

1ST SECURITY BANK

FS BANCORP, INC.

INVESTOR PRESENTATION

May 2023



**“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 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 2023 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:** \$2.78 billion (at March 31, 2023)
- **Headquartered:** Mountlake Terrace, WA
- **Branches:** 29*
- **Loan Production Offices:** 14
- **ATM Locations:** 20
- **Year Established:** 1936
- **Quarterly Dividend:** \$0.25**

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

**Forty-first Consecutive Quarterly Dividend Announced

1ST SECURITY BANK BRANCHES

WA: Aberdeen, Capitol Hill, Edmonds, Elma, Goldendale, Hadlock, Lacey, Lynnwood, Mill Creek, Montesano, Ocean Shores, Olympia, Overlake, Port Angeles, Port Townsend, Poulsbo, Puyallup, Sequim, Silverdale, South Hill Puyallup, Westport, White Salmon

OR: Manzanita, Newport, Ontario, Tillamook, Waldport

HOME LENDING

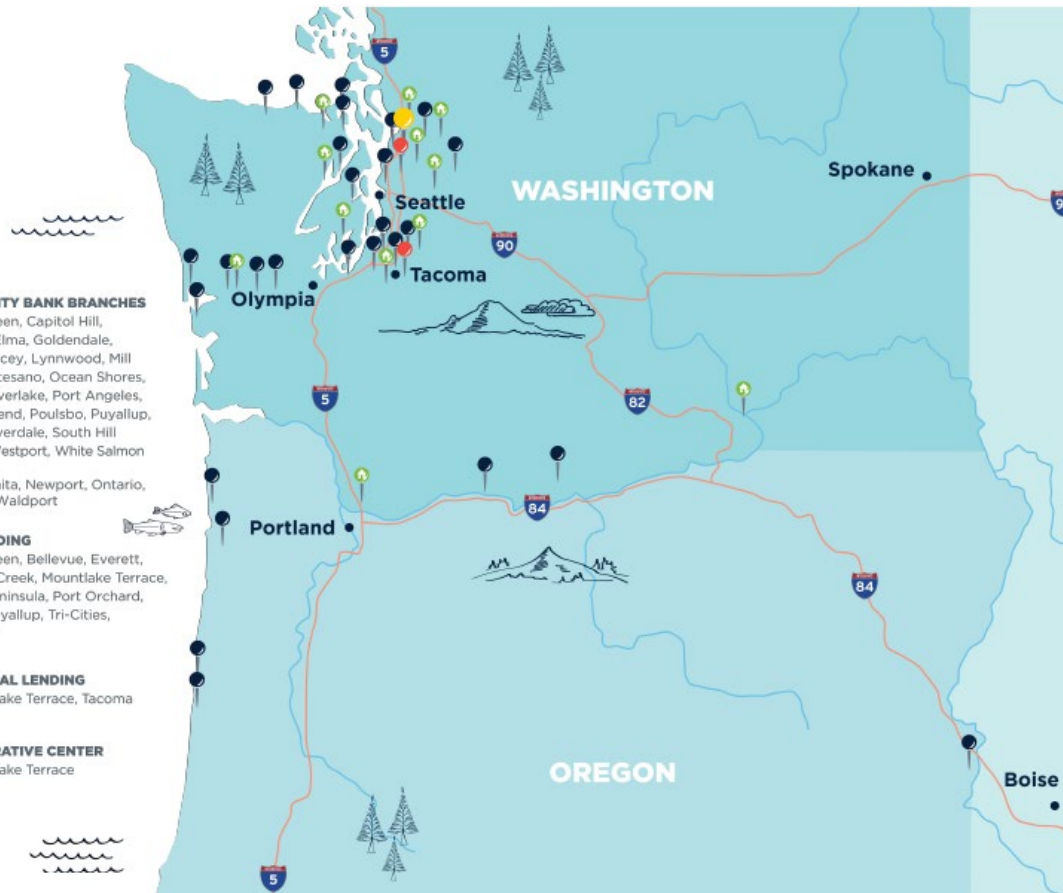
WA: Aberdeen, Bellevue, Everett, Lacey, Mill Creek, Mountlake Terrace, Olympic Peninsula, Port Orchard, Poulsbo, Puyallup, Tri-Cities, Vancouver

COMMERCIAL LENDING

WA: Mountlake Terrace, Tacoma

ADMINISTRATIVE CENTER

WA: 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 forty-first consecutive
quarterly cash dividend of \$0.25 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

Completed a seven-branch acquisition
in Q1 2023 resulting in \$425.5M in new
relationship-based deposits

1936

2004

2012

2016

2017

2018

2023

RECENT BRANCH ACQUISITION

Opportunity to expand 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

- Expanding 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

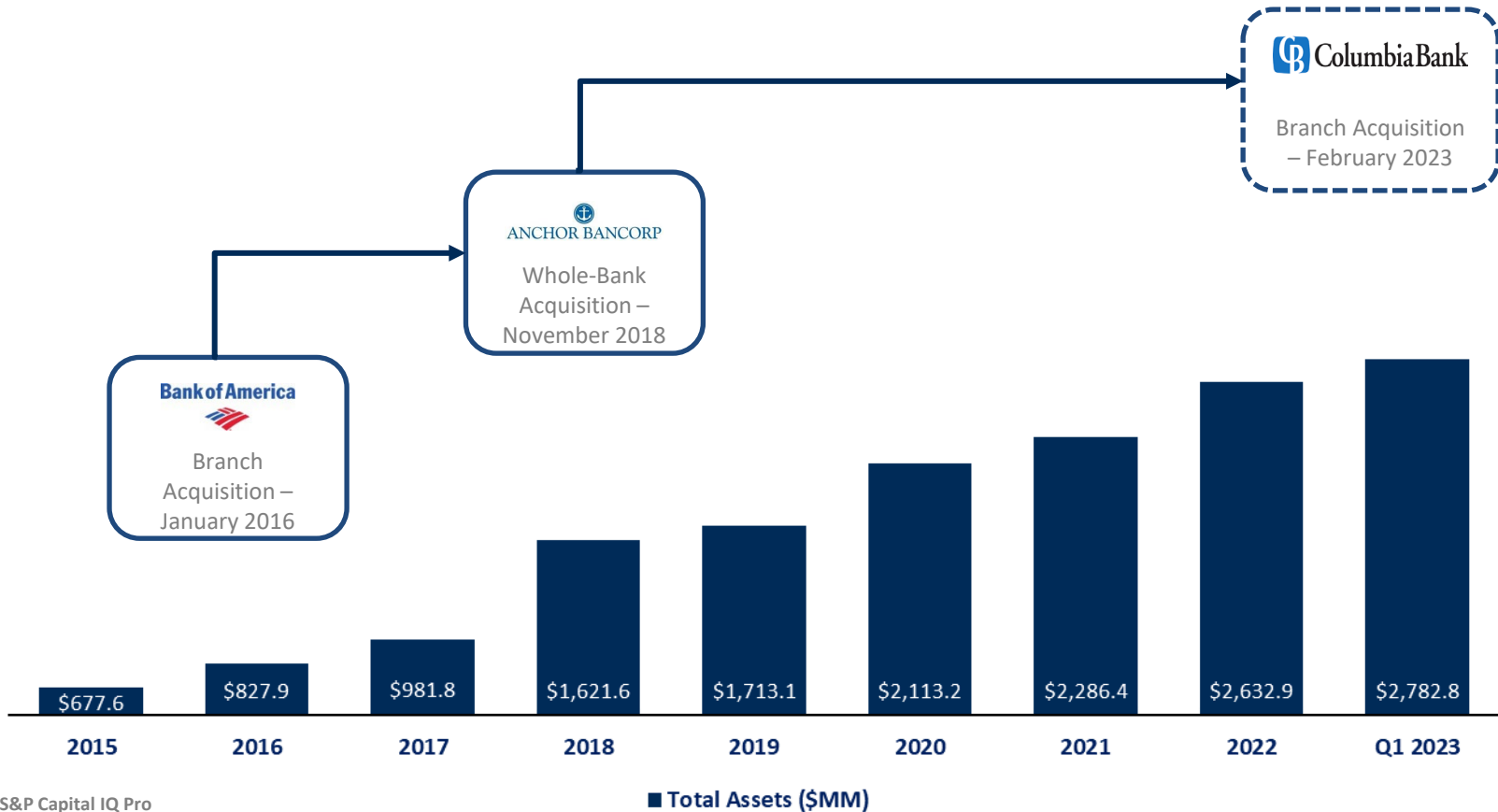
Continued strong focus on enterprise risk management and controls

- 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

Our Previous Successful Experience

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.



