

1ST SECURITY BANK

FS BANCORP, INC.

INVESTOR PRESENTATION

February 2021



**“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 2021 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:** \$2.11 billion (at December 31, 2020)
- **Headquartered:** Mountlake Terrace, WA
- **Branches:** 23*
- **Loan Production Offices:** 11
- **ATM Locations:** 25
- **Year Established:** 1936
- **Quarterly Dividend:** \$0.26**

* Including headquarters and drive through banking in Aberdeen, WA

**32nd 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

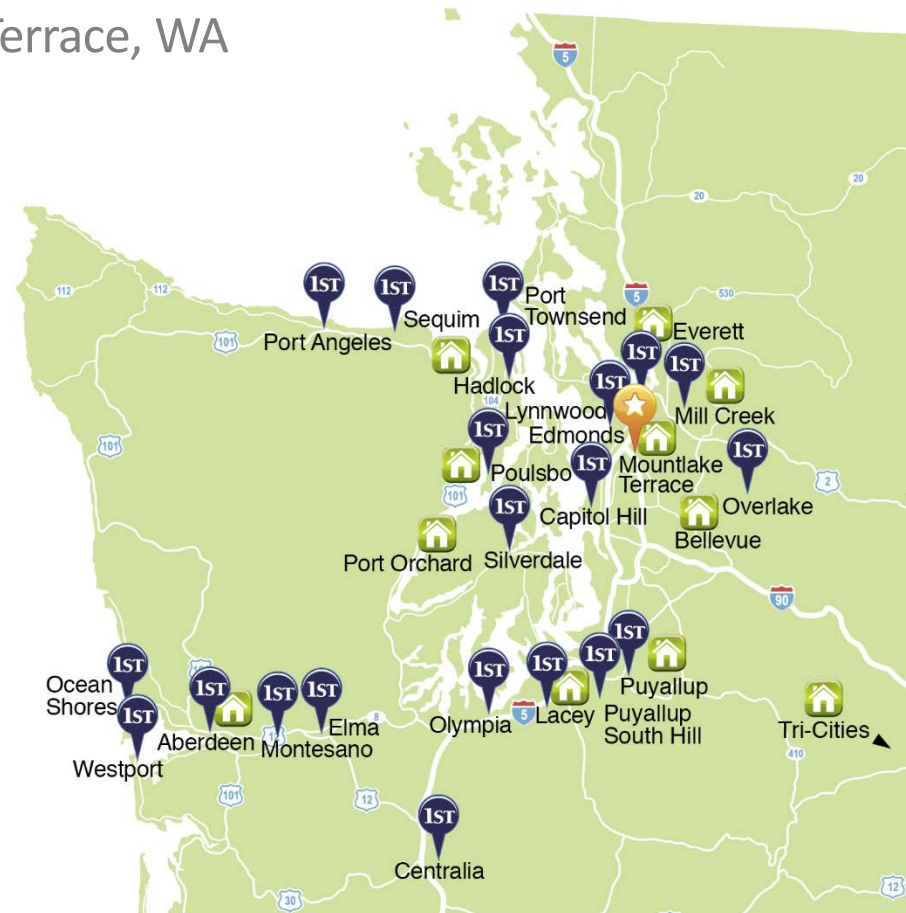


Home Lending

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



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-second consecutive quarterly cash dividend of \$0.26 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

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

LARGEST SNOHOMISH COUNTY BANK

Banks Headquartered in Snohomish County: December 31, 2008

Banks Headquartered in Snohomish County: December 31, 2020



As of December 31, 2020,
largest bank headquartered in
Snohomish County



*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 Global Market Intelligence

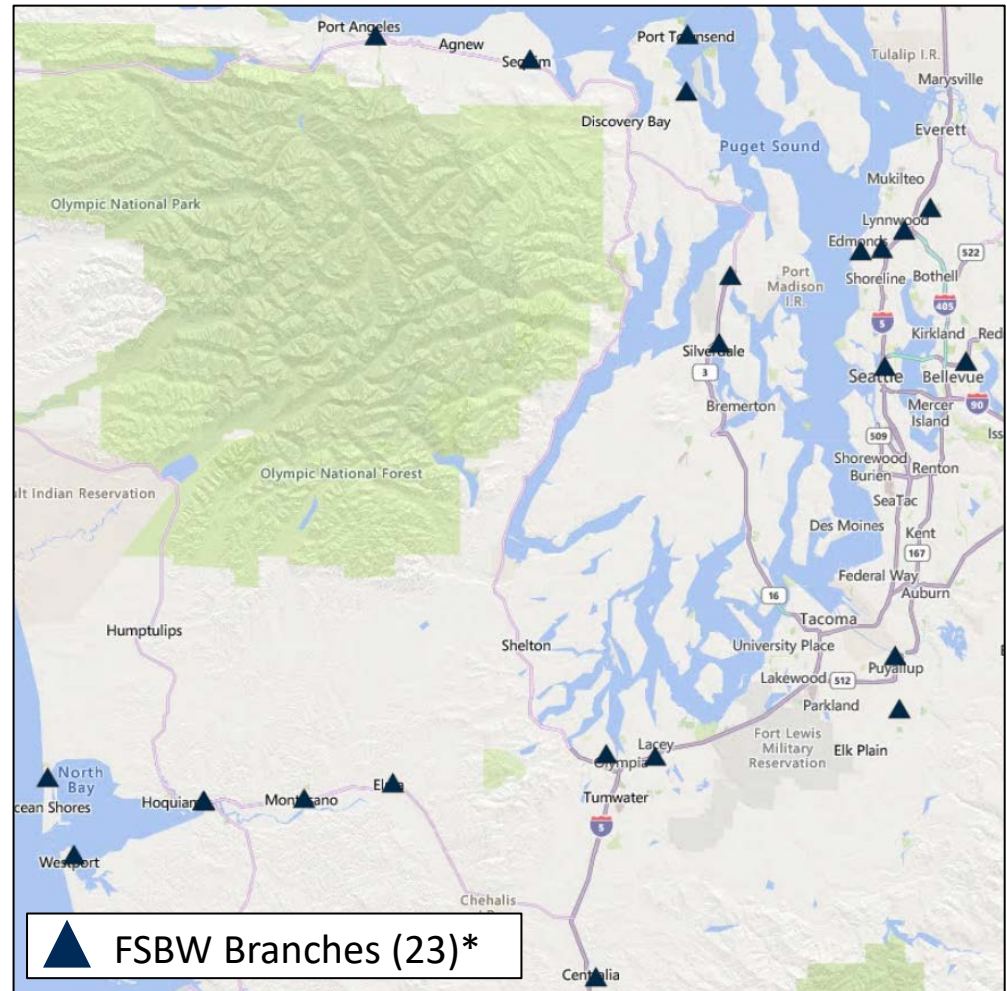
DEPOSIT FRANCHISE & BRANCH FOOTPRINT

County Deposits & Demographics (6/30/20)

County	Market Rank	Number of Branches	Deposits In Market (\$000)	Deposit Market Share %	% of Franchise
Snohomish	7	4	692,156	4.7%	42.8%
Grays Harbor	3	6	204,585	18.7%	12.6%
Clallam	3	2	183,921	8.0%	11.4%
King	22	2	149,531	0.1%	9.2%
Jefferson	2	2	131,595	19.0%	8.1%
Pierce	17	2	99,041	0.7%	6.1%
Thurston	13	2	81,989	1.6%	5.1%
Kitsap	14	2	44,965	1.2%	2.8%
Lewis	9	1	30,470	2.6%	1.9%
Total			1,618,253		

County	2021		2021-2026 Projected	
	Total Population	Median HH Income (\$)	Population Change	HH Income Change
Snohomish	841,173	95,185	6.8%	12.8%
Grays Harbor	75,963	51,695	3.7%	8.8%
Clallam	78,293	61,183	5.1%	13.7%
King	2,298,351	105,018	6.9%	13.7%
Jefferson	32,743	63,086	5.1%	9.3%
Pierce	920,730	82,380	6.4%	14.8%
Thurston	296,606	80,139	6.7%	13.4%
Kitsap	275,742	85,534	5.2%	13.7%
Lewis	81,841	62,769	4.8%	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 Global Market Intelligence; Deposit data as of June 30, 2020

*Including headquarters and drive through banking in Aberdeen, WA

RESPONSE TO THE COVID-19 PANDEMIC

- Participating in the Paycheck Protection Program (“PPP”) with 474 funded loans as of December 31, 2020, totaling \$76 million for borrowers in the communities we serve. During the fourth quarter of 2020, 66 PPP loans totaling \$12 million were submitted for approval and forgiven by the Small Business Administration (“SBA”).
- Providing payment relief for approximately 390 borrower requests as of December 31, 2020 on portfolio loans (commercial real estate, commercial business, residential and consumer) totaling \$101.3 million in outstanding principal balances as of December 31, 2020. Of the \$101.3 million, 52.4% were interest only relief. As of December 31, 2020, \$44.8 million of portfolio loans remain under payment / relief agreements.
- Allowing the borrower up to 90 day loan payment deferments or a period of interest only payments, and, on a more limited basis waived extension fees, late fees and/or suspended foreclosure proceedings are the primary methods of relief.
- Serving our communities by having all of our branches open and continue to remain flexible as to branch operations based on the guidance provided for the communities in which we operate. The majority of our staff continue to work remotely, where feasible.

