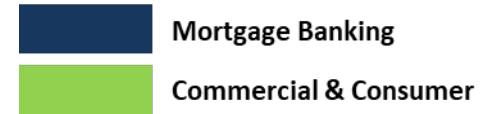
Diluted Earnings Per Share



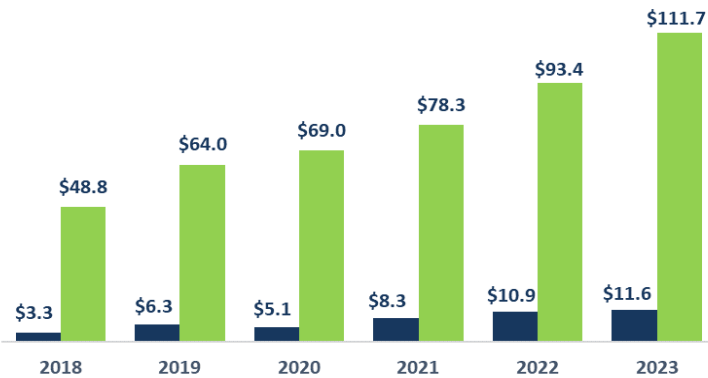
Reported Book Value Per Share



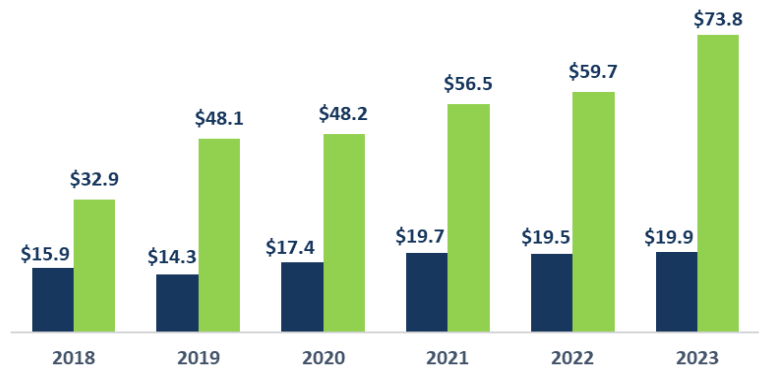
## SEGMENT REPORTING ANALYSIS



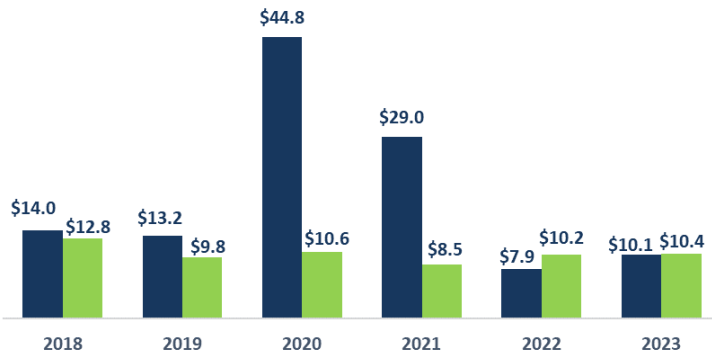
### Net Interest Income



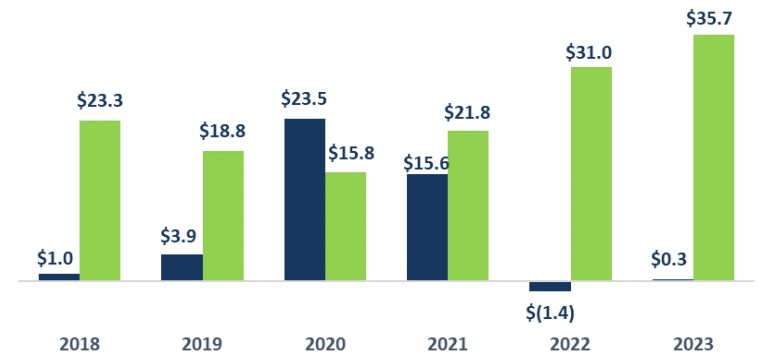
### Noninterest Expense



### Noninterest Income



### Net Income

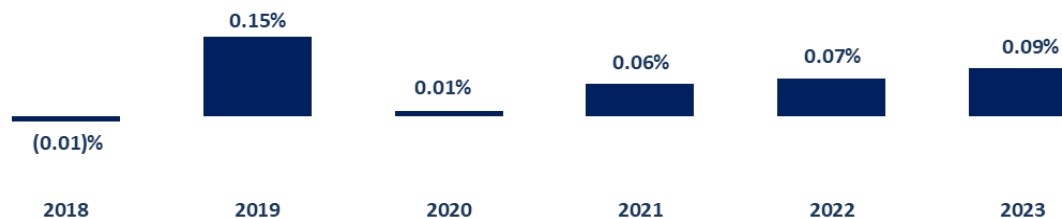


Note: Dollar amounts in millions

## DISCIPLINED CREDIT CULTURE

- The company employs Board and Committee oversight and reporting, with the Chief Risk Officer and senior executive compliance officer reporting directly to the Audit Committee
- FSBW has a disciplined underwriting approach with generally standard LTV and DSC coverage requirements with firm concentration limits and designated focused lending channels
