

1ST SECURITY BANK

FS BANCORP, INC.

INVESTOR PRESENTATION

May 2024



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

-FSBW Vision Statement

Disclosure Statement

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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 and on the SEC's website at 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 March 31, 2024)
- **Headquartered:** Mountlake Terrace, WA
- **Branches:** 29*
- **Loan Production Offices:** 14
- **ATM Locations:** 20
- **Year Established:** 1907**
- **Quarterly Dividend:** \$0.26

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

** Predecessor to Anchor Bank, Aberdeen Federal Savings and Loan, established in 1907.



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

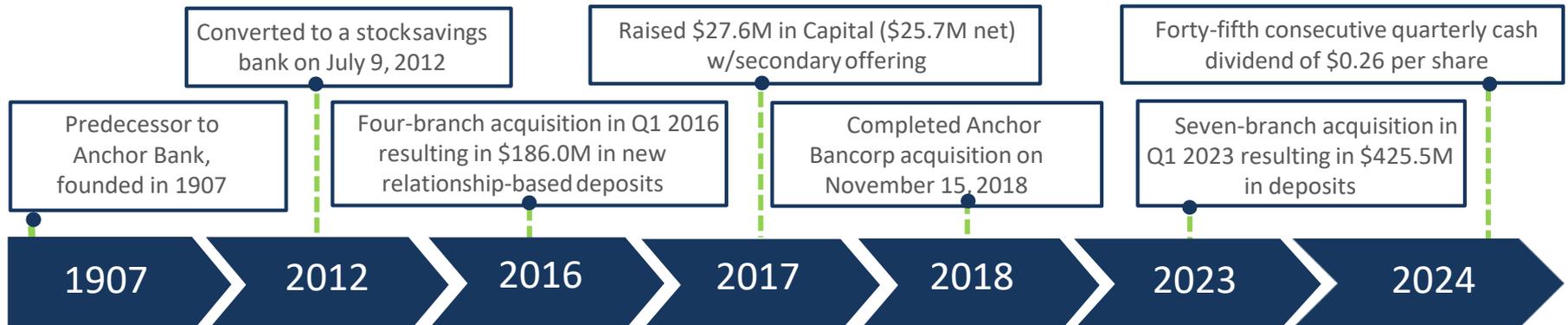
Guiding Principles

Employ smart, driven, and nice people

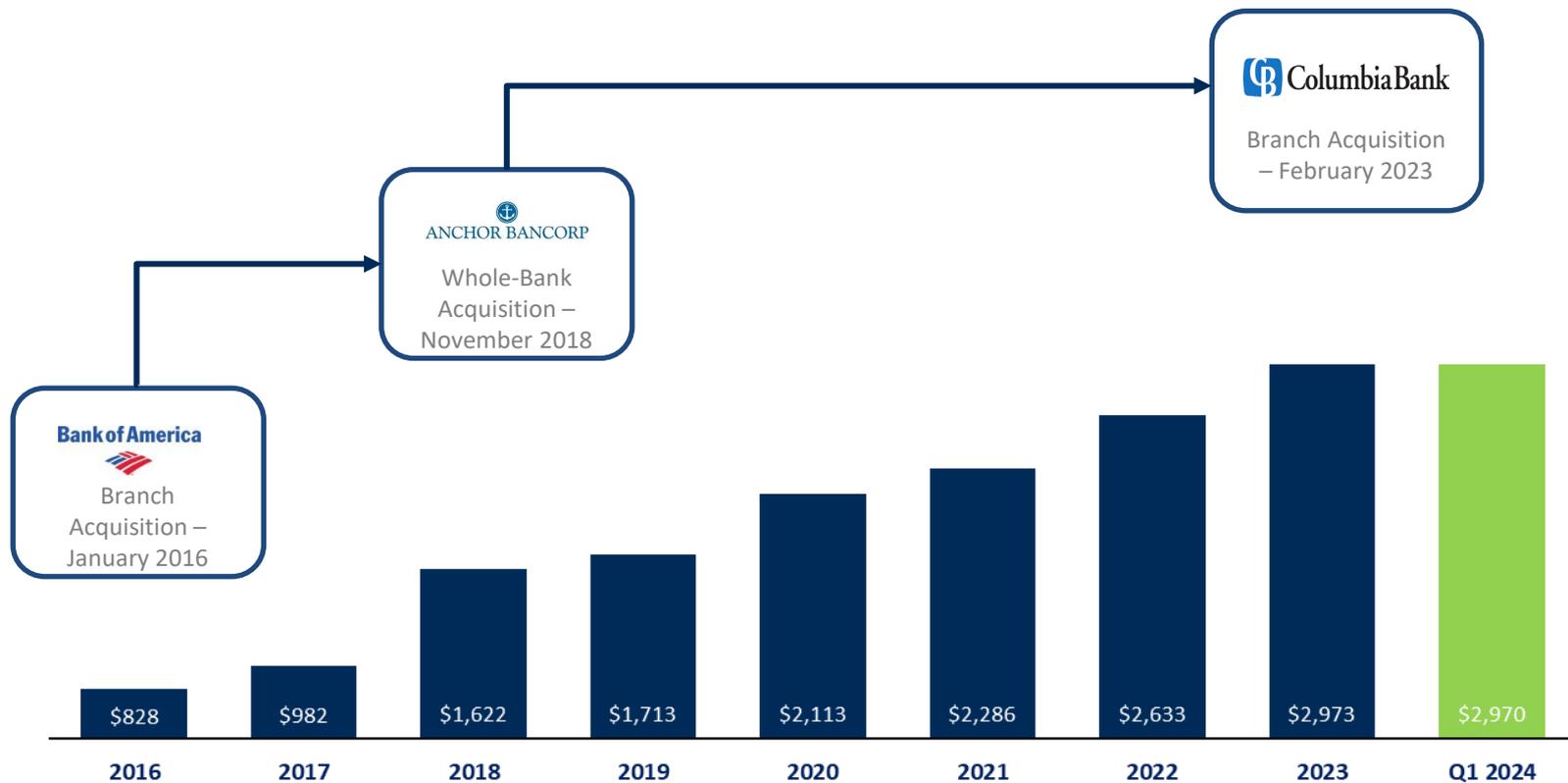
Emphasis on collaboration

Best idea wins

Jim Collins' Good-to-Great Lessons

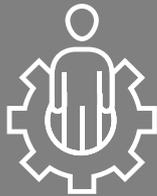


FSBW Growth Profile



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.