PANDEMIC IMPACT

PPP Lending Activity by Sector

Loan Type	Loan Dollars	# of Loans	Avg. Loan Size	% of Category
Retail				
< \$150M	\$11,273,675	272	\$41,500	90%
> \$150M	10,753,200	29	371,000	10%
Total Retail	\$22,026,875	301	\$73,000	100%
Commercial				
< \$150M	\$6,525,000	104	\$63,000	60%
> \$150M	47,199,300	69	684,000	40%
Total Commercial	\$53,724,300	173	\$311,000	100%
Retail + Commercial				
< \$150M	\$17,798,675	376	\$47,337	79%
> \$150M	57,952,500	98	591,352	21%
Total Retail + Commercial	\$75,751,175	474	\$159,813	100%
Total PPP Loans Forgiven*	\$12,013,019	66	\$182,015	16%

PPP Summary

- 474 total PPP loans granted (301 retail / 173 commercial)
- \$75.8 million of aggregate PPP loans issued (29% retail / 71% commercial)
- Overall average loan size of \$159,813
- \$2.6 million of total fees accrued (3.4% fee rate on total issued)
- As of December 31, 2020, 66 PPP loans totaling \$12 million were forgiven by the SBA

* Note: Loan forgiveness data as of December 31, 2020.

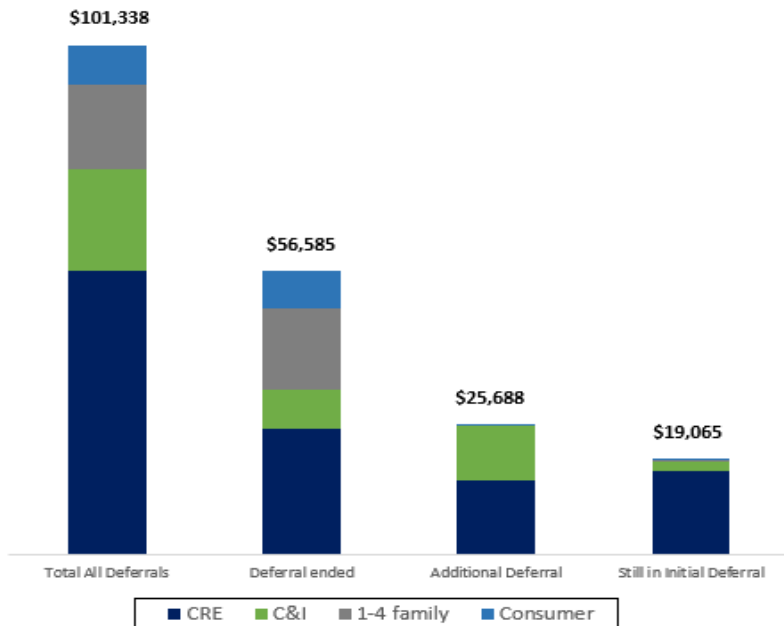
Commercial COVID-19 Risk Industries: December 31, 2020

At-Risk Industry	# of loans	Loan Dollars	Avg. Loan Size	% of Loans Out.
Hospitality	20	\$43,960,266	\$2,198,013	2.8%
Other	46	20,978,644	456,057	1.3%
Food and beverage	32	14,577,216	455,538	0.9%
Manufacturing	14	12,579,497	898,535	0.8%
Transportation	2	4,406,905	2,203,453	0.3%
Construction	15	3,479,696	231,980	0.2%
Retail	6	2,553,951	425,659	0.2%
Education/worship	8	734,467	91,808	0.0%
Total	143	\$103,270,642	\$6,961,043	6.6%

FSBW closely monitors all exposure to industries at heightened risk of economic deterioration due to the COVID-19 pandemic

RESPONSE TO THE COVID-19 PANDEMIC

Deferral Status by Type (\$000's) December 31, 2020

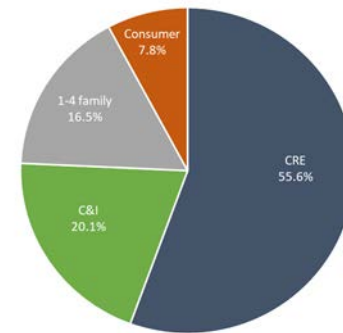


Segment	Total All Deferrals	Deferral ended	Additional Deferral	Still in Initial Deferral
CRE	\$ 56,329	\$ 25,092	\$ 14,599	\$ 16,637
C&I	\$ 20,407	\$ 7,590	\$ 11,065	\$ 1,751
1-4 family	\$ 16,657	\$ 16,348	\$ -	\$ 308
Consumer	\$ 7,946	\$ 7,554	\$ 24	\$ 368
Total	\$ 101,338	\$ 56,585	\$ 25,688	\$ 19,065

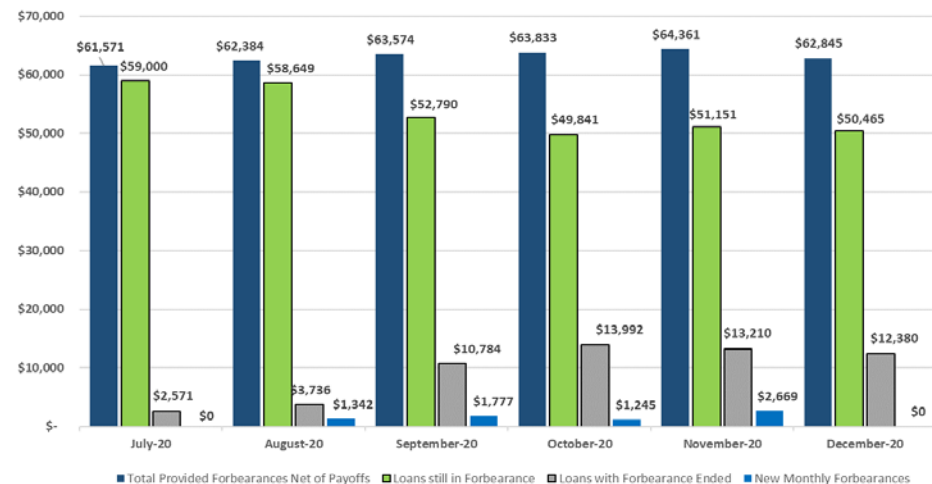
Note: Excludes loans which have paid off as of December 31, 2020

Significant reduction in remaining deferrals ↑

Relief Loans by Category



Serviced Loans for others in Forbearance (in \$000's)



* Note: Majority of remaining loans in deferral are interest only payments; \$38.1 million or 85.1%

YEAR END 2020 HIGHLIGHTS

Financial Highlights Year End 2020

- Total assets of \$2.1 billion
- Gross portfolio loans of \$1.6 billion
- Net income of \$39.3 million

Q4 2020

- Diluted earnings per share of \$2.60
- Tangible book value per share of \$53.63⁽¹⁾
- Announced thirty-second consecutive quarterly cash dividend (\$0.26)

Selected Performance Ratios

- Q4 ROAA of 2.18% and 2020Y of 2.02%
- Q4 ROAE of 20.48% and 2020Y of 18.74%
- Q4 Net Interest Margin of 3.99% and 2020Y of 4.02%
- Q4 Efficiency Ratio* of 53.69% and 2020Y of 51.43%

Credit Quality Ratios

- Non-performing Assets (NPAs) as a percentage of total assets of 0.37%
- Allowance for Loan Losses as a percentage of gross portfolio loans of 1.66%⁽²⁾
- Allowance for Loan Losses as a percentage of gross portfolio loans ex. PPP of 1.73%

Capital Position

- Currently, all Bank Holding Company (BHC) and Bank ratios are above those to be considered “Well-Capitalized”, with a Community Bank Leverage Ratio (“CBLR”) of 10.9% as of December 31, 2020

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

(2) Note: Gross loans include Anchor loans “net” of fair value discount of \$1.5 million