  - Construction and Development (C&D) Weighted Average LTV = 64.6% (as of December 31, 2023)
  - Commercial Real Estate (CRE) Weighted Average LTV= 58.0% (as of December 31, 2023)
- Loans greater than \$10 million are reported to the Asset Quality Committee, while loans between \$20 million and \$35 million require approval from the Senior Loan Committee
- The legal lending limit is \$64.7 million while the in-house limit is \$35 million
- The CRE and C&D portfolios are stressed on a quarterly basis with a third-party review of the commercial portfolio conducted on an annual basis

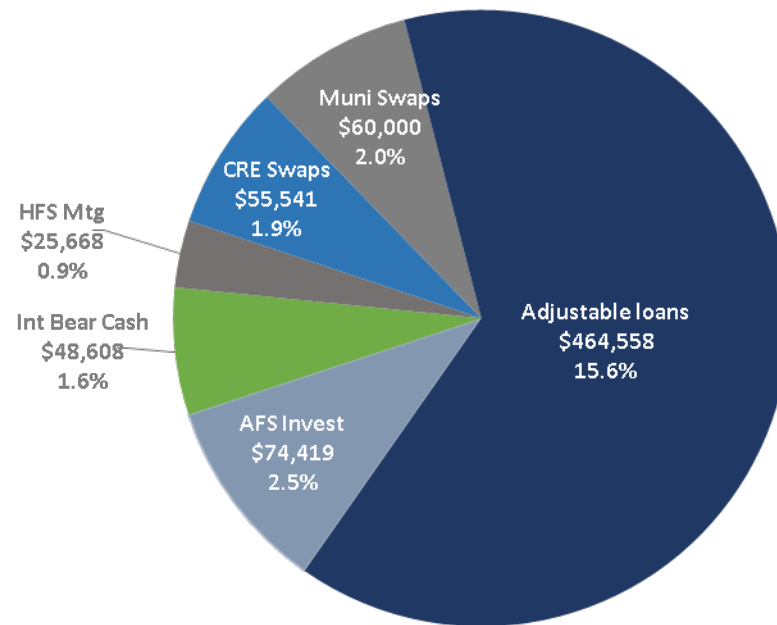
### Historical NCOs / Avg. Loans



## ASSETS WITH SHORT-TERM REPRICING

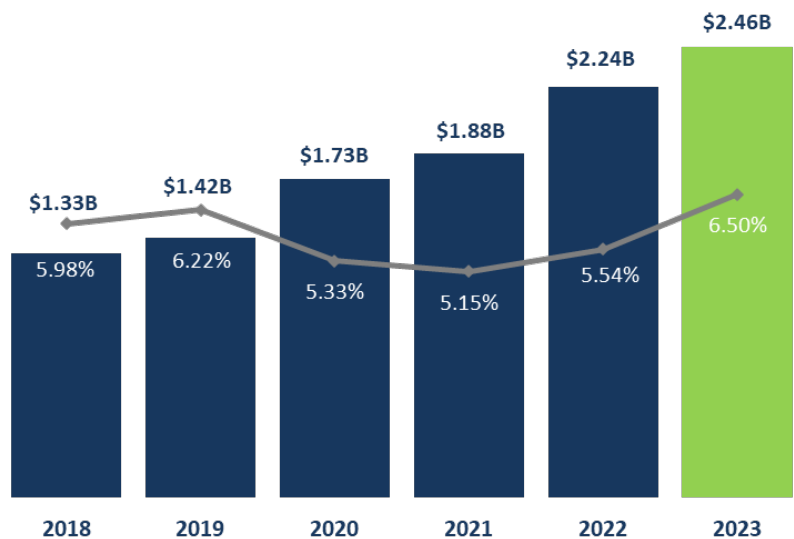
### Assets Repricing – 3 Months or less (\$M)

