

1ST SECURITY BANK

FS BANCORP, INC.

INVESTOR PRESENTATION

May 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 and on the SEC's website at 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 recent 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.

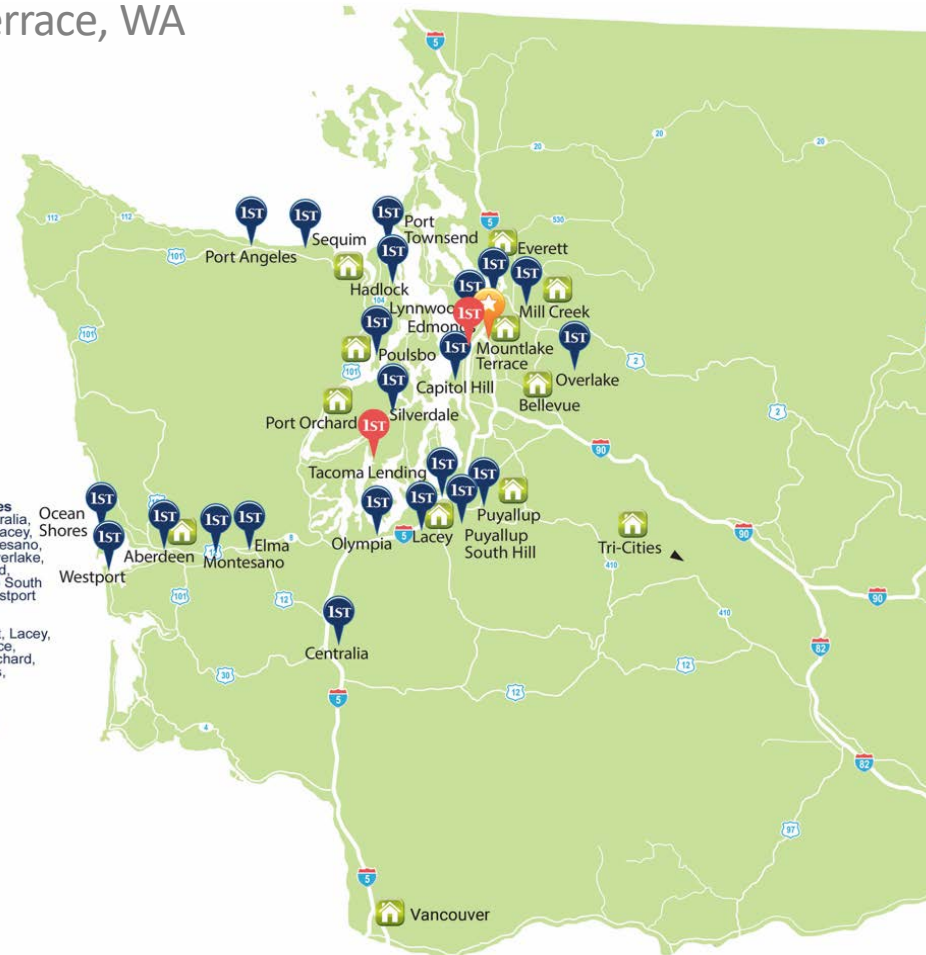
FRANCHISE OVERVIEW

- **Total Assets:** \$2.27 billion (at March 31, 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-seventh 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, Poulsbo, Puyallup, Puyallup South Hill, Sequim, Silverdale, Westport
- 
Home Lending
 Aberdeen, Bellevue, Everett, Lacey, Mill Creek, Mountlake Terrace, Olympic Peninsula, Port Orchard, Poulsbo, 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-seventh 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

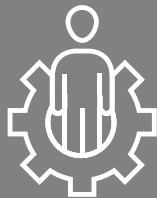
2017

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.



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








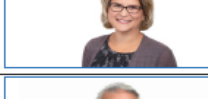

- Minimum wage increased to \$20/hour "Livable Wage" for all employees effective July 2021
- Health insurance cost increases absorbed by the company since 2014
- Provide 16 hours of paid volunteer time for all employees
- Offer a \$5,000 annual tuition reimbursement program to employees
- Financial and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



GOVERNANCE

- Independent Board Chair
- 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

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>	10	20+
	Kelli Nielsen	<i>EVP, Retail Banking & Marketing</i>	5	30+
	Robert Fuller	<i>EVP, Chief Credit Officer</i>	8	30+
	Lisa Cleary	<i>EVP, Chief Operating Officer</i>	1	20+
	Dennis O'Leary	<i>EVP, Chief Lending Officer</i>	10	30+
	Vickie Jarman	<i>EVP, Chief Human Resources Officer</i>	20	20+
	Donn Costa	<i>EVP, Home Lending Production</i>	10	30+

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

Banks Headquartered in Snohomish County: March 31, 2022
Total Assets \$6.4B



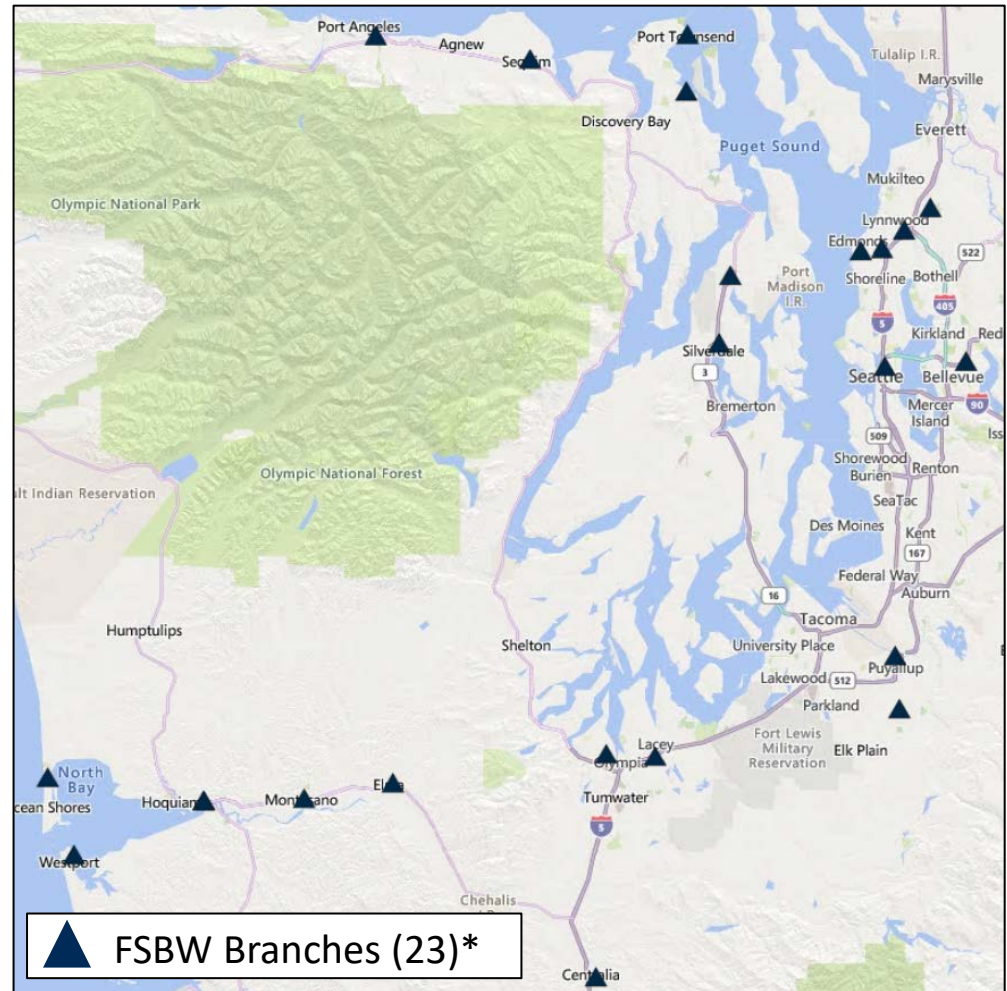
*Denotes a financial institution no longer headquartered in Snohomish County
Note: Dollar amount are for assets
Source: FFIEC Central Data Repository's Public Bank Data Distribution website & S&P Capital IQ

DEPOSIT FRANCHISE & BRANCH FOOTPRINT

County Deposits & Demographics (9/30/21)

County	Market Rank	Number of Branches	Deposits In Market (\$000)	Deposit Market Share (%)	% of Franchise
Snohomish	7	4	817,270	4.7%	43.2%
Grays Harbor	3	6	228,877	18.2%	12.1%
Clallam	3	2	217,396	8.3%	11.5%
King	22	2	184,433	0.2%	9.7%
Jefferson	2	2	165,548	19.9%	8.7%
Pierce	17	2	97,355	0.6%	5.1%
Thurston	13	2	90,199	1.6%	4.8%
Kitsap	12	2	56,923	1.3%	3.0%
Lewis	9	1	34,925	2.5%	1.8%
Total			1,892,926		