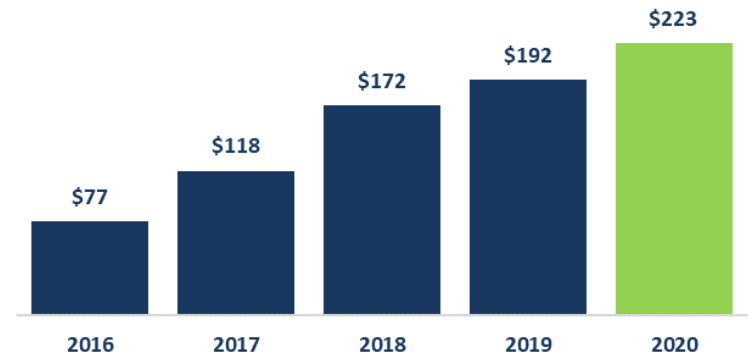
*Efficiency Ratio calculated as noninterest expense (excluding OREO, amortization, & goodwill impairment expenses) as a percent of FTE net interest income and noninterest income (excluding gains on securities and nonrecurring items)

FRANCHISE GROWTH

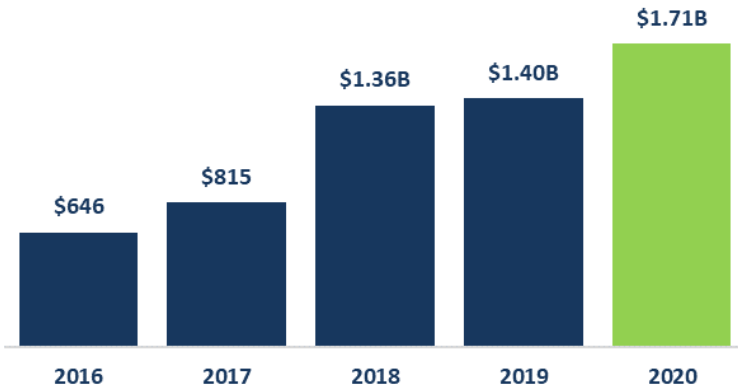
Total Assets (\$B)



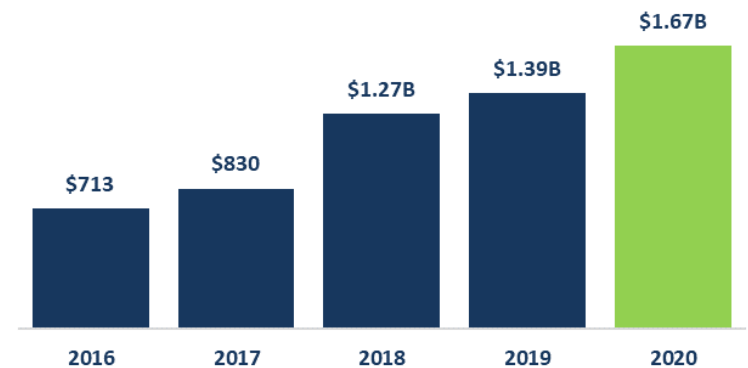
Tangible Common Equity (\$M)⁽¹⁾



Total Net Loans (\$B)



Total Deposits (\$B)

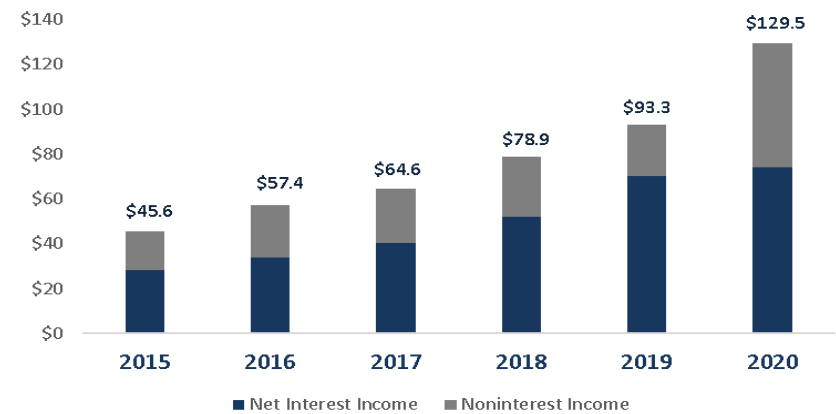


INCOME STATEMENT TRENDS

Net Income (\$M)



Total Revenues (\$M)



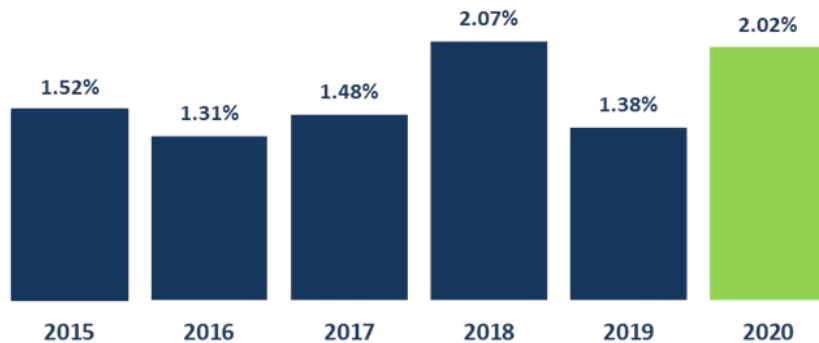
Total Noninterest Expense (\$M)



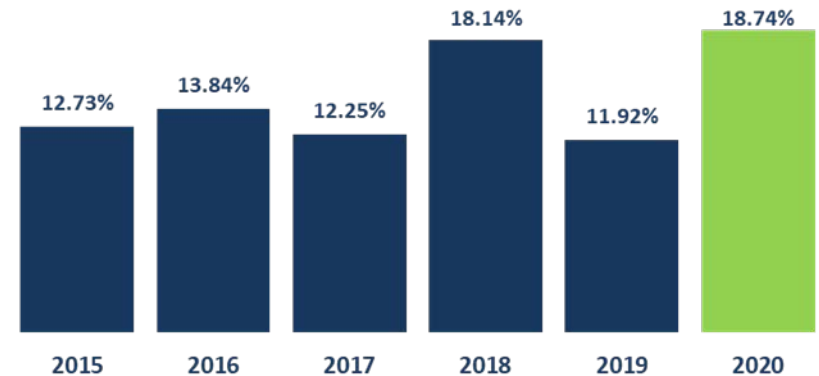
*Includes \$7.4 million in Bargain Purchase Gain (BPG)