- Assets repricing within 3 months or less of December 31, 2023, was \$728.8 million, or 24.5% of total assets



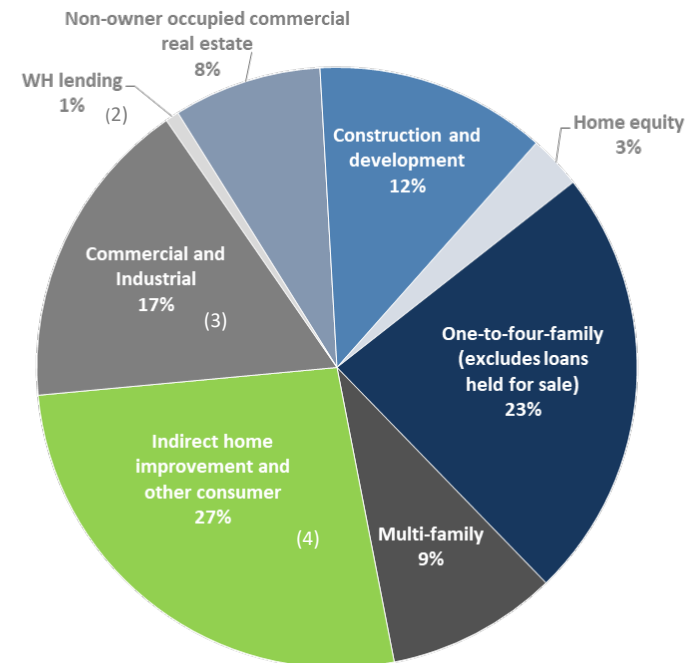
## LOAN PORTFOLIO SUMMARY

### Gross Loans and Loan Yield (\$B) <sup>(1)</sup>



### Loan Composition at December 31, 2023

Total Gross Loans (excl. loans held for sale): \$2.4B



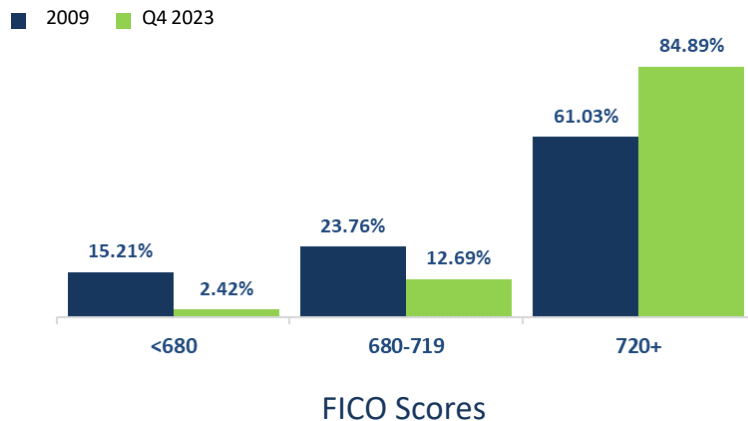
- (1) Loans including loans held for sale
- (2) WH = Warehouse
- (3) Includes owner occupied CRE and agriculture loans
- (4) Other consumer includes marine loans

## CONSUMER LENDING

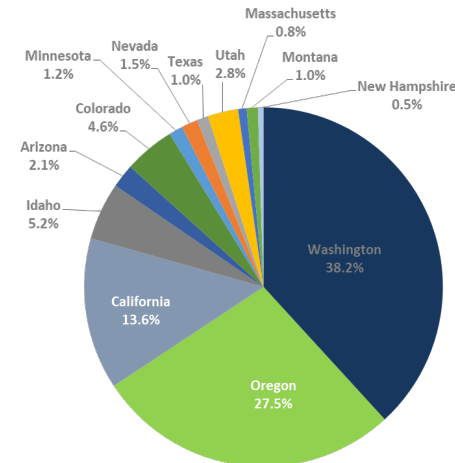
### Q4 2023 Highlights

- Primarily home improvement and marine, UCC-2 or title secured
- Offered on an indirect basis and largely automated (with underwriter verification)
- \$646.8 million outstanding as of Q4 2023:
  - \$43 million in dealer originations
  - \$33 million, or 77%, with the top 10 dealers
  - Average net of fees yield of 7.05%, up from 6.86% in Q3 2023