ENVIRONMENTAL

- The Montesano branch is a LEED certified building
- 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
- Hybrid 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
- Commitment to Financial Literacy Programs taught at Elementary and High Schools and The IF Project, which provides financial education to soon-to-be released inmates



GOVERNANCE

- Independent Board Chair
- Seven* of eight 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

* Out of the seven independent directors, there is one Bank only director

EXECUTIVE MANAGEMENT

	Name	Position	Years with 1st Security Bank	Years in Industry
	Joseph Adams	<i>Chief Executive Officer</i>	21	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 & Marketing</i>	7	30+
	Ben Crowl	<i>EVP, Chief Lending Officer</i>	6	15+
	Vickie Jarman	<i>EVP, Chief Human Resources Officer</i>	22	20+
	Donn Costa	<i>EVP, Home Lending Production</i>	12	30+
	Shana Allen	<i>EVP, Chief Information Officer</i>	14	20+

1ST SECURITY BANK

FS BANCORP, INC.

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

Banks Headquartered in Snohomish County: March 31, 2024
Total Assets \$8.4B



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

FIRST QUARTER 2024 HIGHLIGHTS

Financial Highlights Q1 2024

- Net Income of \$8.4 million
- Sale of longer duration investment securities with amortized cost of \$52.0 million
- Sale of \$8.0 million in book value mortgage servicing rights at a \$8.2 million gain

Q1 2024 Capital

- Diluted earnings per share of \$1.06
- Tangible book value per share growth of \$1.83 to \$33.47⁽¹⁾
- Announced forty-fifth consecutive quarterly cash dividend: \$0.26

Selected Performance Ratios

- ROAA of 1.14%
- ROAE of 12.29%
- Net Interest Margin of 4.26%
- Efficiency Ratio of 66.36%

Credit Quality Ratios

- Nonperforming Assets (NPAs) as a percentage of total assets of 0.41%
- Allowance for credit losses on loans as a percentage of gross loans receivable, excluding loans held for sale of 1.29%

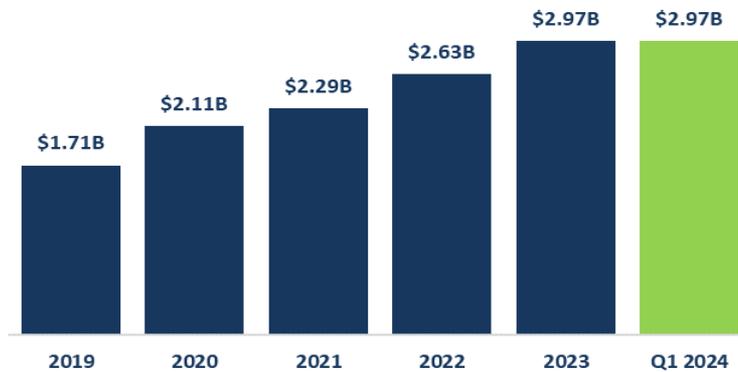
Capital Position

- Currently, all Bank Holding Company (BHC) and Bank ratios are above those to be considered “Well-Capitalized”
- Common Equity Tier 1 (“CET1”) capital ratio for the Bank was 12.5% at March 31, 2024

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

FRANCHISE GROWTH

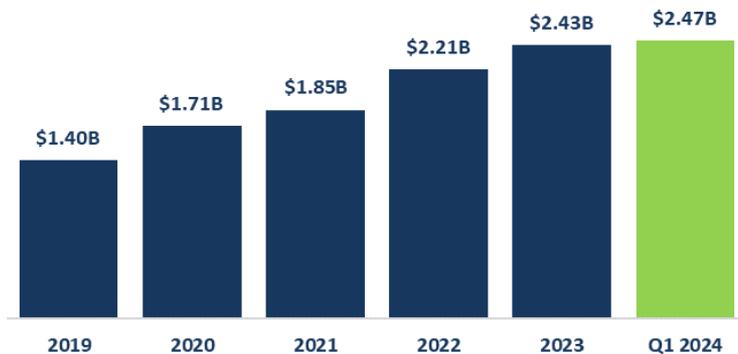
Total Assets (\$B)



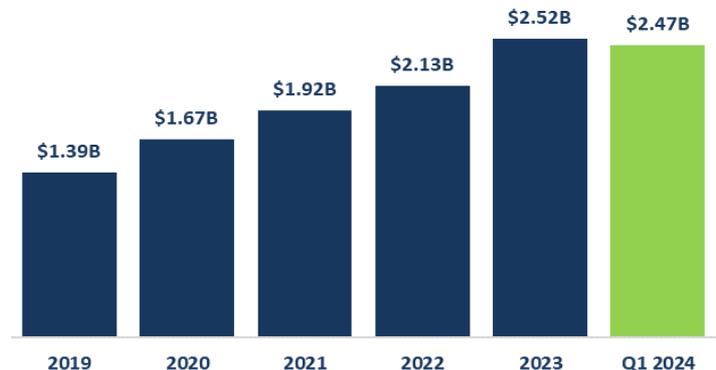
Tangible Common Equity (\$M) ⁽¹⁾



Total Net Loans (\$B) ⁽²⁾



Total Deposits (\$B)



