

1ST SECURITY BANK

FS BANCORP, INC.

INVESTOR PRESENTATION

August 2020



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

-FSBW Vision Statement

Forward Looking Statements

When used in this presentation and in other documents filed with or furnished to the Securities and Exchange Commission (the "SEC"), in presentations or other public shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "believe," "will," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "plans," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. 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 COVID-19 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. 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. These risks could cause the Company's actual results for 2020 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:** \$2.0 billion (at 6/30/2020)
- **Headquartered:** Mountlake Terrace, WA
- **Branches:** 22 (Including headquarters)
- **Loan Production Offices:** 8
- **ATM Locations:** 25
- **Year Established:** 1936
- **Quarterly Dividend:** \$0.21*

-  **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 (2 branches), Sequim, Silverdale, Westport
-  **Home Lending Offices**
Bellevue, Everett, Mill Creek, Mountlake Terrace, Port Orchard, Poulsbo, Puyallup, Tri-Cities
-  **Administrative Center**
Mountlake Terrace



*30th Consecutive Quarterly Dividend Paid

EXECUTIVE MANAGEMENT

	Name	Position	Years with 1st Security Bank	Years in Industry
	Joseph Adams	<i>Chief Executive Officer</i>	18	20+
	Erin Burr	<i>EVP, Chief Risk Officer</i>	11	20+
	Matthew Mullet	<i>EVP, Chief Financial Officer</i>	9	15+
	Kelli Nielsen	<i>EVP, Retail Banking & Marketing</i>	4	25+
	Robert Fuller	<i>EVP, Chief Credit Officer</i>	7	30+
	Dennis O'Leary	<i>EVP, Chief Lending Officer</i>	9	30+
	Vickie Jarman	<i>EVP, Chief Human Resources Officer</i>	18	15+
	Donn Costa	<i>EVP, Home Lending</i>	9	30+

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 (\$25.6M net) w/secondary offering

Announced thirtieth consecutive quarterly cash dividend of \$0.21 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

2020

DEPOSIT FRANCHISE

Deposits by County (1)

County	Market Rank	Number of Branches	Deposits In Market (\$000)	Deposit Market Share (%)	Percent of State Franchise (%)	Percent of National Franchise (%)	2020	2010-2020	2020-2025	2020	2020-2025
							Total Population (Actual)	Population Change (%)	Projected Population Change (%)	Median Household Income (\$)	Projected HH Income Change (%)
Washington (WA)											
Snohomish	7	4	516,750	4.11	38.38	38.38	835,811	17.17	6.77	92,792	15.48
Grays Harbor	3	6	195,133	20.85	14.49	14.49	75,056	3.10	3.15	50,519	9.68
Clallam	3	2	161,663	8.57	12.01	12.01	77,889	9.08	4.98	53,747	11.93
King	21	2	128,927	0.15	9.58	9.58	2,283,504	18.24	6.96	100,993	16.17
Jefferson	3	2	103,926	17.35	7.72	7.72	32,369	8.36	4.78	61,464	11.10
Pierce	19	2	86,581	0.70	6.43	6.43	909,535	14.37	6.23	75,382	16.15
Thurston	13	2	86,563	2.13	6.43	6.43	293,681	16.42	6.63	76,227	13.25
Kitsap	13	2	37,549	1.12	2.79	2.79	274,734	9.40	5.06	81,892	15.27
Lewis	9	1	29,399	2.75	2.18	2.18	80,925	7.25	4.47	53,490	16.28
WA Totals		23	1,346,491		100.00	100.00	4,863,504				
Weighted Average: Washington Franchise								12.92	5.75	76,999	13.85
Aggregate: Entire State of Washington							7,702,023	14.54	6.20	78,344	14.70
Aggregate: National							330,342,293	7.00	3.27	66,010	9.87

Weighted Average is calculated as the sum of (Percent of State/National Franchise * demographic item) within each market. Banks, Thrifts, and Savings Banks included (Retail Branches Only)

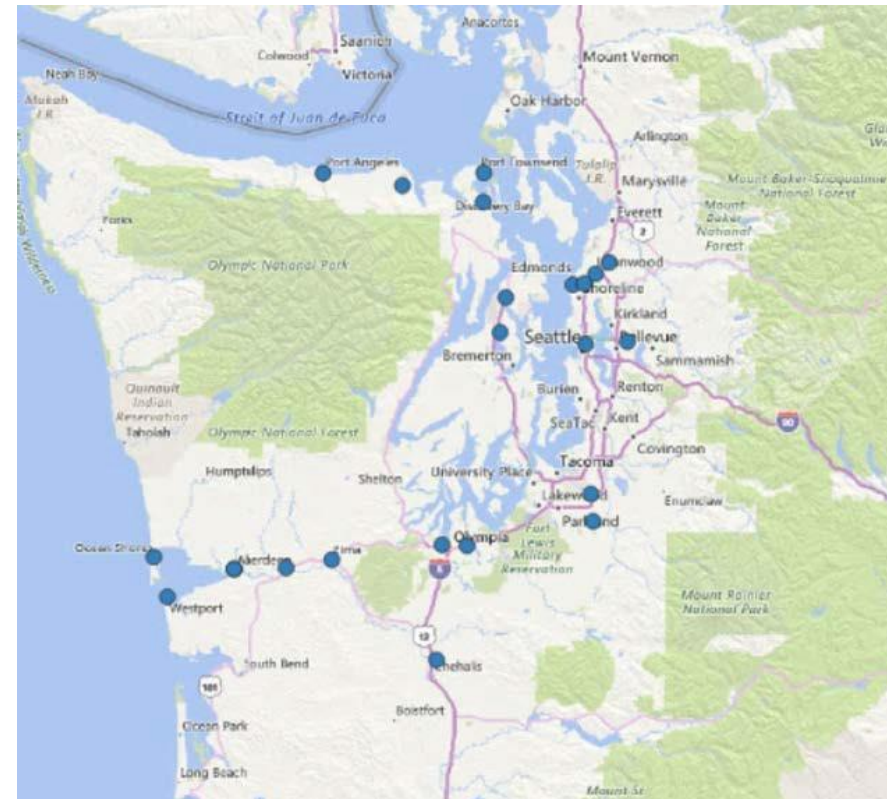
Note: National Franchise does not include deposits held in U.S. Territories and other non-states, excluding District of Columbia.

Demographic data is provided by Claritas based primarily on US Census data. For non-census year data, Claritas uses samples and projections to estimate the demographic data. SNL performs calculations on the underlying data provided by Claritas for some of the data presented on this page. For more information on Claritas's methodology, see https://www.snl.com/help/Docs/Claritas_Current_Demographic_Methodology.pdf