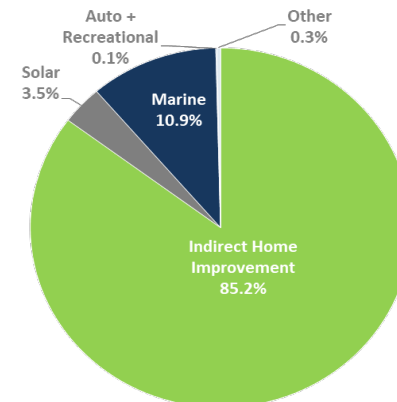
### 2009 vs. Q4 2023 Portfolio Credit Quality



### Q4 2023 Dealer Production by State



### Consumer Portfolio Characteristics



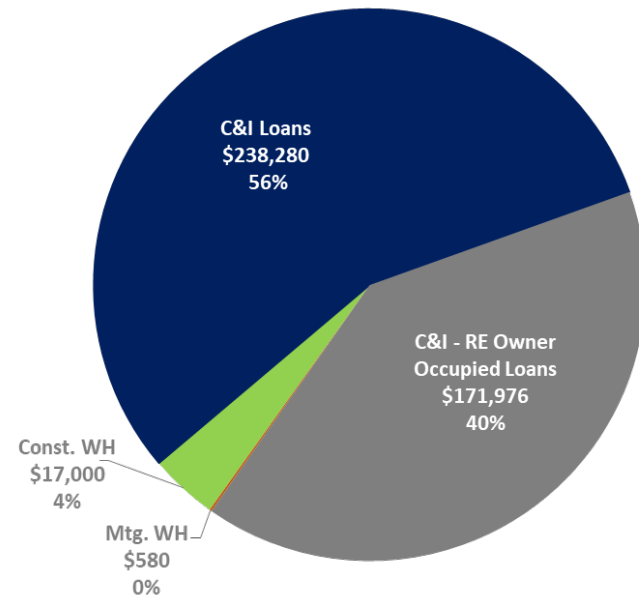


## COMMERCIAL BUSINESS LENDING

### Q4 2023 Commercial & Industrial (C&I)

- C&I commitments: \$652.4 million
- Outstanding balances were \$427.8 million at December 31, 2023, compared to \$434.8 million at September 30, 2023
- The \$7.0 million of quarter over sequential quarter decrease in outstanding balances was attributed to a decrease of \$2.8 million in Owner Occupied CRE and a \$5.9 million decrease in Warehouse lending partially offset by a \$1.8 million increase in C&I balances outstanding.