SELECTED PERFORMANCE RATIO TRENDS

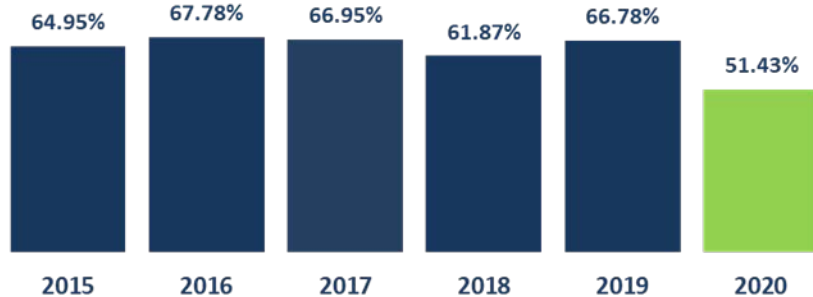
ROAA



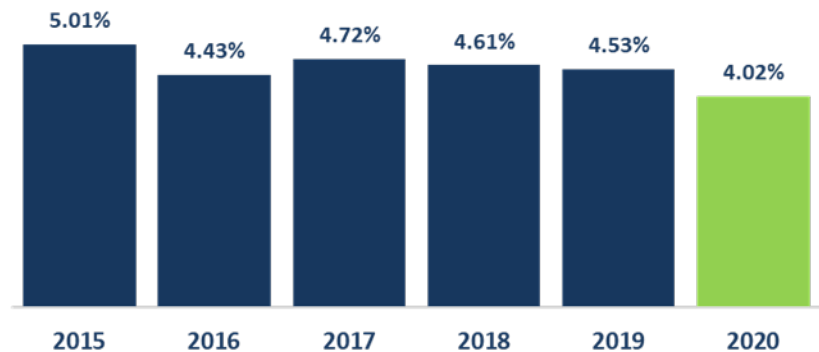
ROE



Efficiency Ratio*



Net Interest Margin

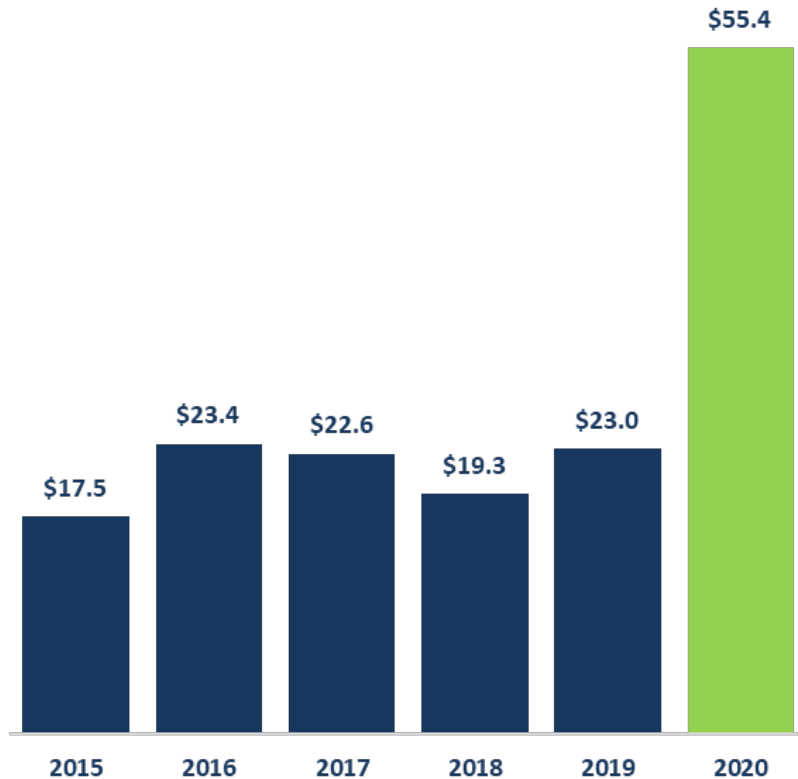


Source: S&P Global Market Intelligence

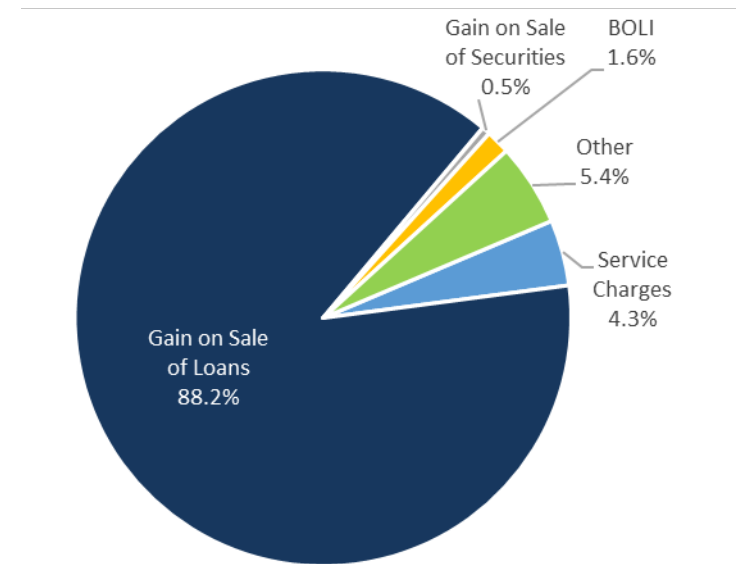
*Efficiency Ratio calculated as noninterest expense (excluding OREO, amortization, & goodwill impairment expenses) as a percent of FTE net interest income and non-interest income (excluding gains on securities and nonrecurring items)

NONINTEREST INCOME

Noninterest Income (\$M)



Noninterest Income Composition⁽¹⁾



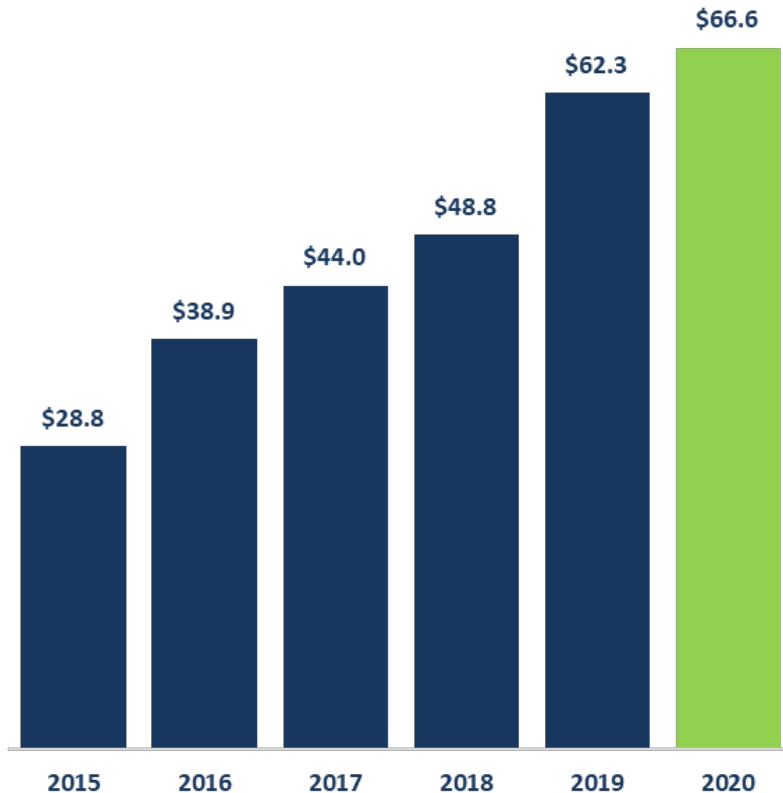
Source: S&P Global Market Intelligence

Note: 2020Y Noninterest Income year-over-year growth due in part to increased gain on sale revenue resulting from low interest rate environment.

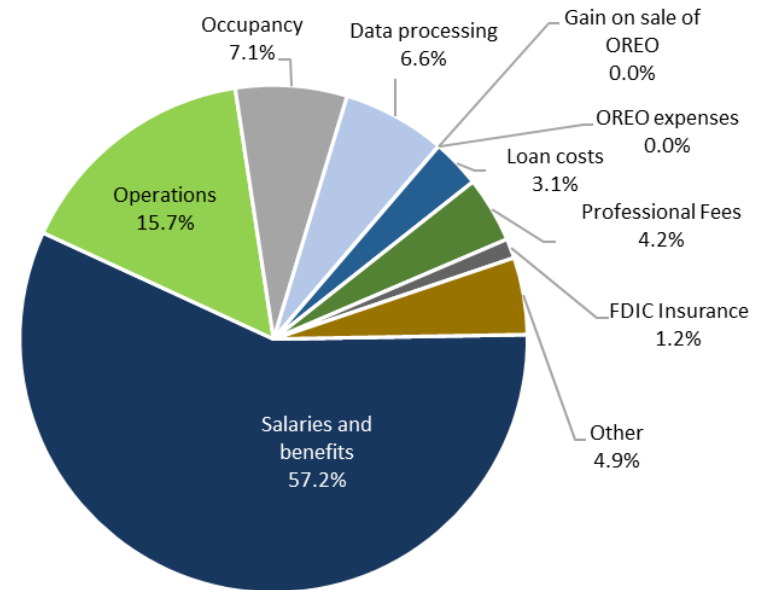
(1) Year ended December 31, 2020

NONINTEREST EXPENSE

Noninterest Expense (\$M)



