FS Bancorp, Inc.

April 19, 2017

(FSBW-NASDAQ)

Initiation of Coverage

Donald A. Worthington, (415) 616-8913, Don.Worthington@RaymondJames.com
Travis Workman, Res. Assoc., (727) 567-4998, Travis.Workman@RaymondJames.com

Banking

Initiating Coverage With an Outperform Rating and $43.00 Target Price

Recommendation: We are initiating coverage of FS Bancorp, Inc. with an **Outperform** investment rating. The company has generated robust loan and deposit growth and is well positioned for future growth. FS Bancorp has developed a diversified loan portfolio with a niche in indirect home improvement lending that has produced above-average profitability metrics. The deposit mix has been improving, credit quality is excellent, and capital ratios are sound. We are establishing our 2017E EPS of $3.80, our 2018E EPS of $4.12, and a 12-month target price of $43.00, which provides total return potential of ~14%, including the current dividend yield of 1.1%.

- **Strong loan and deposit growth:** Total net loans held in portfolio increased by $90.8 million, or 18.1%, in 2016, while total deposits increased by $227.4 million, or 46.9%, over the same period. Deposit growth was augmented by the assumption of $186.4 million in deposits from the acquisition of four branches in 1Q16.
- **Above-average profitability metrics:** FS Bancorp's niche in high-yield indirect home improvement loans and its mortgage-banking operations have produced above-average profitability metrics, including a return on average assets (ROAA), return on average equity (ROAE), and net interest margin (NIM) of 1.31%, 13.84%, and 4.33%, respectively, in 2016.
- **Improving core deposit base:** The company's deposit mix has improved significantly over the LTM as noninterest-bearing demand deposit accounts (DDAs) increased to 20.1% of total deposits from 13.7% of total deposits, while certificates of deposit (CDs) decreased to 27.5% of total deposits from 39.0% of total deposits.
- **Excellent credit quality:** Total nonperforming assets (NPAs) amounted to only $736,000, or 0.09% of total assets, as of December 31, 2016.
- **EPS estimates:** We are establishing our 2017E EPS of $3.80 and our 2018E EPS of $4.12 with year-over-year EPS growth driven primarily by an increase in top line revenue.

Valuation: FSBW shares are currently trading at 10.0x our 2017E EPS, 9.2x our 2018E EPS, and 151% of TBVPS compared with median valuations of 15.7x trailing earnings and 137% of TBVPS for the company's peer group of Washington-based community banks and thrifts of similar asset size. While some discount to the peer group is warranted due to the company's significant emphasis on mortgage-banking revenue, which can be volatile depending on the movement of market interest rates and gain on sale premiums, we believe that shares should trade at a higher P/E multiple given the company's above-average profitability metrics, relatively strong loan and deposit growth, excellent credit quality, improving deposit mix, and sound capital ratios. Our 12-month target price of $43.00 represents 11.3x our 2017E EPS, 10.4x our 2018E EPS, and 150% of pro forma TBVPS of $28.65 at the end of 2017. Our target price also assumes that shares continue to trade reasonably in line with the current valuation based on TBVPS as TBVPS increases due to earnings.

GAAP EPS	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Full Year	Revenues (mil.)
2016A	$0.55	$0.96	$1.18	$0.86	$3.51	$57
2017E	0.74	1.03	1.14	0.89	3.80	61
2018E	0.81	1.10	1.21	1.00	4.12	64

Rows may not add due to rounding or changes in share count.

Rating

Outperform 2

Current and Target Price

Current Price (Apr-17-17)	$38.00
Target Price:	$43.00
52-Week Range	$39.70 - $24.32
Suitability	High Risk/Growth

Market Data

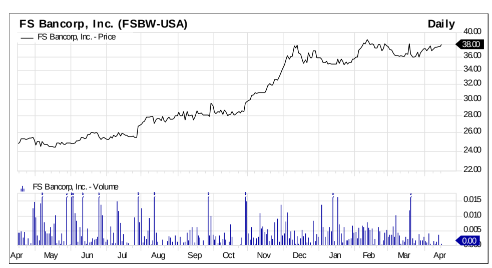
Shares Out. (mil.)	3.1
Market Cap. (mil.)	$118
Avg. Daily Vol. (10 day)	1,690
Dividend/Yield	$0.40/1.1%
Book Value (Dec-16)	$26.49
Tang. BVPS (Dec-16)	$25.17

Earnings & Valuation Metrics

	2016A	2017E	2018E
P/E Ratios (GAAP)	10.8x	10.0x	9.2x

Company Description

FS Bancorp, Inc., a Washington corporation, is the holding company for 1st Security Bank of Washington. The bank provides loan and deposit services to customers who are predominantly small and middle-market businesses and individuals in western Washington through its eleven branches and seven loan production offices in various suburban communities in the greater Puget Sound area, and one loan production office in the market area of the Tri-Cities. The company had $828 million in total assets as of December 31, 2016.



Please read domestic and foreign disclosure/risk information beginning on page 30 and Analyst Certification on page 31.

Contents

Appendices

Investment Thesis

We are initiating coverage of FS Bancorp, Inc. shares with an **Outperform** rating. The key investment highlights supporting our thesis are as follows.