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>	14	20+
	Matthew Mullet	<i>EVP, Chief Financial Officer</i>	11	20+
	Kelli Nielsen	<i>EVP, Retail Banking & Marketing</i>	6	30+
	Robert Fuller	<i>EVP, Chief Credit Officer</i>	9	30+
	Vickie Jarman	<i>EVP, Chief Human Resources Officer</i>	20	20+
	Dennis O'Leary	<i>EVP, Chief Lending Officer</i>	11	30+
	Donn Costa	<i>EVP, Home Lending Production</i>	11	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: March 31, 2023
Total Assets \$7.6B



*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 2023 HIGHLIGHTS

Financial Highlights Q1 2023

- Total assets of \$2.8 billion
- Gross portfolio loans of \$2.3 billion
- Net income of \$8.2 million

Q1 2023

- Diluted earnings per share of \$1.04
- Tangible book value per share of \$28.55⁽¹⁾
- Announced forty-first consecutive quarterly cash dividend: \$0.25

Selected Performance Ratios

- ROAA of 1.21%
- ROAE of 12.30%
- Net Interest Margin of 4.70%
- Efficiency Ratio of 65.56%

Credit Quality Ratios

- Nonperforming Assets (NPAs) as a percentage of total assets of 0.33%
- Allowance for credit losses on loans as a percentage of gross loans receivable, excluding loans held for sale of 1.29%

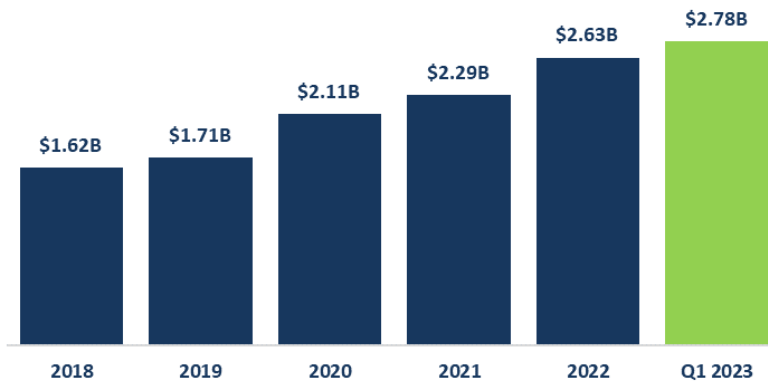
Capital Position

- Currently, all Bank Holding Company (BHC) and Bank ratios are above those to be considered “Well-Capitalized”
- Common Equity Tier 1 (“CET1”) capital ratio of 11.4% as of March 31, 2023

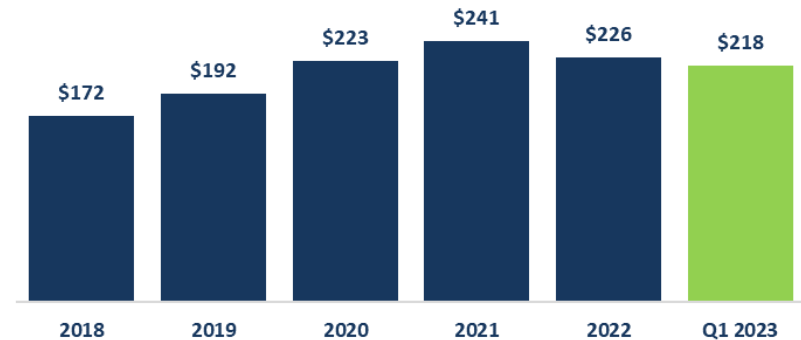
(1) Non-GAAP financial measures. See appendix for reconciliation to book value per share (GAAP)

FRANCHISE GROWTH

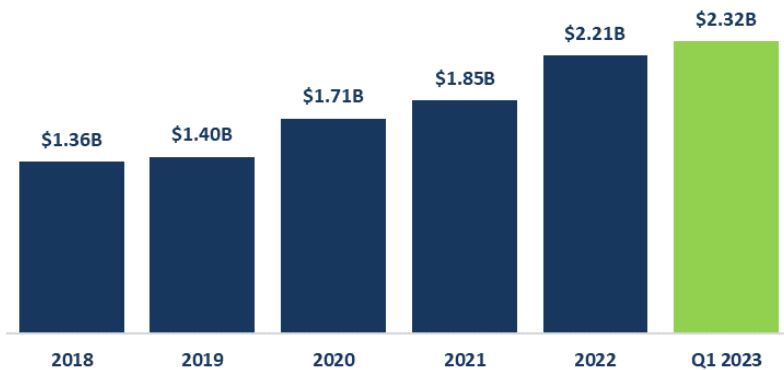
Total Assets (\$B)



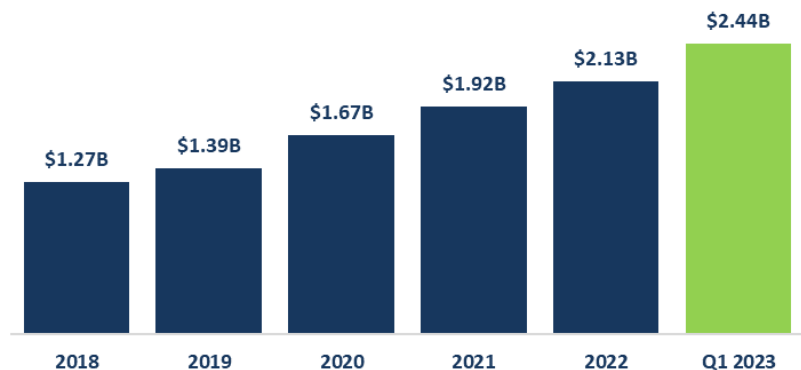
Tangible Common Equity (\$M) ⁽¹⁾



Total Net Loans (\$B) ⁽²⁾



Total Deposits (\$B)