Noninterest Expense Composition⁽¹⁾

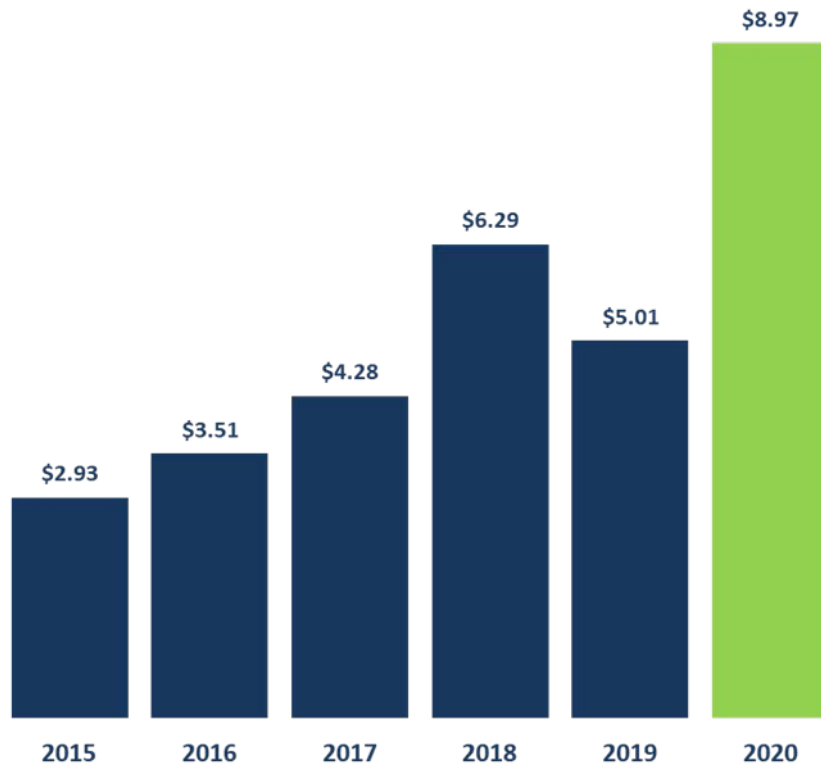


Source: S&P Global Market Intelligence

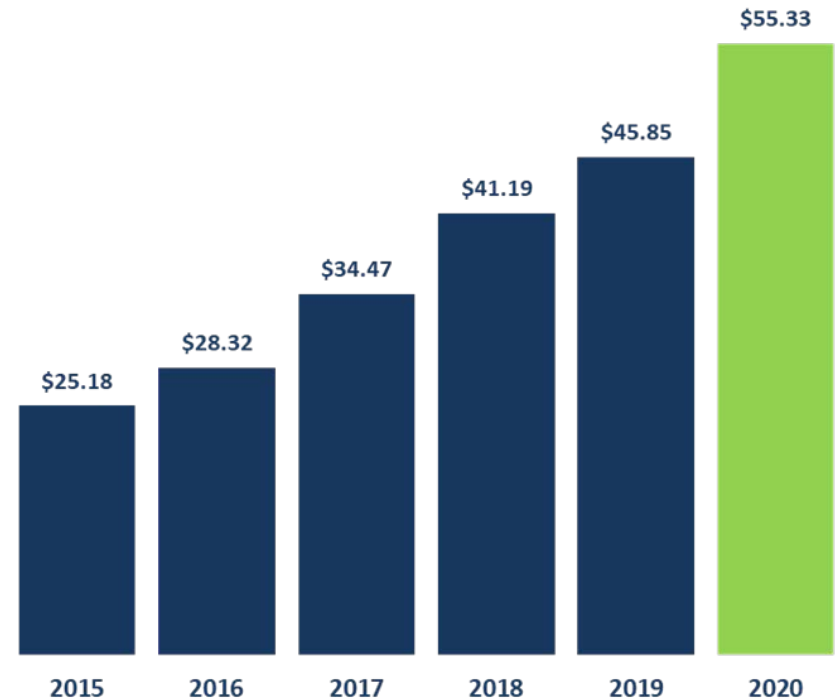
(1) Year ended December 31, 2020

BUILDING STOCKHOLDER VALUE

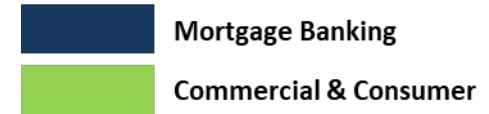
Diluted Earnings Per Share



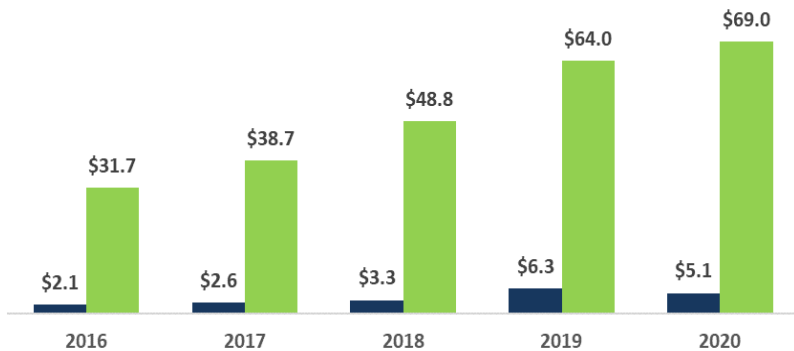
Reported Book Value Per Share



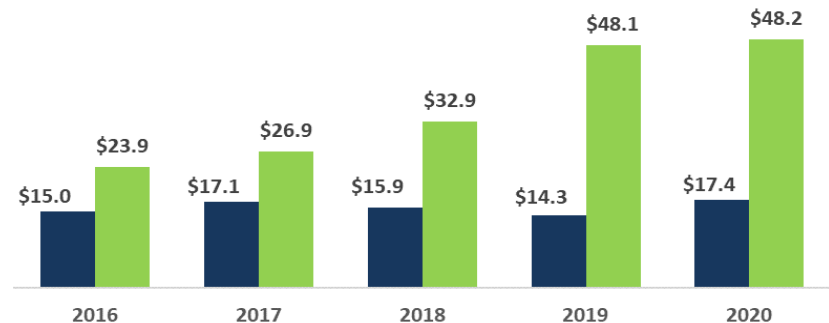
SEGMENT REPORTING ANALYSIS



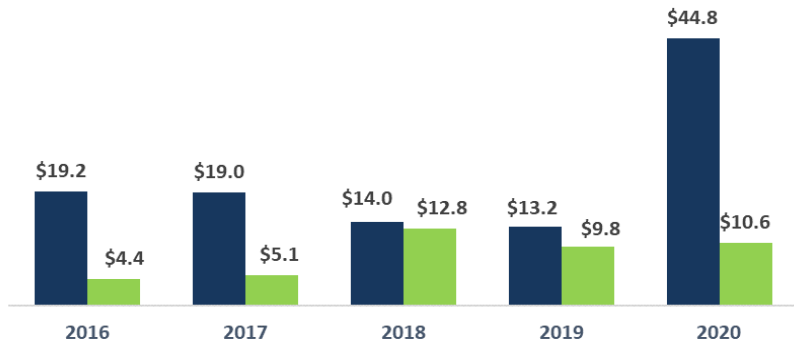
Net Interest Income



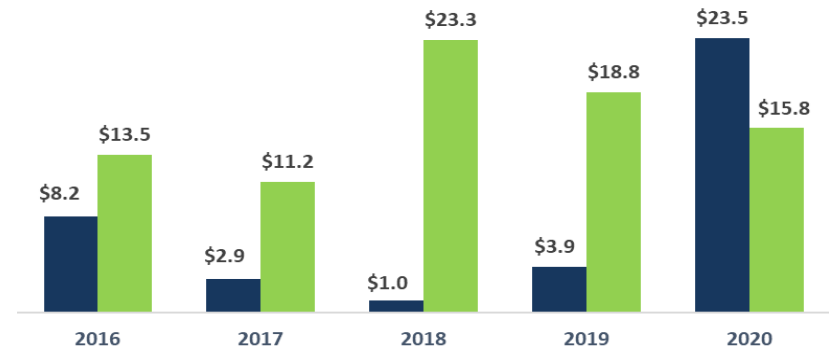
Noninterest Expense



Noninterest Income



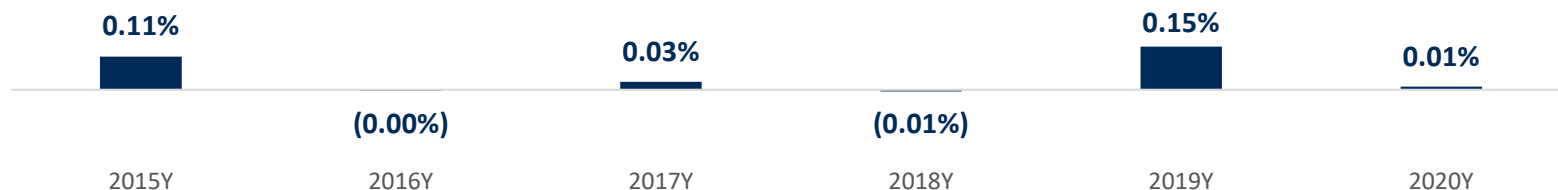
Net Income



DISCIPLINED CREDIT CULTURE

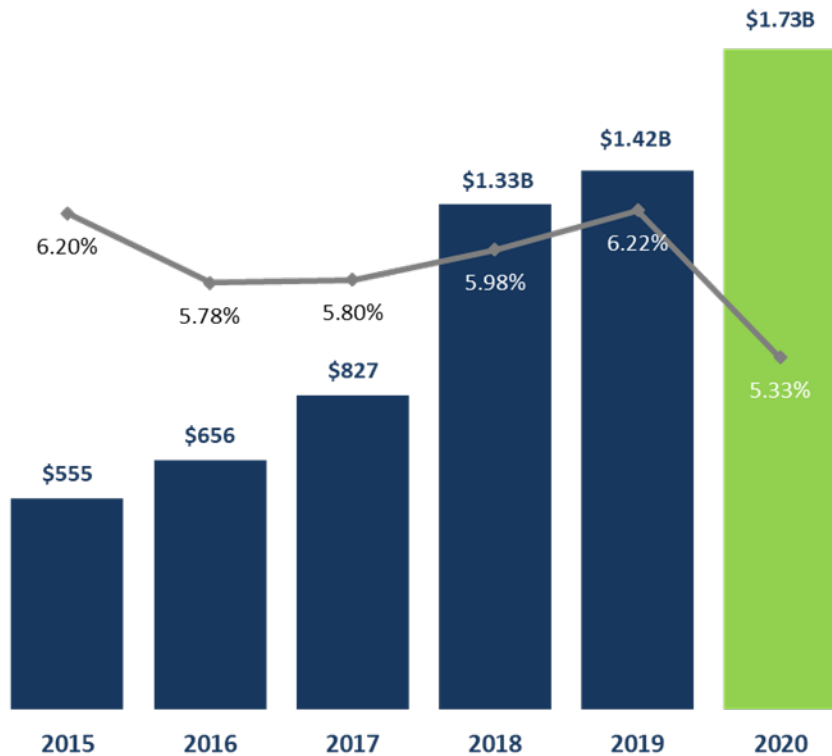
- The company employs Board and Committee oversight and reporting, with the CRO and senior executive compliance officer reporting directly to the Audit Committee
- FSBW has a disciplined underwriting approach with generally standard LTV and DSC coverage requirements with firm concentration limits and designated focused lending channels
 - Construction Weighted Average LTV = 64.2% (as of 12/31/2020)
 - CRE Weighted Average LTV= 55.9% (as of 8/31/2020)
- 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 \$48.5 million while the in-house limit is \$25 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



