

# 1ST SECURITY BANK

**FS BANCORP, INC.**

## INVESTOR PRESENTATION

November 2022



**“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: the effect of the COVID19 pandemic, including on FS Bancorp, Inc. (the "Company") credit quality and business operations, as well as its impact on general economic and financial market conditions and other uncertainties resulting from the COVID-19 pandemic, such as the extent and duration of the impact on public health, the U.S. and global economies, and consumer and corporate customers, including economic activity, employment levels and market liquidity; increased competitive pressures; changes in the interest rate environment; changes in general economic conditions and conditions within the securities markets, including as a result of the COVID-19 pandemic; 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; 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; and other factors described in the Company's latest Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and other filings with 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), all of which could cause actual results to differ from those set forth in the forward-looking statements.*

*There can be no assurance that other factors not currently anticipated by us will not materially and adversely affect our business, financial condition and results of operations. Furthermore, many of these risks and uncertainties are currently amplified by and may continue to be amplified by or may, in the future, be amplified by, the outbreak of the COVID-19 pandemic.*

*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 2022 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.*

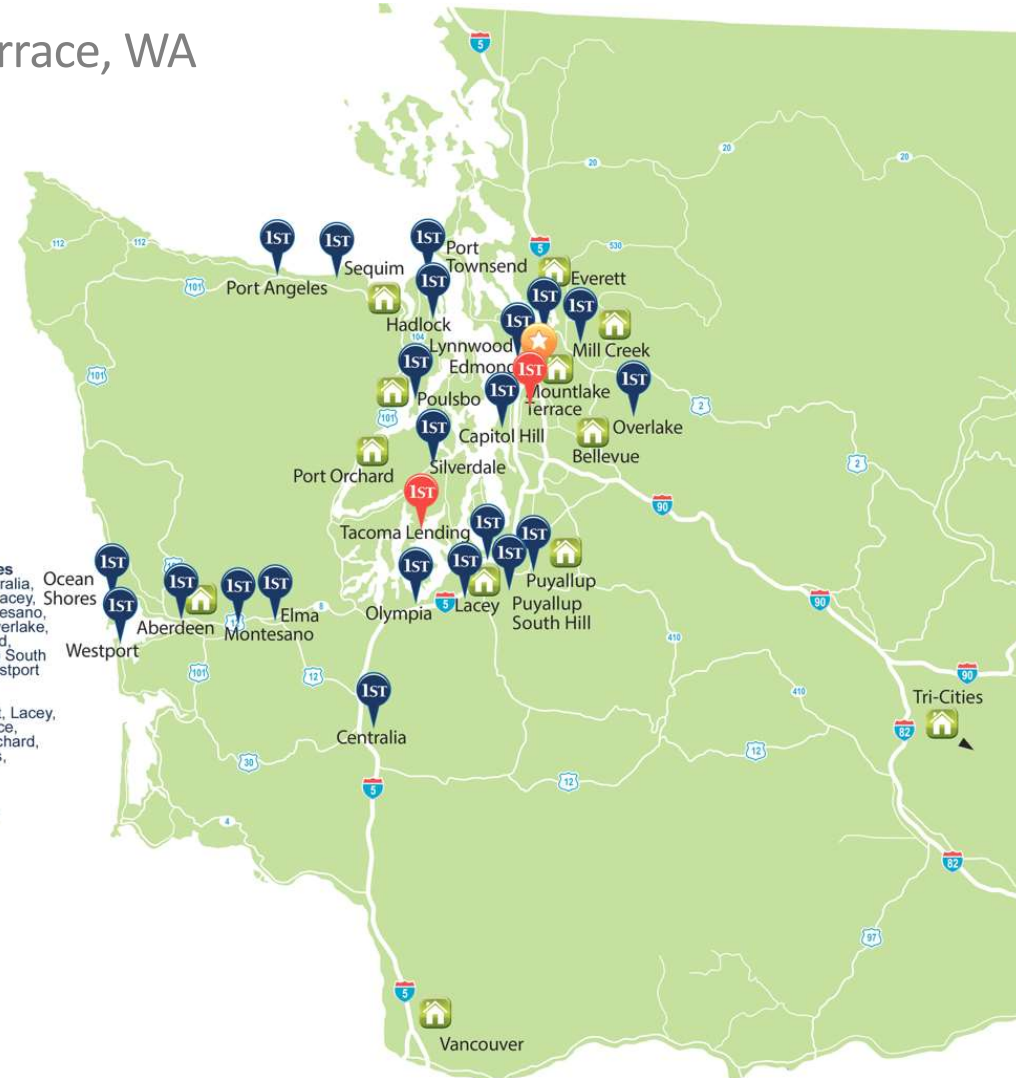
## FRANCHISE OVERVIEW

- **Total Assets:** \$2.65 billion (at September 30, 2022)
- **Headquartered:** Mountlake Terrace, WA
- **Branches:** 23\*
- **Loan Production Offices:** 14
- **ATM Locations:** 20
- **Year Established:** 1936
- **Quarterly Dividend:** \$0.20 \*\*

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

\*\*Thirty-ninth Consecutive Quarterly Dividend Announced

- 
**1st Security Bank Branches**  
 Aberdeen, Capitol Hill, Centralia, Edmonds, Elma, Hadlock, Lacey, Lynnwood, Mill Creek, Montesano, Ocean Shores, Olympia, Overlake, Port Angeles, Port Townsend, Poughbo, Puyallup, Puyallup South Hill, Sequim, Silverdale, Westport
- 
**Home Lending**  
 Aberdeen, Bellevue, Everett, Lacey, Mill Creek, Mountlake Terrace, Olympic Peninsula, Port Orchard, Poughbo, Puyallup, Tri-Cities, Vancouver
- 
**Commercial Lending**  
 Mountlake Terrace, Tacoma
- 
**Administrative Center**  
 Mountlake Terrace



### 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

Converted to a stocksavings bank on July 9, 2012

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

Announced thirty-ninth consecutive quarterly cash dividend of \$0.20 per share

Converted to a state chartered mutual savings bank on April 1, 2004

Completed a four branch acquisition in Q1 2016 resulting in \$186.0M in new relationship based deposits