### Q4 2023 Product Mix (\$M)

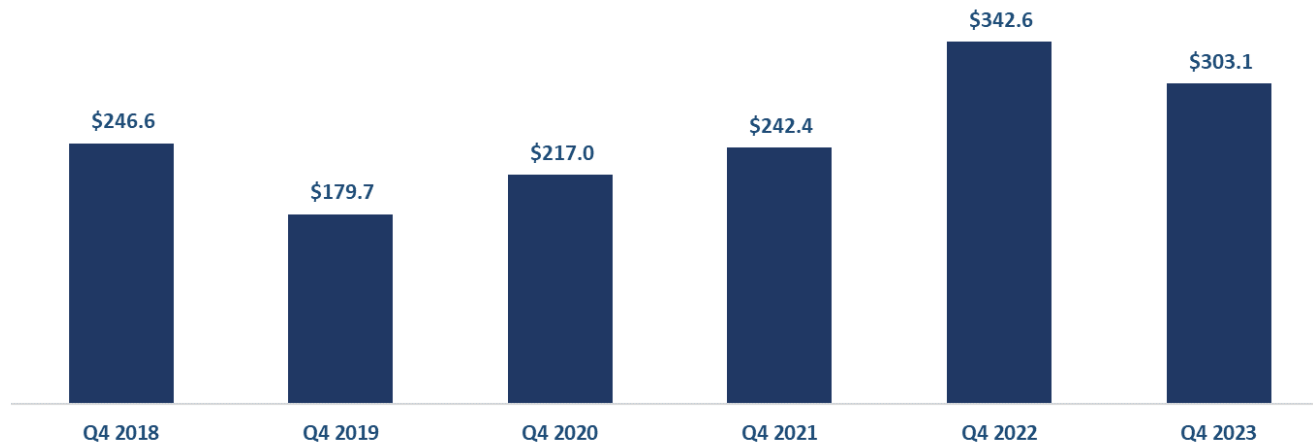


### CONSTRUCTION & DEVELOPMENT LENDING

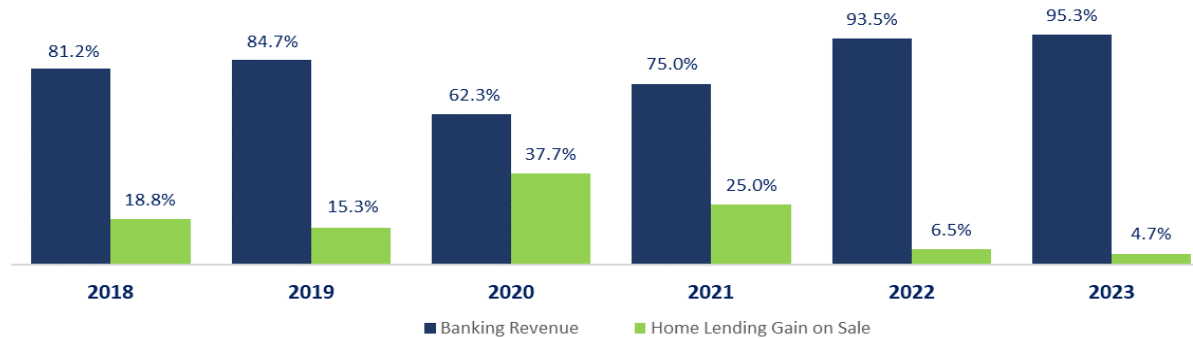
#### Q4 2023 Highlights

- Overall construction: \$449.2 million committed / \$303.1 million outstanding
- 9.08% weighted average coupon rate
- Majority of speculative construction originations were in King County, with a focus on "in-city", infill lending to a select group of relationship customers
- Custom construction originations are widely disbursed throughout out footprint

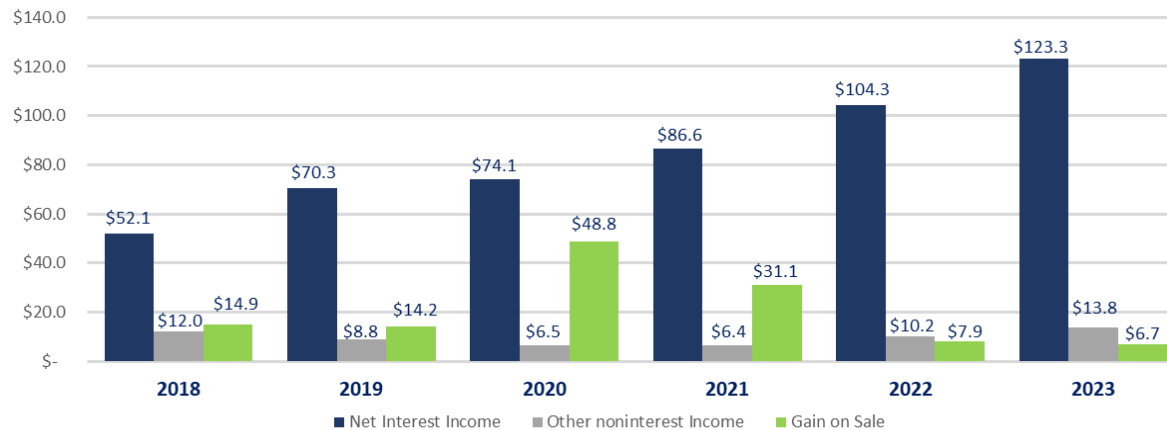
Quarterly C&D Loans Outstanding (\$M)