Note: All dollars in thousands

(1) From SNL Financial September 30, 2019

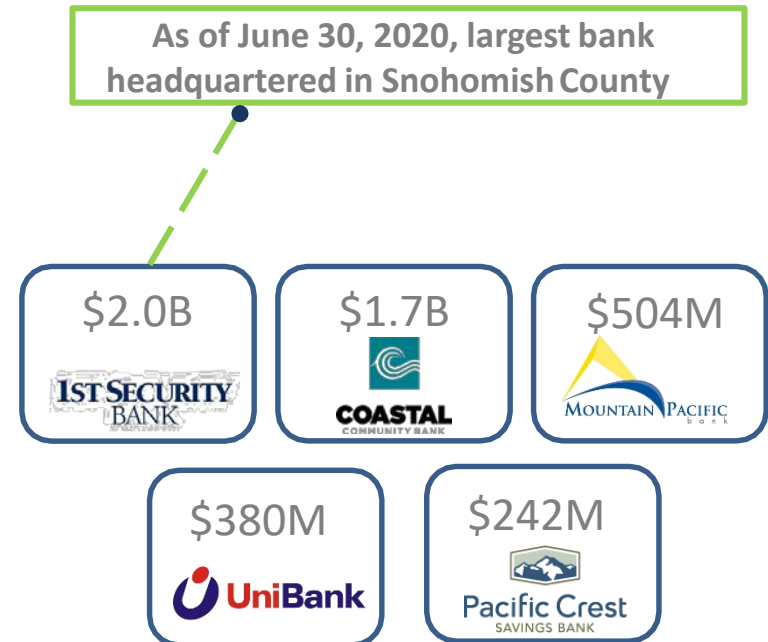
Washington State Deposit Footprint



LARGEST SNOHOMISH COUNTY BANK

Banks Headquartered in Snohomish County: December 31, 2008

Banks Headquartered in Snohomish County: June 30, 2020



*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 web site & SNLFinancial

OUR RESPONSE TO THE COVID-19 PANDEMIC

- Offering payment and financial relief (deferrals, interest only) programs for borrowers impacted by the COVID-19 pandemic.
- Participating in the Paycheck Protection Program (“PPP”). 469 fundings as of July 31, 2020 for borrowers in the communities we serve. Funded \$75.7 million in PPP loans.
- Providing payment relief for approximately 357 borrower requests as of July 31, 2020 on portfolio loans (commercial real estate, commercial business, residential and consumer) totaling \$86.6 million in outstanding principal balances as of July 31, 2020. Of the \$86.6 million, 51% were interest only relief.
- Primary method of relief is to allow the borrower up to 90 day loan payment deferments, and, on a more limited basis waived extension fees, late fees or interest only loan payments and suspended foreclosure proceedings.
- Identified loans that are in industries potentially impacted by the COVID-19 pandemic.
- Serving our communities by having all of our branches remain open, with the exception of one branch that is mostly closed but the drive-up window remains open and the branch is accepting customer appointments. The majority of our staff continue to work remotely, where feasible.

RESPONSE TO THE COVID-19 PANDEMIC

Commercial Loans Potentially Impacted by COVID-19

<u>Portfolios at Risk</u>	<u>Outstanding Balance</u>	<u>% of Total Loans *</u>
▪ Hospitality	▪ \$44.1 million	▪ 3.0%
▪ Other	▪ \$20.0 million	▪ 1.4%
▪ Manufacturing	▪ \$19.8 million	▪ 1.4%
▪ Food and beverage	▪ \$16.2 million	▪ 1.1%
▪ Retail	▪ \$11.9 million	▪ 0.8%
▪ Education/worship	▪ \$5.6 million	▪ 0.4%
▪ Construction	▪ \$4.7 million	▪ 0.3%
▪ Transportation	▪ \$4.5 million	▪ 0.3%
Total	\$126.8 million	8.7%

* Loans and percentages as of June 30, 2020

RESPONSE TO THE COVID-19 PANDEMIC

Portfolio loans - Payment and Financial Relief

- Commercial real estate - \$55.2 million
 - \$15.9 million granted a 90 day payment deferral
 - \$31.4 million borrower elected interest only payments
 - \$7.5 million have received two interest only modifications
 - \$0.1 million granted payment deferral, then interest only
 - \$0.3 million granted two payment deferrals
 - 10.4% of CRE loans have received relief

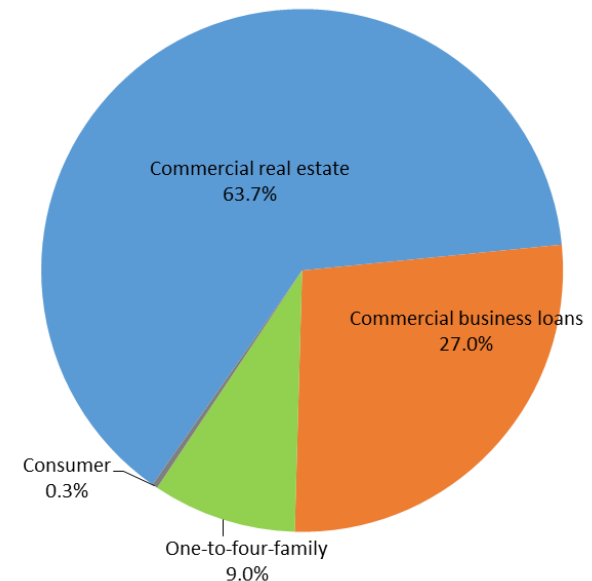
- Commercial business loans - \$23.4 million
 - \$8.0 million granted a 90 day payment deferral
 - \$12.6 million borrower elected interest only payments
 - \$2.2 million granted payment deferral, then interest only
 - \$0.6 million granted two 90 day payment deferrals
 - 9.7% of Business loans have received relief

- One-to-four-family - \$7.7 million
 - \$4.4 million granted a 90 day payment deferral
 - \$3.3 million have received additional deferrals
 - \$11.2 million have resumed making standard P+I payments
 - 2.3% of Portfolio one-to-four-family loans have received relief

- Consumer - \$0.3 million
 - \$0.1 million new payment deferral
 - \$0.2 million forbearance still in effect through August 2020
 - \$7.2 million forbearance ended
 - 0.1% of consumer loans have received relief

Loans provided some form of relief to Total Loans is 5.9% as of July 31, 2020

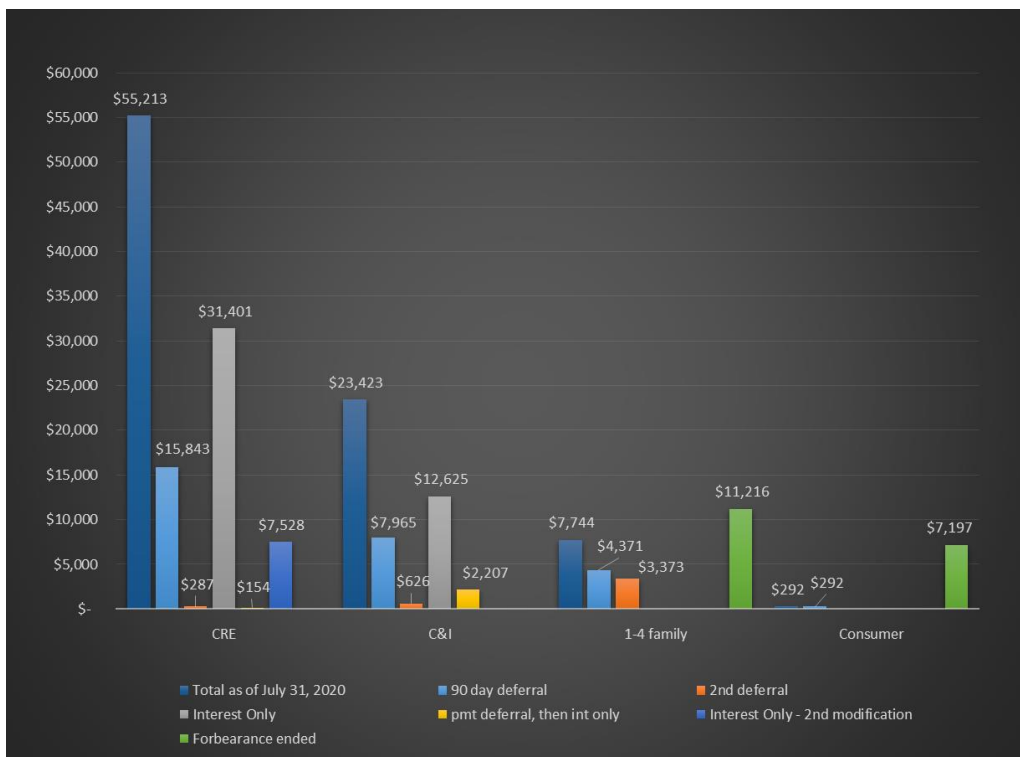
Concentration of relief loans as a percentage of total relief loans*



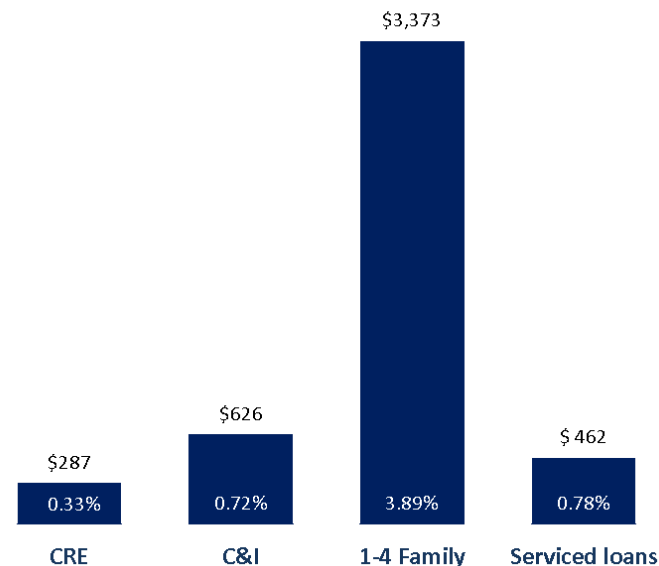
* Total loans as of July 31, 2020

RESPONSE TO THE COVID-19 PANDEMIC

Total modifications by type (\$000's)



Second deferrals by type (\$000's) (1)



(1) Customers who have received second deferrals. The balances are based on second deferral amounts. % are a percentage of total deferrals per type of loan as of July 31, 2020.