County	2021		2021-2026 Projected	
	Total Population	Median HH Income (\$)	Population Change (%)	HH Income Change (%)
Snohomish	841,173	95,185	17.9%	12.8%
Grays Harbor	75,963	51,695	4.3%	8.8%
Clallam	78,293	61,183	9.6%	13.7%
King	2,298,351	105,018	19.0%	13.7%
Jefferson	32,743	63,086	9.6%	9.3%
Pierce	920,730	82,380	15.8%	14.8%
Thurston	296,606	80,139	17.6%	13.4%
Kitsap	275,742	85,534	9.8%	13.7%
Lewis	81,841	62,769	8.5%	13.6%
Total	4,901,442			
Washington	7,765,146	81,728	6.3%	13.0%
United States	330,946,040	67,761	2.9%	9.0%



Source: S&P Capital IQ; Deposit data as of September 30, 2021

*Including headquarters and drive through banking in Aberdeen, WA

FIRST QUARTER 2022 HIGHLIGHTS

Financial Highlights Q1 2022

- Total assets of \$2.3 billion
- Gross portfolio loans of \$1.8 billion
- Net income of \$6.9 million

Q1 2022 YTD *

- Diluted earnings per share of \$0.81
- Tangible book value per share of \$28.92⁽¹⁾
- Announced thirty-seventh consecutive quarterly cash dividend (\$0.20)
- In addition to the quarterly cash dividend, a special dividend of \$0.10 per share will be paid to celebrate 10 years as a Nasdaq listed company

Selected Performance Ratios

- ROAA of 1.23%
- ROAE of 11.09%
- Net Interest Margin of 4.24%
- Efficiency Ratio of 66.67%

Credit Quality Ratios

- Non-performing Assets (NPAs) as a percentage of total assets of 0.30%
- Allowance for credit losses on loans as a percentage of gross loans receivable of 1.28%
- Early adoption of the Current Expected Credit Losses (“CECL”) standard as of January 1, 2022

Capital Position

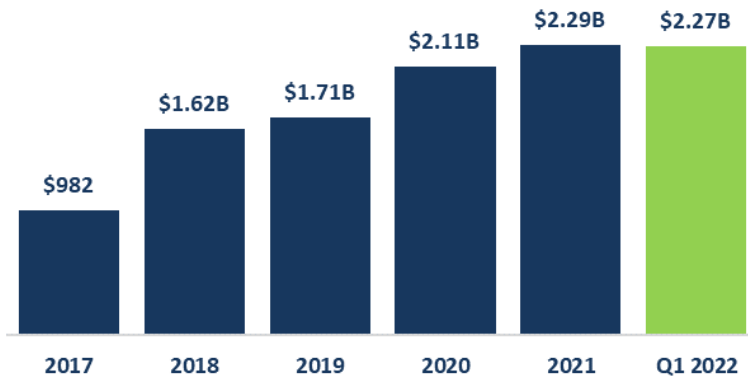
- Currently, all Bank Holding Company (BHC) and Bank ratios are above those to be considered “Well-Capitalized”
- Community Bank Leverage Ratio (“CBLR”) of 12.2% as of March 31, 2022

* All share data throughout this presentation has been adjusted to reflect the two-for-one stock split announced June 25, 2021, and issued July 14, 2021, to shareholders of record on July 6, 2021

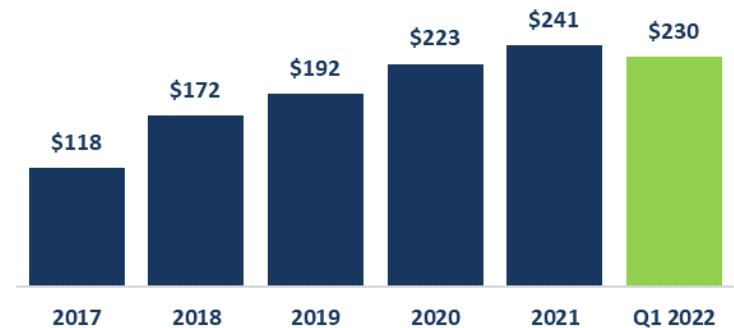
(1) Non-GAAP financial measures. See appendix for reconciliation to book value per share (GAAP)

FRANCHISE GROWTH

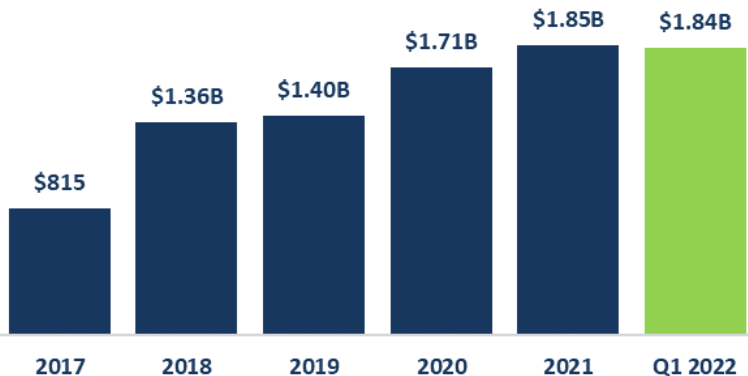
Total Assets (\$B)



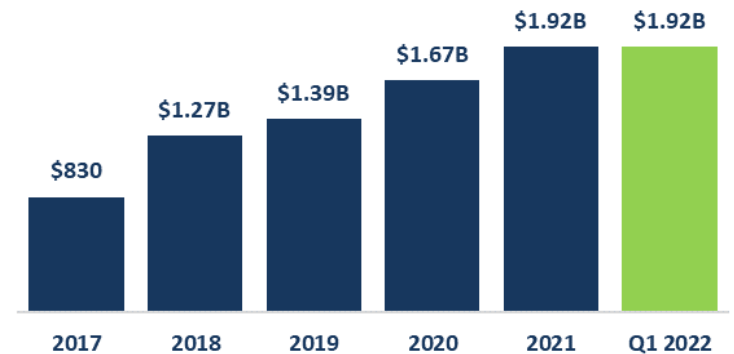
Tangible Common Equity (\$M)⁽¹⁾



Total Net Loans (\$B)



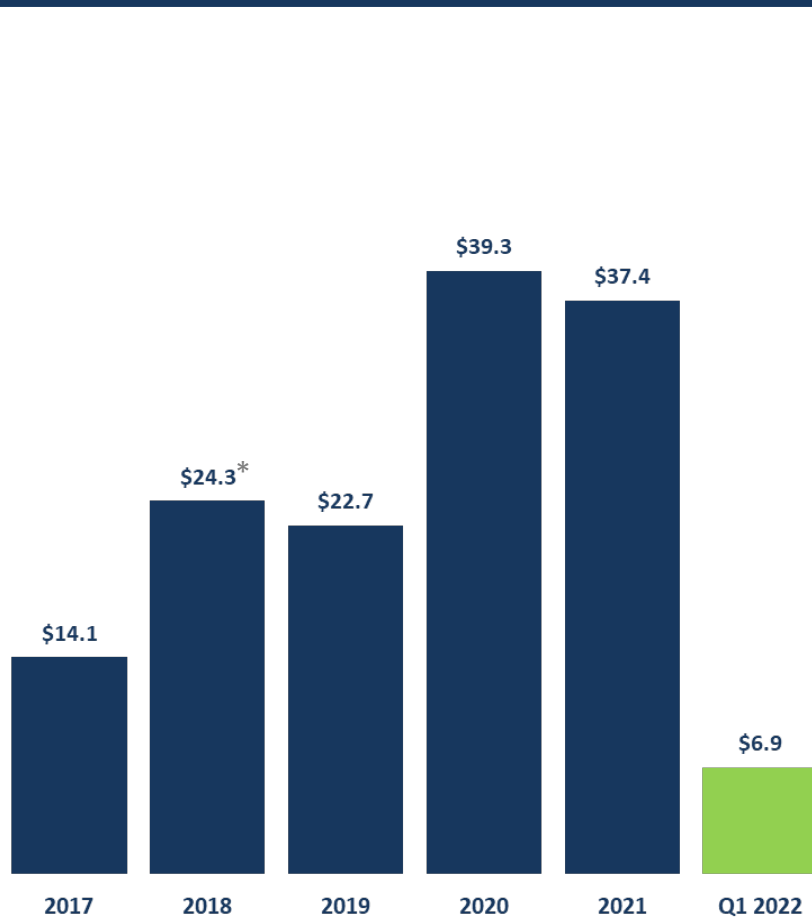
Total Deposits (\$B)