Strong Loan and Deposit Growth Augmented by Branch Purchase

Net loans held in portfolio increased by $90.8 million, or 18.1%, in 2016 to $593.3 million as of December 31, while total deposits increased by $227.4 million, or 46.9%, during 2016 to $712.6 million at December 31. Loan and deposit growth was augmented by the assumption of $419,000 in loans and $186.4 million in deposits from the acquisition of four branches in 1Q16. Excluding the assumed deposits, organic deposit growth was $41.0 million, or 8.5%, in 2016.

Indirect Home Improvement Lending Niche

Consumer lending represents the largest portion of FS Bancorp's loan portfolio at $174.7 million, or 28.9% of total loans, as of December 31. The consumer loan portfolio consists primarily of indirect home improvement loans which have historically been the mainstay of the company's lending strategy from its days as a credit union and are originated through a network of ~115 home improvement contractors and dealers located in Washington, Oregon, Idaho, and California. Indirect home improvement loans are provided for a variety of purposes such as the replacement of windows, siding, roofs, HVAC systems, and roofing material. The loan size typically ranges between $2,500 and $50,000 with terms of up to 15 years at fixed interest rates. This lending niche has been very profitable with an average loan yield of 7.52% based on the most recent data.

Above-Average Profitability Metrics

FS Bancorp reported a return on average assets (ROAA), return on average equity (ROAE), and net interest margin (NIM) of 1.23%, 12.92%, and 4.66%, respectively in 4Q16. In comparison, the median ROAA, ROAE, and NIM for the company's Washington-based peer group were 1.04%, 8.83%, and 3.73%, respectively, in 4Q16. The company's above-average profitability metrics result, in part, from the relatively large consumer loan portfolio consisting primarily of high-yield indirect home improvement loans and gains on the sale of loans from the company's mortgage-banking operations.

Liquidity Available to Support Further Growth

FS Bancorp had total cash and investments of $133.6 million, or 16.1% of total assets, as of December 31. Total cash and investments consisted of $36.5 million in cash and cash equivalents, $15.2 million in CDs at other financial institutions, and $81.9 million in available-for-sale (AFS) securities. The AFS portfolio is predominately invested in mortgage-backed-securities, followed by municipal bonds, and U.S. agency securities. The company's loan-to-deposit ratio of 85% as of December 31 represents a reduction from the loan-to-deposit ratio of ~105% one year ago. The decrease was driven by deposits assumed in the acquisition of four branches from Bank of America in 1Q16. Management is comfortable with a loan-to-deposit ratio in the 95% range and the company has the opportunity to redeploy excess liquidity into higher-yielding loans over time.

Improving Deposit Mix

The company's deposit mix has improved significantly over the LTM as noninterest-bearing demand deposit accounts (DDAs) increased to 20.1% of total deposits at December 31 from 13.7% of total deposits one year ago, while certificates of deposit (CDs) decreased to 27.5% of total deposits from 39.0% of total deposits over the same period as the company has allowed maturing time deposits to roll off that do not represent a full deposit relationship with the bank. Due to the improvement in the deposit mix, the company's average cost of funds decreased by 14 basis points to 0.58% in 4Q16 from 0.72% in 4Q15.

Excellent Credit Quality

While total nonperforming assets (NPAs) increased modestly on a LQ basis to $736,000, or 0.09% of total assets, as of December 31 from $594,000, or 0.07% of total assets, at September 30, NPAs have decreased on a year-over-year basis from $1.0 million, or 0.15% of total assets, at December 31, 2015. The low level of NPAs is comprised of $721,000 in nonaccrual loans and $15,000 in repossessed consumer property. Due to a loan loss provision of $600,000 and a modest net recovery of $25,000 recorded in 4Q16, the allowance for loan and lease losses increased to $10.2 million, or 1.69% of total loans, as of December 31 from $9.6 million, or 1.59% of total loans, at September 30. Reserve coverage remains robust.

Sound Capital Position

FS Bancorp's subsidiary, 1st Security Bank of Washington, is "well capitalized" according to the regulatory definitions, with Tier 1 leverage, Tier 1 risk-based, total risk-based capital (TRBC), and Common Equity Tier 1 (CET1) capital ratios of 10.33%, 12.62%, 13.87%, and 12.62%, respectively, as of December 31. At the holding company level, FS Bancorp's Tier 1 leverage, total risk-based capital (TRBC), and Common Equity Tier 1 (CET1) capital ratios were 9.52%, 12.88%, and 11.63%, respectively, at December 31. The company's tangible common equity (TCE) ratio was a healthy 9.35% as of December 31. FSBW currently pays a quarterly cash dividend of $0.10 per share, which represents a dividend yield of 1.1%.