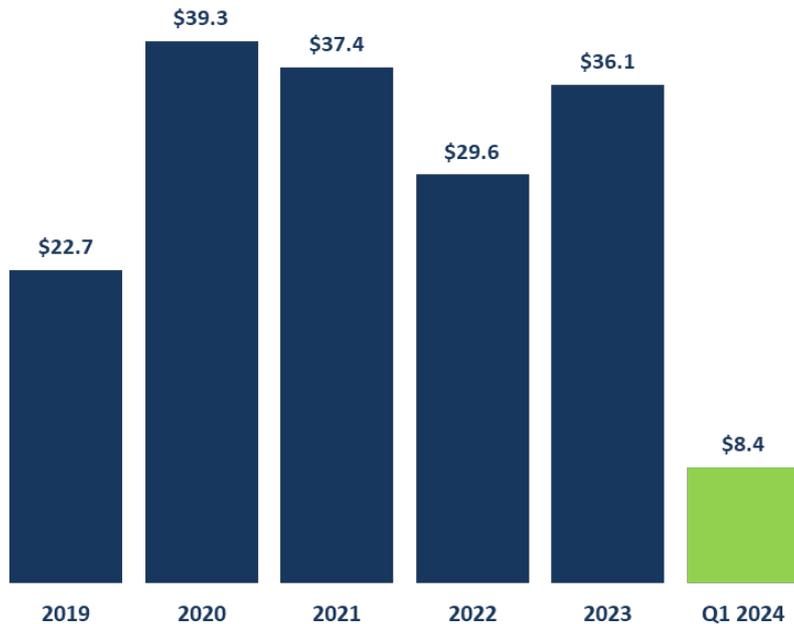
Source: Company documents

(1) Non-GAAP financial measure

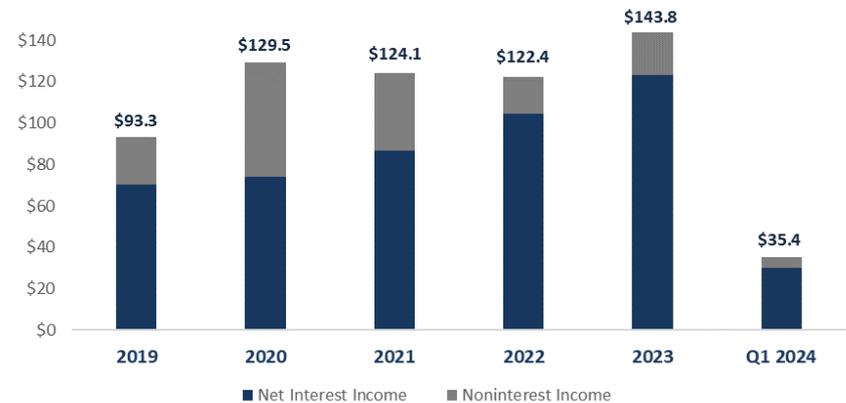
(2) Includes loans held for sale

INCOME STATEMENT TRENDS

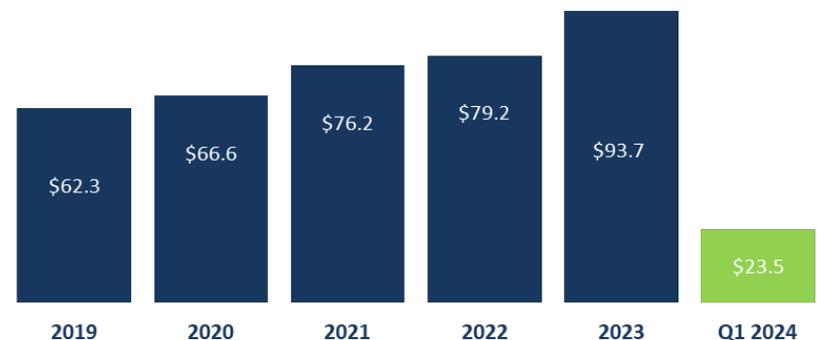
Net Income (\$M)



Total Revenues (\$M)

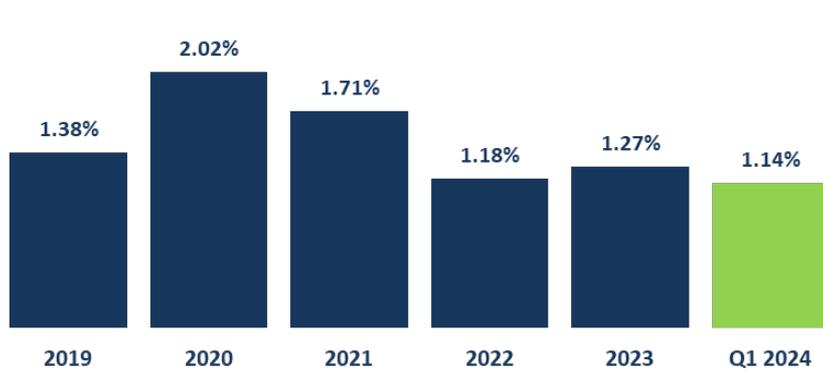


Total Noninterest Expense (\$M)