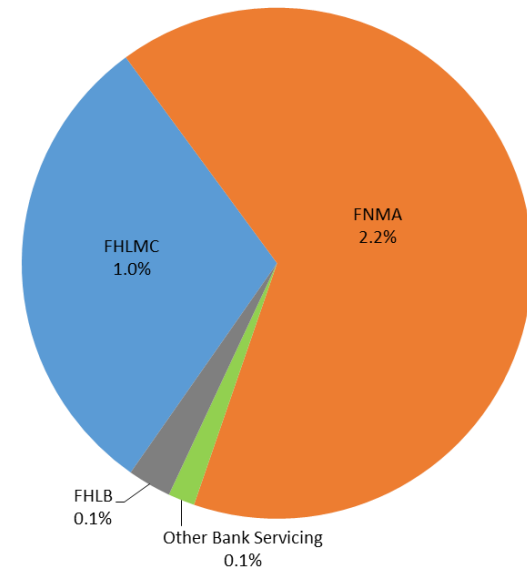
RESPONSE TO THE COVID-19 PANDEMIC

Total Loans Serviced for Others

- Total Serviced Loans in Forbearance - \$59.1 million
 - \$58.7 million granted a 90 day payment deferral
 - \$0.4 million received additional forbearance
 - \$2.6 million forbearance ended
 - Of Total Serviced Loans, 3.4% are in forbearance

- Breakout of Loans Serviced for Others:
 - FHLMC - \$17.7 million, or 4.1% of total FHLMC servicing
 - FNMA - \$38.6 million, or 3.1% of total FNMA servicing
 - Other Bank Servicing - \$1.0 million, or 6.2% of total Other Bank Servicing
 - FHLB - \$1.6 million, or 3.7% of total FHLB servicing

% of Serviced Loans in Forbearance to Total Serviced Loans *



* Total Serviced loans as of July 31, 2020

LONG TERM STRATEGIC PLAN

- ✓ Expansion of commercial business lending program
- ✓ Increase in-house originations of residential mortgage loans which are primarily sold into the secondary market through the mortgage banking platform and commercial real estate lending
- ✓ Maintaining and improving asset quality
- ✓ 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

FINANCIAL PERFORMANCE

SECOND QUARTER 2020 HIGHLIGHTS

Financial Highlights for Q2 2020

- Total assets of \$2.01 billion
- Gross loans of \$1.47 billion
- Net income of \$10.0 million

Q2 2020 YTD

- Diluted earnings per share of \$2.30
- Tangible book value per share of \$48.30⁽¹⁾
- Announced thirtieth quarterly cash dividend

Selected Performance Ratios

- ROAA of 2.08%
- ROAE of 19.77%
- Net Interest Margin of 3.91%
- Efficiency Ratio of 45.71%

Credit Quality Ratios

- Non-performing Assets (NPAs) as a percentage of total assets of 0.40%
 - Allowance for Loan Losses as a percentage of gross loans of 1.47%
- Note: Anchor loans shown “net” of fair value discount of \$2.0 million

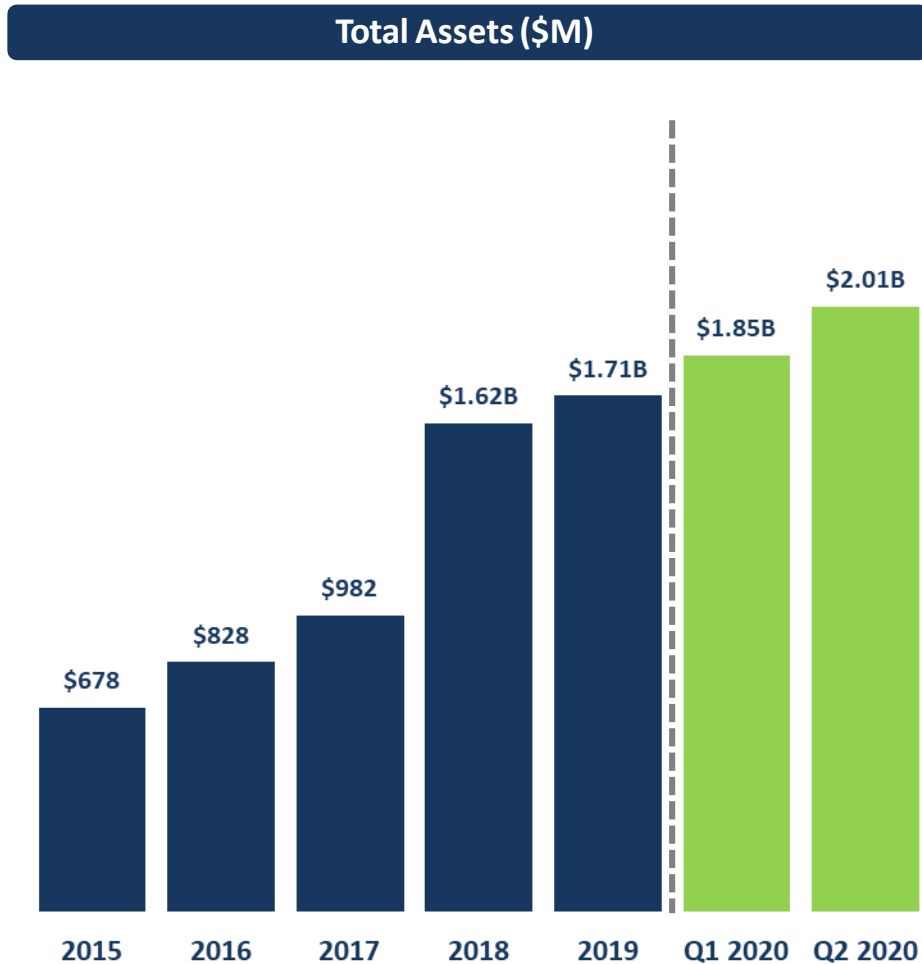
Capital Position

- Currently, all Bank Holding Company (BHC) and Bank ratios are above those to be considered “Well-Capitalized”