Company Description

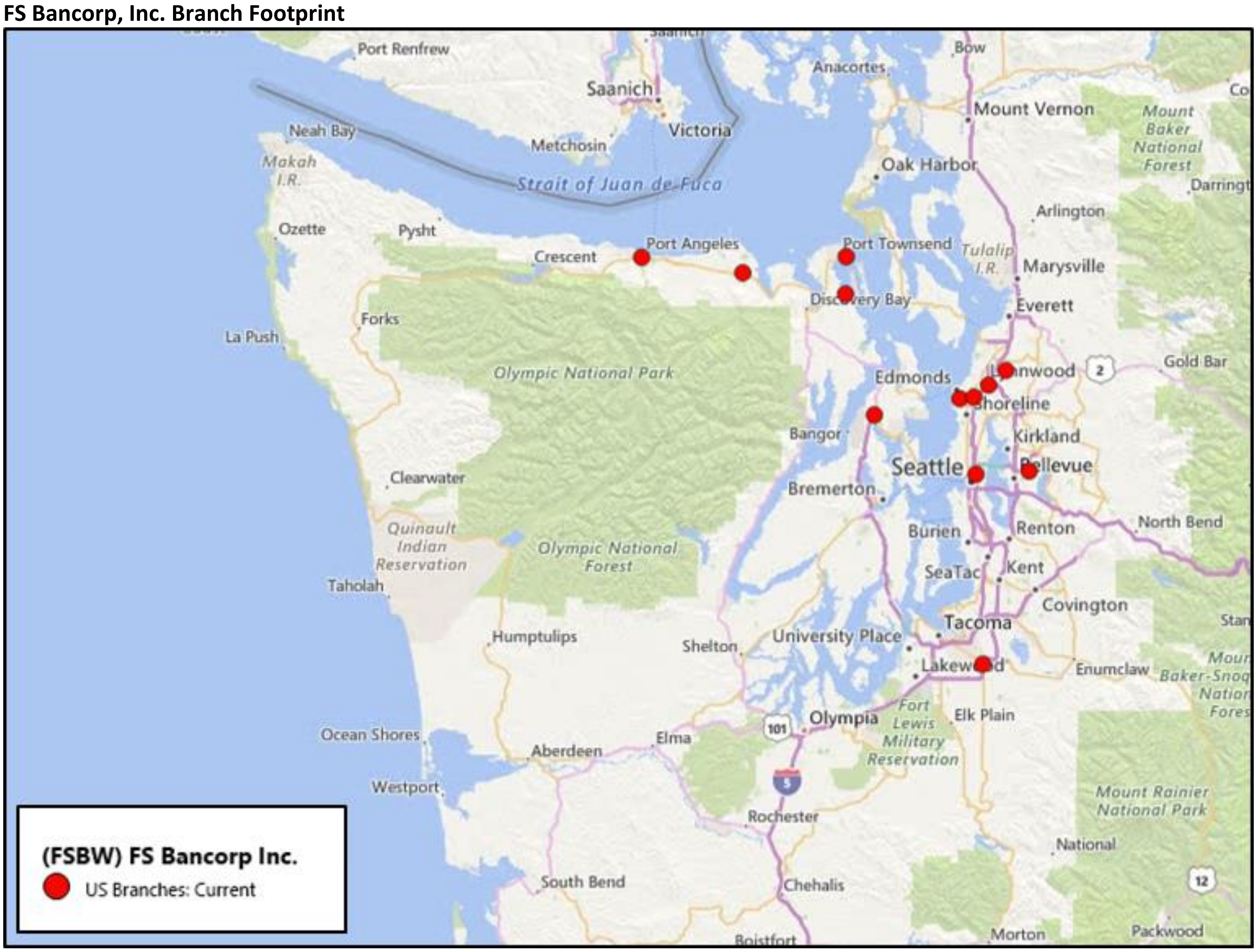
FS Bancorp, Inc. (FSBW) is a Washington-based relationship-driven community bank that provides banking and financial services to local families, local and regional businesses, and industry niches within the Puget Sound region. The bank emphasizes long-term relationships with families and businesses within its markets and is actively involved in community activities within these areas. The company is a diversified lender with a focus on indirect home improvements loans, single-family residential mortgage loans, commercial real estate (CRE) loans, commercial business (C&I) loans, and home equity loans. Consumer loans, which consist primarily of indirect home improvement loans, represent the largest percentage of the company's loan portfolio. Consumer lending has traditionally been the mainstay of FS Bancorp's lending strategy, as the company was originally chartered as a credit union.

FS Bancorp has provided financial services within the Puget Sound area since 1936 when the company was first chartered as a credit union, known as Washington's Credit Union. On April, 1, 2004, the company converted from a credit union to a Washington state-chartered mutual savings bank. Subsequently, on July 2012, the bank completed the conversion to a Washington state-chartered stock savings bank, 1st Security Bank of Washington. FS Bancorp, Inc. was organized in 2011 for the purpose of becoming the holding company for 1st Security Bank of Washington.

On January 22, 2016, FS Bancorp completed the acquisition of four branches from Bank of America located in Port Angeles, Sequim, Port Townsend, and Hadlock, Washington, which expanded the company's footprint into the Olympic Peninsula. Under the agreement, FS Bancorp acquired $419,000 in loans, $186.4 million in deposits, two bank-owned branches, three leases for bank branches and parking facilities, and certain other assets, for total consideration of $4.8 million. As of December 31, ~$162.2 million of the acquired deposits remain at FS Bancorp, while the acquired branches now hold total deposits of $195.5 million at December 31, due to new deposit generation since the acquisition. We view the transaction positively as the acquired branches expanded the company's Puget Sound-focused retail footprint into the Olympic Peninsula and provided a source of low cost relationship-based transaction accounts, which have funded earning asset growth.