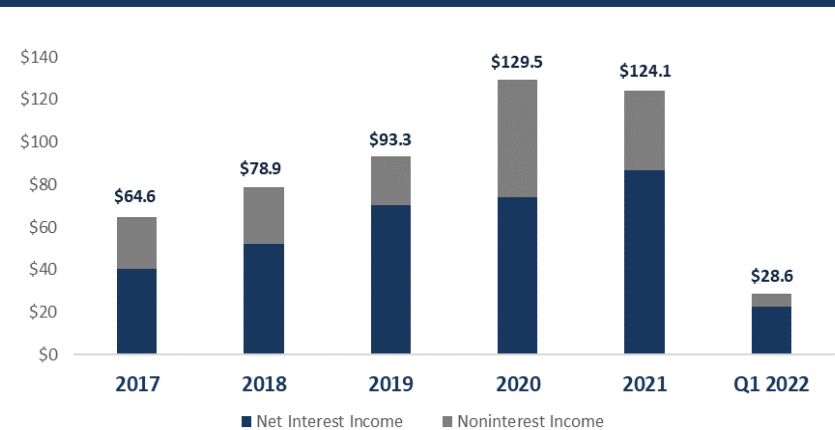
Source: Company documents
 (1) Non-GAAP financial measure

INCOME STATEMENT TRENDS

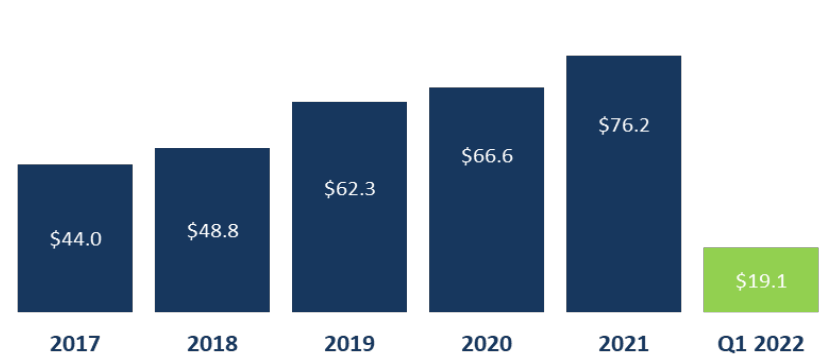
Net Income (\$M)



Total Revenues (\$M)



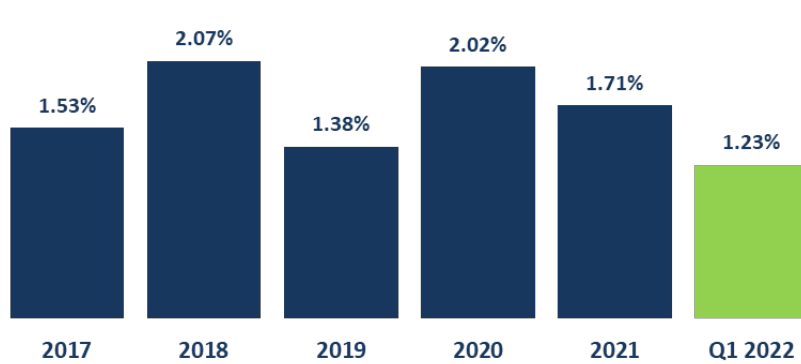
Total Noninterest Expense (\$M)



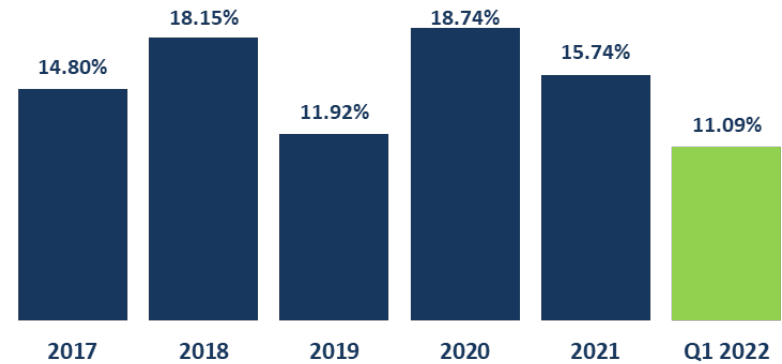
*Includes \$7.4 million in Bargain Purchase Gain (BPG)

SELECTED PERFORMANCE RATIO TRENDS

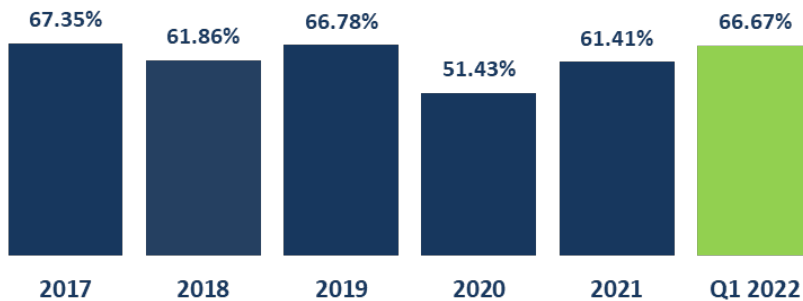
ROAA



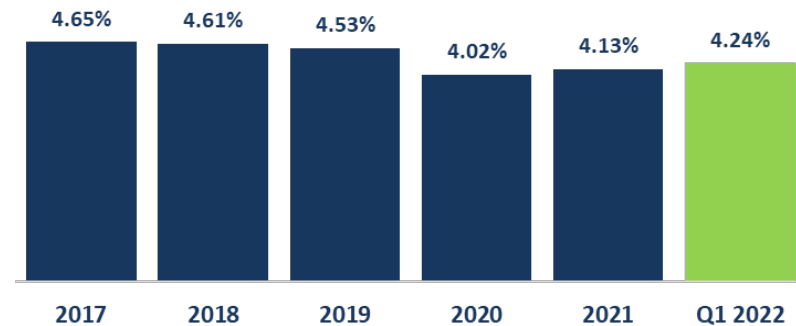
ROE



Efficiency Ratio

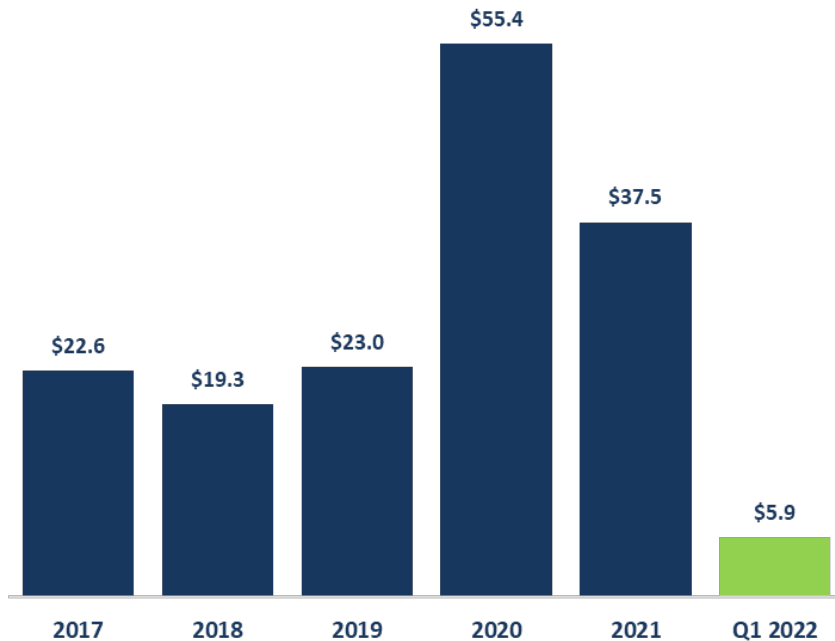


Net Interest Margin

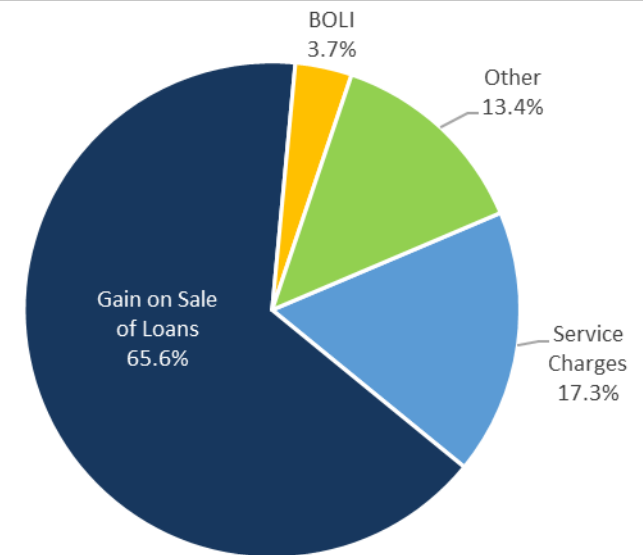


NONINTEREST INCOME

Noninterest Income (\$M)