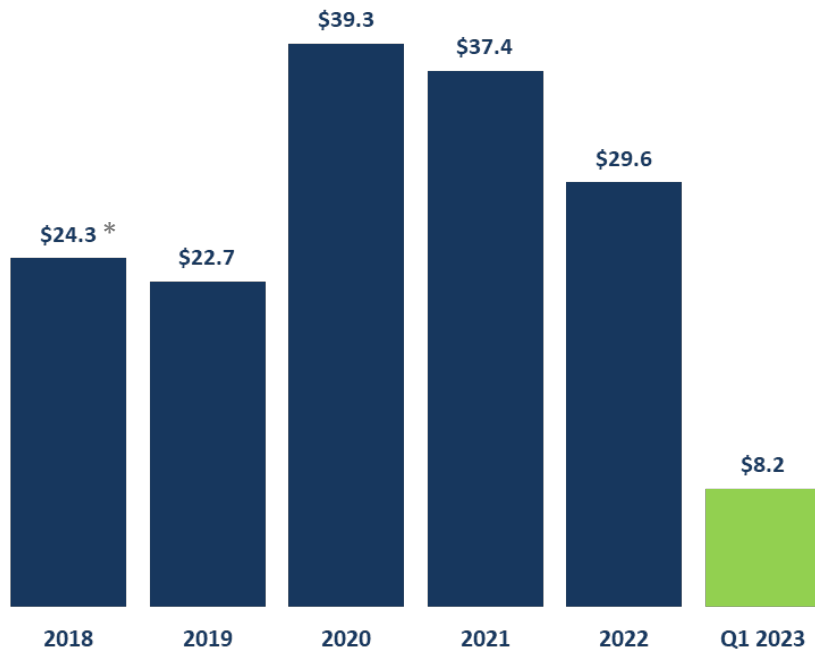
Source: Company documents

(1) Non-GAAP financial measure

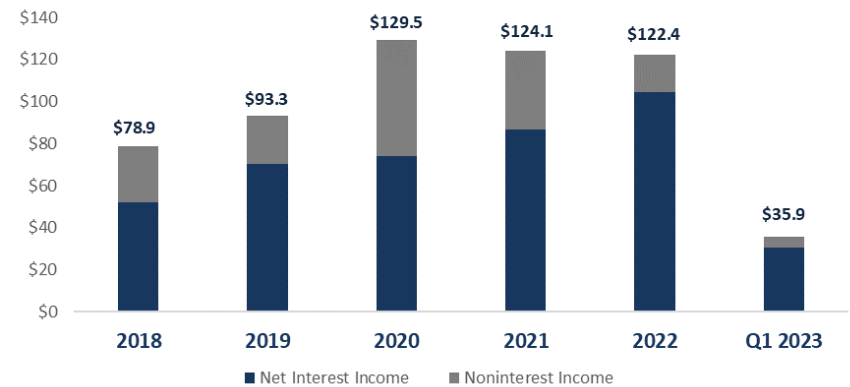
(2) Includes loans held for sale

INCOME STATEMENT TRENDS

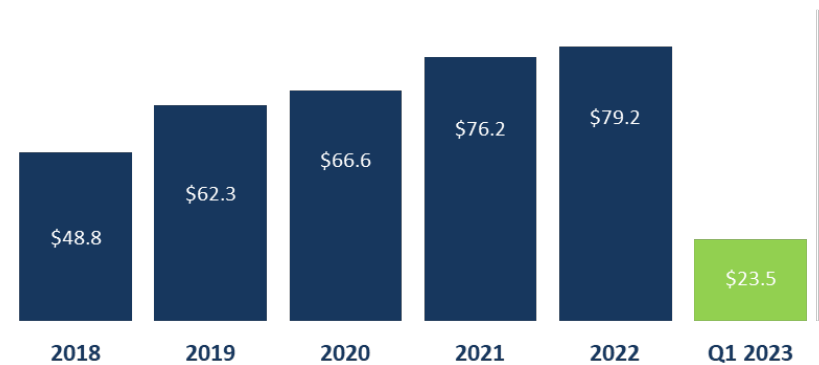
Net Income (\$M)



Total Revenues (\$M)



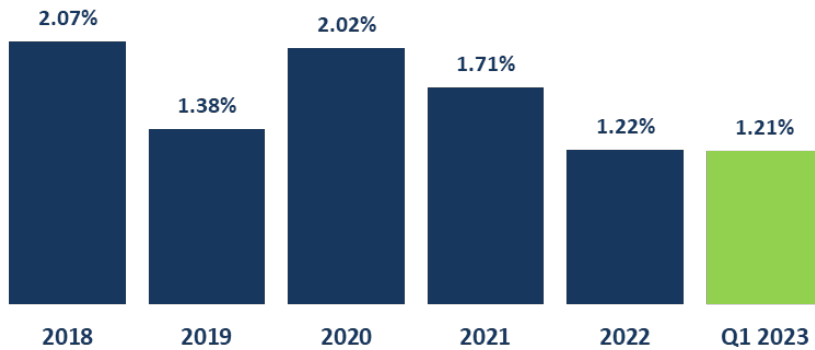
Total Noninterest Expense (\$M)



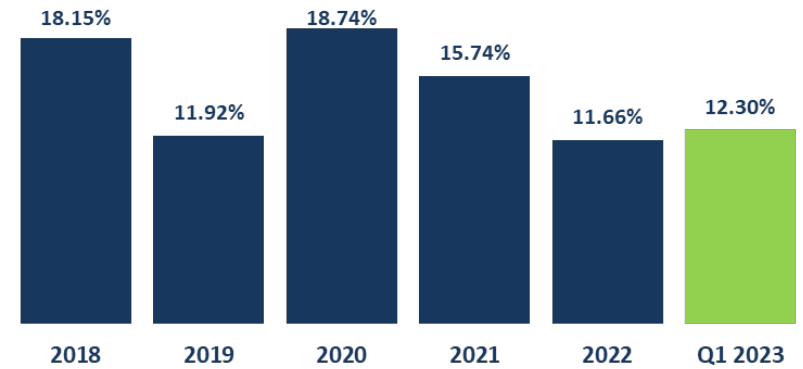
*Includes \$7.4 million in Bargain Purchase Gain (BPG)

SELECTED PERFORMANCE RATIO TRENDS

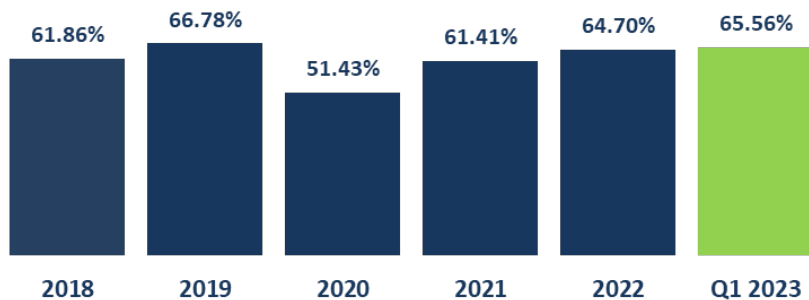
ROAA



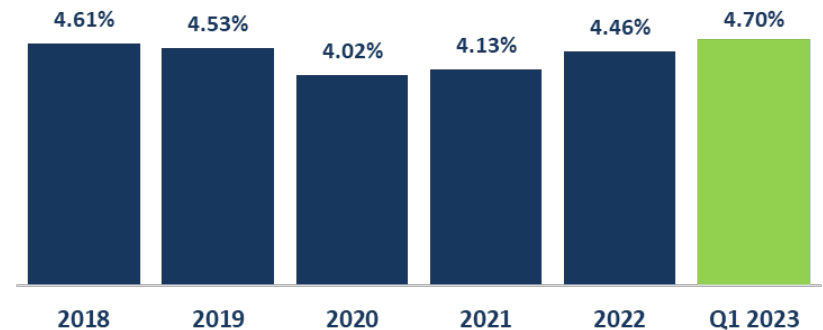
ROE



Efficiency Ratio

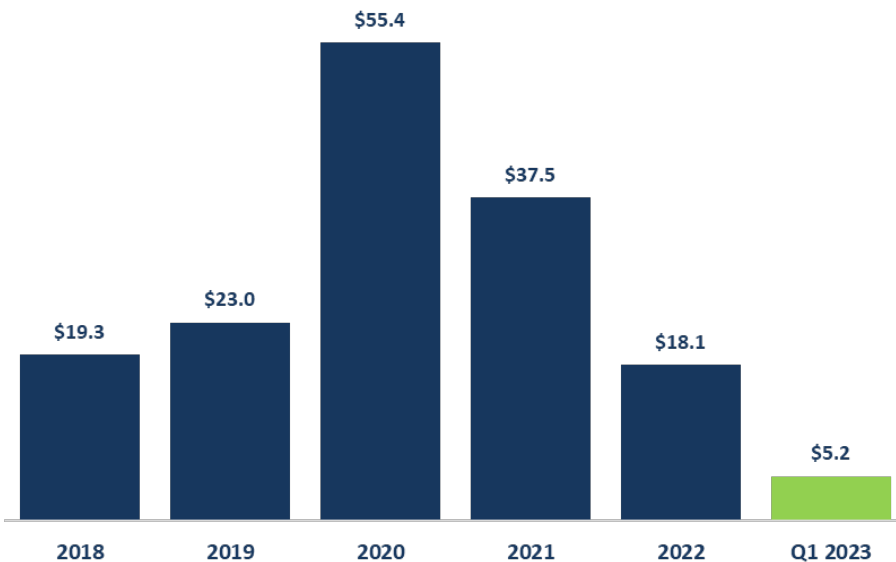


Net Interest Margin

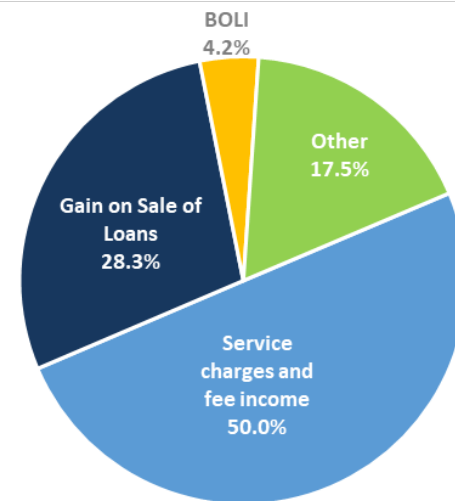


NONINTEREST INCOME

Noninterest Income (\$M)