As of December 31, 2016, the company operated 11 full-service branch offices, eight loan production offices, and one administrative office. The map below displays the company's geographic footprint.

FS Bancorp, Inc. Branch Footprint



Source: SNL Financial.

Investment Risks

FS Bancorp is subject to a number of general risks inherent in the banking industry, including economic recessions, legal challenges or changes, legislative and/or regulatory reform, fluctuations in interest rates, changes in fiscal and/or monetary policies of central banks, significant withdrawals of deposits, and fluctuations in the value of securities held as investments. However, we view the following risks as key for investors to consider for FSBW.

Asset Quality Risk

Asset quality is a key consideration when investing in bank stocks. An economic slowdown or prolonged recession on a national or regional basis could result in higher nonperforming assets and net charge-offs, which could, in turn, create a shortfall in the company's net income relative to our EPS estimates. FS Bancorp's current level of NPAs is very low at only 0.09% of total assets.

Consumer Lending Focus

FS Bancorp's loan portfolio is heavily weighted towards consumer loans at $174.7 million, or 28.9% of total loans, as of December 31. Generally, these types of loans carry a higher degree of risk compared with first mortgage loans on owner-occupied CRE and 1-4 family residential properties. Furthermore, the majority of consumer loans are originated indirectly through third parties, which increases the risk of material misstatements on loan applications and the misuse of proceeds by the borrower or the dealer. FS Bancorp's management has been effective in managing this risk over an extended period of time, in our view.

Lending Policies May Limit Growth

The Board of Directors has implemented a lending policy that limits loans to one borrower and the borrower's related entities to 20% of the company's unimpaired capital and surplus, or $19.6 million as of December 31, 2016. Management has adopted an internal lending limit of a maximum of 80% of the Bank's legal lending limit for risk mitigation purposes and all loans over this amount require approval from the Asset Quality Committee (AQC). These lending amounts are significantly below several of FS Bancorp's competitors and could serve to discourage potential commercial borrowers with credit needs in excess of the company lending limit.

Interest Rate Risk

Interest rate risk is always an important consideration when investing in bank stocks. FS Bancorp primarily manages interest rate risk by managing the volume and mix of earning assets and funding liabilities, while typically placing an equal emphasis on maximizing the net interest margin and matching the interest rate sensitivity of assets and liabilities. The company's balance sheet is slightly asset sensitive, implying that an increase in interest rates would expand the company's net interest margin, providing upside potential to net interest income relative to our earnings model. Conversely, FS Bancorp could experience a shortfall in net interest income from a decrease in interest rates.

Liquidity Risk

Shares of FSBW are thinly traded as the 90-day average trading volume is only 4,770 shares per day.

Macroeconomic Risk

FS Bancorp delivers banking and financial services primarily to local families, local and regional businesses, and industry niches within the Puget Sound region. If unemployment levels rise or the housing market weakens in its local markets, credit losses could accelerate more rapidly than anticipated causing downside to our earnings expectations.

Regulatory Risk

Increasing expenses related to regulatory and legislative changes could have a negative impact on bottom-line profitability for the community banking sector.

Market Analysis

The following table breaks down the company's deposit market share in the State of Washington and by MSA, based on the most recent data available. FS Bancorp's largest market is the Seattle-Tacoma-Bellevue MSA, where the company has seven branches and holds a deposit market share of 0.47%. Its largest percentage market share is 7.65% through its two offices in the Port Angeles MSA, followed by one office in the Bremerton-Silverdale MSA with a deposit market share of 0.95%. While not captured in the primary MSA's in Washington, the company operates two offices in Jefferson County, which holds a deposit market share of 13.15%. The company's offices are situated in attractive markets relative to its business strategy and the company should be able to increase market share in all of its markets over time due to its diversified product offerings.

FS Bancorp, Inc. U.S. Deposit Market Share by MSA

Market	Total Active Branches 2016	Total Deposit Rank 2016	Company Total Deposits 2016 ($000)	Company Total Deposit Market Share 2016 (%)	Company YoY Deposit Growth 2016 (%)	Market YoY Deposit Growth 2016 (%)	Company 5-Year Deposit CAGR 2016 (%)	Market 5-Year Deposit CAGR 2016 (%)
Bremerton-Silverdale, WA	1	13	28,117	0.95	(2.62)	6.92	1.16	5.03
Port Angeles, WA	2	4	118,501	7.65	(29.07)	2.93	(2.44)	1.62
Seattle-Tacoma-Bellevue, WA	7	21	459,114	0.47	1.70	7.21	16.31	6.80
Washington	***12***	***28***	***671,641***	***0.65***	***(11.60)***	***7.11***	***6.95***	***6.64***

Source: SNL Financial and Nielsen.