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

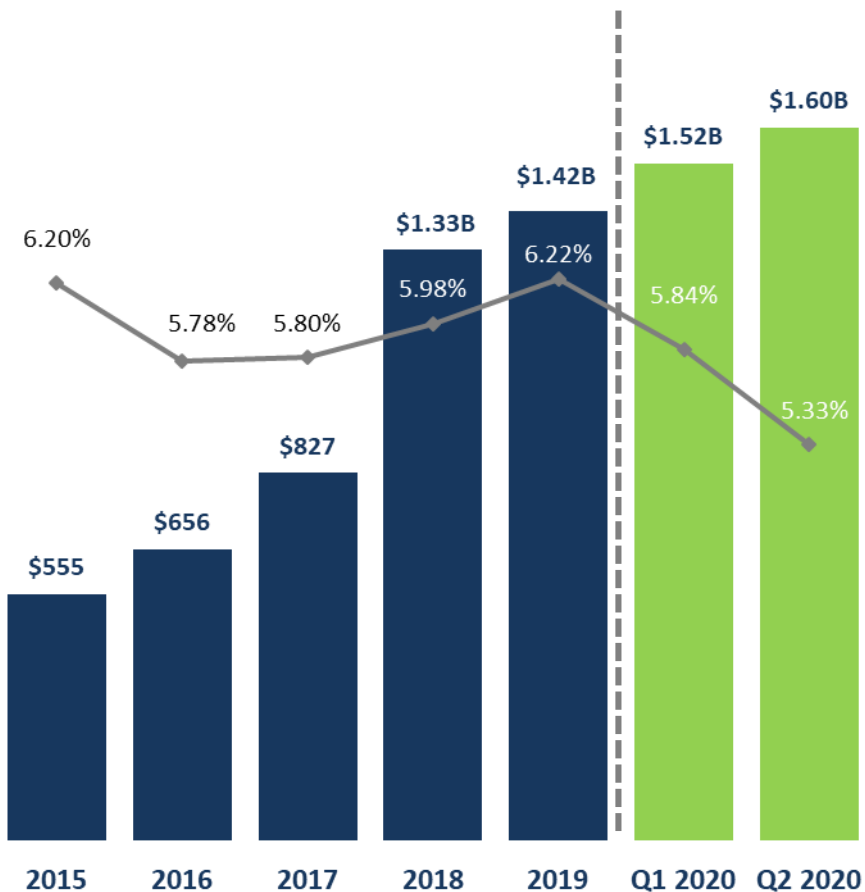
FRANCHISE GROWTH

- Expanded access to the Olympic Peninsula market through our branch and Anchor Bank acquisitions
- Ability to expand commercial real estate lending including “in-city” construction in the Seattle-area marketplace
- Personnel and systems in place to manage increased asset size
- Anchor acquisition fully integrated



LOAN PORTFOLIO SUMMARY

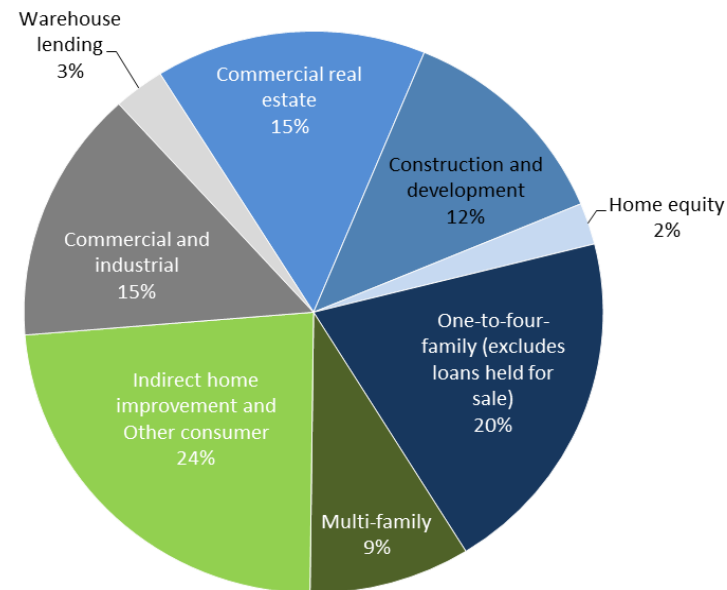
Gross Loans and Loan Yield (\$M) ⁽¹⁾



Source: Yields represent data presented in SNLFinancial

Loan Composition at June 30, 2020

Total Gross Loans (excl. HFS): \$1.47B



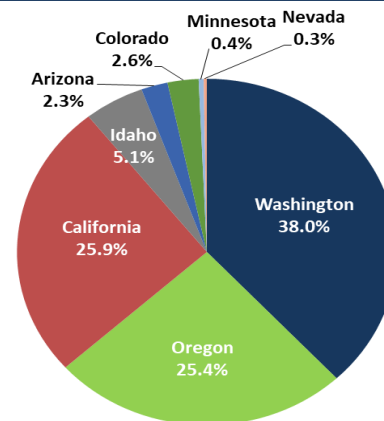
- (1) Loans, net of deferred fees, costs, and includes HFS
- (2) Other consumer includes solar and marine loans

CONSUMER LENDING

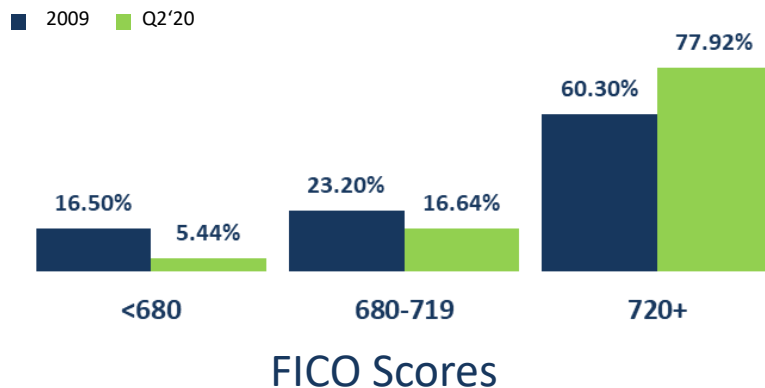
Q2 2020 Highlights

- \$345.3 million outstanding
- \$43.1 million in dealer originations
 - Up 9% from comparable Q2 2019
- Average yield of 7.03%, down from 7.11% in Q1 2020
- Top 10 dealers accounted for \$24.2 million (56%) of loan originations

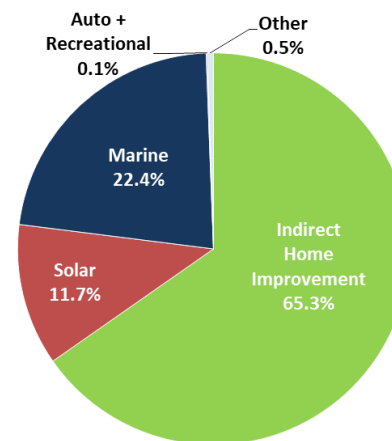
Q2 2020 Dealer Production by State



2009 vs. Q2 2020 Portfolio Credit Quality



Consumer Portfolio Characteristics



HOME LENDING

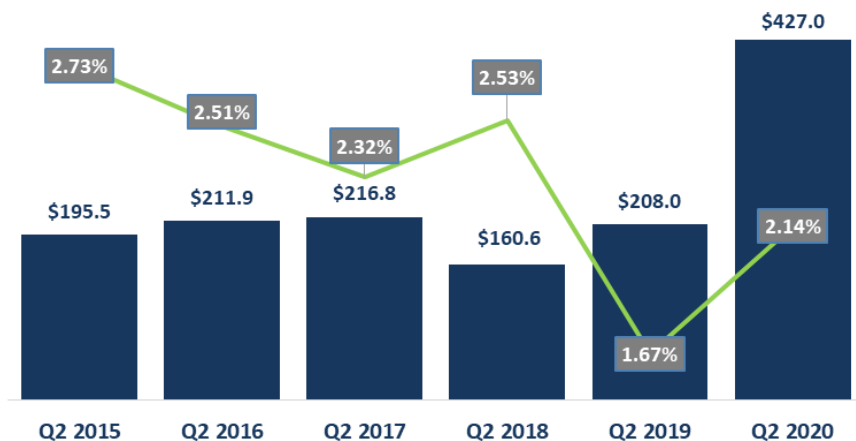
Q2 2020 Highlights

- One-to-four-family loans originated increased \$192.8 million, or 67.5%, to \$478.4 million, compared to \$285.6 million for the preceding quarter
- Loan Sales: \$427.0 million
- Purchase production was 29.9% of one-to-four-family loan originations versus 70.1% for refinance production
- Increases in originations were primarily attributed to the refinance activity over the last year in response to decreases in market interest rates