Completed Anchor Bancorp acquisition on November 15, 2018

1936

2004

2012

2016

2017

2018

2022

### 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
- Increase in-house originations of residential mortgage loans which are primarily sold into the secondary market through the mortgage banking platform
- Remain focused on maintaining and improving asset quality
- Continue to emphasize 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)
- We finance 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>	19	20+
	Erin Burr	<i>EVP, Chief Risk Officer</i>	13	20+
	Matthew Mullet	<i>EVP, Chief Financial Officer</i>	11	20+
	Kelli Nielsen	<i>EVP, Retail Banking &amp; Marketing</i>	6	30+
	Robert Fuller	<i>EVP, Chief Credit Officer</i>	9	30+
	Lisa Cleary	<i>EVP, Chief Operating Officer</i>	2	20+
	Dennis O'Leary	<i>EVP, Chief Lending Officer</i>	11	30+
	Vickie Jarman	<i>EVP, Chief Human Resources Officer</i>	20	20+
	Donn Costa	<i>EVP, Home Lending Production</i>	11	30+



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

**Banks Headquartered in Snohomish County: September 30, 2022**  
**Total Assets \$7.2B**



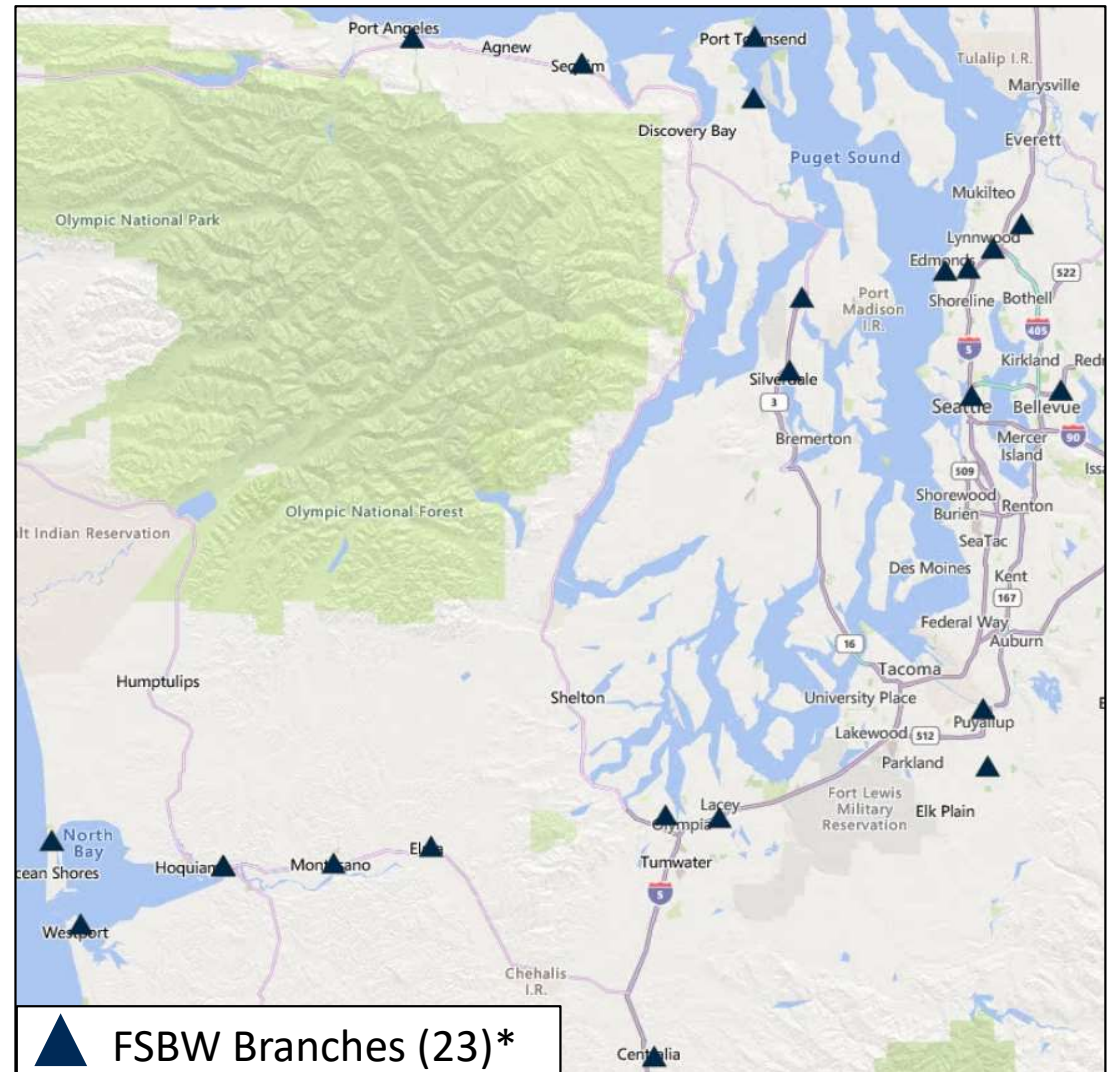
\*Denotes a financial institution no longer headquartered in Snohomish County  
 Note: Dollar amount are for assets  
 Source: FFIEC Central Data Repository's Public Bank Data Distribution website & S&P Capital IQ

## DEPOSIT FRANCHISE & BRANCH FOOTPRINT

### County Deposits & Demographics (6/30/22)

County	Market Rank	Number of Branches	Deposits In Market (\$000)	Deposit Market Share (%)	% of Franchise
Snohomish	6	4	901,367	4.72	44.34
Grays Harbor	3	6	243,139	18.25	11.96
Clallam	4	2	229,593	8.40	11.29
Jefferson	3	2	185,070	21.18	9.10
King	22	2	176,569	0.15	8.69
Pierce	15	2	110,131	0.61	5.42
Thurston	13	2	89,538	1.55	4.40
Kitsap	12	2	63,680	1.36	3.13
Lewis	9	1	33,726	2.45	1.66
<b>Total</b>			<b>2,032,813</b>		

County	2022		2022-2027 Projected	
	Total Population	Median HH Income (\$)	Population Change (%)	HH Income Change (%)
Snohomish	850,697	100,225	19.26	14.42
Grays Harbor	76,864	63,809	5.59	15.09
Clallam	79,088	63,648	10.76	11.89
Jefferson	33,203	64,472	11.15	8.72
King	2,325,075	115,477	20.39	15.57
Pierce	930,715	89,399	17.04	15.29
Thurston	300,863	85,567	19.27	12.93
Kitsap	277,195	90,332	10.38	14.91
Lewis	83,281	65,460	10.37	13.53
<b>Total</b>	<b>4,956,981</b>			
<b>Washington</b>	<b>7,858,401</b>	<b>88,405</b>	<b>16.86</b>	<b>14.17</b>
<b>United States</b>	<b>334,279,739</b>	<b>72,465</b>	<b>8.27</b>	<b>12.10</b>