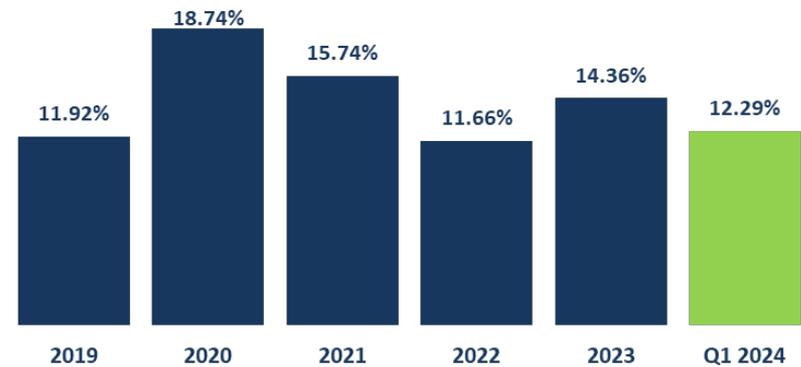


SELECTED PERFORMANCE RATIO TRENDS

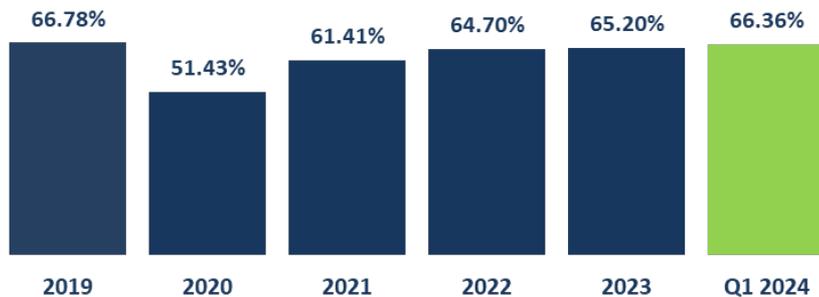
ROAA



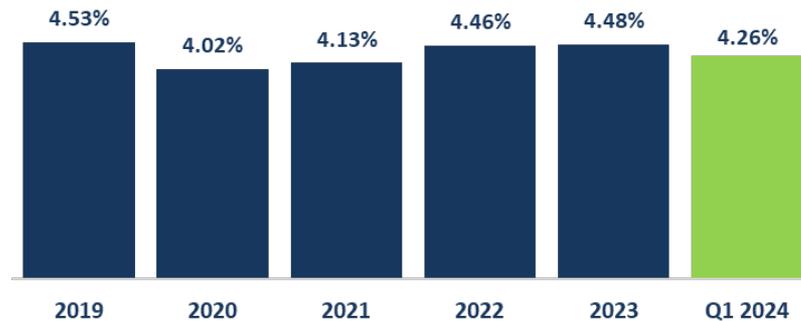
ROE



Efficiency Ratio

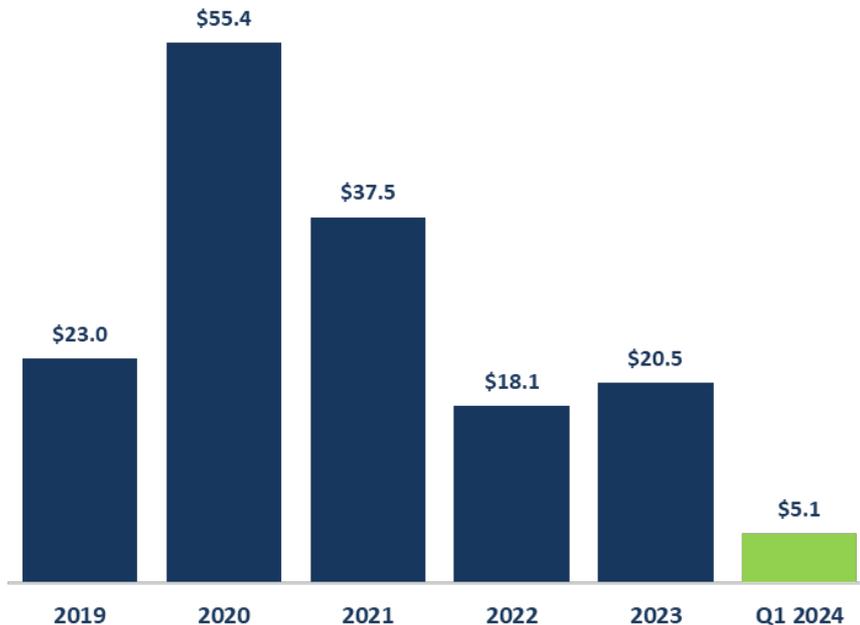


Net Interest Margin

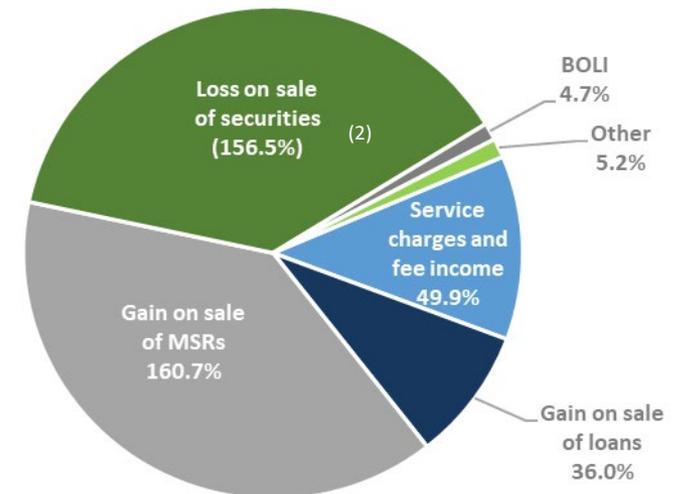


NONINTEREST INCOME

Noninterest Income (\$M)



Noninterest Income Composition⁽¹⁾



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) Quarter ended March 31, 2024

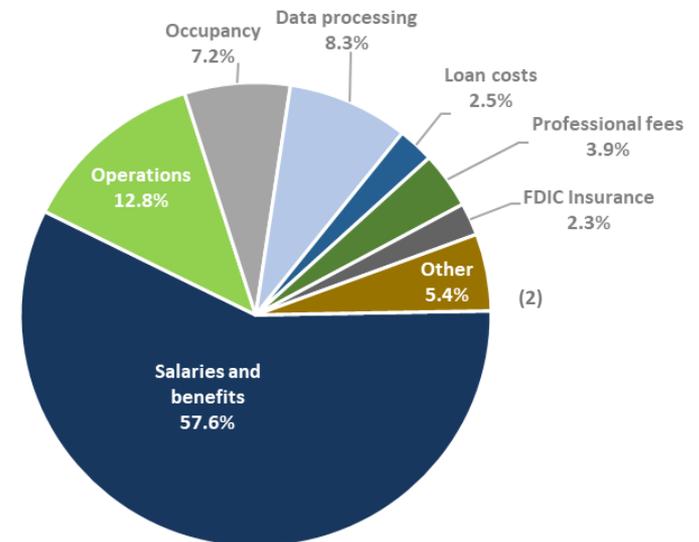
(2) The loss on sale of securities was due to the sale of longer duration investment securities