Q2 2020 Mortgage Servicing

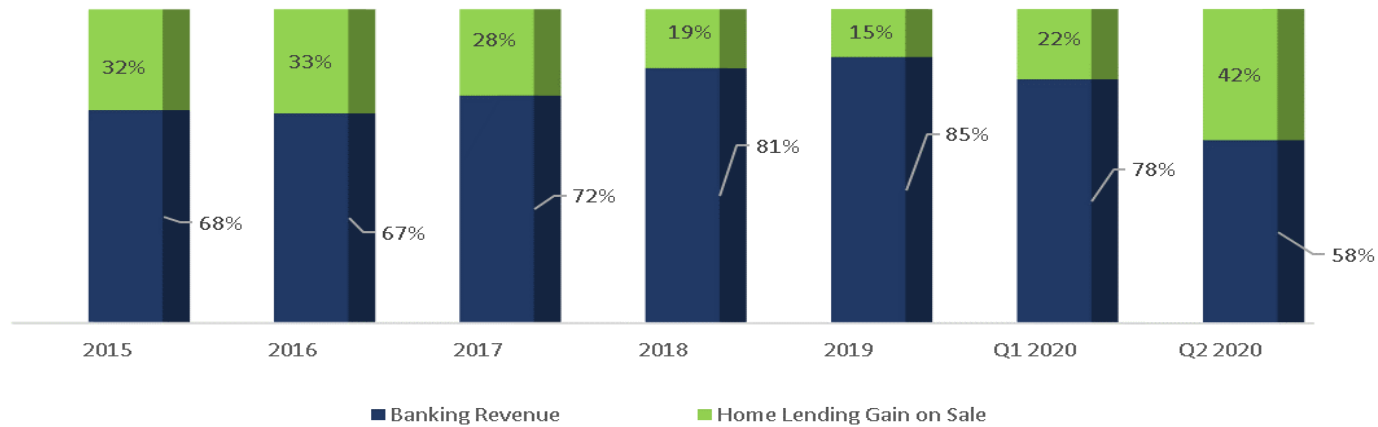
- Servicing unpaid principal balance: \$1.66 billion and 5,884 loans
- Q2 2020 notional servicing: \$308.1 million increase quarter over quarter

Quarterly Closed Volume & Cash Margin on Loans Sold

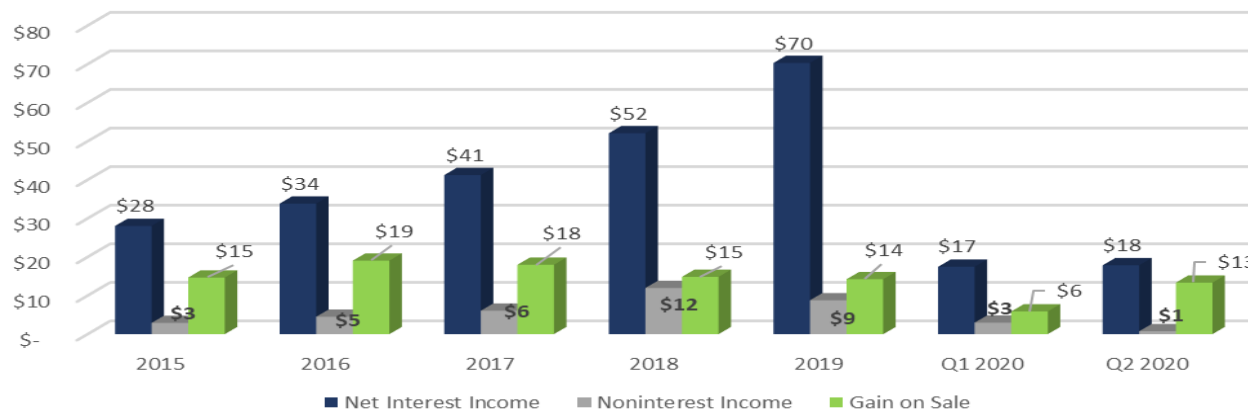


Note: Quarterly closed volume is listed in millions

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



Total Revenues (\$M)



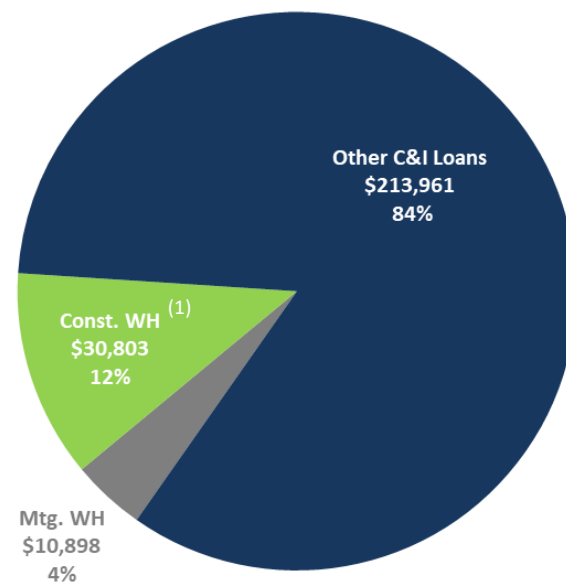
COMMERCIAL BUSINESS LENDING

Q2 2020 Commercial & Industrial (C&I)

- C&I commitments were \$410.2 million
- Outstanding balances were \$255.7 million relative to \$214.1 million at March 31, 2020
- The \$41.6 million of quarter over sequential quarter increase in commercial business lending was largely attributed to the funding of \$75.3 million in CARES Act loans and a decrease in other borrowings at the end of the quarter.

Q2 2020 Product Mix (\$M)

Outstanding C&I Balance: \$255.7 million



(1) WH = Warehouse

CONSTRUCTION & DEVELOPMENT LENDING

Q2 2020 Highlights

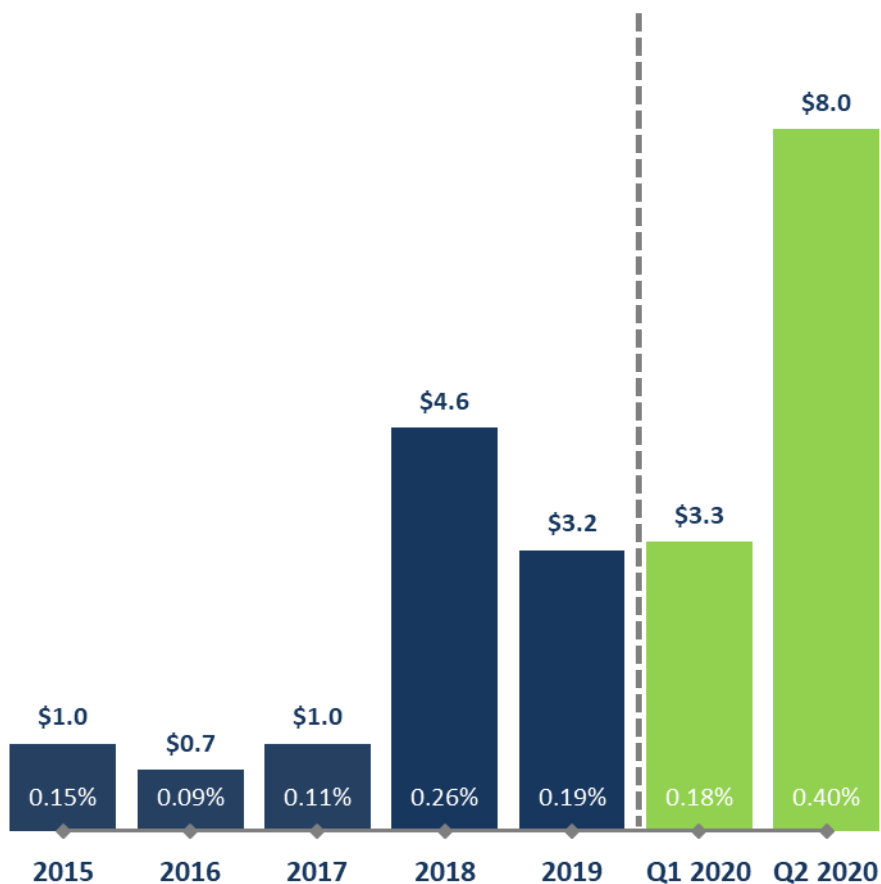
- \$319.6 million committed
- \$183.0 million outstanding
- 6.00% average coupon rate
- Majority of originations in King County
- Focus on "in-city", infill speculative lending to a select group of relationship customers

Quarterly C&D Loans Outstanding (\$M)