Noninterest Income Composition⁽¹⁾



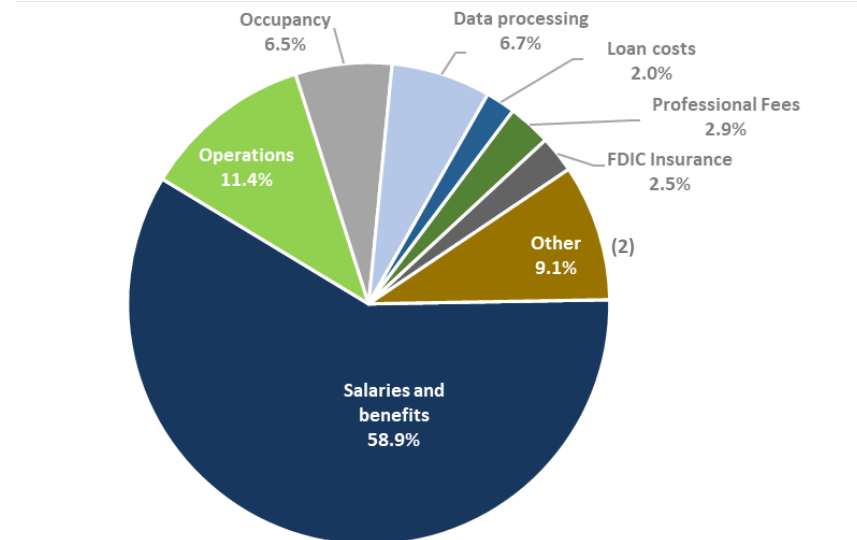
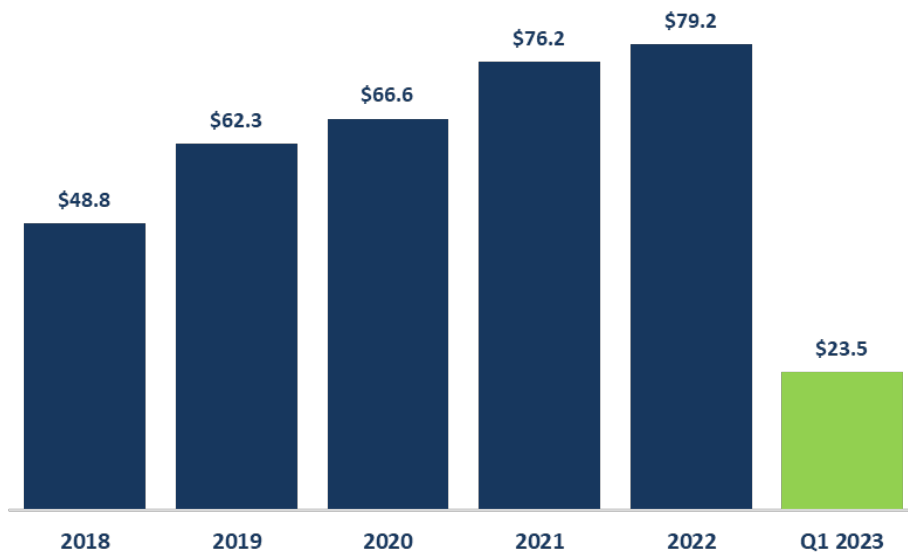
Note: In 2020, noninterest income year-over-year growth due in part to increased gain on sale revenue resulting from low interest rate environment.

(1) Quarter ended March 31, 2023

NONINTEREST EXPENSE

Noninterest Expense (\$M)

Noninterest Expense Composition⁽¹⁾

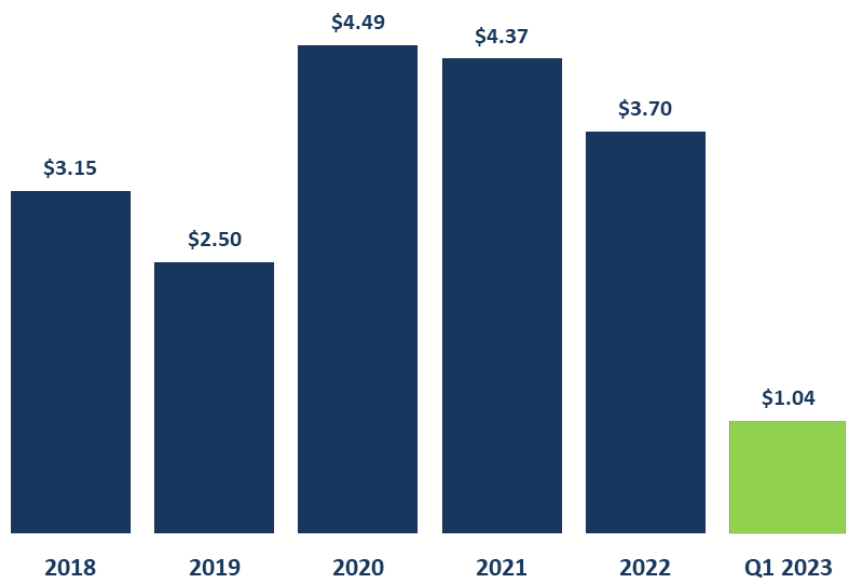


(1) Quarter ended March 31, 2023

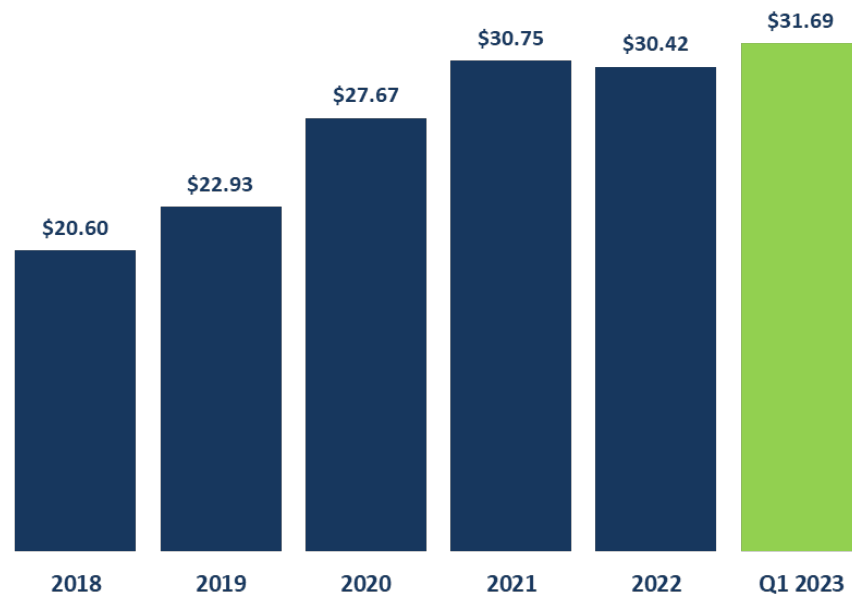
(2) Other = marketing and advertising, acquisition costs, amortization of core deposit intangible and impairment of servicing rights