NONINTEREST EXPENSE

Noninterest Expense (\$M)



Noninterest Expense Composition⁽¹⁾

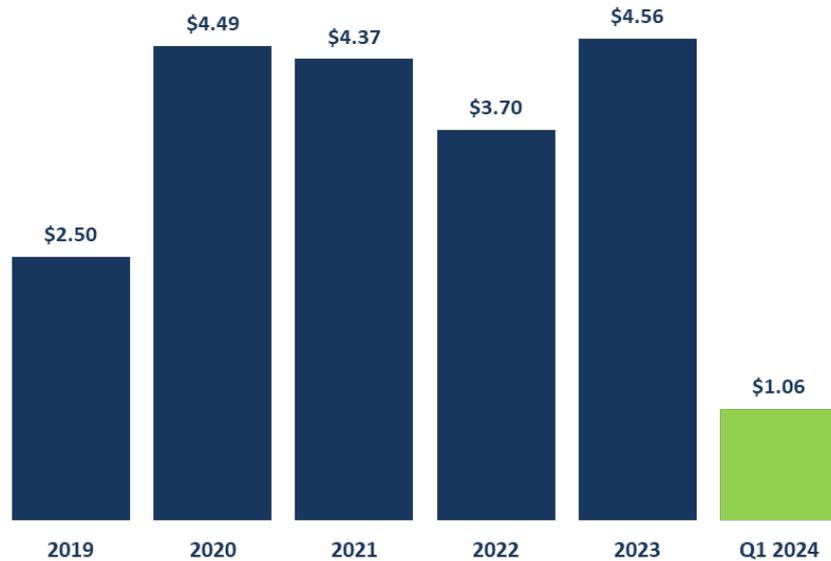


(1) Quarter ended March 31, 2024

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

BUILDING STOCKHOLDER VALUE

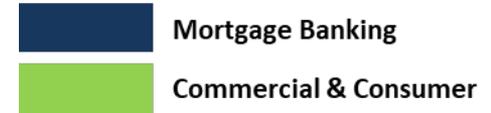
Diluted Earnings Per Share



Book Value Per Share



SEGMENT REPORTING ANALYSIS



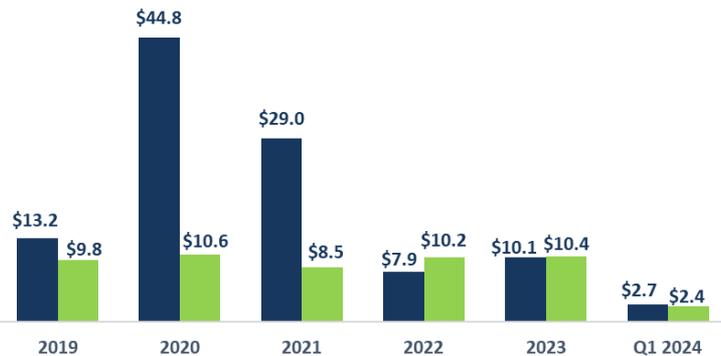
Net Interest Income



Noninterest Expense



Noninterest Income



Net Income

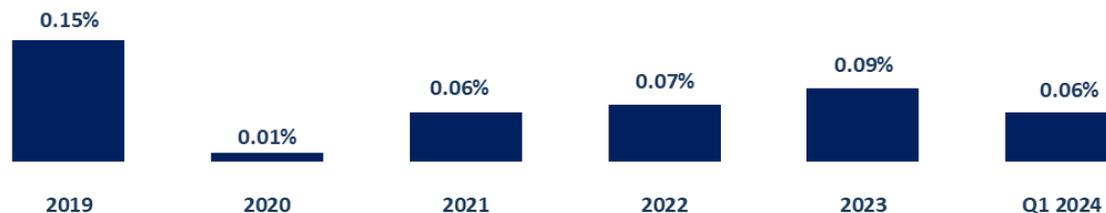


Note: Dollar amounts in millions

DISCIPLINED CREDIT CULTURE

- The company employs Board and Committee oversight and reporting, with the Chief Risk Officer, Senior Executive Compliance Officer and Director of Internal Audit 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 = 64.3% (as of March 31, 2024)
 - Commercial Real Estate (CRE) Weighted Average LTV= 57.4% (as of March 31, 2024)
- 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 \$67.7 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

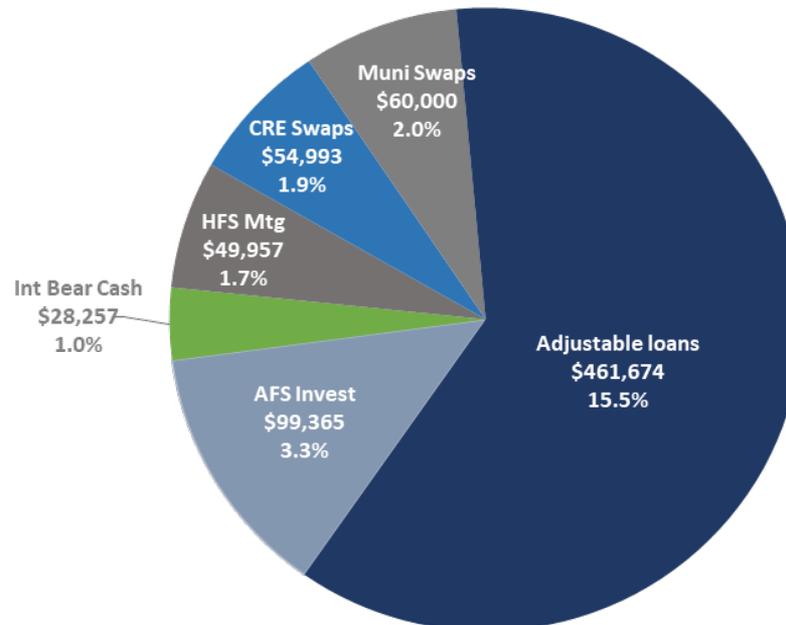
Historical NCOs / Avg. Loans



ASSETS WITH SHORT-TERM REPRICING

Assets Repricing – Three Months or less (\$M)