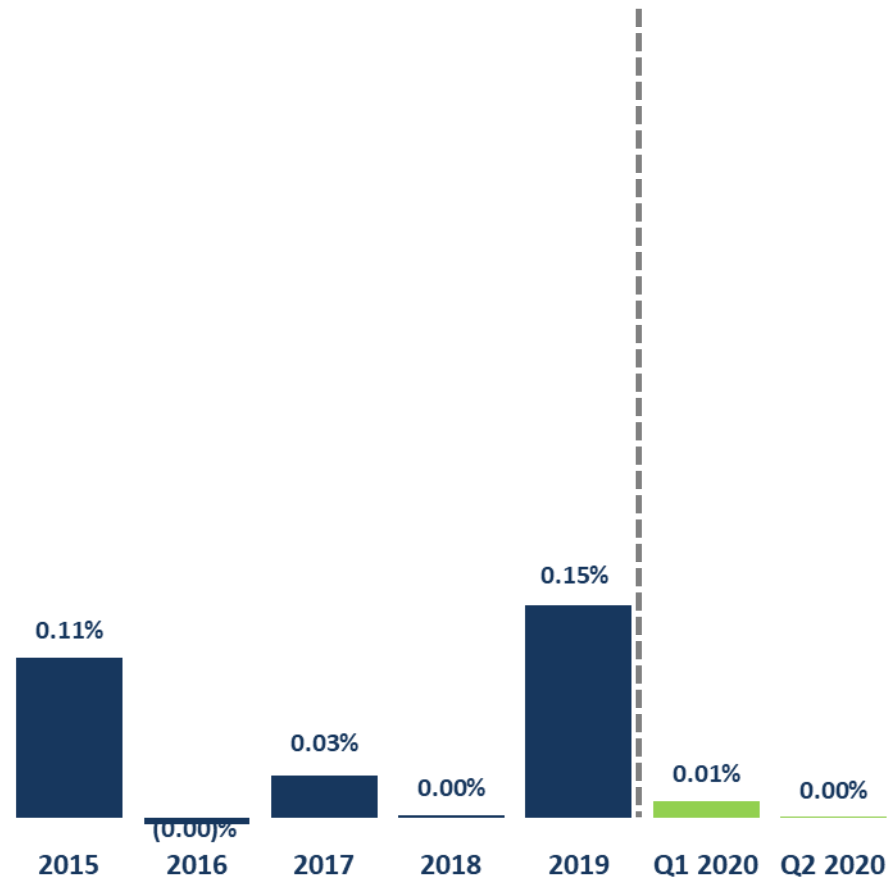


ASSET QUALITY

Non-performing Assets (\$M)⁽¹⁾



Net Charge-offs / Average Loans



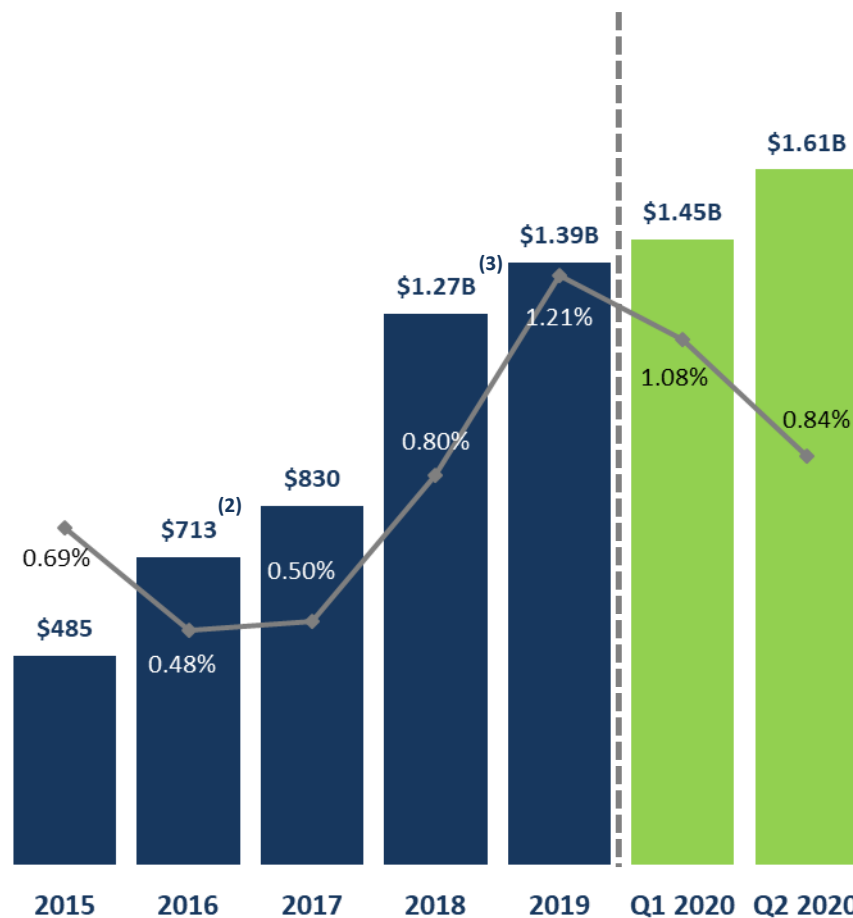
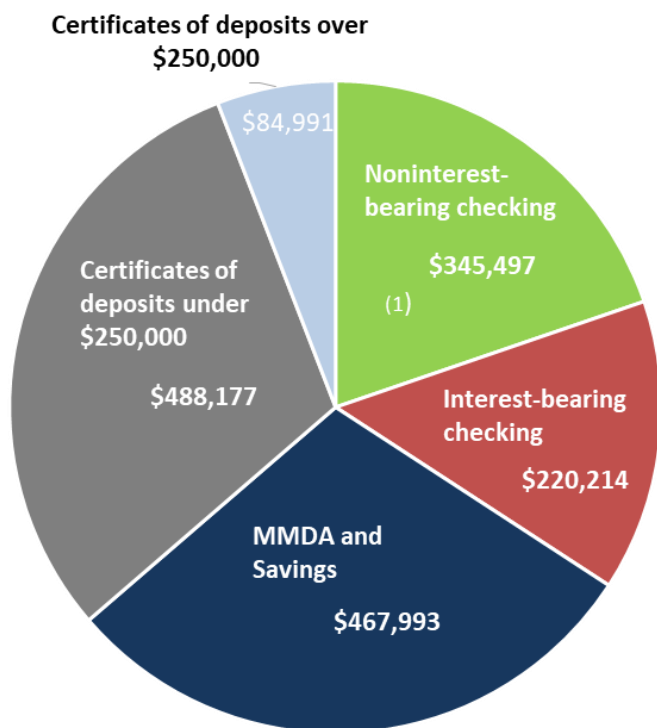
(1) Non-performing Assets consists of non-performing loans (which include non-accruing loans and accruing loans more than 90 days past due), foreclosed real estate and other repossessed assets

DEPOSIT COMPOSITION AND GROWTH

June 30, 2020

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

Total Deposits: \$1.61 billion



(1) Noninterest-bearing checking includes escrow accounts related to mortgages serviced