## Home Lending Gain on Sale Revenue as a Percentage of Total Revenue

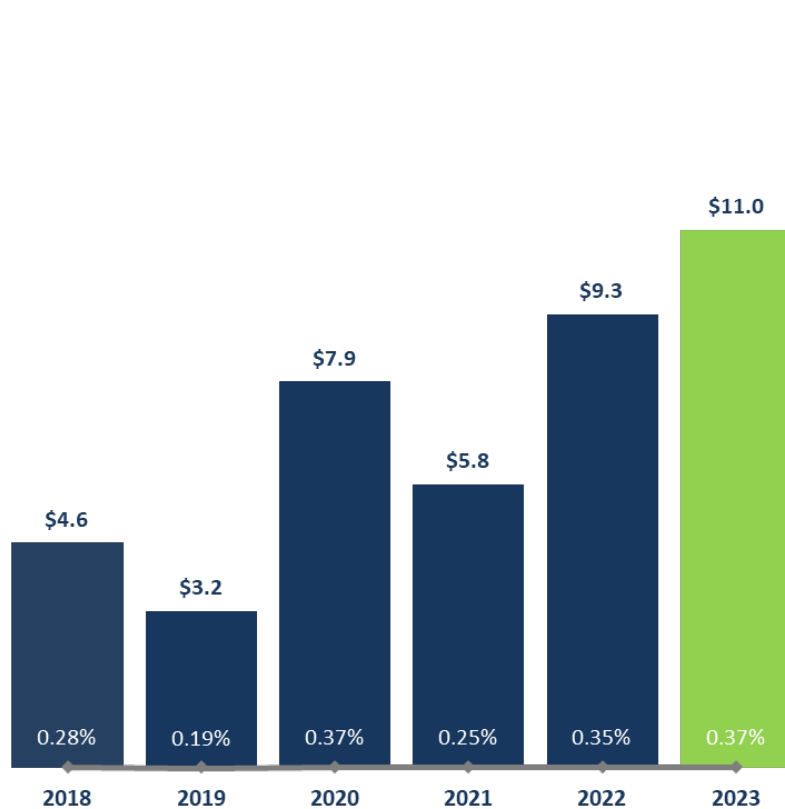


## Total Revenues (\$M)

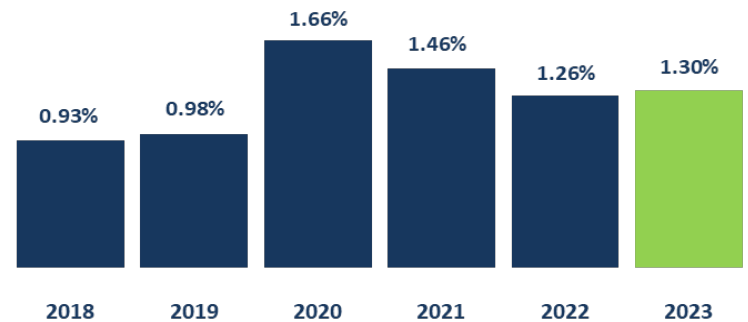


## ASSET QUALITY

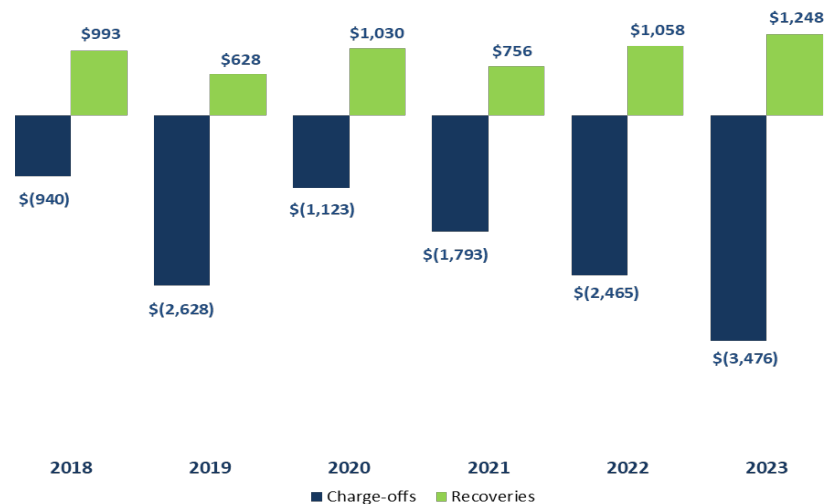
### Nonperforming Assets (\$M)<sup>(1)</sup> & NPAs/ Assets



### Reserves/Gross Loans<sup>(2)</sup>



### Charge-offs & Recoveries (\$000's)



(1) Nonperforming Assets consists of nonperforming loans (which include nonaccruing loans and accruing loans more than 90 days past due), foreclosed real estate and other repossessed assets