As shown in the following table, FS Bancorp does business in market areas with median household income levels above the national average, with the exception of the Port Angeles MSA, and above-average projected population growth rates from 2017 to 2022. We would note that FSBW has the most concentration in the Seattle-Tacoma-Bellevue MSA, which has projected household income growth of 11.72% from 2017 to 2022 along with projected population growth of 7.09% for the same period, which bodes well for future loan growth.

Demographic Profile: FS Bancorp, Inc.

State	Total Population 2017 (actual)	Population Change 2010 - 2017 (%)	Projected Change 2017 - 2022 (%)	Total Households 2017 (actual)	Median HH Income 2017 ($)	Projected HH Income Change 2017 - 2022 (%)	Per Capita Income 2017 ($)
Bremerton-Silverdale, WA	264,833	5.46	4.98	104,692	65,702	5.37	34,456
Port Angeles, WA	74,425	4.23	4.40	33,289	50,144	9.10	29,823
Seattle-Tacoma-Bellevue, WA	3,807,891	10.70	7.09	1,507,169	75,263	11.72	41,206
US	**325,139,271**	**5.31**	**3.77**	**123,356,629**	**57,462**	**7.27**	**31,459**
Washington	**7,311,903**	**8.73**	**6.31**	**2,865,392**	**65,558**	**8.90**	**35,281**

Source: SNL Financial and Nielsen.

The table below shows the steady improvement in unemployment rates that have occurred over the past four years in Washington and the primary MSAs where the company conducts business. While the improving trends are consistent with the United States as a whole, unemployment rates in Washington, as well as the Bremerton-Silverdale and Port Angeles MSAs remain above the national average. However, the unemployment rate in the Seattle-Tacoma-Bellevue MSA, which accounts for 7 of the company's 11 branch locations, is currently below the national average at 4.4% as of January 2017.

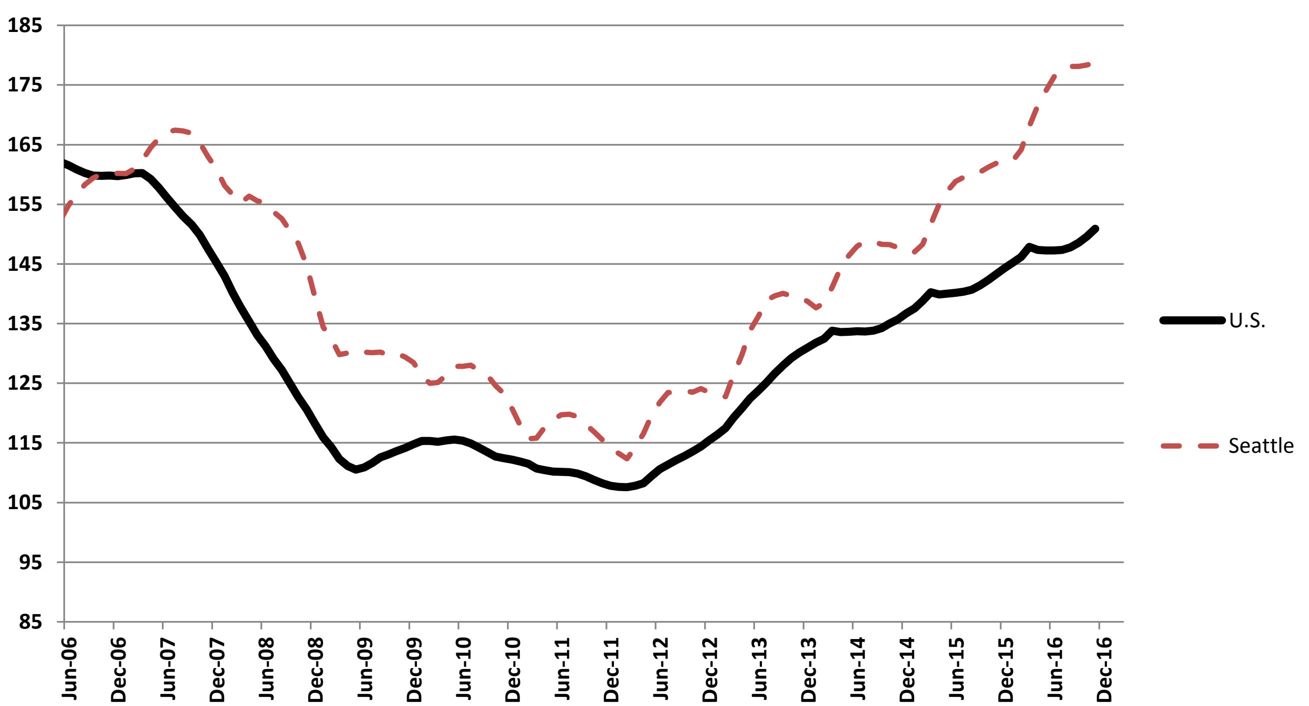
Unemployment Rates: FS Bancorp, Inc.

