

# **Charter of the Compensation Committee of the Board of Directors of FS Bancorp, Inc.**

## **I. Statement of Policy**

The Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of FS Bancorp, Inc. (the “Company”), including its wholly owned subsidiary 1st Security Bank (the “Bank”) shall discharge the Board’s responsibilities relating to the compensation of the Bank’s executive officers (defined as the CEO and his direct reports) and other key management personnel, and make recommendations to the Board regarding Director compensation.

## **II. Committee Composition and Meetings**

The Committee shall consist of at least three Board Directors (including a “Chairperson”) as appointed by the Board Chairperson. Appointments shall be made annually, or more frequently in the case of vacancies. Each committee member shall be an “independent director” as defined by the NASDAQ Stock Market (the “NASDAQ”) listing standard and each of whom shall be free from any relationship that would interfere with the exercise of his or her independent judgment, subject to any exception that may be permitted under the NASDAQ requirements. The Board shall also consider whether it is advisable for members of the Committee to also qualify as “non-employee directors” within the meaning of Rule 166b-3 under the Securities Exchange Commission (SEC) Act of 1934, “outside directors” within the meaning of Section 162(m) of the Internal Revenue Code of 1986 or any other standards of applicable law, rule or regulation.

The Committee Chairperson shall prepare or approve an Agenda in advance of each meeting. If the Chairperson is unavailable for a meeting, a temporary chairperson may be appointed. One committee member shall be responsible for preparing the minutes of each meeting.

The Committee may request that any Directors, officers or employees of the Bank, or other persons whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests.

The Committee shall meet as frequently as needed to perform its duties but shall meet no less than four times a year. A simple majority shall constitute a quorum.

## **III. Committee Duties, Responsibilities and Process**

### **A. Duties**

The Committee shall report its actions at the next meeting of the Board. Committee members will be furnished with copies of the minutes of each meeting and any action taken by unanimous consent. The Committee is governed by the same rules regarding meetings (including meetings by conference telephone or similar communications equipment), action without

meetings, notice, waiver of notice, and voting requirements as are applicable to the Board. The Committee is authorized and empowered to adopt its own rules of procedure consistent with: (a) any provision of this Charter; (b) any provision of the Bylaws of the Bank; or (c) the laws of its jurisdiction of incorporation.

## **B. Responsibilities**

The Committee shall have the following responsibilities:

1. Review from time to time the goals and objectives of the Bank's compensation plans, and, if the Committee deems it appropriate, recommend that the Board amend these goals and objectives.
2. Review from time to time the Bank's compensation plans considering the Bank's goals and objectives with respect to such plans, and, if the Committee deems it appropriate, recommend to the Board the adoption of new incentive-compensation plans, equity-based plans, other compensation plans or amendments to existing plans.
3. Annually review and approve corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluate the Chief Executive Officer's performance considering these goals and objectives, and determine and approve the Chief Executive Officer's compensation level based on this evaluation. In determining long-term incentive compensation of the Chief Executive Officer, the Committee will consider the Bank's performance, relative stockholder return, the value of similar incentive awards to chief executive officers at comparable companies and the awards given to the Chief Executive Officer in past years. The Chief Executive Officer shall not be present during voting or deliberations on his/her compensation.
4. Oversee the evaluation of management of the Bank, including the Chief Executive Officer's direct reports and determine or approve the compensation for the Bank's executive officers and approve the compensation for other key members of management, including executive incentive plans, total incentive packages, individual awards, and executive perquisite programs.
5. Recommend to the Board the appropriate level of compensation and the appropriate mix of cash compensation and equity compensation for the Chairperson of the Board, Board members, and Board committee service.
6. Review and approve areas of compensation and related benefits including health insurance, profit sharing, and qualified tax benefit and other plans for all staff at least annually including benefit plans.
7. Perform such duties and responsibilities as may be assigned to the Committee under the terms of any Executive or Employee Compensation Plan.

8. Oversee the preparation of, and review, approve and issue, an annual report to shareholders on executive compensation for inclusion in the Company's Proxy statement, in accordance with all applicable laws, regulations and listing standards.
9. Review the Bank's policies regarding the tax deductibility of compensation paid to the Bank's executive officers for purposes of Section 162(m) of the Code.
10. Discharge any other duties and responsibilities delegated to the Committee from time to time.
11. Review and reassess the adequacy of this Charter on an annual basis, or more frequently as necessary, and recommend any changes to the Board for approval.

#### **IV. Reliance on Others**

Nothing in this Charter is intended to preclude or impair any protection provided by applicable laws for good faith reliance by members of the Committee on reports or other information provided by others in the performance of its duties.

#### **V. Investigations and Studies; Outside Advisers**

The Committee may conduct or authorize studies of or investigations into matters within the Committee's scope of responsibilities, and may retain, at the Bank's expense, such counsel, or other advisers as it deems necessary (which may, if the Committee deems it appropriate, be the Bank's regular counsel or advisers). The Committee shall have the authority to retain or terminate a compensation consultant to assist the Committee in fulfilling its responsibilities, including authority to approve the consultant's fees and other retention terms, which fees shall be borne by the Bank.