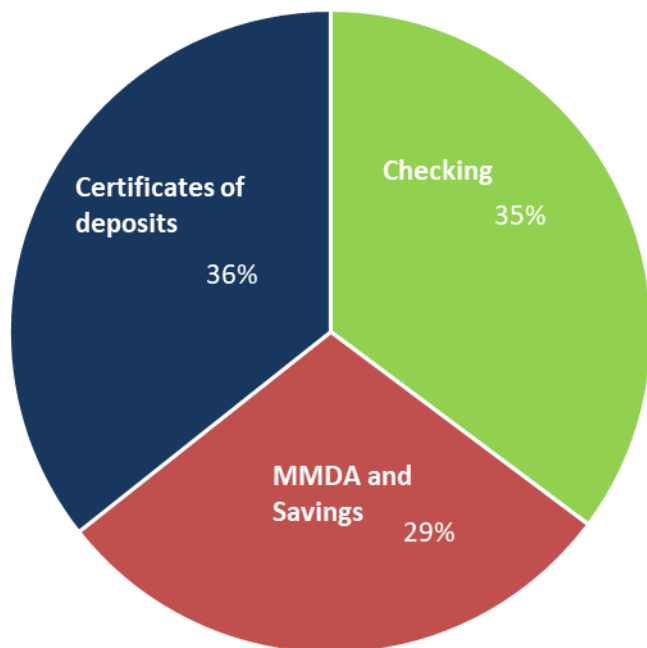
(2) Branch acquisition during Q1 2016

(3) Anchor acquisition in Q4 2018

COMPOSITION COMPARISON YEAR OVER YEAR

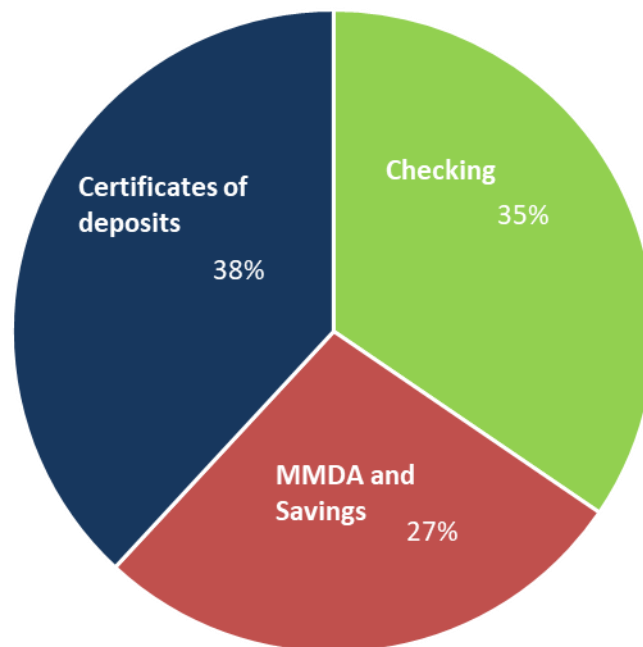
June 30, 2020

Total Deposits: \$1.61 billion



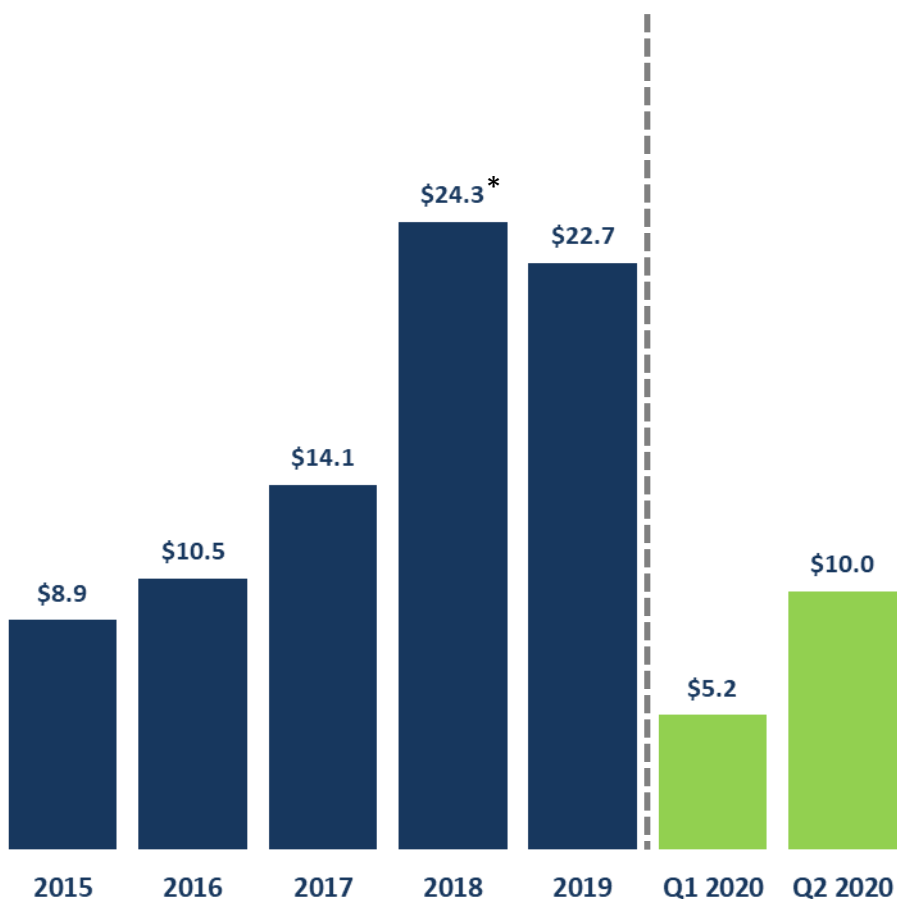
June 30, 2019

Total Deposits: \$1.33 billion



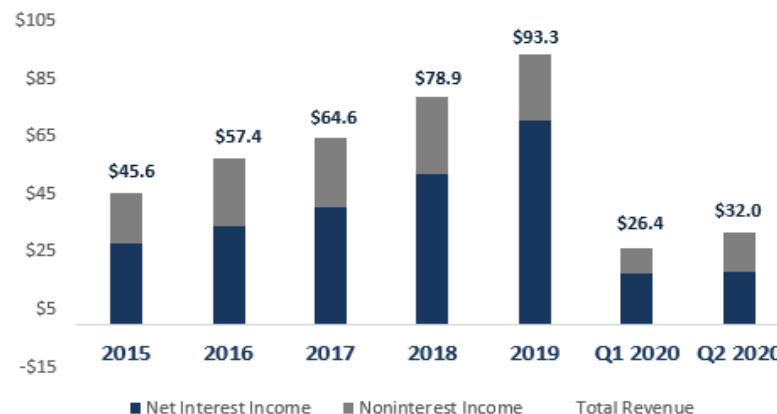
INCOME STATEMENT TRENDS

Net Income (\$M)



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

Total Revenues (\$M)

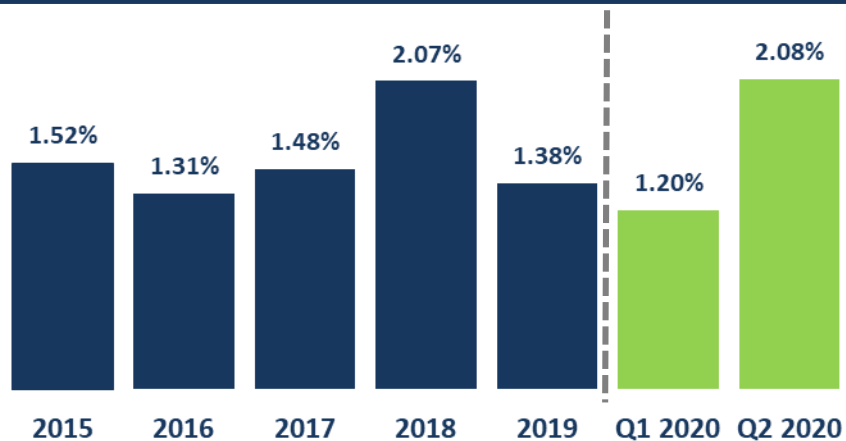


Total Expenses (\$M)