BUILDING STOCKHOLDER VALUE

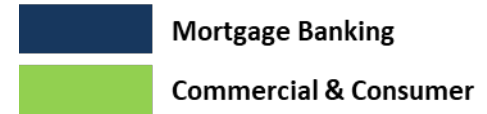
Diluted Earnings Per Share



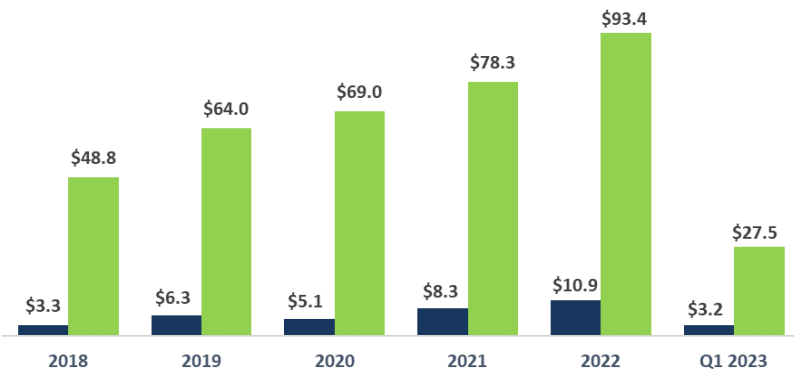
Reported Book Value Per Share



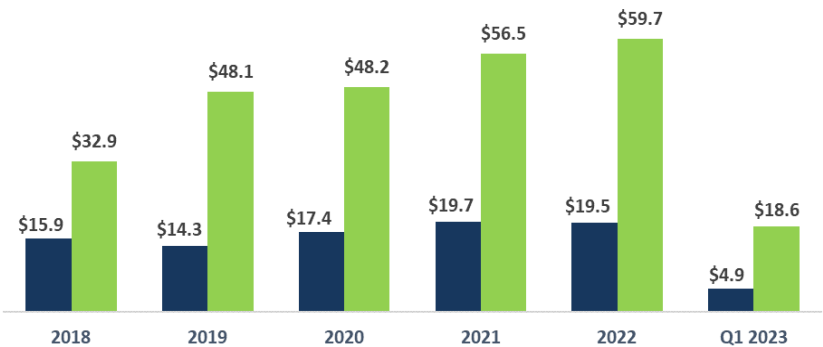
SEGMENT REPORTING ANALYSIS



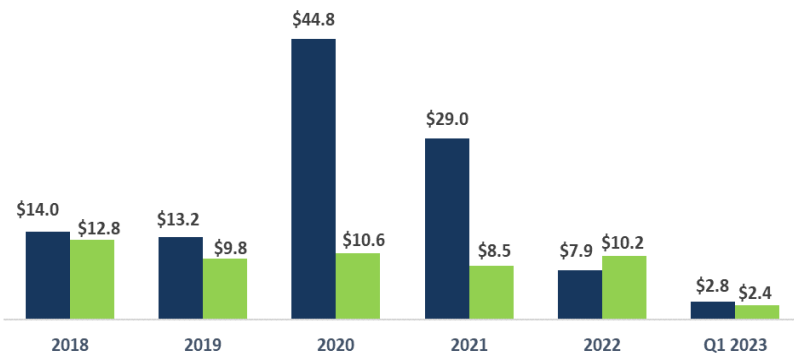
Net Interest Income



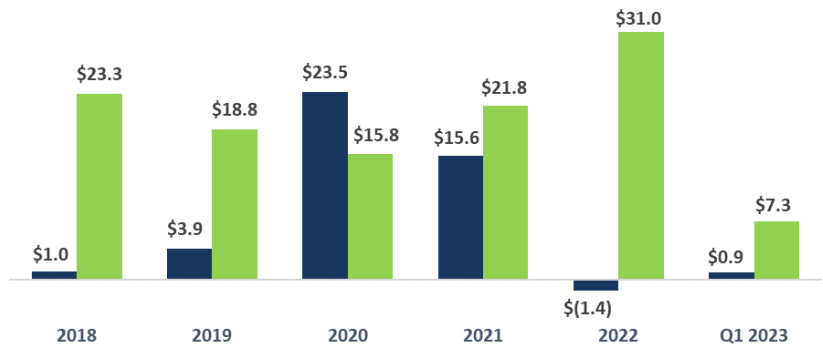
Noninterest Expense



Noninterest Income



Net Income

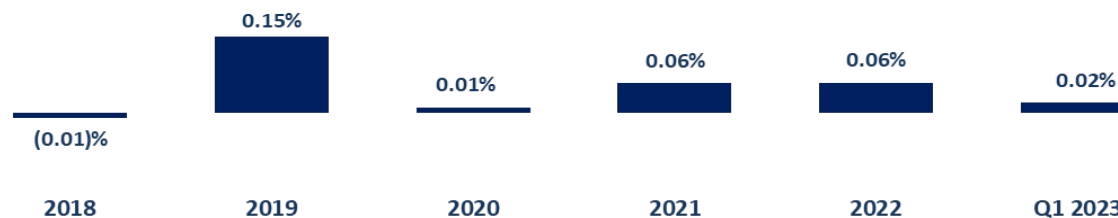


Note: Dollar amounts in millions

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 = 64.7% (as of March 31, 2023)
 - Commercial Real Estate (CRE) Weighted Average LTV= 57.6% (as of March 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 \$58.8 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

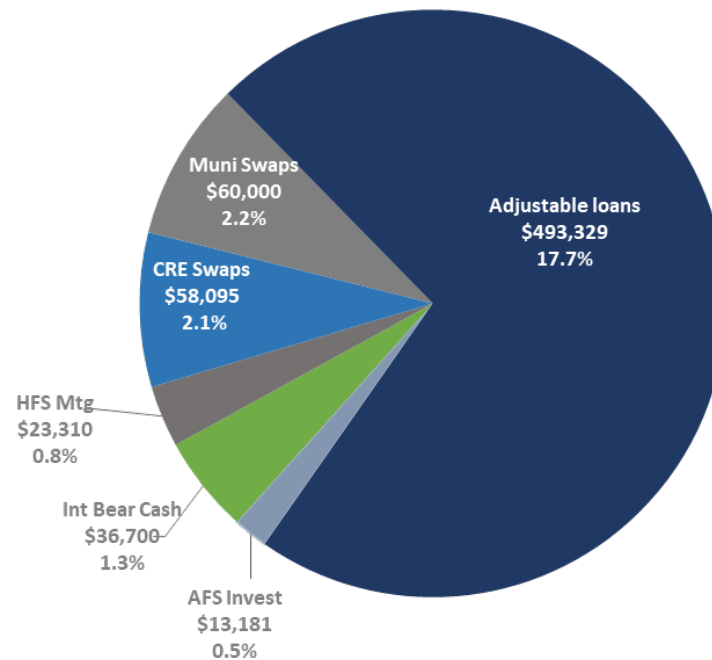
Historical NCOs / Avg. Loans



ASSETS WITH SHORT-TERM REPRICING

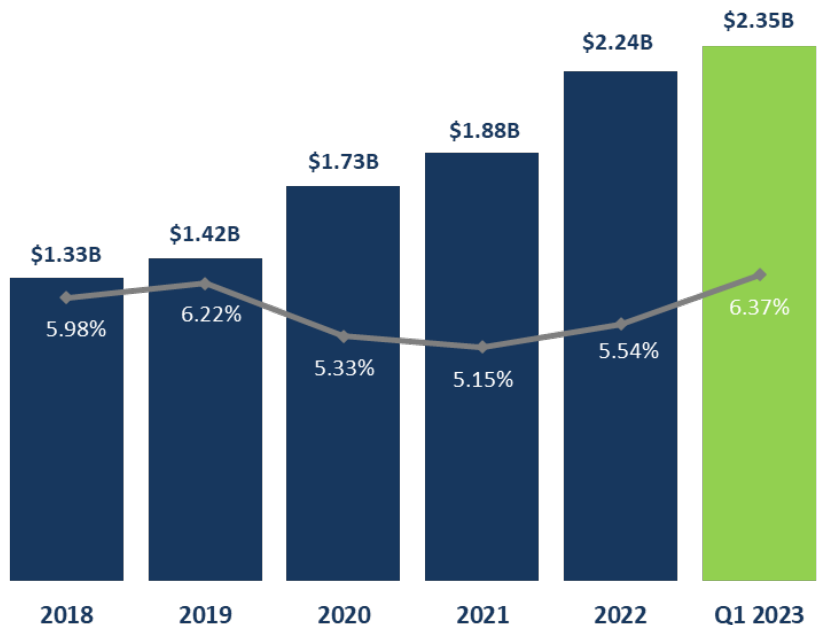
Assets Repricing – 3 Months or less (\$M)

- Assets repricing within 3 months or less of March 31, 2023, was \$684.6 million, or 24.6% of total assets