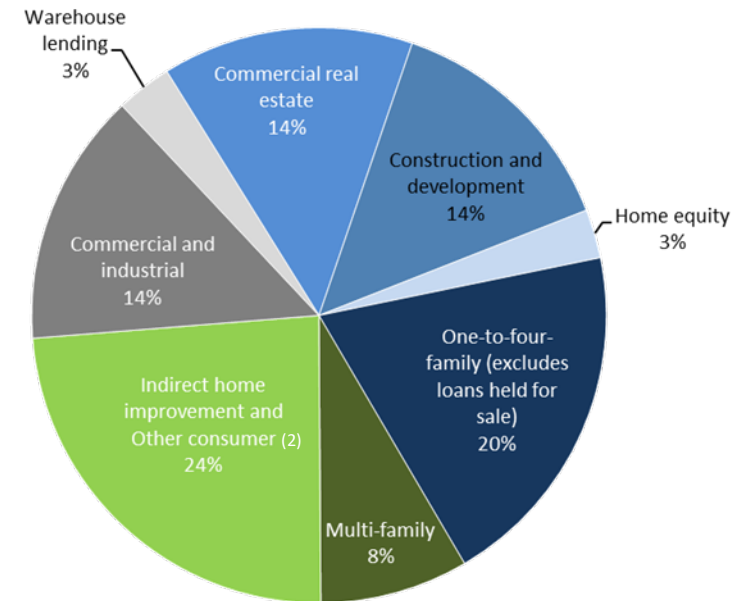
LOAN PORTFOLIO SUMMARY

Gross Loans and Loan Yield (\$B) ⁽¹⁾



Loan Composition at December 31, 2020

Total Gross Loans (excl. loans HFS): \$1.6B



(1) Loans, net of deferred fees, costs, and includes HFS

(2) Other consumer includes marine loans

HOME LENDING

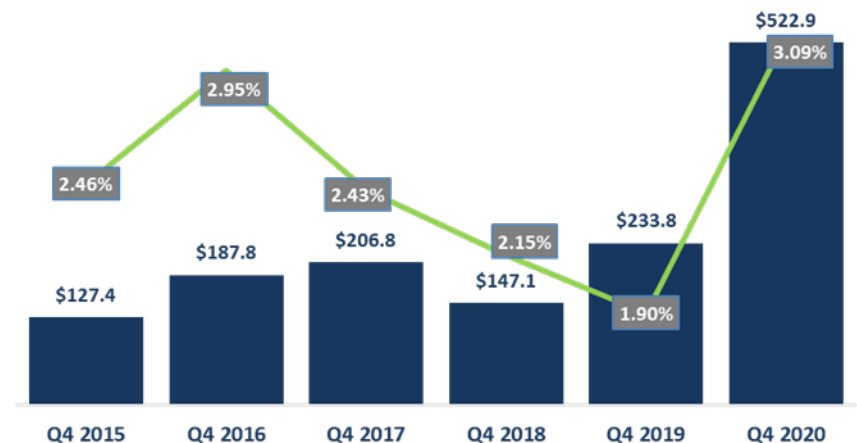
Highlights at December 31, 2020

- One-to-four-family loans originated decreased \$70.7 million, or 12%, to \$519.2 million, compared to \$589.9 million for the preceding quarter
- Loan Sales: \$522.9 million
- Purchase production was 44.3% of one-to-four-family loan originations versus 55.7% for refinance production
- Increase in originations for the year ended December 31, 2020 was attributed to stronger year over year purchase activity up 31.9% and improved refinance activity in response to decreases in market interest rates

Mortgage Servicing at December 31, 2020

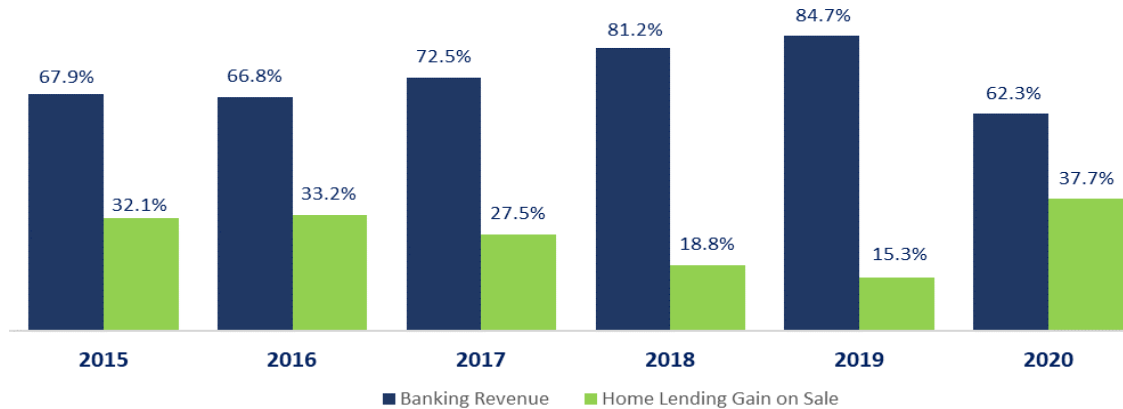
- Servicing unpaid principal balance: \$2.1 billion and 7,131 loans
- Q4 2020 notional servicing: \$301.3 million

Quarterly Closed Volume & Cash Margin on Loans Sold

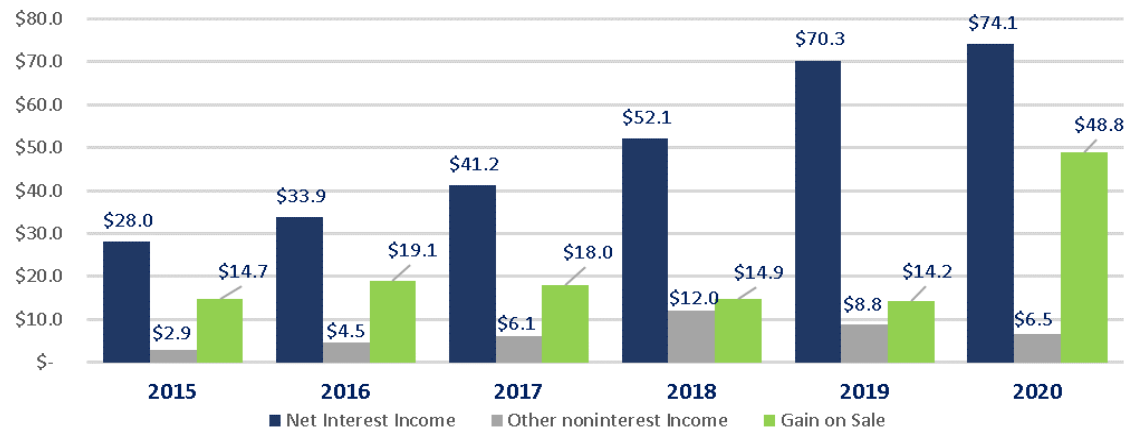


Note: Quarterly closed volume is listed in millions

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



Total Revenues (\$M)