Noninterest Income Composition⁽¹⁾

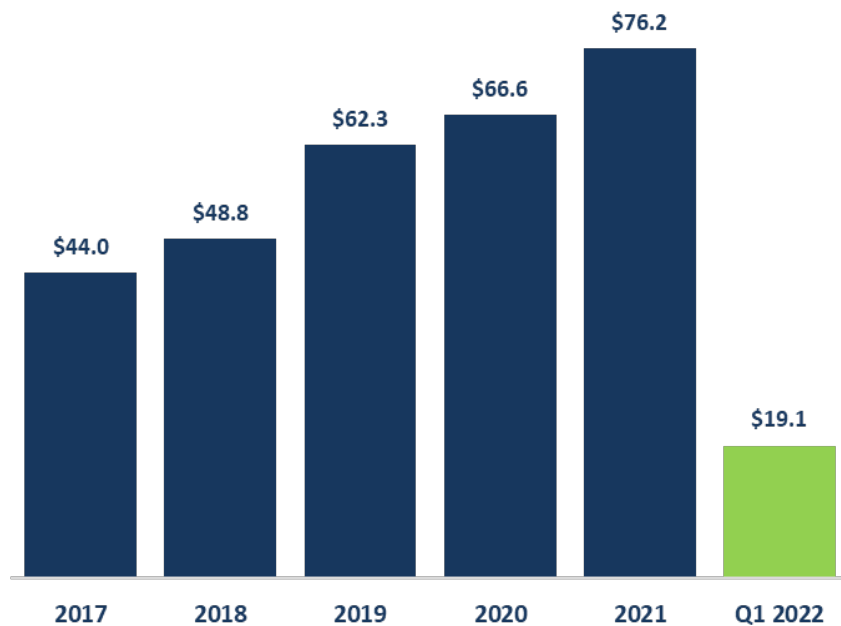


Note: In 2020, noninterest income year-over-year growth due in part to increased gain on sale revenue resulting from low interest rate environment.

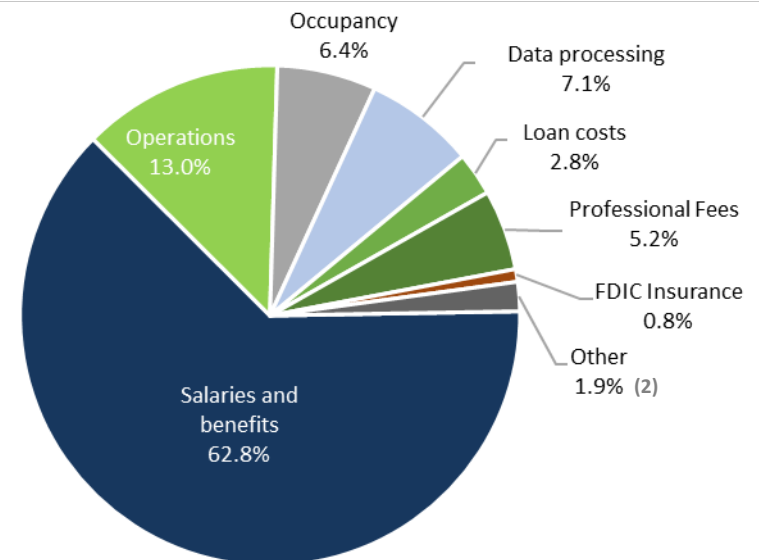
(1) Quarter ended March 31, 2022

NONINTEREST EXPENSE

Noninterest Expense (\$M)



Noninterest Expense Composition⁽¹⁾

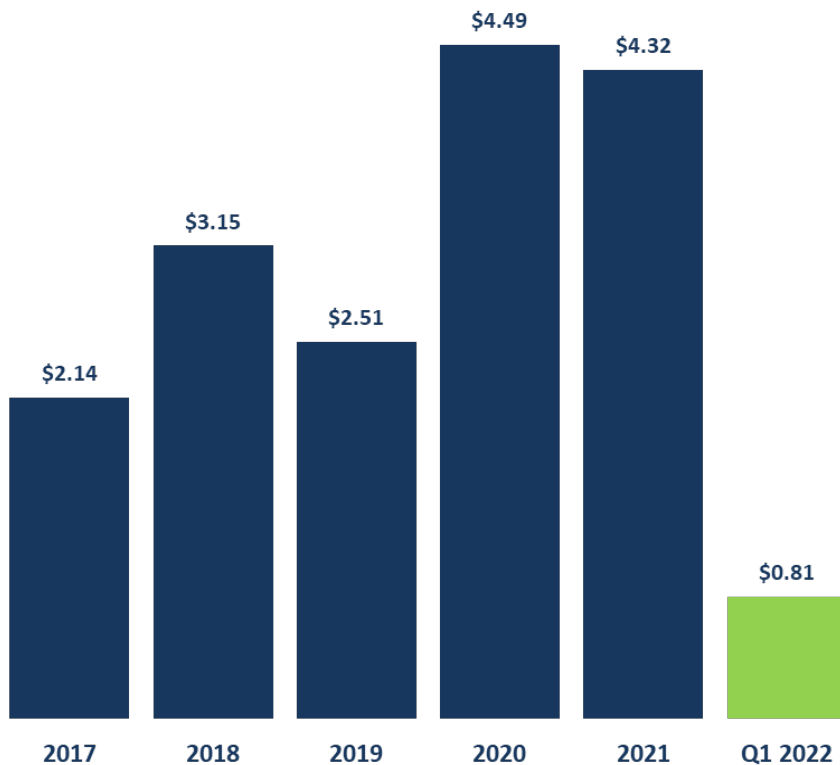


(1) Quarter ended March 31, 2022

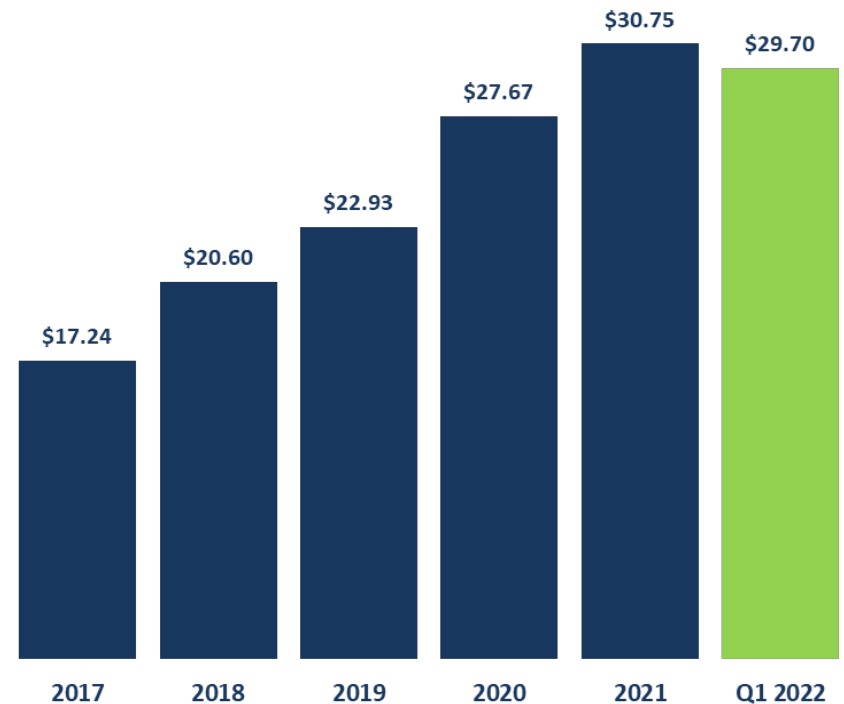
(2) Other = marketing and advertising, amortization of core deposit intangible and recovery on servicing rights

BUILDING STOCKHOLDER VALUE

Diluted Earnings Per Share

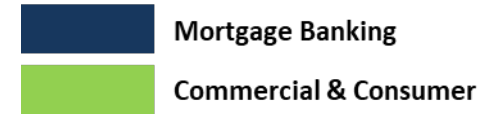


Reported Book Value Per Share

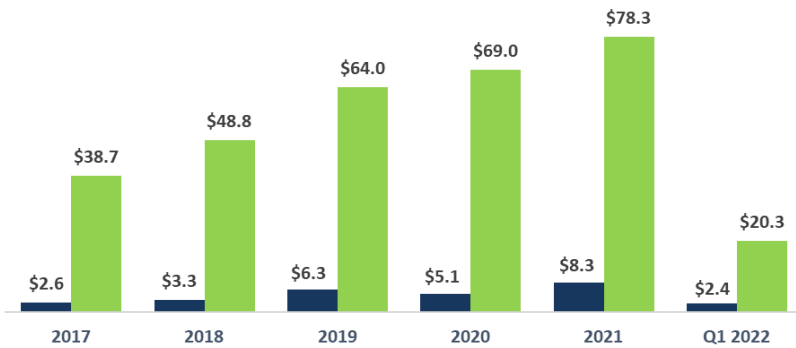


Note: Share data has been adjusted to reflect the two-for-one stock split effective July 14, 2021.