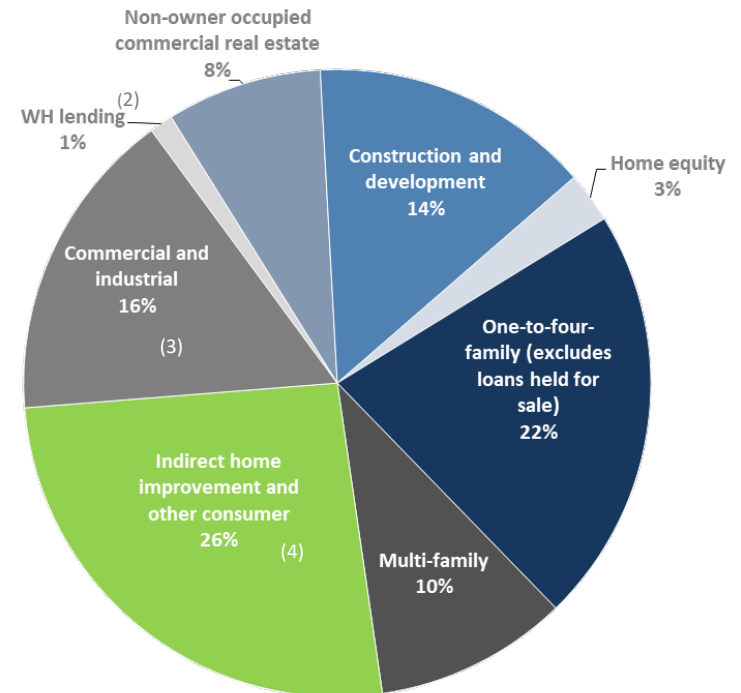
LOAN PORTFOLIO SUMMARY

Gross Loans and Loan Yield (\$B) ⁽¹⁾



Loan Composition at March 31, 2023

Total Gross Loans (excl. loans held for sale): \$2.3B



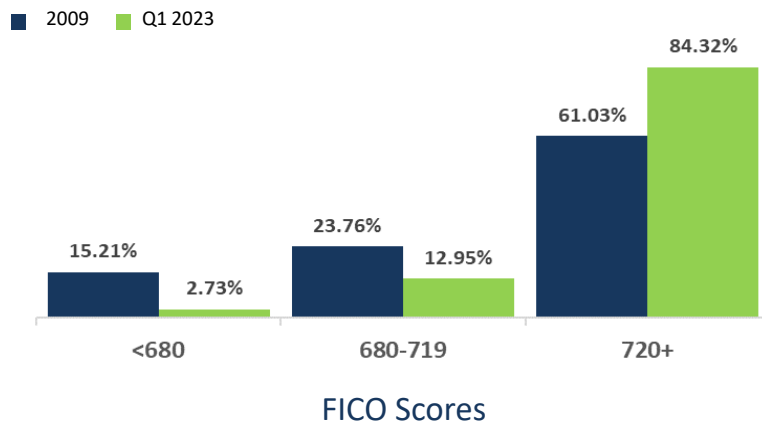
- (1) Loans including loans held for sale
- (2) WH = Warehouse
- (3) Includes owner occupied CRE and agriculture loans
- (4) Other consumer includes marine loans

CONSUMER LENDING

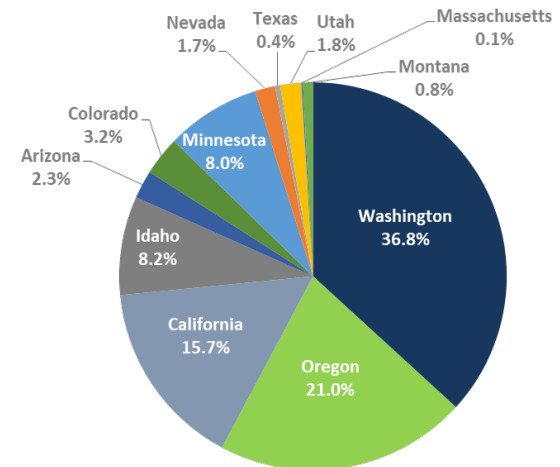
Q1 2023 Highlights

- Primarily home improvement and marine, UCC-2 or title secured
- Offered on an indirect basis and largely automated (with underwriter verification)
- \$606.7 million outstanding as of Q1 2023:
 - \$70 million in dealer originations
 - \$50 million, or 70%, with the top 10 dealers
 - Average net of fees yield of 6.57%, up from 6.46% in Q4 2022

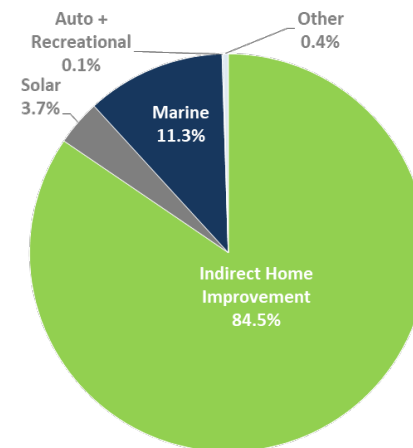
2009 vs. Q1 2023 Portfolio Credit Quality



Q1 2023 Dealer Production by State



Consumer Portfolio Characteristics

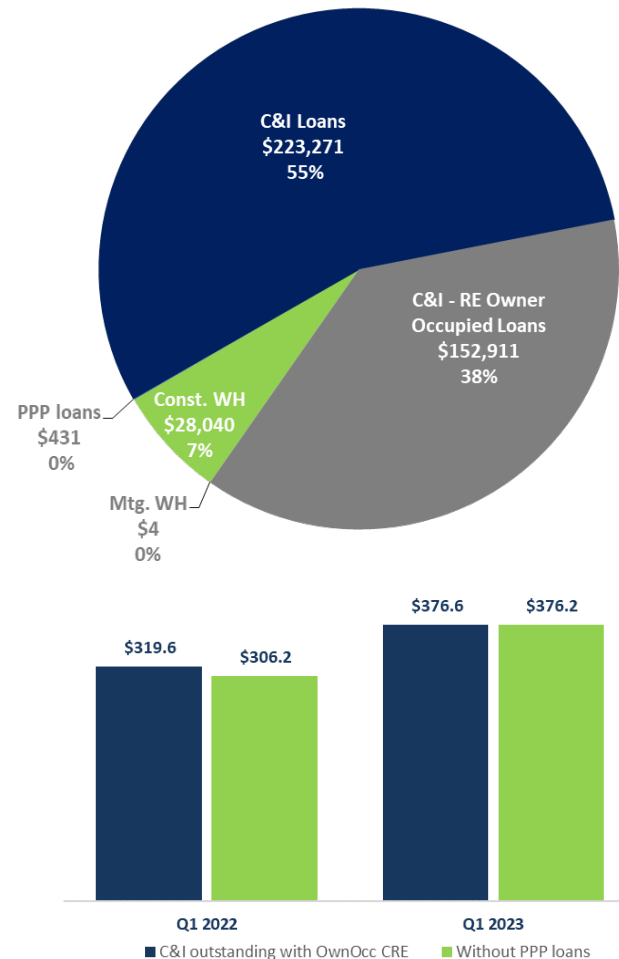


COMMERCIAL BUSINESS LENDING

Q1 2023 Commercial & Industrial (C&I)

- C&I commitments: \$621.2 million
- Outstanding balances were \$404.7 million at March 31, 2023, compared to \$371.0 million at December 31, 2022
- The \$33.7 million of quarter over sequential quarter increase in outstanding balances was attributed to the acquisition of Columbia Bank loans; \$20.8 million in C&I and \$11.3 million in CRE. Other C&I and Owner Occupied CRE payoffs, originations, changes in LOC outstanding and paydown activity largely offset each other during the first quarter.