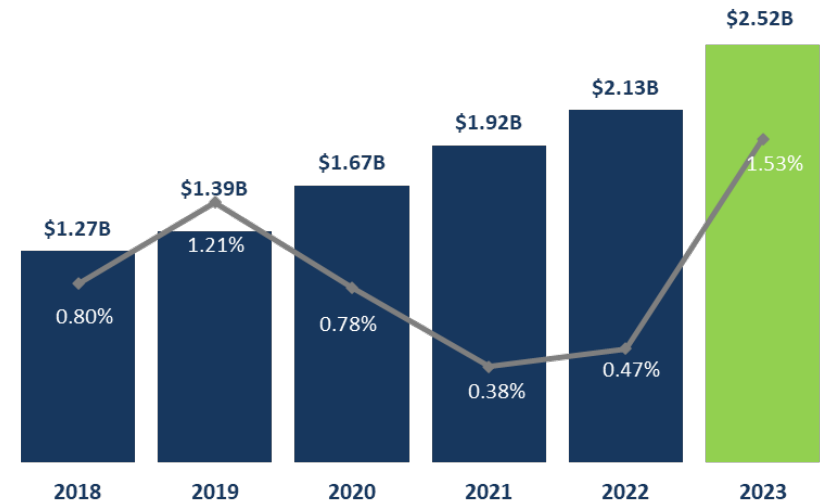
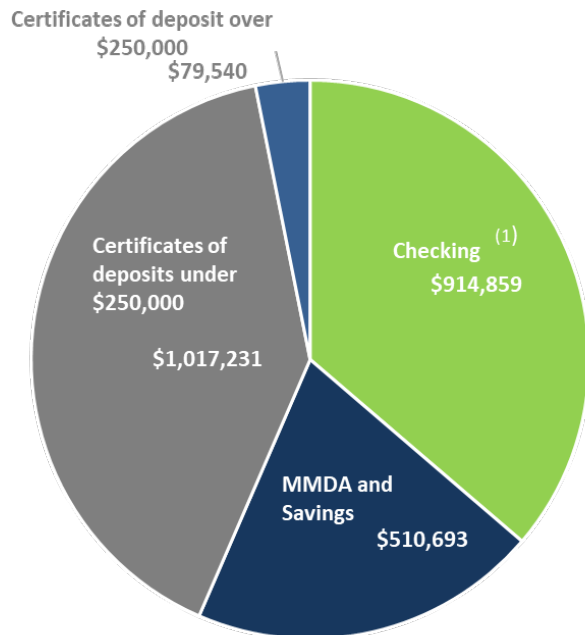
(2) Excluding HFS loans

## DEPOSIT COMPOSITION AND GROWTH

December 31, 2023

Total Deposits (\$B) and Cost of Deposits (%)

**Total Deposits: \$2.5 billion**

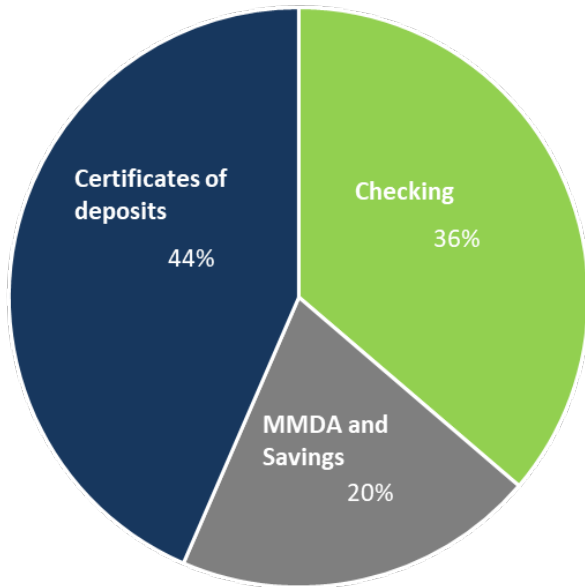


(1) Includes noninterest-bearing checking, interest-bearing checking and escrow accounts related to mortgages serviced