Source: S&P Capital IQ; Deposit data as of June 30, 2022

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

## THIRD QUARTER 2022 HIGHLIGHTS

### Financial Highlights Q3 2022

- Total assets of \$2.7 billion
- Gross portfolio loans of \$2.1 billion
- Net income of \$8.5 million

### Q3 2022 QTD

- Diluted earnings per share of \$1.08
- Tangible book value per share of \$28.30<sup>(1)</sup>
- Announced thirty-ninth consecutive quarterly cash dividend (\$0.20)

### Selected Performance Ratios

- ROAA of 1.34%
- ROAE of 13.31%
- Net Interest Margin of 4.54%
- Efficiency Ratio of 60.99%

### Credit Quality Ratios

- Non-performing Assets (NPAs) as a percentage of total assets of 0.32%
- Allowance for credit losses on loans as a percentage of gross loans receivable of 1.25%
- Early adoption of the Current Expected Credit Losses (“CECL”) standard as of January 1, 2022

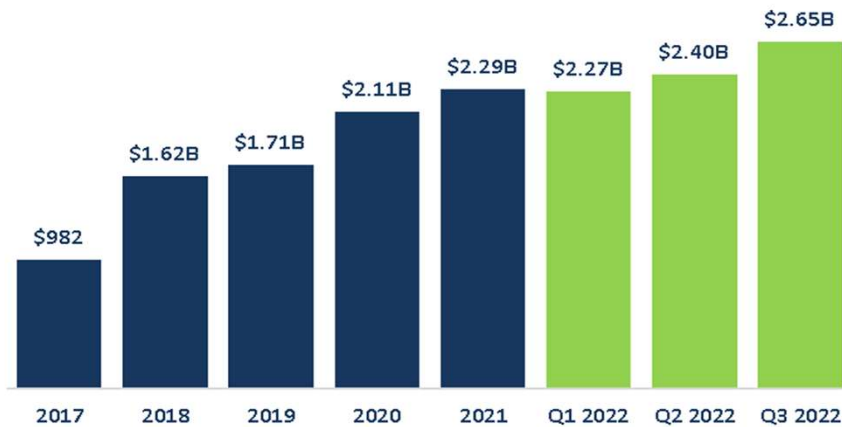
### Capital Position

- Currently, all Bank Holding Company (BHC) and Bank ratios are above those to be considered “Well-Capitalized”
- Common Equity Tier 1 (“CET1”) capital ratio of 10.6% as of September 30, 2022

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

## FRANCHISE GROWTH

### Total Assets (\$B)



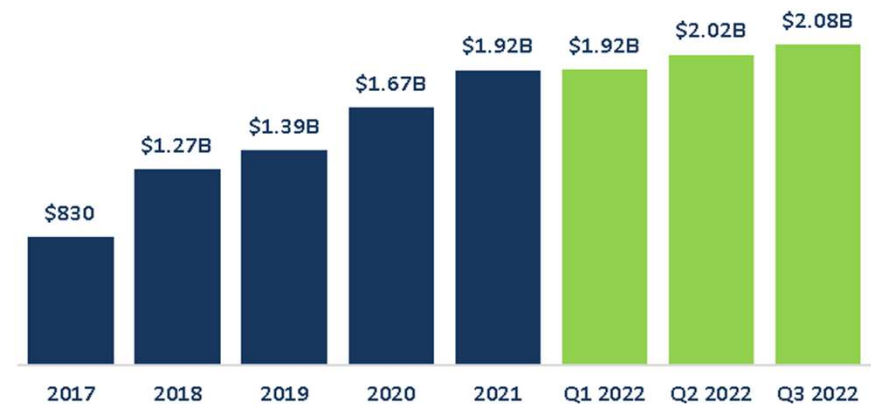
### Tangible Common Equity (\$M)<sup>(1)</sup>