- Assets repricing within three months or less of March 31, 2024, was \$754.2 million, or 25.4% of total assets



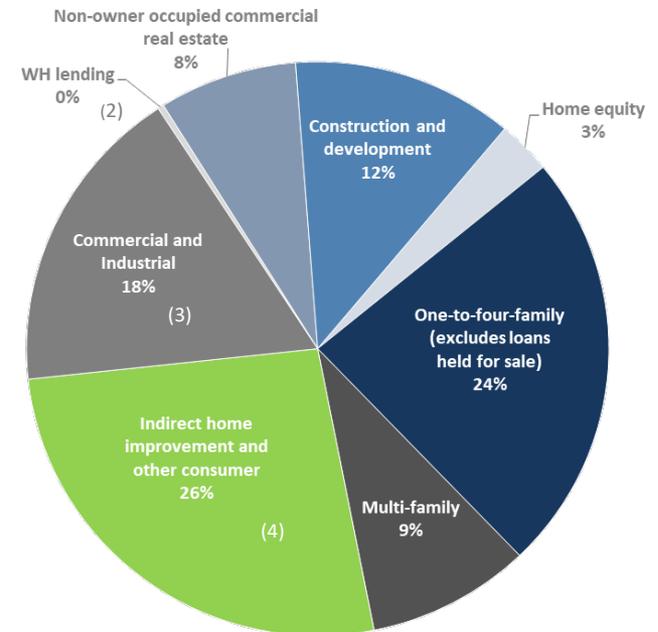
LOAN PORTFOLIO SUMMARY

Gross Loans and Loan Yield (\$B) ⁽¹⁾



Loan Composition at March 31, 2024

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



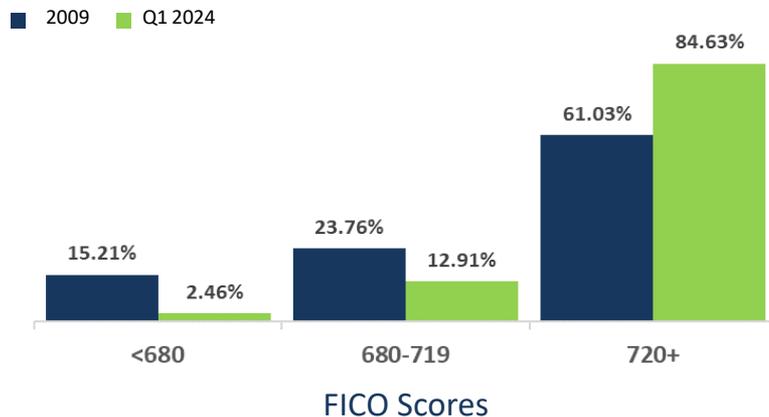
- (1) Loans including loans held for sale
- (2) WH = Warehouse
- (3) Includes owner occupied CRE and agriculture loans
- (4) Other consumer includes marine loans

CONSUMER LENDING

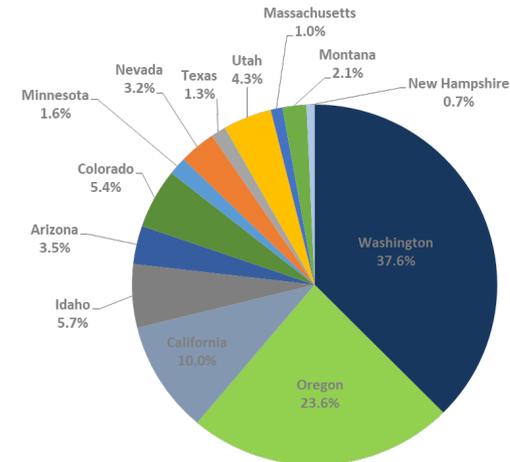
Q1 2024 Highlights

- Primarily home improvement and marine, UCC-2 or title secured
- Offered on an indirect basis and largely automated (with underwriter verification)
- \$646.1 million outstanding as of Q1 2024:
 - \$39 million in dealer originations
 - \$30 million, or 78%, with the top 10 dealers
 - Average outstanding portfolio yield of 7.22%, up from 7.05% in Q4 2023

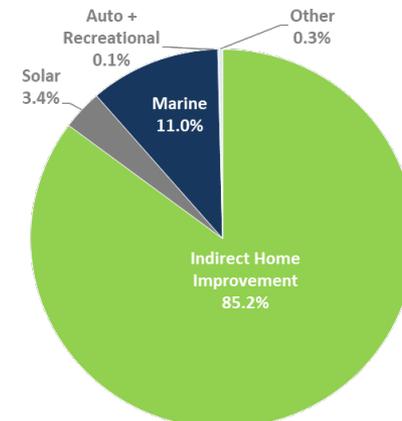
2009 vs. Q1 2024 Portfolio Credit Quality



Q1 2024 Dealer Production by State



Consumer Portfolio Characteristics

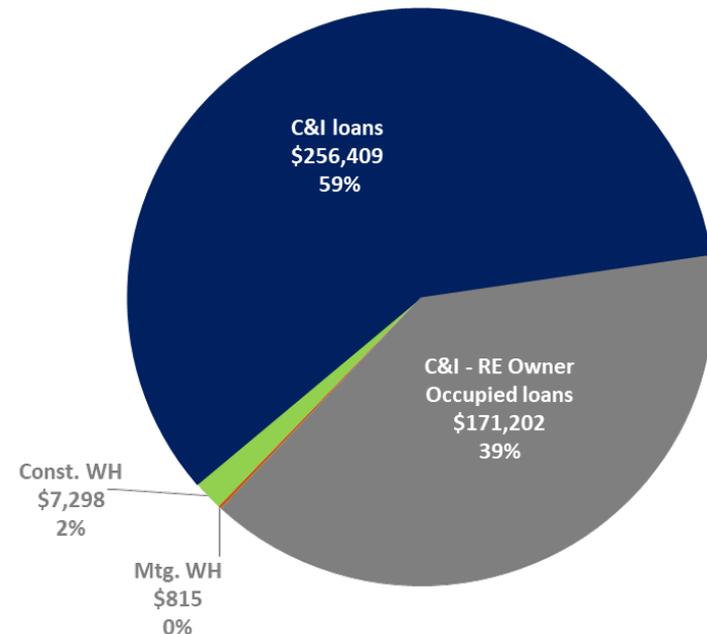


COMMERCIAL BUSINESS LENDING

Q1 2024 Commercial & Industrial (C&I)