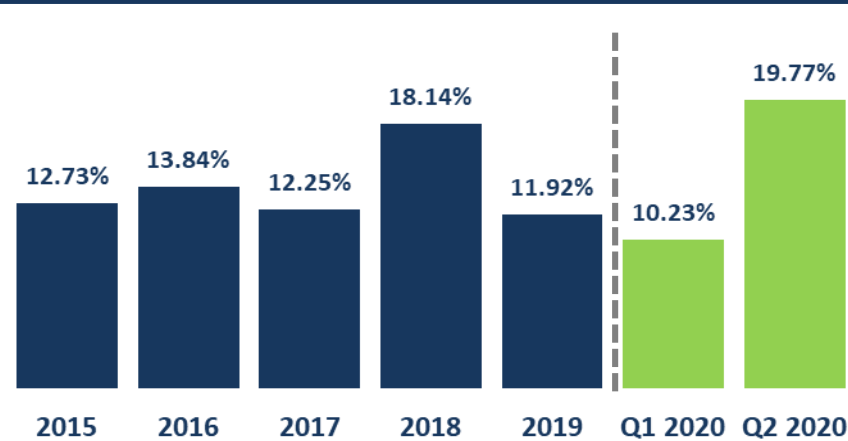


SELECTED PERFORMANCE RATIO TRENDS

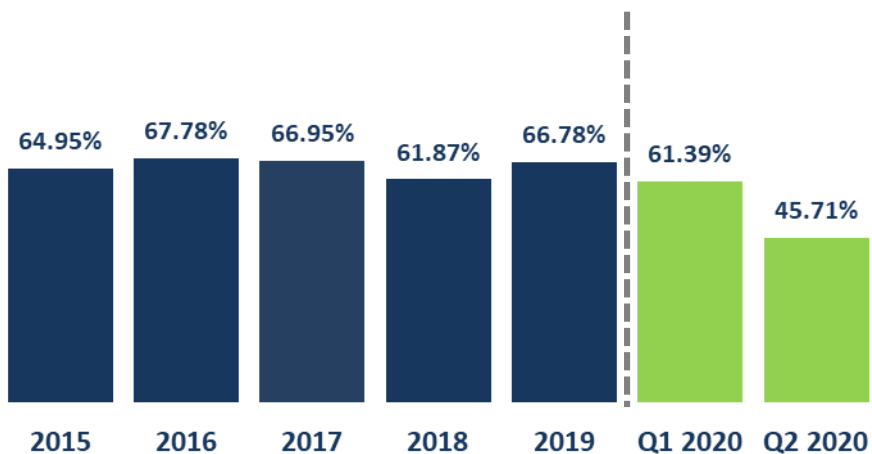
ROAA



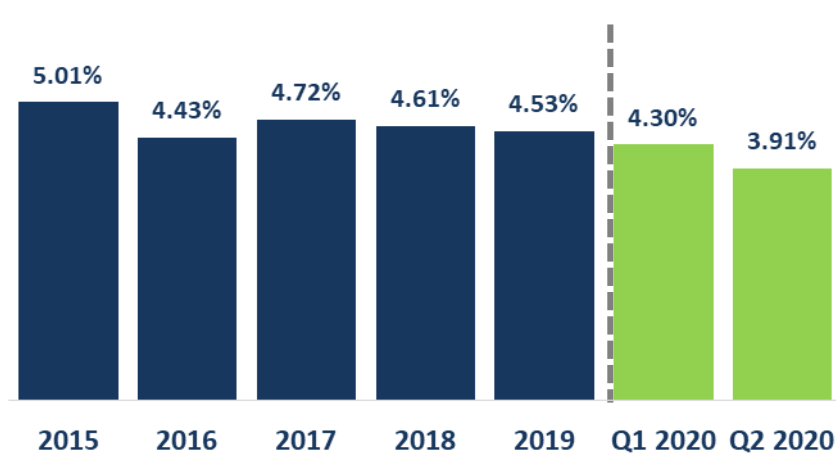
ROAE



Efficiency Ratio



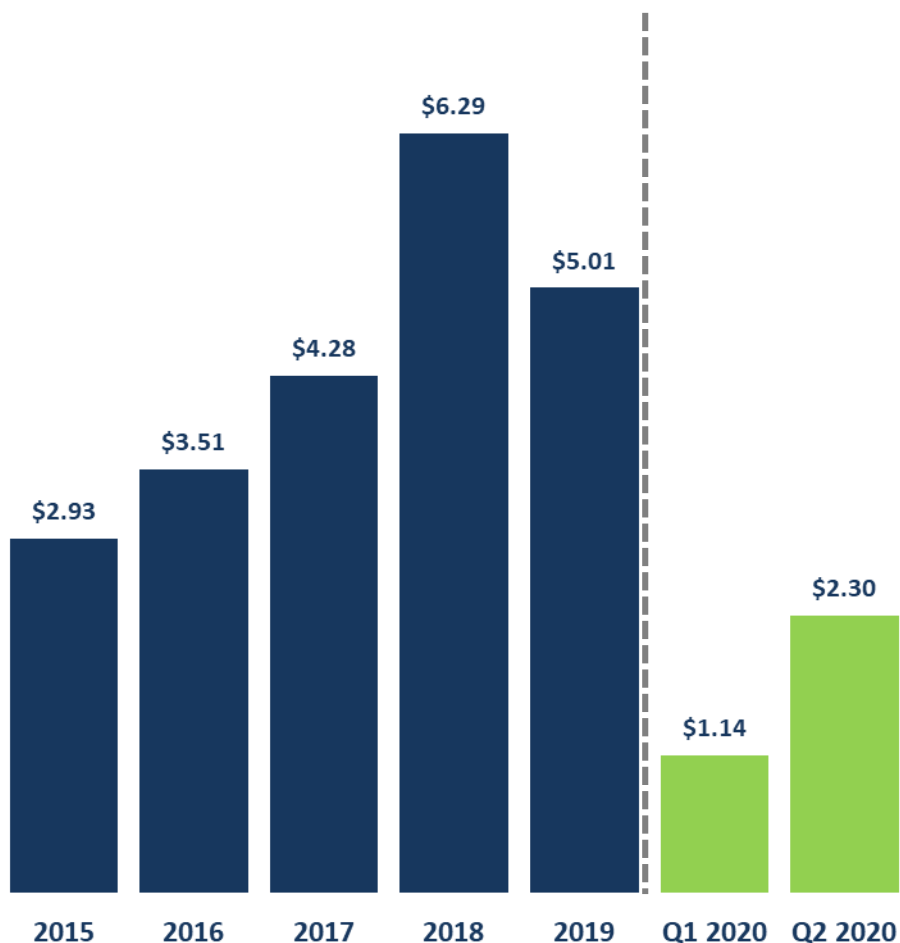
Net Interest Margin⁽¹⁾



(1) Net interest margin on a tax equivalent basis

BUILDING STOCKHOLDER VALUE

Diluted Earnings Per Share



Reported Book Value Per Share



CAPITAL STRATEGY

Franchise Growth

- Continue 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
- Continue to invest in the Bank's business lending platform and Small Business Administration lending
- Focus on core deposit generation to fund asset growth

Dividends

- Paid thirtieth consecutive quarterly cash dividend on August 20, 2020
- Dividends increased \$0.06, or 40%, since the first quarter of 2019

Shareholder Value

- Continue to focus on increasing shareholder value through our business plan execution
- Repurchased 87,155 shares during the second quarter 2020 at an average price per share of \$37.62

INVESTMENT HIGHLIGHTS

- Seasoned management team with deep local market knowledge
- Robust, diversified growth in consumer, commercial, and real estate lending
- Stable core deposit growth
- Diverse revenue metrics
- Attractive core banking markets
- Focused credit team with experience in credit management

CONTACT INFORMATION

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APPENDIX

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES

Non-GAAP Financial Measures

This presentation includes unaudited non-GAAP financial measures, including tangible book value per share. We present non-GAAP financial measures herein because our management believes that such information provides useful information about our operating performance. Non-GAAP financial measures do not have any standardized meaning and are therefore unlikely to be comparable to similar measures presented by other companies. The presentation of non-GAAP financial measures is not intended to be a substitute for, and should not be considered in isolation from, the financial measures reported in accordance with GAAP.

(\$ in 000's)	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Stockholders' equity	\$ 208,641	\$ 200,829	\$ 200,242	\$ 194,257	\$ 189,426
Goodwill and core deposit intangible, net	(7,416)	(7,593)	(7,769)	(7,959)	(8,149)
Tangible common stockholders' equity	\$ 201,225	\$ 193,236	\$ 192,473	\$ 186,298	\$ 181,277
Common shares outstanding at end of period	4,165,944	4,246,619	4,366,984	4,354,335	4,387,061
Common stockholders' equity (book value) per share (GAAP)	\$ 50.08	\$ 47.29	\$ 45.85	\$ 44.61	\$ 43.18
Tangible common stockholders' equity (tangible book value)*	\$ 48.30	\$ 45.50	\$ 44.08	\$ 42.79	\$ 41.32

*Per share (non-GAAP)

Source: Press Release

(\$ in 000's)	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Stockholders' equity	\$ 208,641	\$ 200,829	\$ 200,242	\$ 194,257	\$ 189,426
Common shares outstanding at end of period	4,165,944	4,246,619	4,366,984	4,354,335	4,387,061
Common stockholders' equity (book value) per share (GAAP)	\$ 50.08	\$ 47.29	\$ 45.85	\$ 44.61	\$ 43.18

Source: FS Bancorp, Inc. ; Press Release Released on July 23, 2020