### Total Net Loans (\$B)



### Total Deposits (\$B)

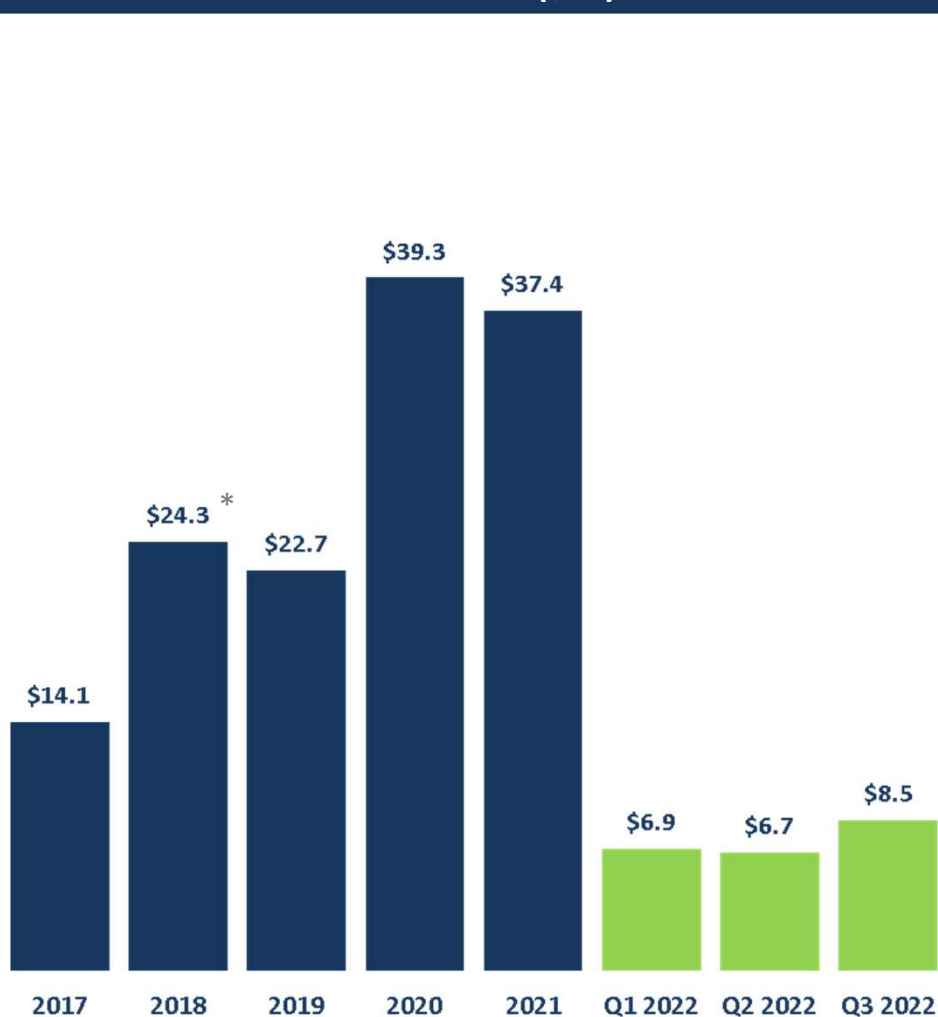


Source: Company documents

(1) Non-GAAP financial measure

### 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

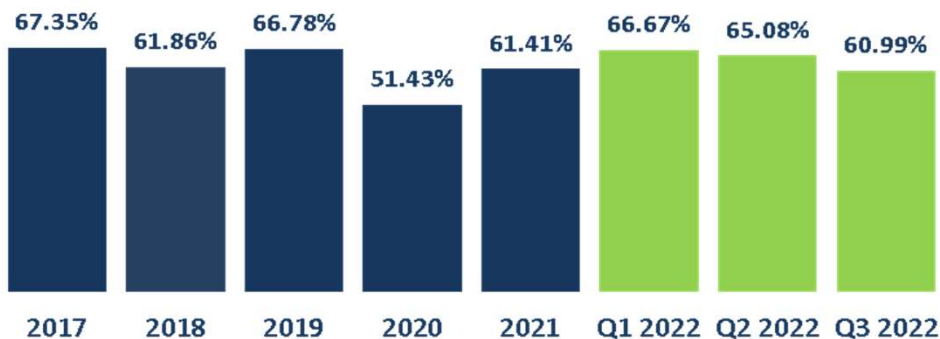
### ROAA



### ROAE



### Efficiency Ratio



### Net Interest Margin

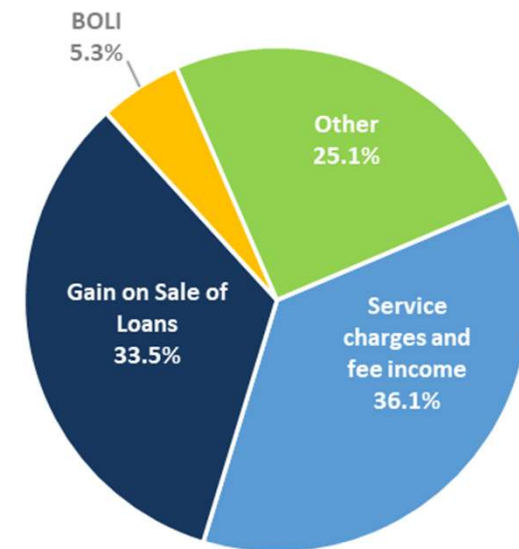


## NONINTEREST INCOME

Noninterest Income (\$M)



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

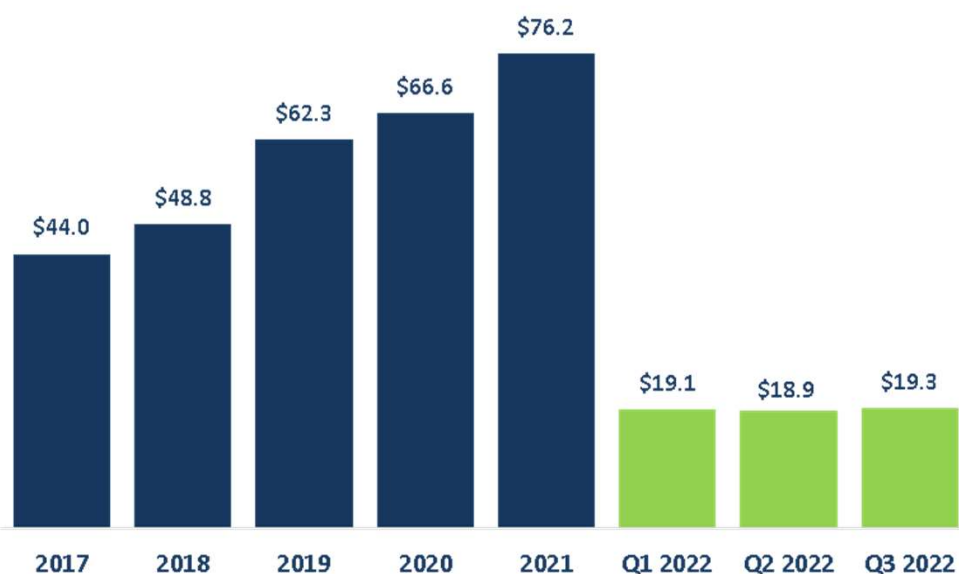


Note: In 2020, noninterest income year-over-year growth due in part to increased gain on sale revenue resulting from low interest rate environment.

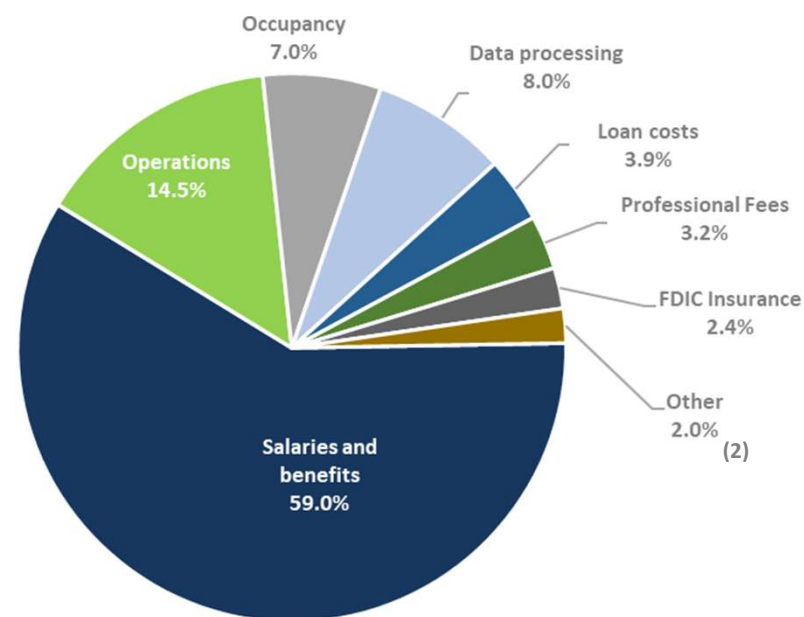
(1) Quarter ended September 30, 2022

### NONINTEREST EXPENSE

Noninterest Expense (\$M)