Market	Jan-14	Jan-15	Jan-16	Jan-17
Bremerton-Silverdale, WA	6.7	6.4	5.9	6.0*
Port Angeles, WA	9.7	9.6	9.2	8.7*
Seattle-Tacoma-Bellevue, WA	5.7	5.1	5.5	4.4*
Washington	7.0	6.5	6.2	5.7
U.S.	**7.0**	**6.1**	**5.3**	**5.1**

Source: SNL Financial, Nielsen, and Bureau of Labor Statistics. * indicates preliminary data

The following graph compares the trends in the Case-Shiller home price index for Seattle and the United States as a whole. Housing markets in Seattle have outperformed national home prices over the past several years and have surpassed the levels experienced at the previous peak in 2007.

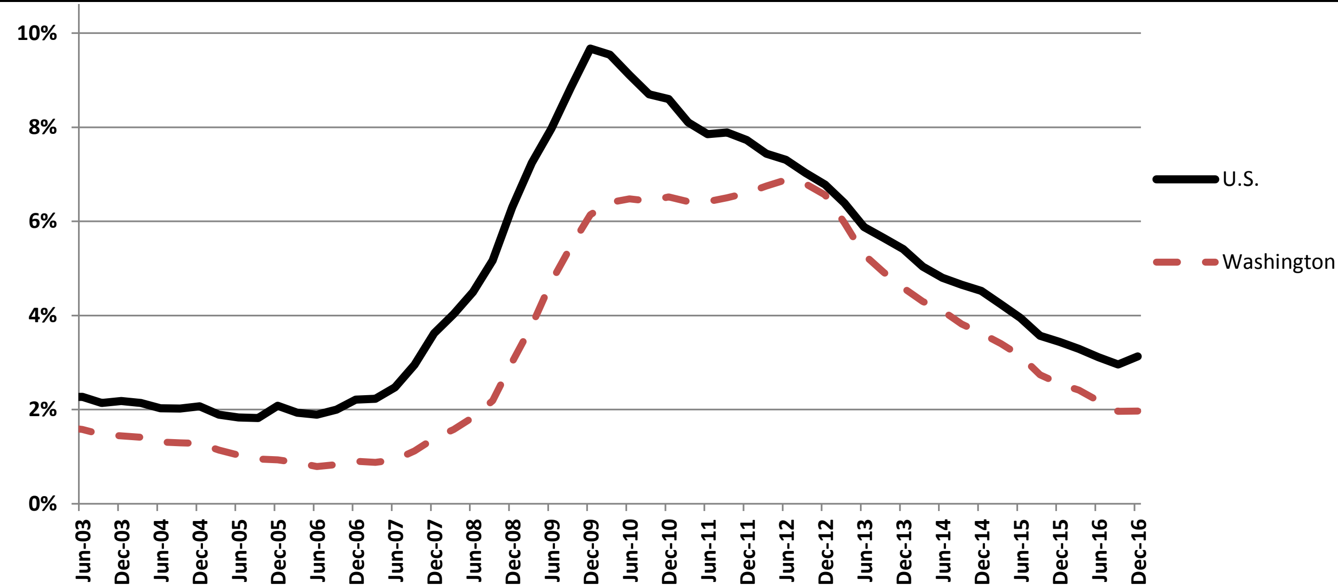
U.S. and Seattle: Case-Shiller Index



Source: S&P / Case-Shiller.

Along with the increase in real estate values, borrower performance has also generally improved, as indicated in the following graph, which shows a steady decline in serious delinquencies in 1-4 family residential loans since the middle of 2013, with serious delinquencies in Washington consistently below the national average.

1-4 Family Residential Serious Delinquencies: U.S. and Washington



Source: Mortgage Bankers Association.

Moving to loan performance related to commercial real estate (CRE) properties, the following graph compares the delinquencies on CRE loans held by commercial banks in Washington with all commercial banks in the U.S. As the chart illustrates, CRE loan performance in Washington was significantly more troubled at its peak in 2009, but has since improved and is now below the national average at 0.39% in 4Q16.

Commercial Real Estate Delinquencies: U.S. and Washington

Source: Federal Reserve FR Y-9C Filings.

Overall, we think FS Bancorp operates in attractive markets with a strong demographic outlook, improving unemployment rates, and vibrant residential and commercial real estate markets. Given the company's low deposit market share in its primary MSAs and its broad array of products and services, we believe that FSBW is well positioned to gain additional market share over time.