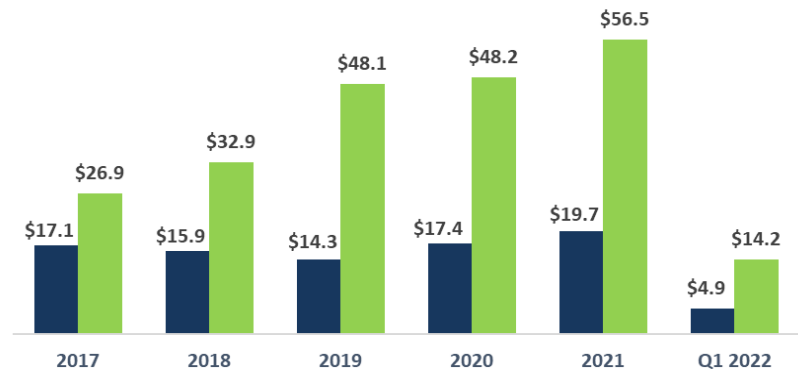
SEGMENT REPORTING ANALYSIS



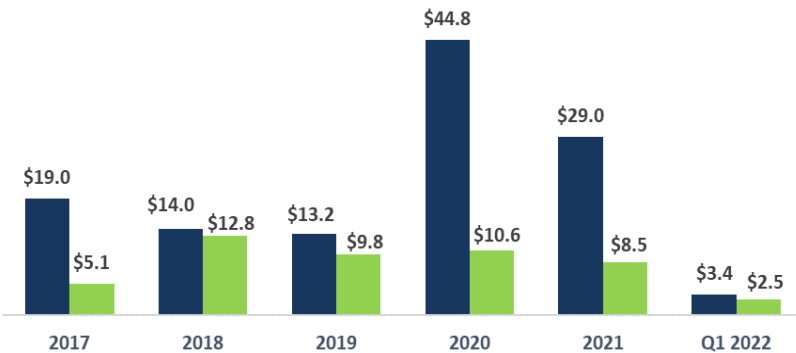
Net Interest Income



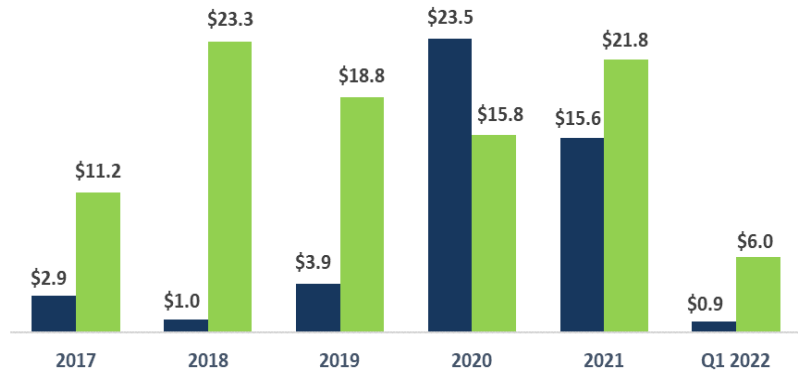
Noninterest Expense



Noninterest Income



Net Income

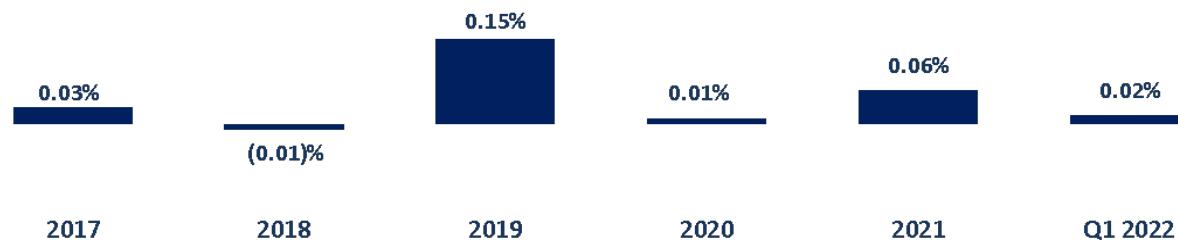


Note: Dollar amounts in millions

DISCIPLINED CREDIT CULTURE

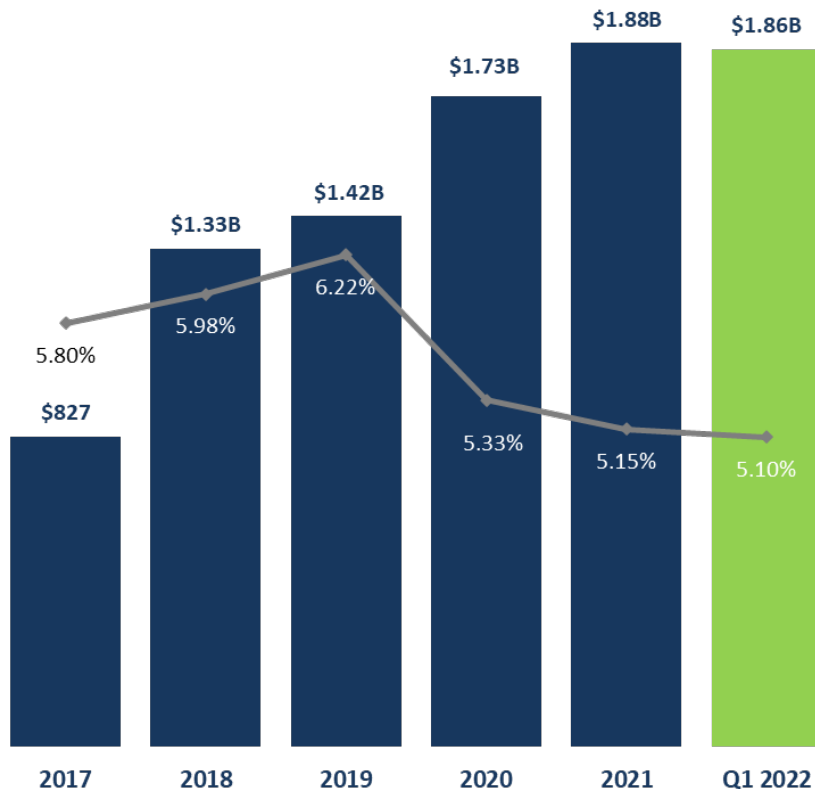
- The company employs Board and Committee oversight and reporting, with the Chief Risk Officer and senior executive compliance officer reporting directly to the Audit Committee
- FSBW has a disciplined underwriting approach with generally standard LTV and DSC coverage requirements with firm concentration limits and designated focused lending channels
 - Construction and Development (C&D) Weighted Average LTV = 63.7% (as of March 31, 2022)
 - Commercial Real Estate (CRE) Weighted Average LTV= 57.7% (as of March 31, 2022)
- Loans greater than \$5 million are reported to the Asset Quality Committee, while loans between \$15 million and \$25 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