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



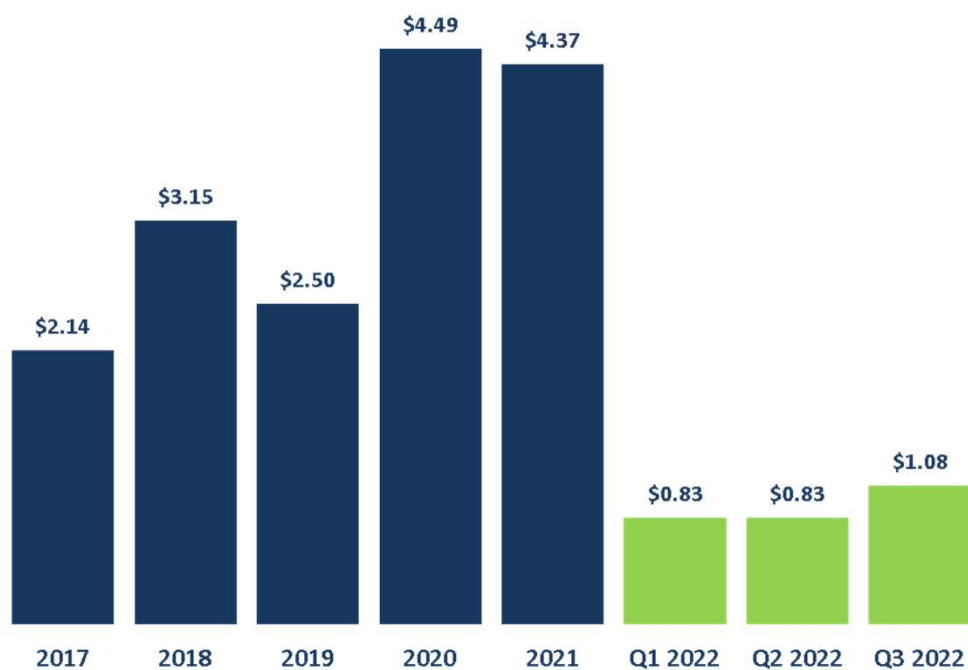
(1) Quarter ended September 30, 2022

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



## BUILDING STOCKHOLDER VALUE

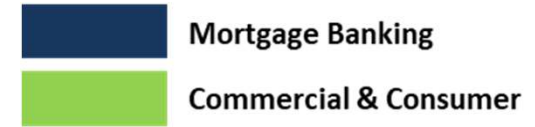
Diluted Earnings Per Share



Reported Book Value Per Share



## SEGMENT REPORTING ANALYSIS



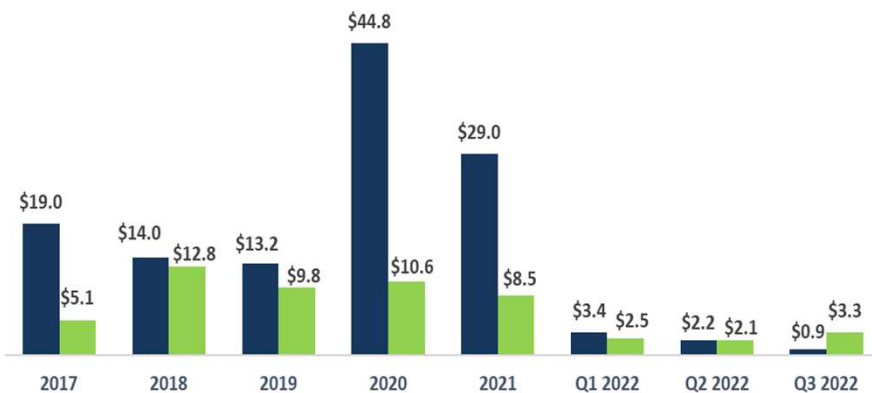
### Net Interest Income



### 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 = 64.0% (as of September 30, 2022)
  - Commercial Real Estate (CRE) Weighted Average LTV= 58.3% (as of September 30, 2022)
- Loans greater than \$5 million are reported to the Asset Quality Committee, while loans between \$15 million and \$30 million require approval from the Senior Loan Committee
- The legal lending limit is \$60.7 million while the in-house limit is \$30 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

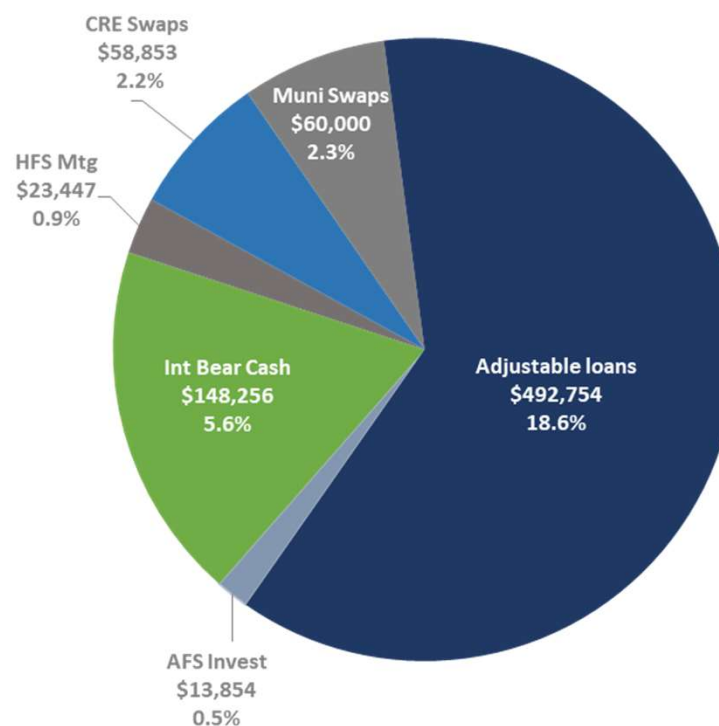
#### Historical NCOs / Avg. Loans



## ASSETS WITH SHORT TERM REPRICING

### Assets Repricing - Within 1 Month (\$M)

- Assets repricing within 30 days of September 30, 2022, was \$797.2 million, or 30.1% of total assets