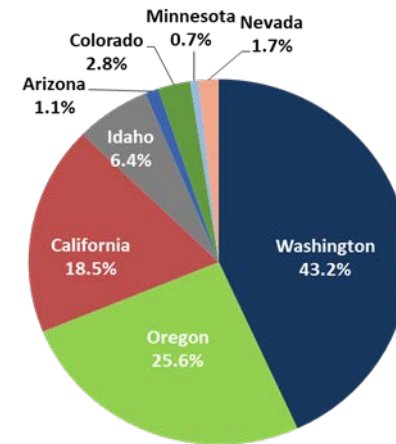


CONSUMER LENDING

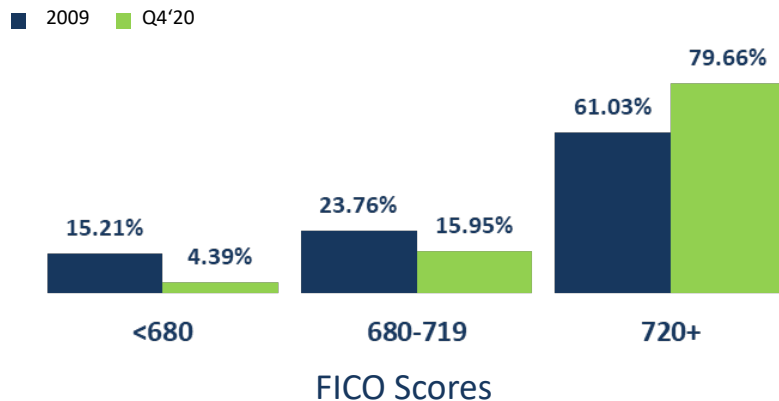
Q4 2020 Highlights

- Primarily home improvement and marine, UCC-2 secured
- Offered on an indirect basis and largely automated (with underwriter verification)
- \$375 million outstanding as of Q4 2020
 - \$47 million in dealer originations
 - \$29 million, or 61%, with the top 10 dealers
 - Average yield of 7.09%, up from 6.97% in Q3 2020

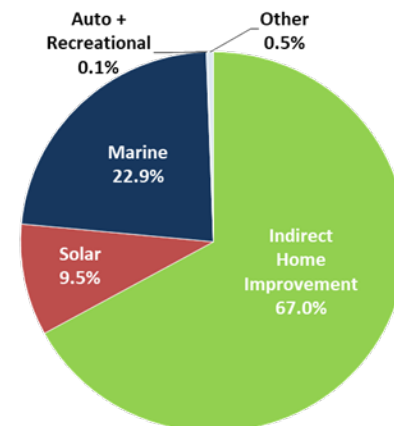
Q4 2020 Dealer Production by State



2009 vs. Q4 2020 Portfolio Credit Quality



Consumer Portfolio Characteristics



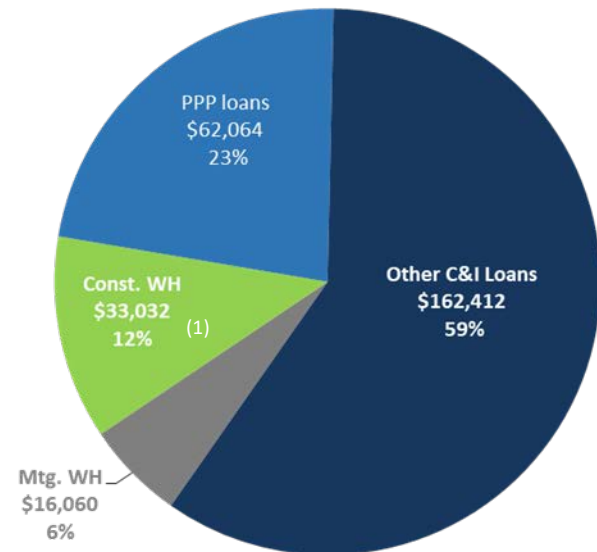
COMMERCIAL BUSINESS LENDING

Q4 2020 Commercial & Industrial (C&I)

- C&I commitments were \$432.1 million
- Outstanding balances were \$273.6 million at December 31, 2020 relative to \$263.8 million at September 30, 2020
- The \$9.8 million of quarter over sequential quarter increase in outstanding balances was largely attributed to originations of \$25.5 million in C&I loans (\$14.4 million outstanding), a \$9.6 million increase in Warehouse Lending activity, offset by \$12 million in SBA PPP loan forgiveness received in the fourth quarter of 2020

Q4 2020 Product Mix (\$M)

Outstanding C&I Balance: \$273.6 million



(1) WH = Warehouse
Source: Company documents

CONSTRUCTION & DEVELOPMENT LENDING

Q4 2020 Highlights

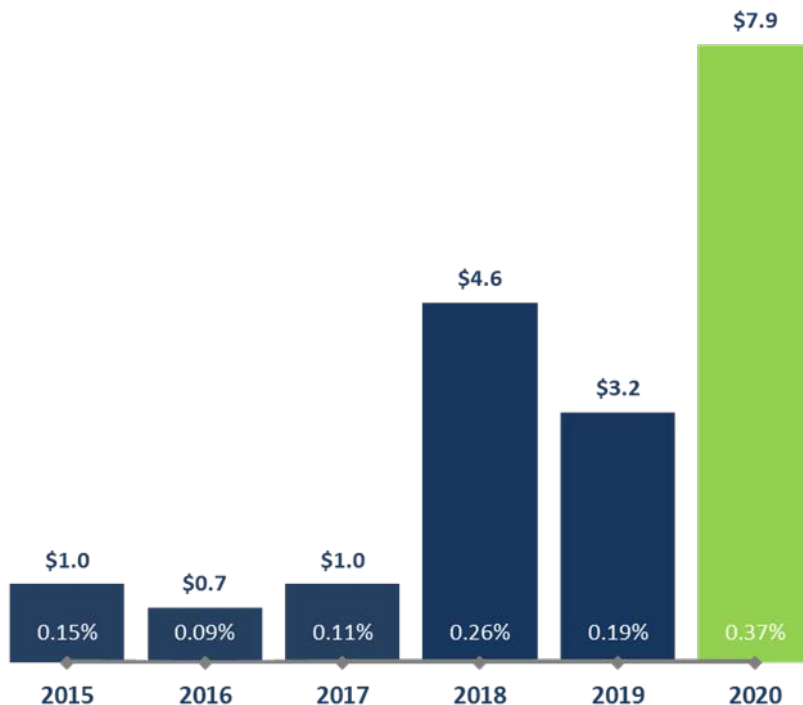
- Overall construction: \$374 million committed / \$217 million outstanding
- Growth in custom owner-occupied & manufactured homes under construction
 - Custom/MF are \$26.4 million committed / \$12.8 million outstanding
- 5.51% average coupon rate
- Majority of originations in King County
- Focus on "in-city", infill speculative lending to a select group of relationship customers

Quarterly C&D Loans Outstanding (\$M)

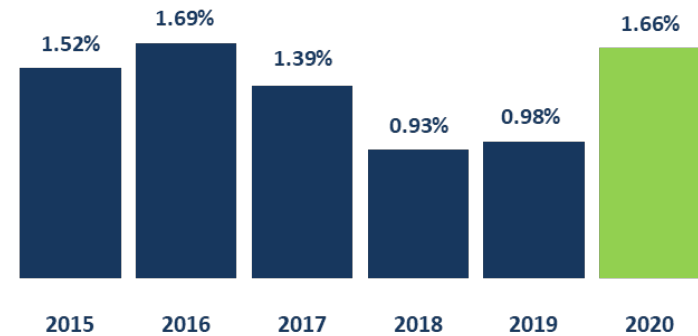


ASSET QUALITY

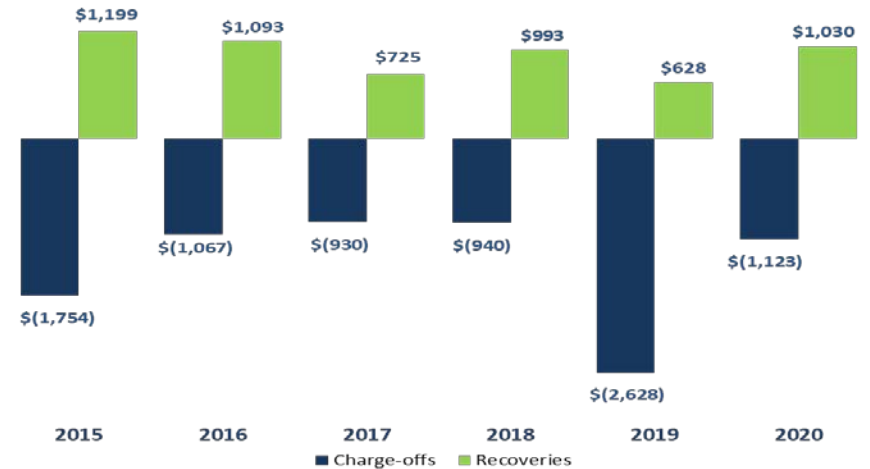
Non-performing Assets (\$M)⁽¹⁾ & NPAs/ Assets