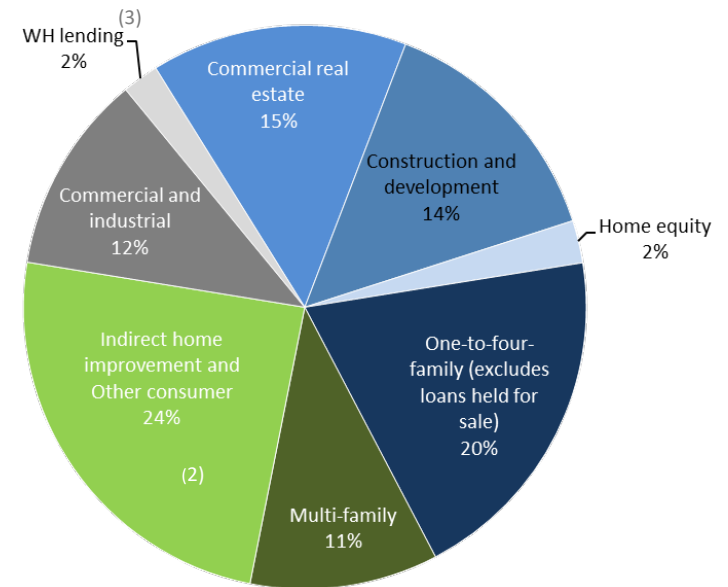
LOAN PORTFOLIO SUMMARY

Gross Loans and Loan Yield (\$B) ⁽¹⁾



Loan Composition at March 31, 2022

Total Gross Loans (excl. loans held for sale): \$1.8B



(1) Loans including held for sale

(2) Other consumer includes marine loans

(3) WH = Warehouse

HOME LENDING

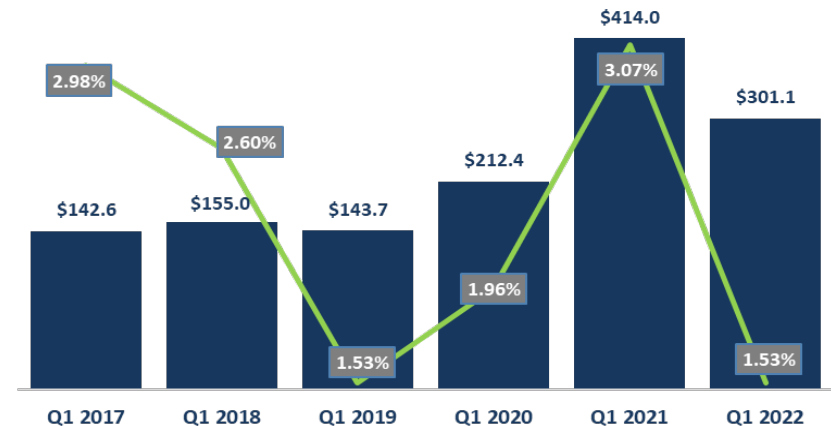
Highlights at March 31, 2022

- One-to-four-family loans originated \$245.1 million for the quarter ended March 31, 2022, compared to \$434.4 million for the quarter ended March 31, 2021
- Loan Sales: \$301.1 million
- Purchase production was 62.4% of one-to-four-family loan originations versus 37.6% for refinance production

Mortgage Servicing at March 31, 2022

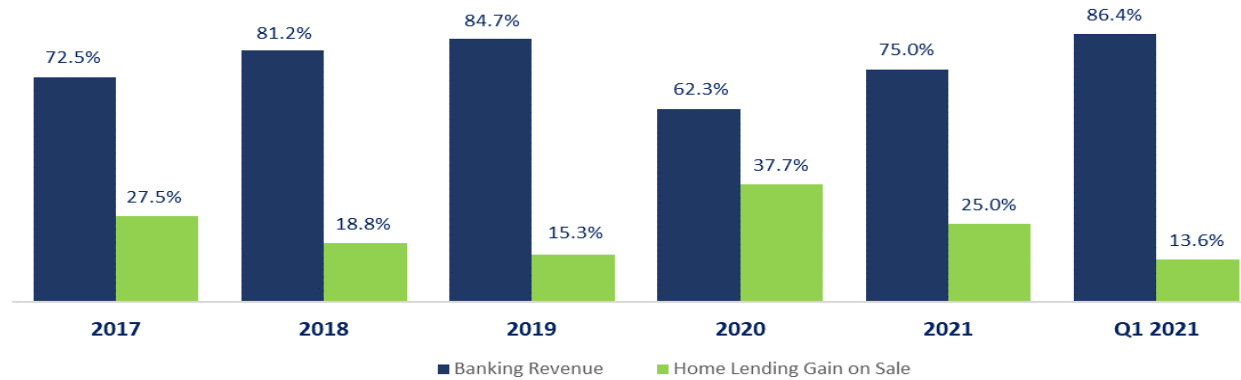
- Servicing unpaid principal balance: \$2.8 billion and 8,692 loans
- Q1 2022 booked notional servicing: \$147.7 million

Quarterly Closed Volume (\$M) & Cash Margin on Loans Sold

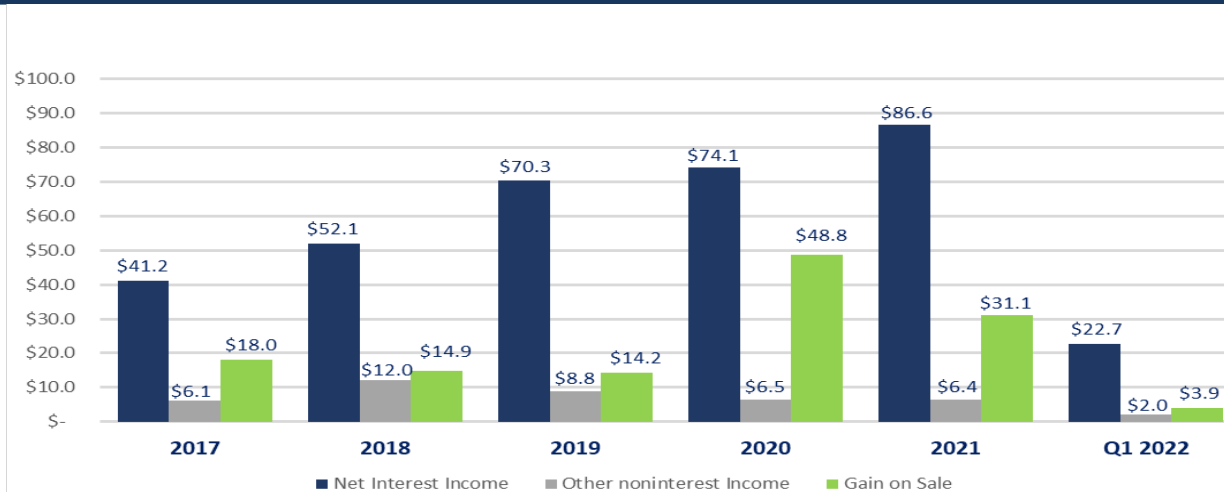


Note: Quarterly closed volume is listed in millions

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



Total Revenues (\$M)

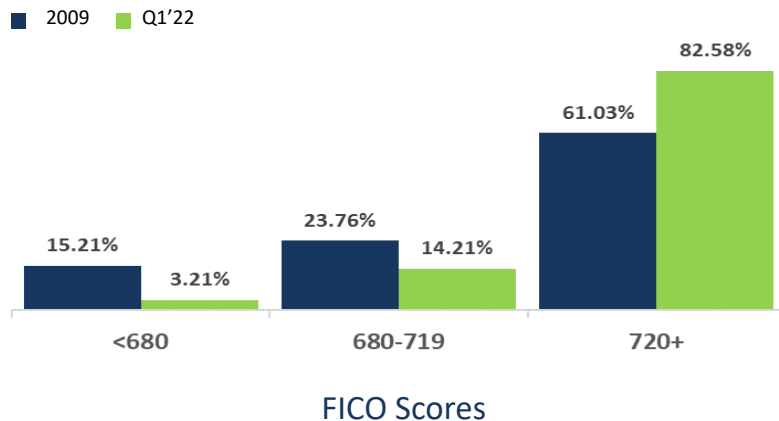


CONSUMER LENDING

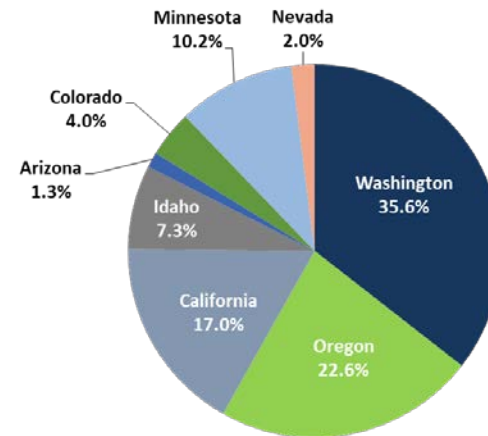
Q1 2022 Highlights

- Primarily home improvement and marine, UCC-2 or title secured
- Offered on an indirect basis and largely automated (with underwriter verification)
- \$445 million outstanding as of Q1 2022
 - \$74.5 million in dealer originations
 - \$49 million, or 66%, with the top 10 dealers
 - Average net of fees yield of 6.65%, down from 6.73% in Q4 2021

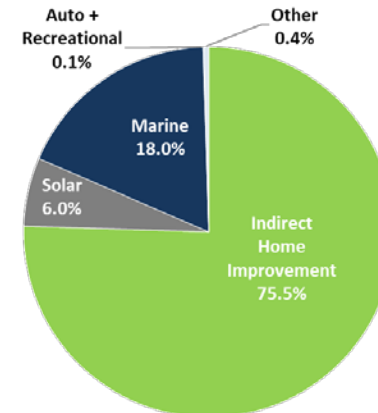
2009 vs. Q1 2022 Portfolio Credit Quality