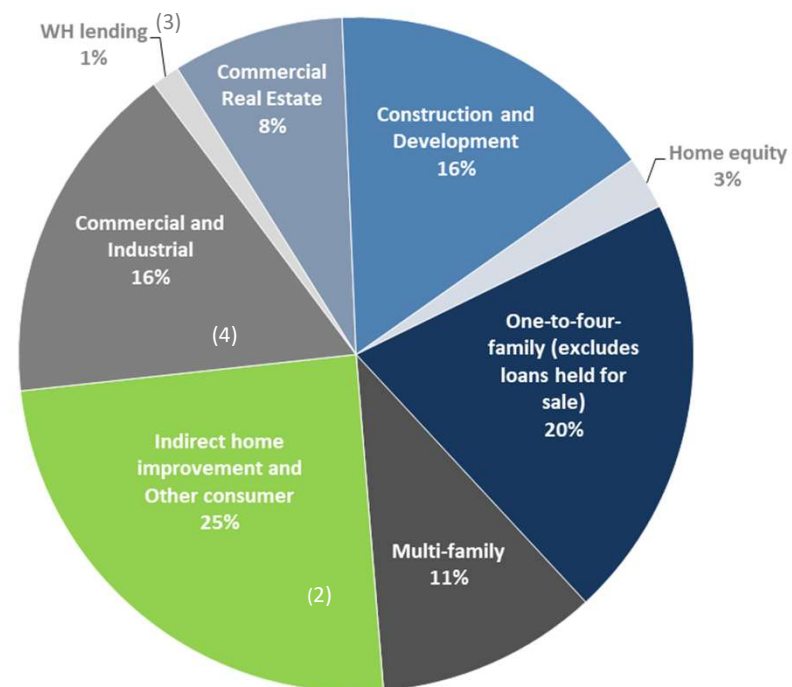
## LOAN PORTFOLIO SUMMARY

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



### Loan Composition at September 30, 2022

Total Gross Loans (excl. loans held for sale): \$2.1B



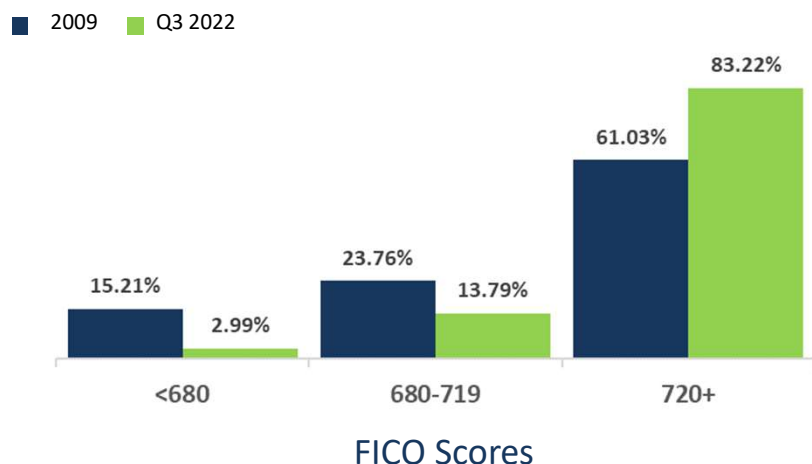
(1) Loans including loans held for sale  
 (2) Other consumer includes marine loans  
 (3) WH = Warehouse  
 (4) Includes owner occupied CRE

## CONSUMER LENDING

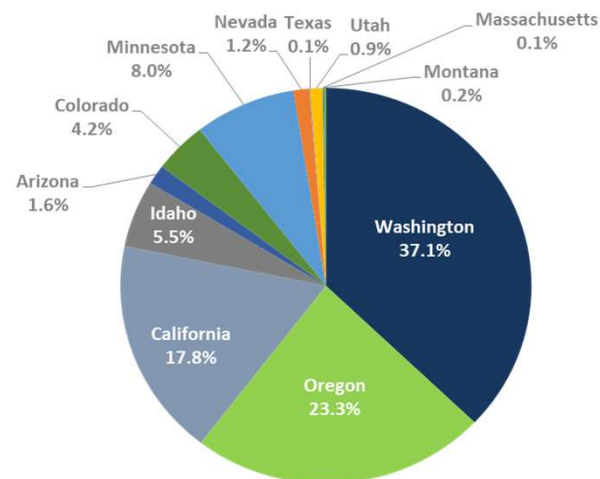
### Q3 2022 Highlights

- Primarily home improvement and marine, UCC-2 or title secured
- Offered on an indirect basis and largely automated (with underwriter verification)
- \$519 million outstanding as of Q3 2022
  - \$101 million in dealer originations
  - \$49 million, or 62%, with the top 10 dealers
  - Average net of fees yield of 6.40%, down from 6.46% in Q2 2022

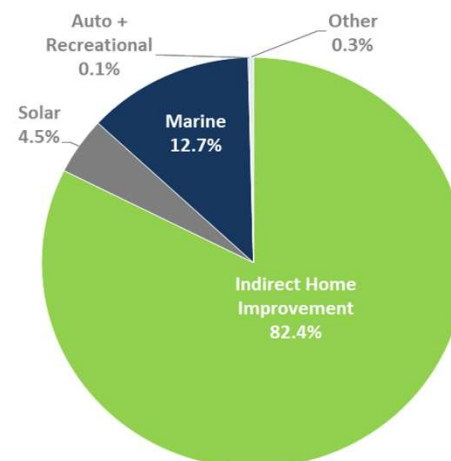
### 2009 vs. Q3 2022 Portfolio Credit Quality