- C&I commitments: \$674.9 million
- Outstanding balances were \$435.7 million at March 31, 2024, compared to \$427.8 million at December 31, 2023
- The \$7.9 million of quarter over sequential quarter increase in outstanding balances was attributed to an increase of \$18.1 million in C&I partially offset by a \$9.7 million decrease in Warehouse lending and a \$0.8 million decrease in Owner Occupied CRE outstanding.

Q1 2024 Product Mix (\$M)



CONSTRUCTION & DEVELOPMENT LENDING

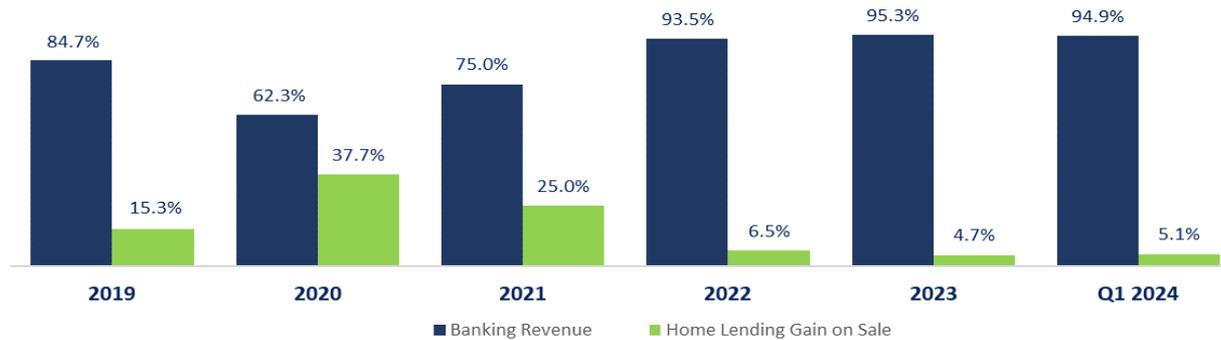
Q1 2024 Highlights

- Overall construction: \$460.6 million committed / \$301.3 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 our footprint

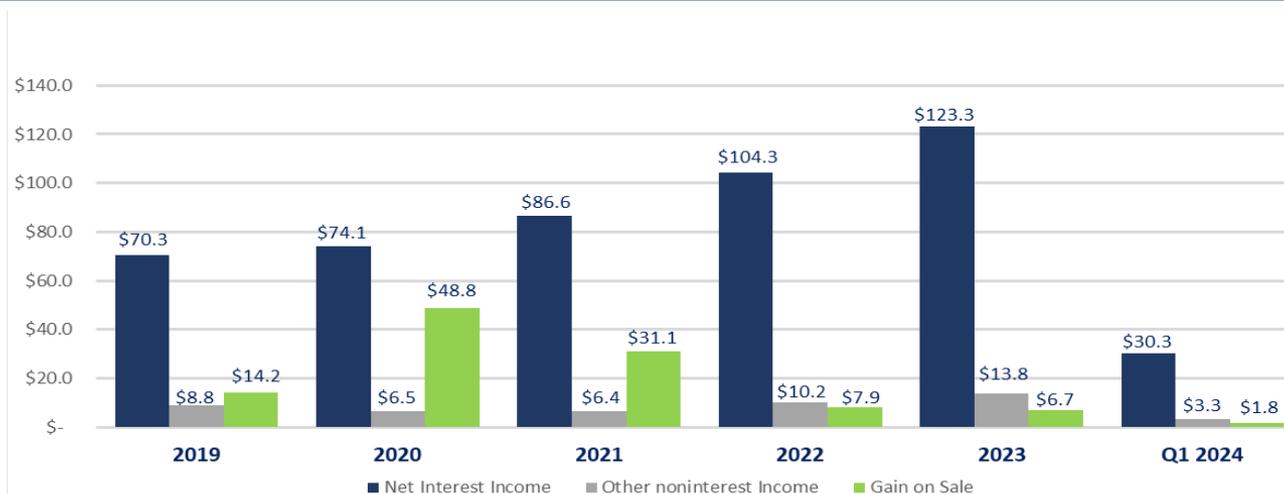
Quarterly C&D Loans Outstanding (\$M)



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

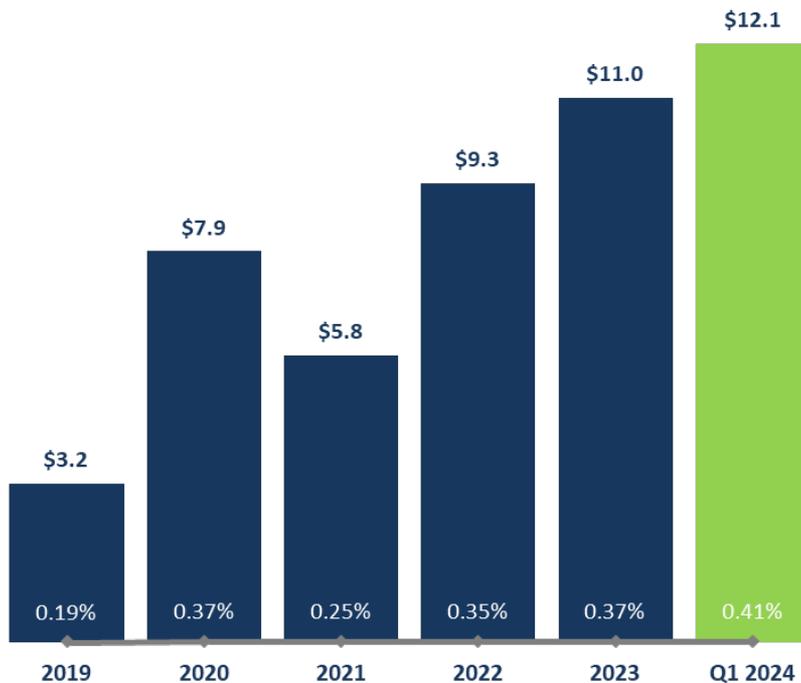


Total Revenues (\$M)