Q1 2022 Dealer Production by State



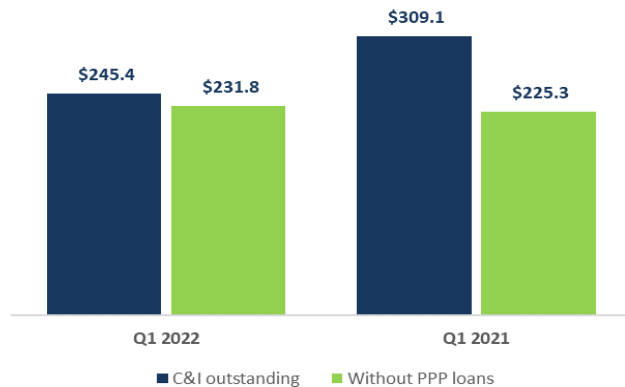
Consumer Portfolio Characteristics



COMMERCIAL BUSINESS LENDING

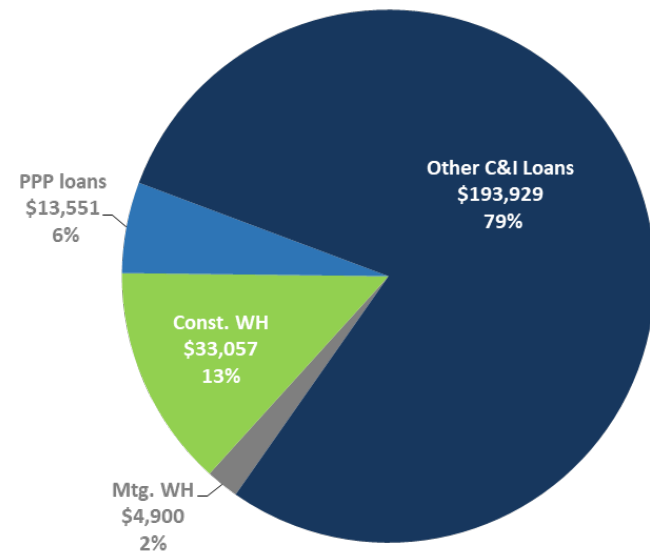
Q1 2022 Commercial & Industrial (C&I)

- C&I commitments: \$417.1 million
- The \$3.6 million of quarter over sequential quarter increase in outstanding balances was largely attributed to organic loan growth; offset by payoffs and PPP loan forgiveness activity
- PPP loan forgiveness and payment activity reduced the C&I balance by \$10.6 million in the first quarter



Q1 2022 Product Mix (\$M)

Outstanding C&I Balance: \$245.4 million

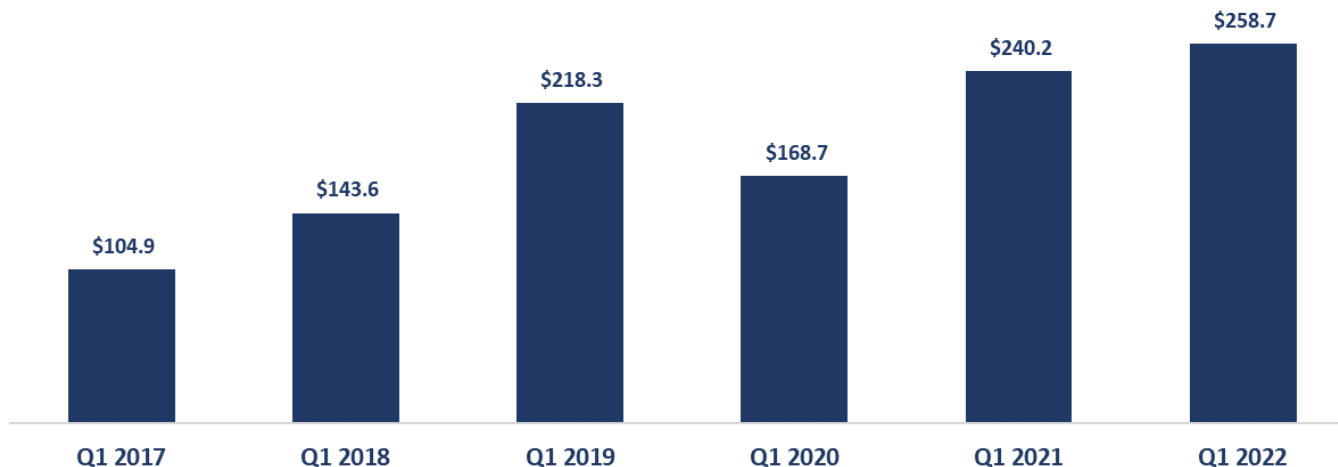


CONSTRUCTION & DEVELOPMENT LENDING

Q1 2022 Highlights

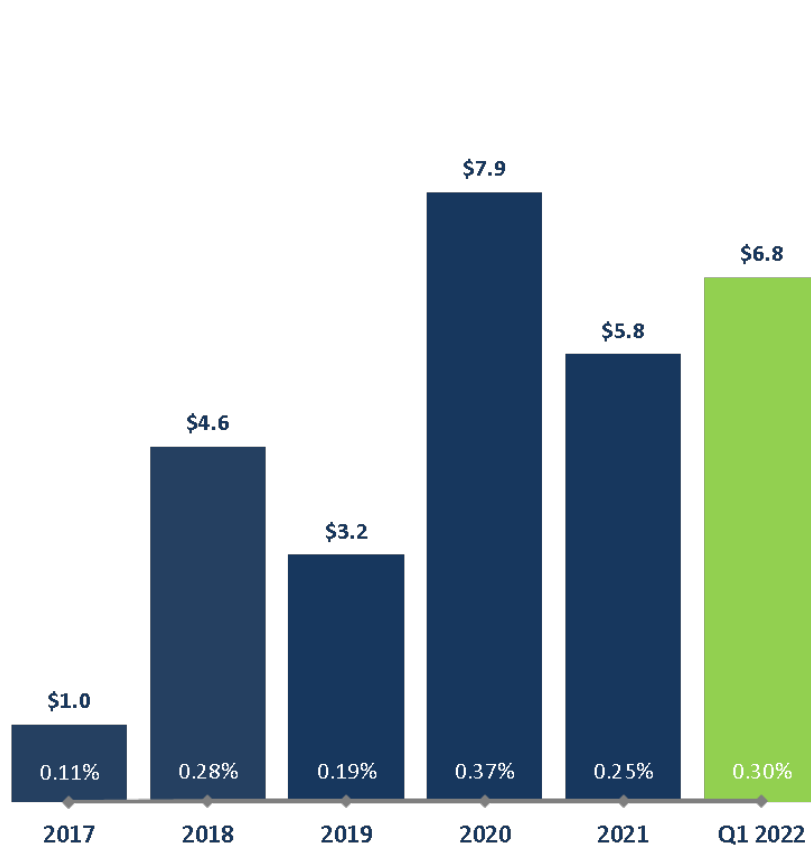
- Overall construction: \$480.8 million committed / \$258.7 million outstanding
- Growth in custom owner-occupied & manufactured homes under construction
 - Custom/Manufactured Housing are \$52.6 million committed / \$25.4 million outstanding
- 5.03% average coupon rate
- Majority of originations in King County
- Focus on "in-city", infill speculative lending to a select group of relationship customers

Quarterly C&D Loans Outstanding (\$M)

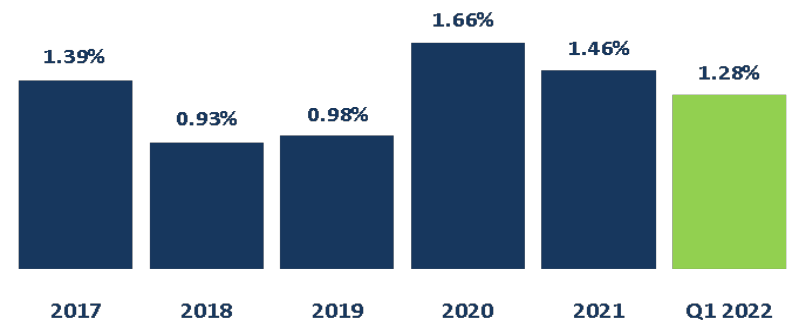


ASSET QUALITY

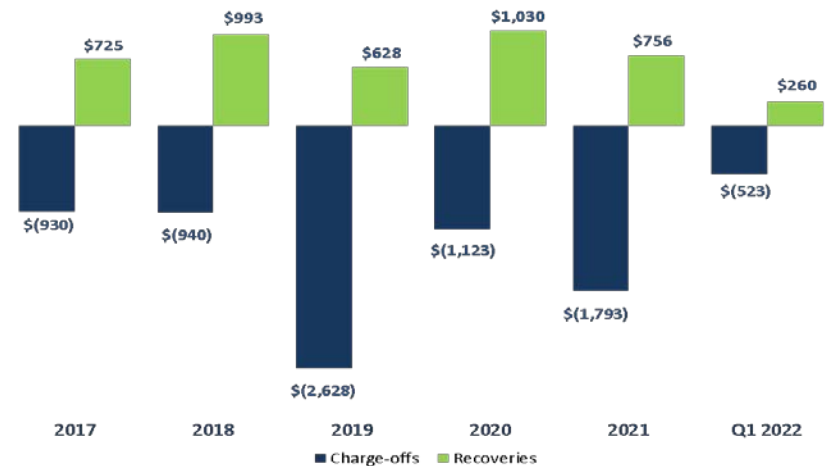
Non-performing Assets (\$M)⁽¹⁾ & NPAs/ Assets