## COMPOSITION COMPARISON YEAR OVER YEAR

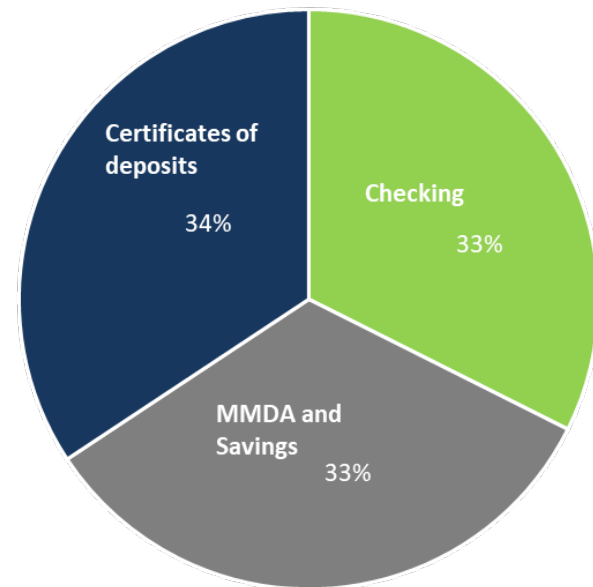
December 31, 2023

Total Deposits: \$2.5 billion



December 31, 2022

Total Deposits: \$2.1 billion



## CAPITAL STRATEGY

### Franchise Growth

- Continued organic asset growth across our diverse group of lending channels
- Expand commercial business lending including construction lending inline with regulatory guidance for oversight on construction concentrations above 100% of total risk-based capital
- Continued investment in the Bank's business lending platform and Small Business Administration lending
- Focus on core deposit generation to fund asset growth

### Dividends

- Regular dividend reflects a 21.1% payout ratio compared to diluted earnings per share in the fourth quarter

### Shareholder Value

- Continued focus on increasing shareholder value through our business plan execution

# **APPENDIX – NON-GAAP RECONCILIATION**



## RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES – EQUITY

### Non-GAAP Financial Measures

This presentation contains the tangible book value per share, a non-GAAP financial measure. Tangible common stockholders' equity is calculated by excluding intangible assets from stockholders' equity. For this financial measure, the Company's intangible assets are goodwill and core deposit intangible. Tangible book value per share is calculated by dividing tangible common shareholders' equity by the number of common shares outstanding. The Company believes that this non-GAAP measure is consistent with the capital treatment utilized by the investment community, which excludes intangible assets from the calculation of risk-based capital ratios and presents this measure to facilitate comparison of the quality and composition of the Company's capital over time and in comparison to its competitors.

(\$ in 000's)	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022
<b>Tangible Book Value Per Share:</b>					
Stockholders' equity	\$ 264,488	\$ 250,665	\$ 249,933	\$ 241,834	\$ 231,697
Goodwill and core deposit intangible, net	(20,935)	(21,915)	(22,917)	(23,940)	(5,681)
<b>Tangible common stockholders' equity</b>	<b>\$ 243,553</b>	<b>\$ 228,750</b>	<b>\$ 227,016</b>	<b>\$ 217,894</b>	<b>\$ 226,016</b>
<b>Common shares outstanding at end of period</b>	<b>7,698,401</b>	<b>7,693,951</b>	<b>7,641,342</b>	<b>7,631,018</b>	<b>7,617,655</b>
<b>Common stockholders' equity (book value) per share (GAAP)</b>	<b>\$ 34.36</b>	<b>\$ 32.58</b>	<b>\$ 32.71</b>	<b>\$ 31.69</b>	<b>\$ 30.42</b>
<b>Tangible common stockholders' equity (tangible book value)*</b>	<b>\$ 31.64</b>	<b>\$ 29.73</b>	<b>\$ 29.71</b>	<b>\$ 28.55</b>	<b>\$ 29.67</b>
<b>Tangible Common Equity Ratio:</b>					
Total Assets	\$ 2,972,669	\$ 2,920,072	\$ 2,905,621	\$ 2,782,808	\$ 2,632,898
Goodwill and core deposit intangible, net	(20,935)	(21,915)	(22,917)	(23,940)	(5,681)
<b>Tangible assets</b>	<b>\$ 2,951,734</b>	<b>\$ 2,898,157</b>	<b>\$ 2,882,704</b>	<b>\$ 2,758,868</b>	<b>\$ 2,627,217</b>
<b>Common Equity</b>	<b>\$ 264,488</b>	<b>\$ 250,665</b>	<b>\$ 249,933</b>	<b>\$ 241,834</b>	<b>\$ 231,697</b>
<b>Common equity ratio (GAAP)</b>	<b>8.90%</b>	<b>8.58%</b>	<b>8.60%</b>	<b>8.69%</b>	<b>8.80%</b>
<b>Tangible common equity ratio (non-GAAP)</b>	<b>8.25%</b>	<b>7.89%</b>	<b>7.88%</b>	<b>7.90%</b>	<b>8.60%</b>

\*Per share (non-GAAP)

Source: Press Release

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