Q1 2023 Product Mix (\$M)

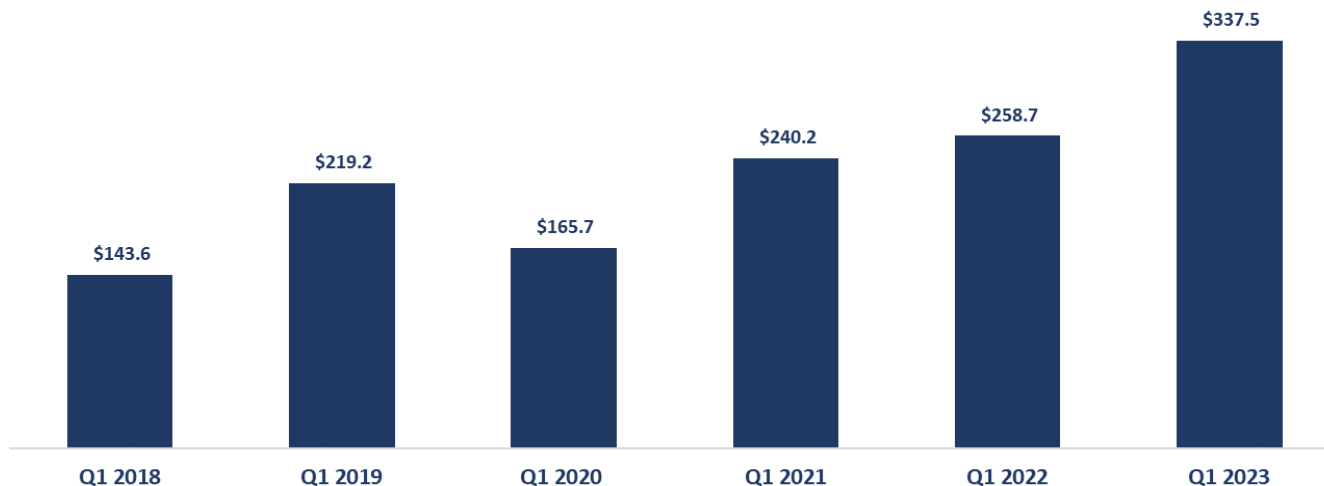


CONSTRUCTION & DEVELOPMENT LENDING

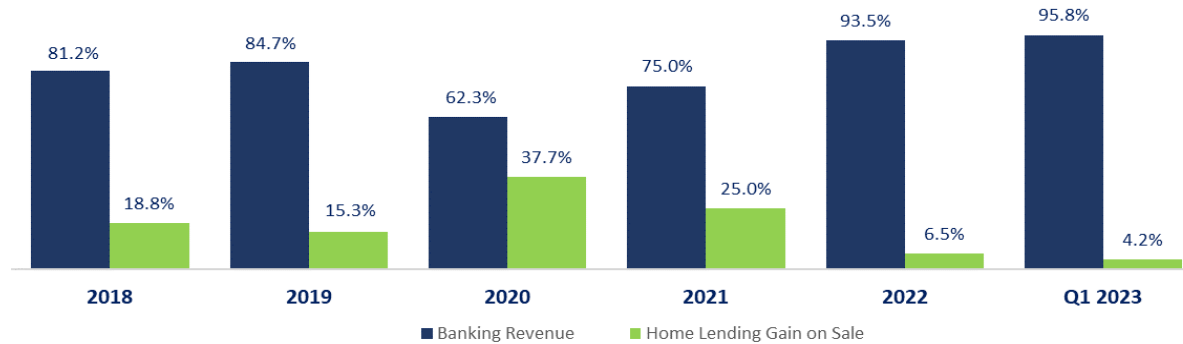
Q1 2023 Highlights

- Overall construction: \$516.4 million committed / \$337.5 million outstanding
- 8.72% weighted average coupon rate
- Majority of speculative construction originations were in King County while custom construction originations are broadly spread throughout Washington and into Oregon and Idaho
- Focus on "in-city", infill speculative lending to a select group of relationship customers

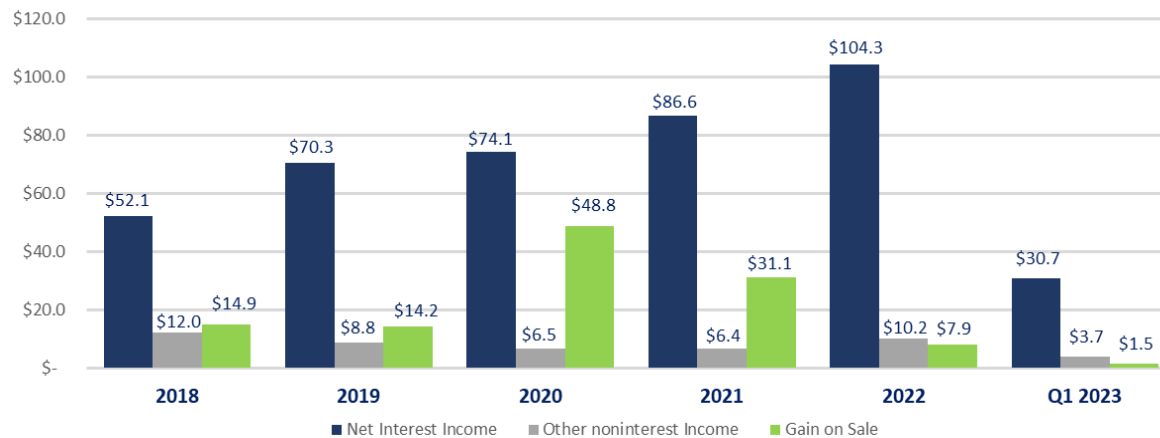
Quarterly C&D Loans Outstanding (\$M)



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

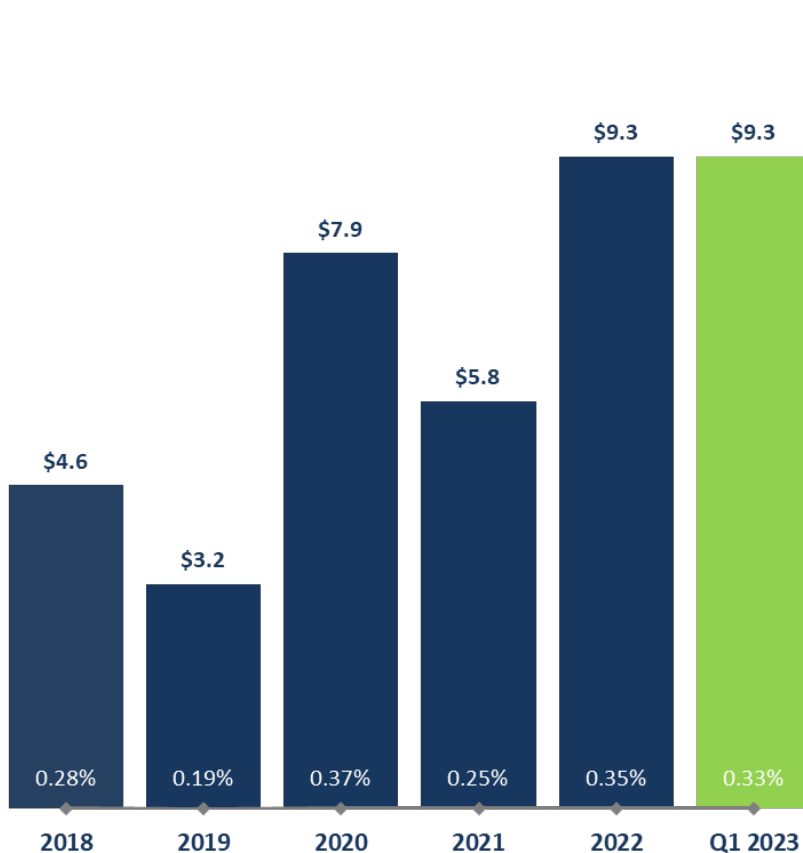


Total Revenues (\$M)