Balance Sheet Changes and Composition

Year-Over-Year Asset Growth Augmented by Branch Acquisition

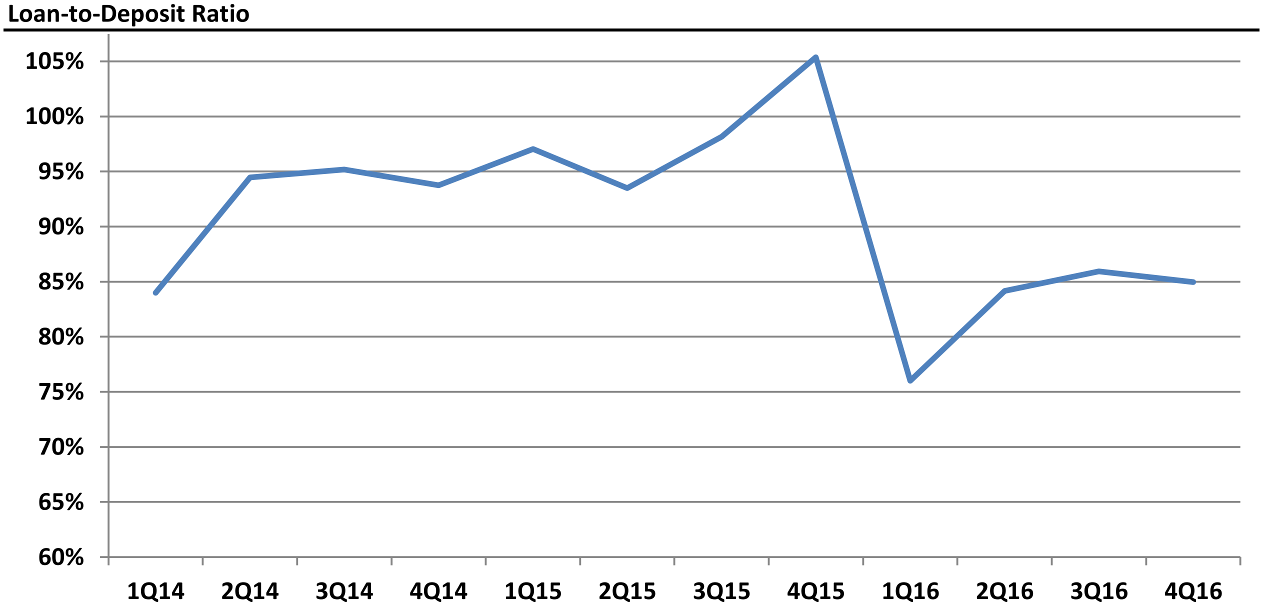
Total assets increased modestly on a LQ basis by $440,000, or 0.05% (0.2% annualized), in 4Q16 to $827.9 million as of December 31, while total assets increased by $150.4 million, or 22.2%, over the LTM. The LQ increase in total assets was driven primarily by increases of $19.9 million in total cash and cash equivalents, $1.2 million of certificates of deposits at other financial institutions, and $1.1 million in available-for-sale (AFS) securities. Asset growth during the quarter was muted by a $24.6 million decrease in loans held for sale to $52.6 million as of December 31, which resulted from a decline in 1-4 family residential originations of loans held for sale due to the recent increase in home lending interest rates.

The year-over-year increase in total assets was driven by increases of $90.8 million, or 18.1%, in net loans held in portfolio to $593.3 million, $41.5 million in total cash and investments to $133.6 million, and $7.6 million in loans held for sale to $52.6 million as of December 31. The year-over-year increase in total assets was funded by a $227.4 million, or 46.9%, increase in total deposits to $712.6 million as of December 31, 2016, which included $186.4 million in assumed deposits from the acquisition of four branches from Bank of America on January 22, 2016. As deposit growth outpaced loan growth in 2016, the company paid down borrowings by $86.1 million to $12.7 million as of December 31, 2016, from $98.8 million as of December 31, 2015.

Loan-to-Deposit Ratio

FS Bancorp's loan-to-deposit ratio of 85% as of December 31 represents a significant reduction from the loan-to-deposit ratio of ~105% one year ago, as shown in the graph below. The decrease was driven by deposits assumed in the acquisition of four branches from Bank of America in 1Q16. Management is comfortable with a loan-to-deposit ratio in the 95% range and the company has the opportunity to redeploy excess liquidity into higher-yielding loans over time.

Loan-to-Deposit Ratio

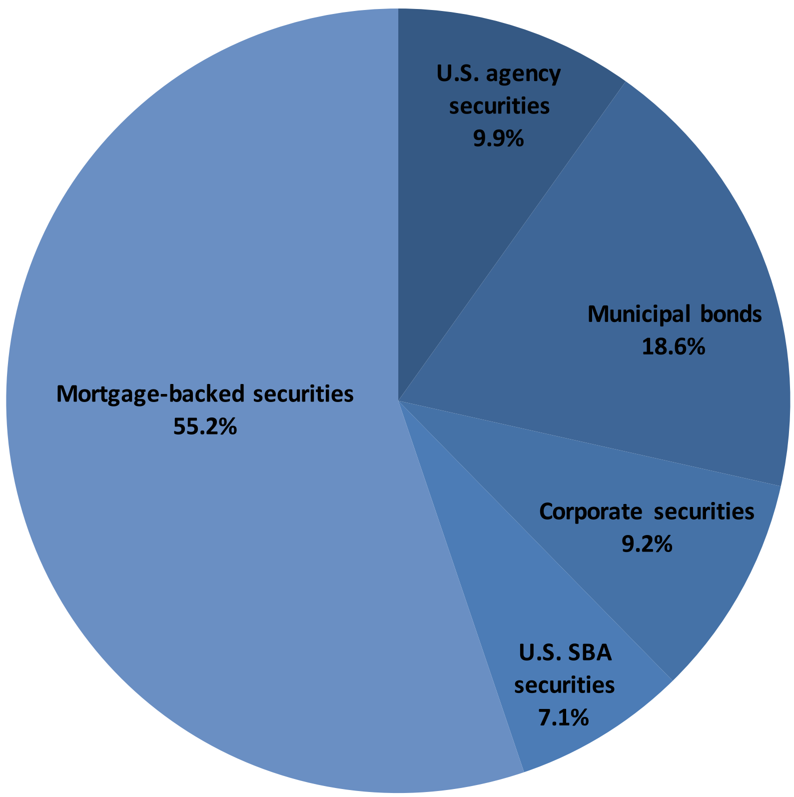


Source: FS Bancorp, Inc. and Raymond James Research Data as of December 31, 2016.