### Q3 2022 Dealer Production by State



### Consumer Portfolio Characteristics

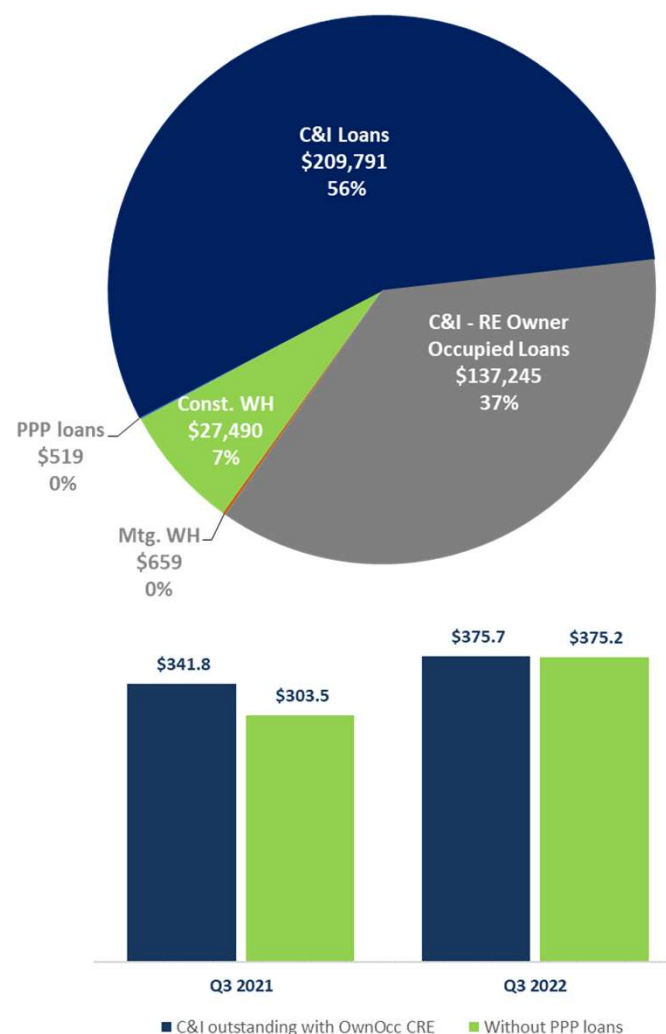


### COMMERCIAL BUSINESS LENDING

#### Q3 2022 Commercial & Industrial (C&I)

- C&I commitments: \$587.2 million
- Outstanding balances were \$375.7<sup>(1)</sup> million at September 30, 2022, compared to \$359.2<sup>(1)</sup> million at June 30, 2022
- The \$16.1 million of quarter over sequential quarter increase in outstanding balances was largely attributed to organic loan growth (+\$51.9 million) at the end of the quarter, less \$2.2 million reduction in WH lending; and regular payoffs and CARES Act forgiveness activity
- CARES Act forgiveness and payment activity reduced the C&I balance by \$2.4 million in the third quarter

#### Q3 2022 Product Mix (\$M)



Source: Company documents

(1) Deferred fees and costs are not reflected in the totals

### CONSTRUCTION & DEVELOPMENT LENDING

#### Q3 2022 Highlights

- Overall construction: \$569.4 million committed / \$335.2 million outstanding
- \$4.9 million increase in quarter over quarter Multi-family Construction outstanding
- 7.29% average coupon rate
- Majority of originations in King County
- Focus on "in-city", infill speculative lending to a select group of relationship customers

#### Quarterly C&D Loans Outstanding (\$M)





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



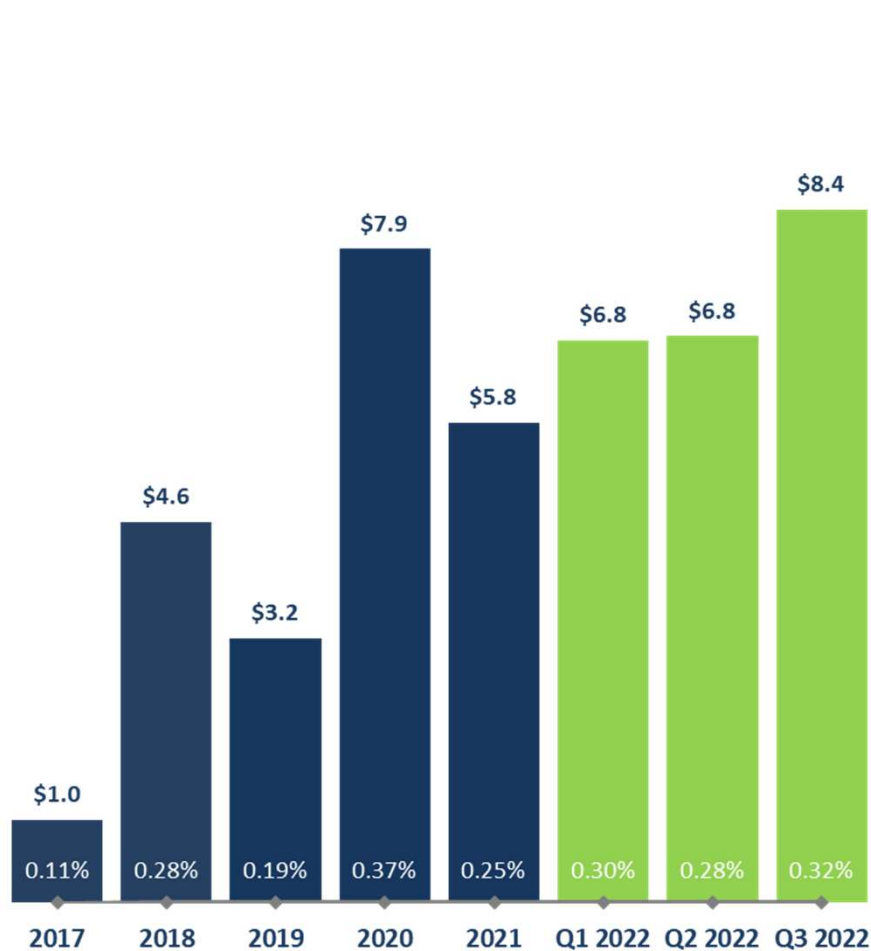
## Total Revenues (\$M)



\* \$0.4 million of \$1.4 million was attributable to gain on sale of consumer loans

## ASSET QUALITY

### Non-performing Assets (\$M)<sup>(1)</sup> & NPAs/ Assets



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



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



(1) Non-performing Assets consists of non-performing loans (which include non-accruing loans and accruing loans more than 90 days past due), foreclosed real estate and other repossessed assets

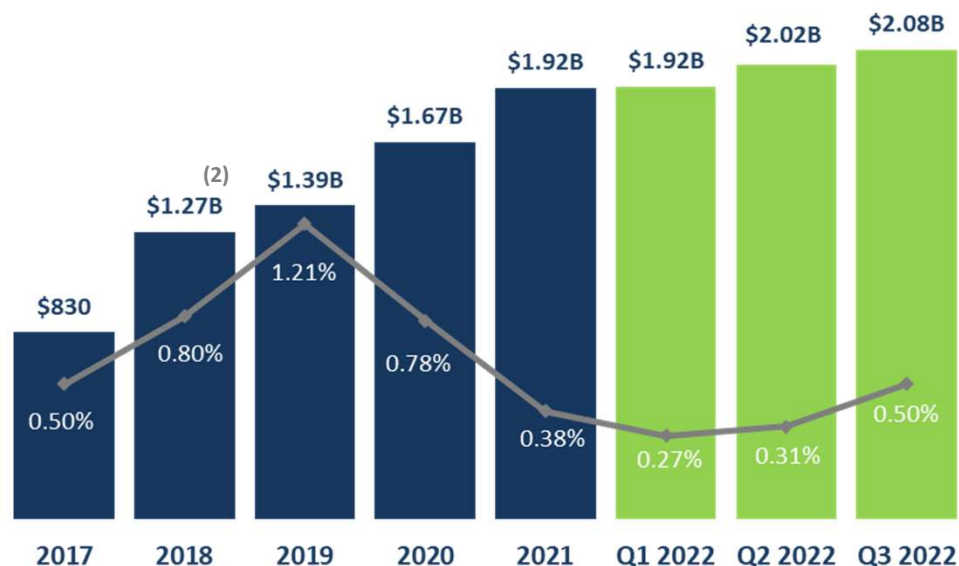
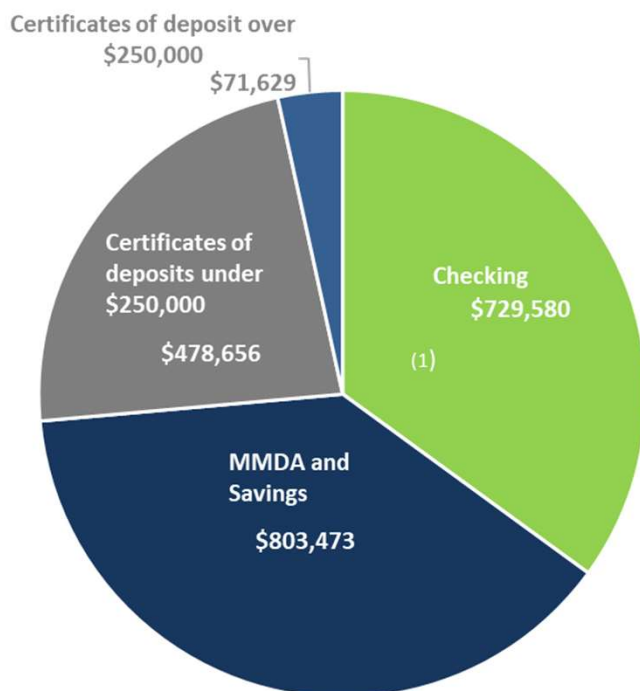
(2) Excluding HFS loans