Reserves/Gross Loans⁽²⁾



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

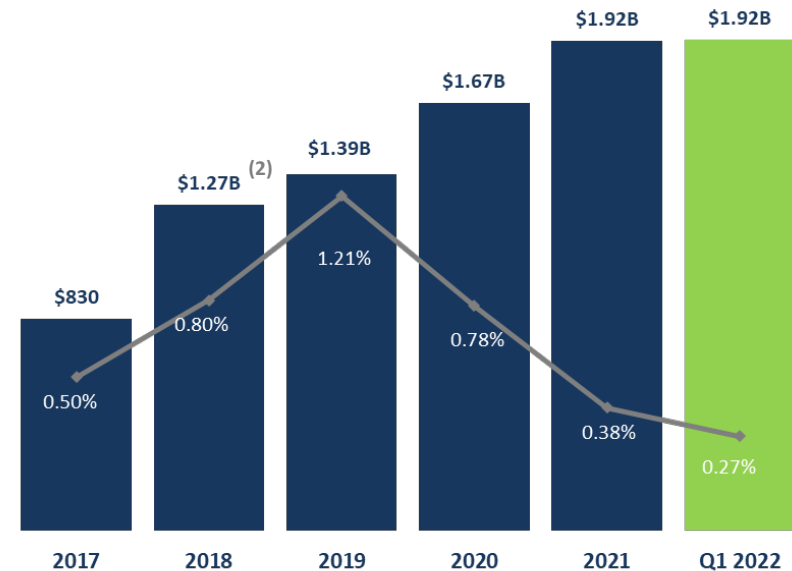
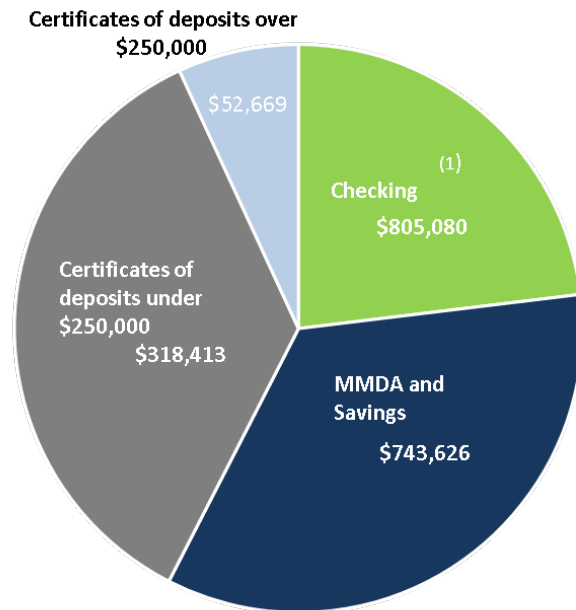
(2) Excluding HFS loans

DEPOSIT COMPOSITION AND GROWTH

March 31, 2022

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

Total Deposits: \$1.9 billion



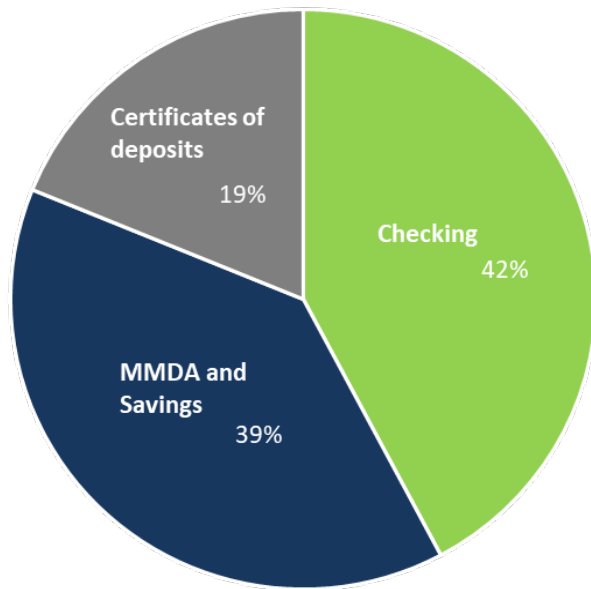
(1) Includes noninterest-bearing checking, interest-bearing checking and escrow accounts related to mortgages serviced

(2) Anchor Bancorp acquisition in Q4 2018

COMPOSITION COMPARISON YEAR OVER YEAR

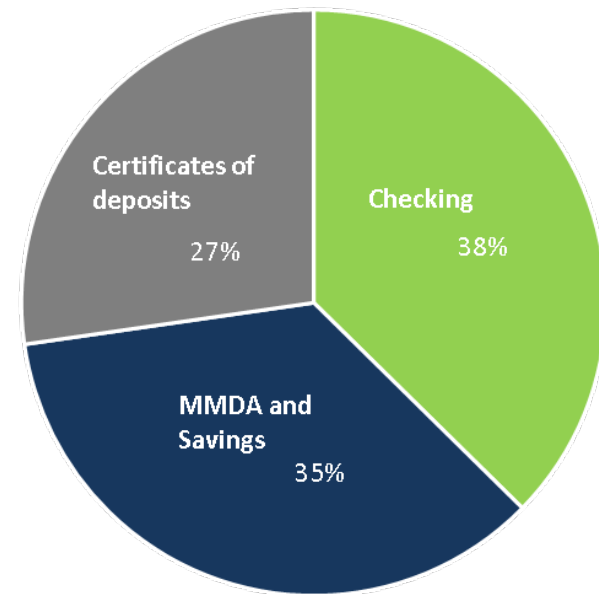
March 31, 2022

Total Deposits: \$1.9 billion



March 31, 2021

Total Deposits: \$1.8 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

- A special dividend of \$0.10 will be paid in addition to our thirty-seventh consecutive quarterly cash dividend on May 26, 2022
- Regular dividend reflects a 24.7% payout ratio compared to diluted earnings per share in Q1 2022

Shareholder Value

- Continued focus on increasing shareholder value through our business plan execution
- Repurchased 115,356 shares of our common stock during the first quarter
- Our Board of Directors approved an additional \$10 million in share repurchases. The new share repurchase authorization supplements the current share repurchase plan approved in August 2021 that has \$3.8 million remaining for repurchases as of April 6, 2022

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, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
Stockholders' equity	\$ 235,950	\$ 247,507	\$ 240,453	\$ 241,760	\$ 240,311
Goodwill and core deposit intangible, net	(6,199)	(6,372)	(6,532)	(6,709)	(6,886)
Tangible common stockholders' equity	\$ 229,751	\$ 241,135	\$ 233,921	\$ 235,051	\$ 233,425
Common shares outstanding at end of period	7,945,539	8,048,215	8,073,412	8,197,461	8,317,014
Common stockholders' equity (book value) per share (GAAP)	\$ 29.70	\$ 30.75	\$ 29.78	\$ 29.49	\$ 28.90
Tangible common stockholders' equity (tangible book value)*	\$ 28.92	\$ 29.96	\$ 28.97	\$ 28.67	\$ 28.07

*Per share (non-GAAP)

Source: Press Release

(\$ in 000's)	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
Stockholders' equity	\$ 235,950	\$ 247,507	\$ 240,453	\$ 241,760	\$ 240,311
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Source: FS Bancorp, Inc.; Press Release

CONTACT INFORMATION

Kelli Nielsen

Kelli.Nielsen@fsbwa.com

EVP Retail Banking & Marketing

(425) 275-4347

Matthew Mullet

mattm@fsbwa.com

Chief Financial Officer

(425) 697-8026

Vickie Jarman

Vickie.Jarman@fsbwa.com

EVP Chief Human

Resources/WOW Officer

(425) 697-8019

Administrative Center
6920 220th Street Southwest
Mountlake Terrace, Washington 98043