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

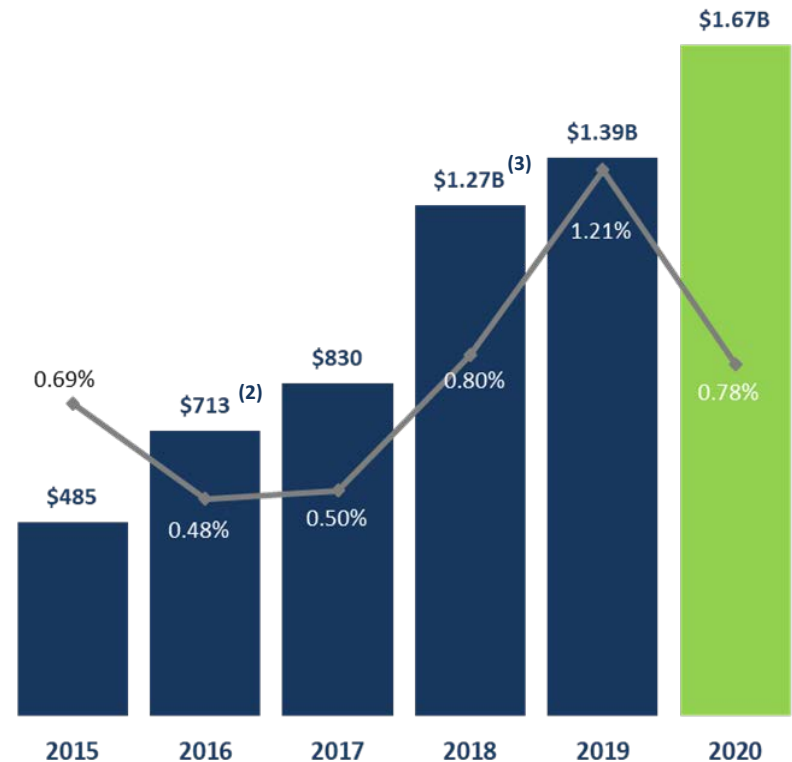
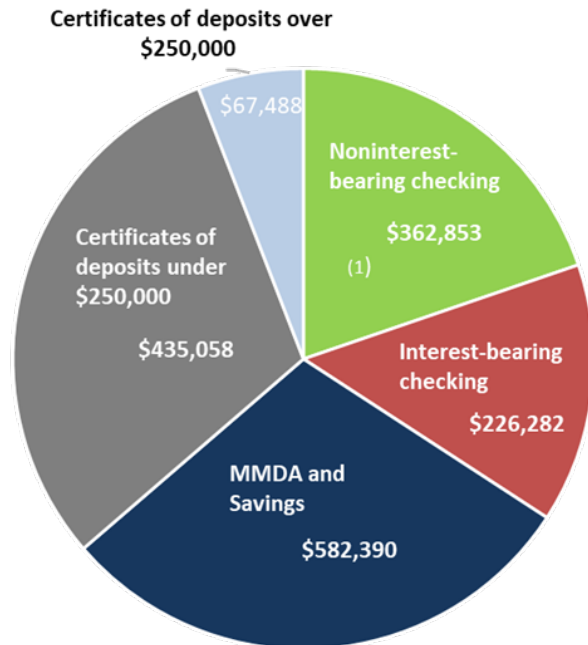
Source: S&P Global Market Intelligence

DEPOSIT COMPOSITION AND GROWTH

December 31, 2020

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

Total Deposits: \$1.7 billion



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

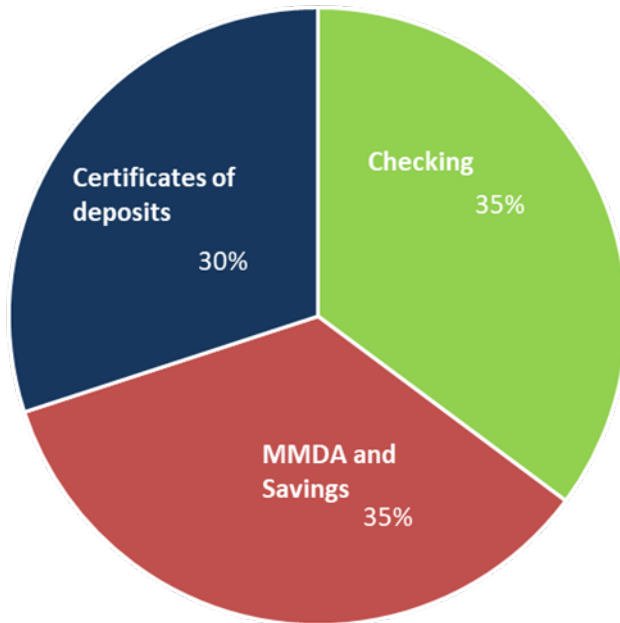
(2) Branch acquisition during Q1 2016

(3) Anchor Bancorp acquisition in Q4 2018

COMPOSITION COMPARISON YEAR OVER YEAR

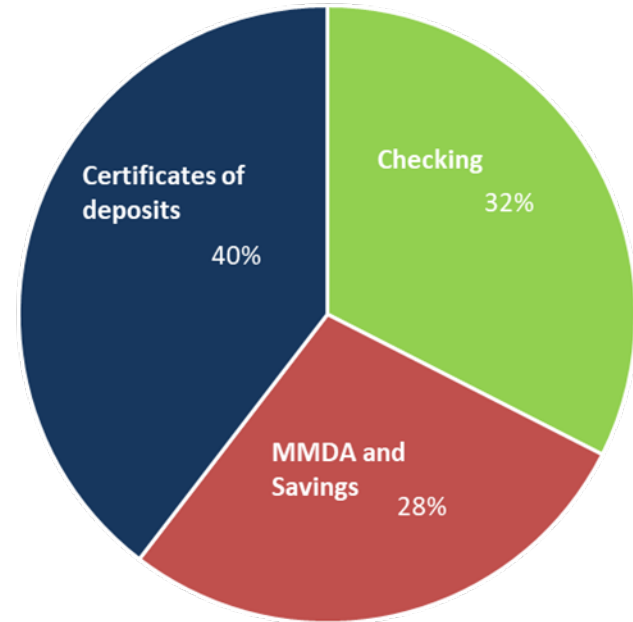
December 31, 2020

Total Deposits: \$1.7 billion



December 31, 2019

Total Deposits: \$1.4 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

- Will pay thirty-second consecutive quarterly cash dividend on February 25, 2021
- Dividends increased \$0.11, or 73%, since the first quarter of 2019

Shareholder Value

- Continued focus on increasing shareholder value through our business plan execution
- Repurchased 25,135 shares of common stock during the fourth quarter of 2020 at an average price per share of \$44.78

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)	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Stockholders' equity	\$ 230,007	\$ 220,550	\$ 208,641	\$ 200,829	\$ 200,242
Goodwill and core deposit intangible, net	(7,063)	(7,240)	(7,416)	(7,593)	(7,769)
Tangible common stockholders' equity	\$ 222,944	\$ 213,310	\$ 201,225	\$ 193,236	\$ 192,473
Common shares outstanding at end of period	4,156,943	4,175,598	4,165,944	4,246,619	4,366,984
Common stockholders' equity (book value) per share (GAAP)	\$ 55.33	\$ 52.82	\$ 50.08	\$ 47.29	\$ 45.85
Tangible common stockholders' equity (tangible book value)*	\$ 53.63	\$ 51.08	\$ 48.30	\$ 45.50	\$ 44.08

*Per share (non-GAAP)

Source: Press Release

(\$ in 000's)	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Stockholders' equity	\$ 230,007	\$ 220,550	\$ 208,641	\$ 200,829	\$ 200,242
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Common stockholders' equity (book value) per share (GAAP)	\$ 55.33	\$ 52.82	\$ 50.08	\$ 47.29	\$ 45.85

Source: FS Bancorp, Inc.; Press Release

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