## DEPOSIT COMPOSITION AND GROWTH

September 30, 2022

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

Total Deposits: \$2.1 billion



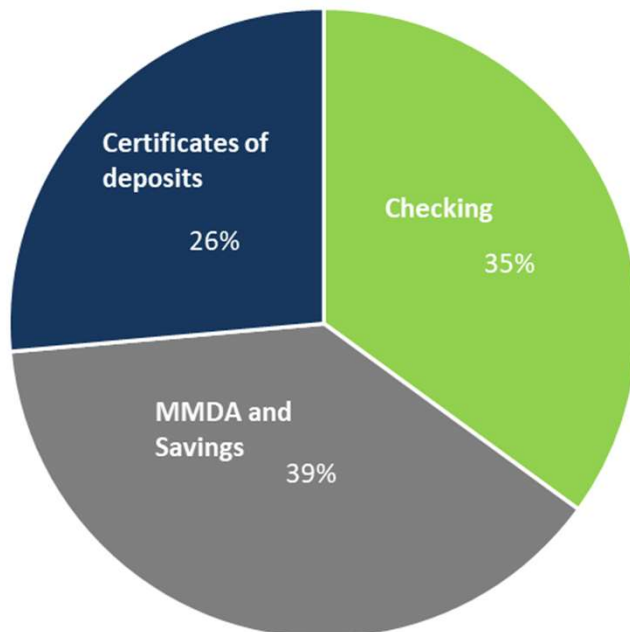
(1) Includes noninterest-bearing checking, interest-bearing checking and escrow accounts related to mortgages serviced

(2) Anchor Bancorp acquisition in Q4 2018

## COMPOSITION COMPARISON YEAR OVER YEAR

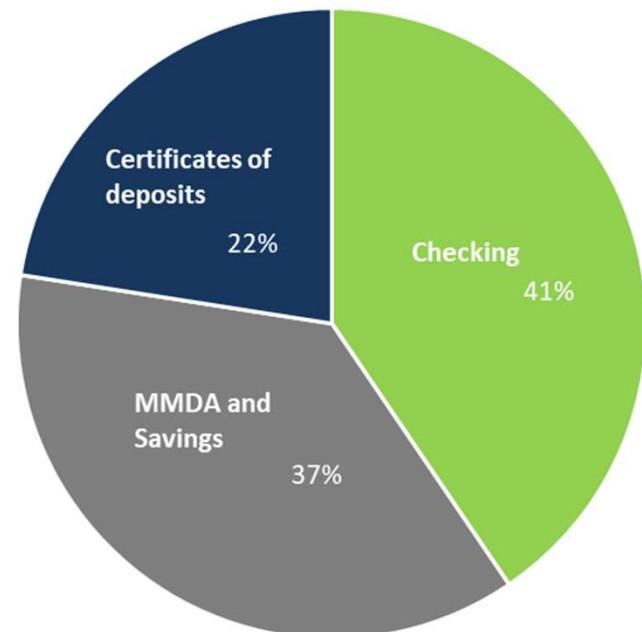
September 30, 2022

Total Deposits: \$2.1 billion



September 30, 2021

Total Deposits: \$1.9 billion



## CAPITAL STRATEGY

### Franchise Growth

- Continued organic asset growth across our diverse group of lending channels
- Expand commercial business lending including construction lending in line 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 18.5% payout ratio compared to diluted earnings per share in the third quarter

### Shareholder Value

- Continued focus on increasing shareholder value through our business plan execution
- Repurchased 74,073 shares of our common stock during the third quarter

# **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)	September 30, 2022		June 30, 2022		March 31, 2022		December 31, 2021		September 30, 2021	
Stockholders' equity	\$	220,547	\$	222,641	\$	235,950	\$	247,507	\$	240,453
Goodwill and core deposit intangible, net		(5,854)		(6,027)		(6,199)		(6,372)		(6,532)
Tangible common stockholders' equity	\$	214,693	\$	216,614	\$	229,751	\$	241,135	\$	233,921
Common shares outstanding at end of period		7,585,843		7,605,740		7,945,539		8,048,215		8,073,412
Common stockholders' equity (book value) per share (GAAP)	\$	29.07	\$	29.27	\$	29.70	\$	30.75	\$	29.78
Tangible common stockholders' equity (tangible book value)*	\$	28.30	\$	28.48	\$	28.92	\$	29.96	\$	28.97

\*Per share (non-GAAP)

Source: Press Release

(\$ in 000's)	September 30, 2022		June 30, 2022		March 31, 2022		December 31, 2021		September 30, 2021	
Stockholders' equity	\$	220,547	\$	222,641	\$	235,950	\$	247,507	\$	240,453
Common shares outstanding at end of period		7,585,843		7,605,740		7,945,539		8,048,215		8,073,412
Common stockholders' equity (book value) per share (GAAP)	\$	29.07	\$	29.27	\$	29.70	\$	30.75	\$	29.78

Source: FS Bancorp, Inc.; Press Release

# CONTACT INFORMATION

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