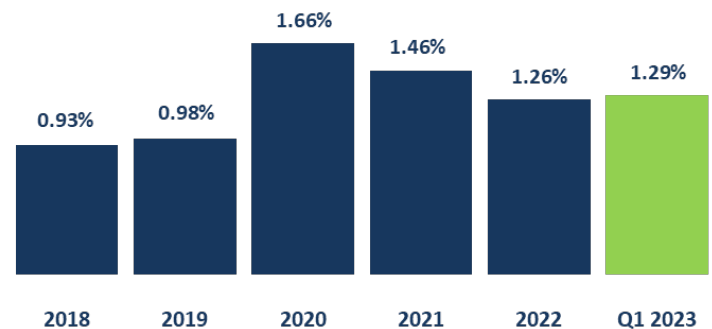


ASSET QUALITY

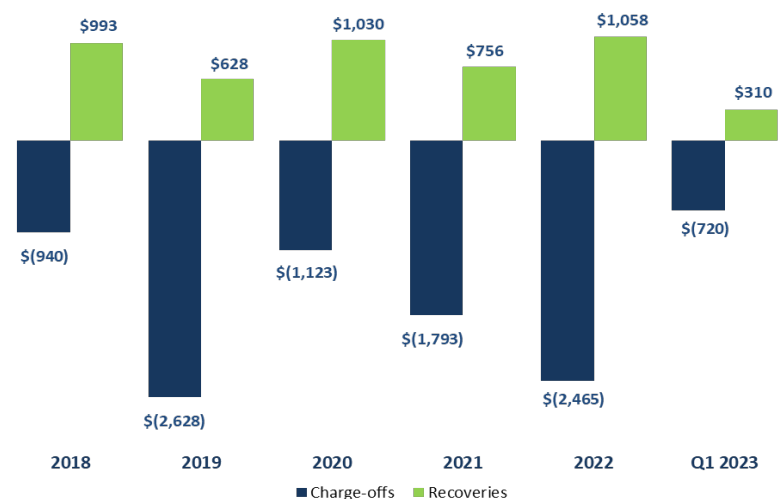
Nonperforming Assets (\$M)⁽¹⁾ & NPAs/ Assets



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

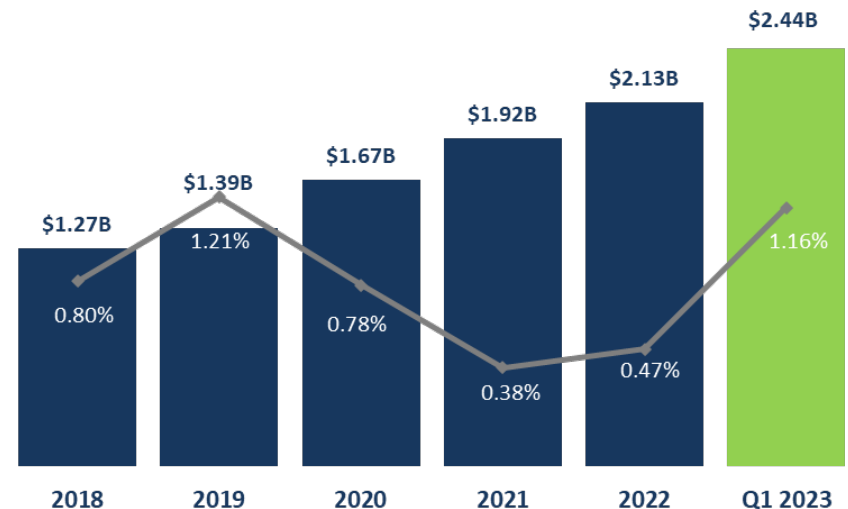
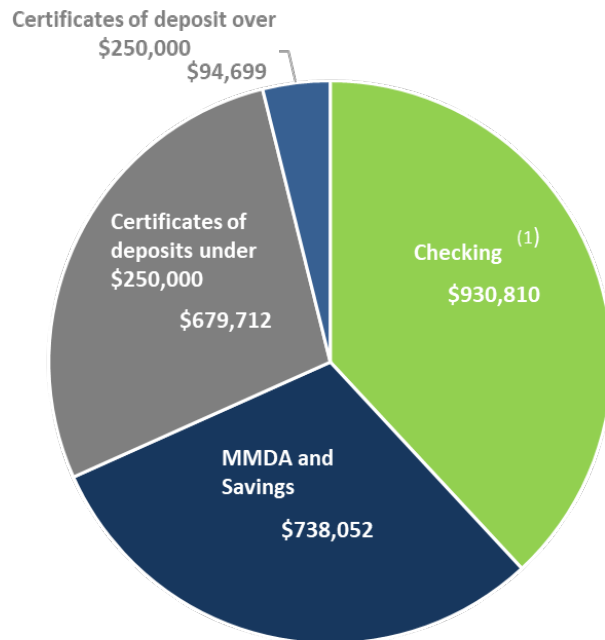
(2) Excluding HFS loans

DEPOSIT COMPOSITION AND GROWTH

March 31, 2023

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

Total Deposits: \$2.4 billion

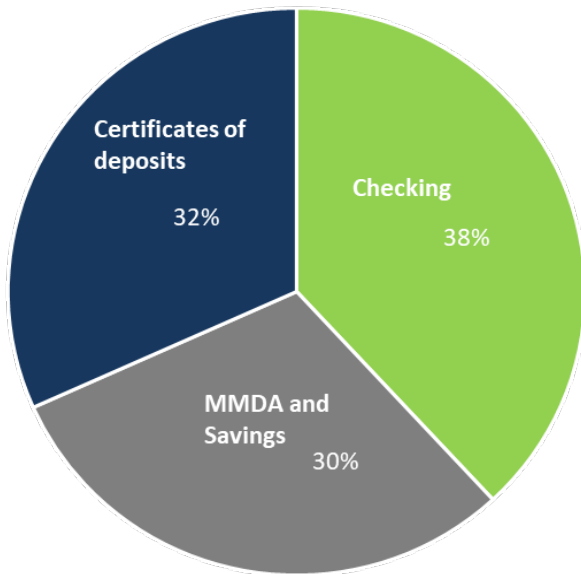


(1) Includes noninterest-bearing checking, interest-bearing checking and escrow accounts related to mortgages serviced

COMPOSITION COMPARISON YEAR OVER YEAR

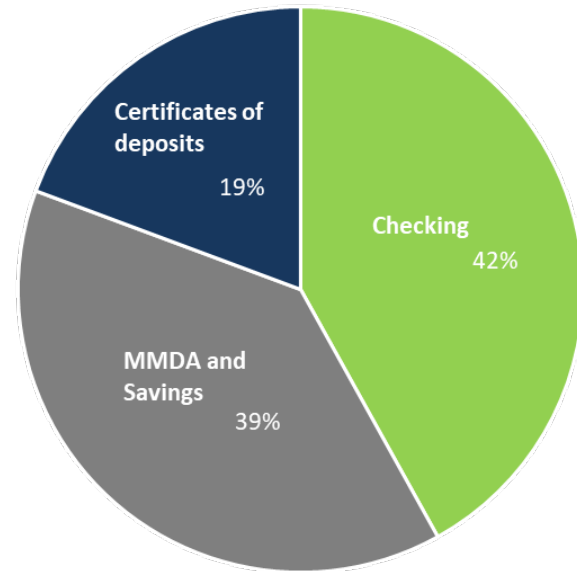
March 31, 2023

Total Deposits: \$2.4 billion



March 31, 2022

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 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 24.0% 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, 2023	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Tangible Book Value Per Share:					
Stockholders' equity	\$ 241,834	\$ 231,697	\$ 220,547	\$ 222,641	\$ 235,950
Goodwill and core deposit intangible, net	(23,940)	(5,681)	(5,854)	(6,027)	(6,199)
Tangible common stockholders' equity	\$ 217,894	\$ 226,016	\$ 214,693	\$ 216,614	\$ 229,751
Common shares outstanding at end of period	7,631,018	7,617,655	7,585,843	7,605,740	7,945,539
Common stockholders' equity (book value) per share (GAAP)	\$ 31.69	\$ 30.42	\$ 29.07	\$ 29.27	\$ 29.70
Tangible common stockholders' equity (tangible book value)*	\$ 28.55	\$ 29.67	\$ 28.30	\$ 28.48	\$ 28.92
Tangible Common Equity Ratio:					
Total Assets	\$ 2,782,808	\$ 2,632,898	\$ 2,652,138	\$ 2,399,239	\$ 2,273,933
Goodwill and core deposit intangible, net	(23,940)	(5,681)	(5,854)	(6,027)	(6,199)
Tangible assets	\$ 2,758,868	\$ 2,627,217	\$ 2,646,284	\$ 2,393,212	\$ 2,267,734
Common Equity	\$ 241,834	\$ 231,697	\$ 220,547	\$ 222,641	\$ 235,950
Common equity ratio (GAAP)	8.69%	8.80%	8.32%	9.28%	10.38%
Tangible common equity ratio (non-GAAP)	7.90%	8.60%	8.11%	9.05%	10.13%

*Per share (non-GAAP)

Source: Press Release

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