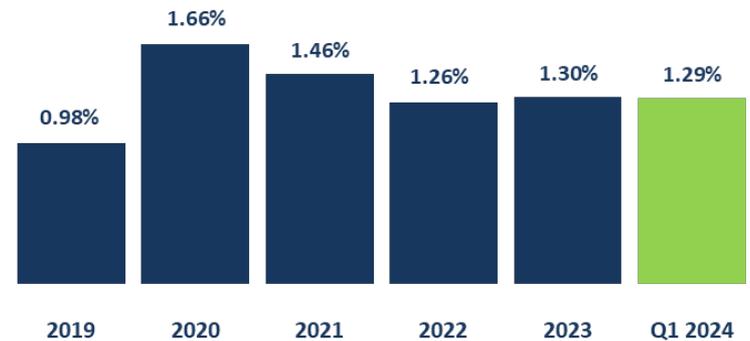


ASSET QUALITY

Nonperforming Assets (\$M)⁽¹⁾ & NPAs/ Assets



Reserves/Gross Loans⁽²⁾



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

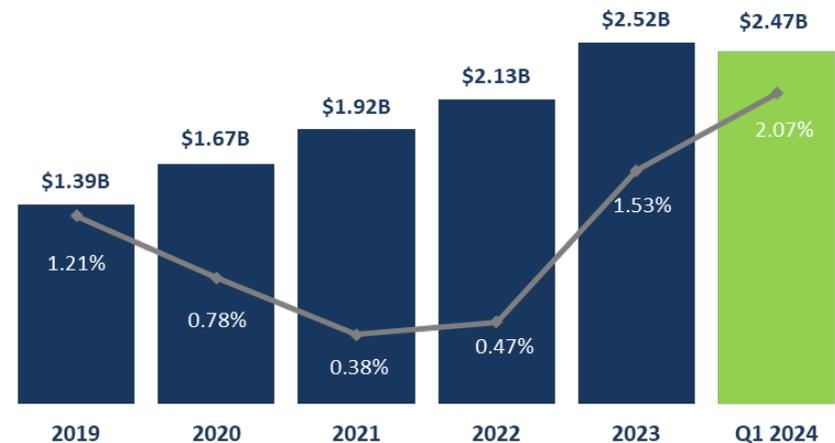
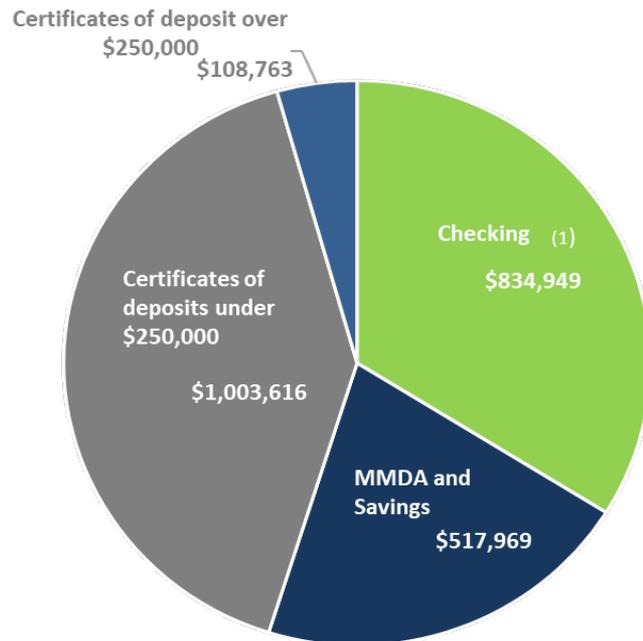
(2) Excluding HFS loans

DEPOSIT COMPOSITION AND GROWTH

March 31, 2024

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

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 24.5% payout ratio compared to diluted earnings per share in the first 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)	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
Tangible Book Value Per Share:					
Stockholders' equity	\$ 277,932	\$ 264,488	\$ 250,665	\$ 249,933	\$ 241,834
Goodwill and core deposit intangible, net	(19,994)	(20,935)	(21,915)	(22,917)	(23,940)
Tangible common stockholders' equity	\$ 257,938	\$ 243,553	\$ 228,750	\$ 227,016	\$ 217,894
Common shares outstanding at end of period	7,707,651	7,698,401	7,693,951	7,641,342	7,631,018
Common stockholders' equity (book value) per share (GAAP)	\$ 36.06	\$ 34.36	\$ 32.58	\$ 32.71	\$ 31.69
Tangible common stockholders' equity (tangible book value)*	\$ 33.47	\$ 31.64	\$ 29.73	\$ 29.71	\$ 28.55
Tangible Common Equity Ratio:					
Total Assets	\$ 2,969,705	\$ 2,972,669	\$ 2,920,072	\$ 2,905,621	\$ 2,782,808
Goodwill and core deposit intangible, net	(19,994)	(20,935)	(21,915)	(22,917)	(23,940)
Tangible assets	\$ 2,949,711	\$ 2,951,734	\$ 2,898,157	\$ 2,882,704	\$ 2,758,868
Common Equity	\$ 277,932	\$ 264,488	\$ 250,665	\$ 249,933	\$ 241,834
Common equity ratio (GAAP)	9.36%	8.90%	8.58%	8.60%	8.69%
Tangible common equity ratio (non-GAAP)	8.74%	8.25%	7.89%	7.88%	7.90%

*Per share (non-GAAP)

Source: Press Release

CONTACT INFORMATION

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