Cash and Investment Securities Portfolio

Total cash and investments increased by $41.5 million, or ~45%, over the LTM to $133.6 million, or 16.1% of total assets, as of December 31, which was comprised of $36.5 million in cash and cash equivalents, $15.2 million in CDs at other financial institutions, and $81.9 million in available-for-sale (AFS) securities. The company did not hold any held-to-maturity (HTM) securities as of December 31. The following pie chart displays a breakdown of the AFS securities portfolio as of December 31, which is predominately invested in mortgage-backed securities (55.2%), municipal bonds (18.6%), and U.S. agency securities (9.9%).

AFS Securities ($81.9 million as of December 31)



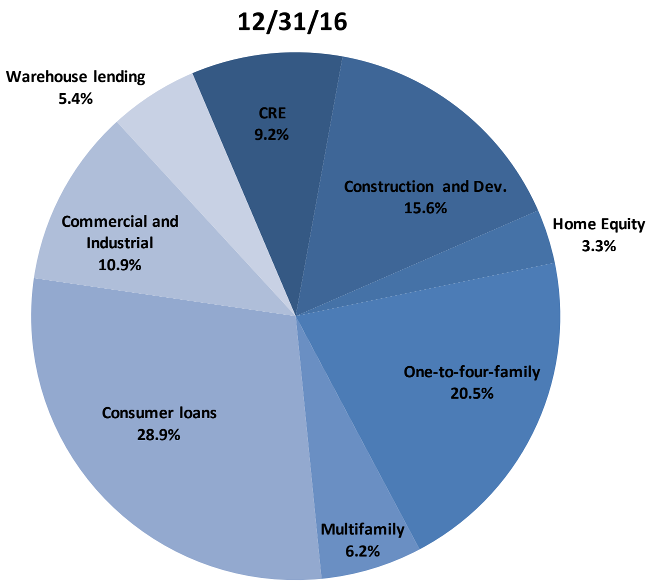
Source: FS Bancorp, Inc. and Raymond James Research. Data as of December 31, 2016

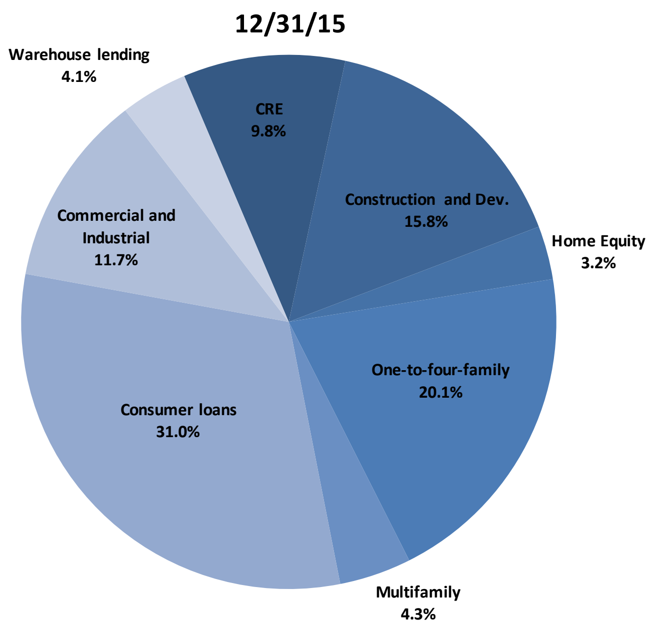
Loan Portfolio Composition

Total gross loans increased modestly by $1.2 million, or 0.2% (0.8% annualized), on a LQ basis and by $94.1 million, or 18.4% over the LTM. The relatively flat LQ loan growth resulted from a decrease in warehouse loans of $15.7 million, due to higher home lending rates and seasonal pay-downs, which largely offset increases in other loan categories. FS Bancorp's current loan portfolio is well diversified with a focus on consumer loans (28.9% of total loans) and 1-4 family residential mortgage loans (20.5% of total loans), followed by construction and development loans (15.6% of total loans), commercial and industrial loans (10.9% of total loans), and CRE loans (9.2% of total loans).

As shown in the following pie charts, the loan mix has remained relatively stable over the LTM with a modest decrease in the percentage of total consumer loans to 28.9% from 31.0% of total loans over the LTM, which continues the decline from 34.7% of total loans as of December 31, 2014, due to the company's loan diversification strategy. Moving forward, management is focused on growth in commercial real estate, 1-4 family residential, and commercial business loans, while the consumer portfolio is expected to stabilize at ~30% of total loans.

Loan Composition ($605.4 million as of December 31)





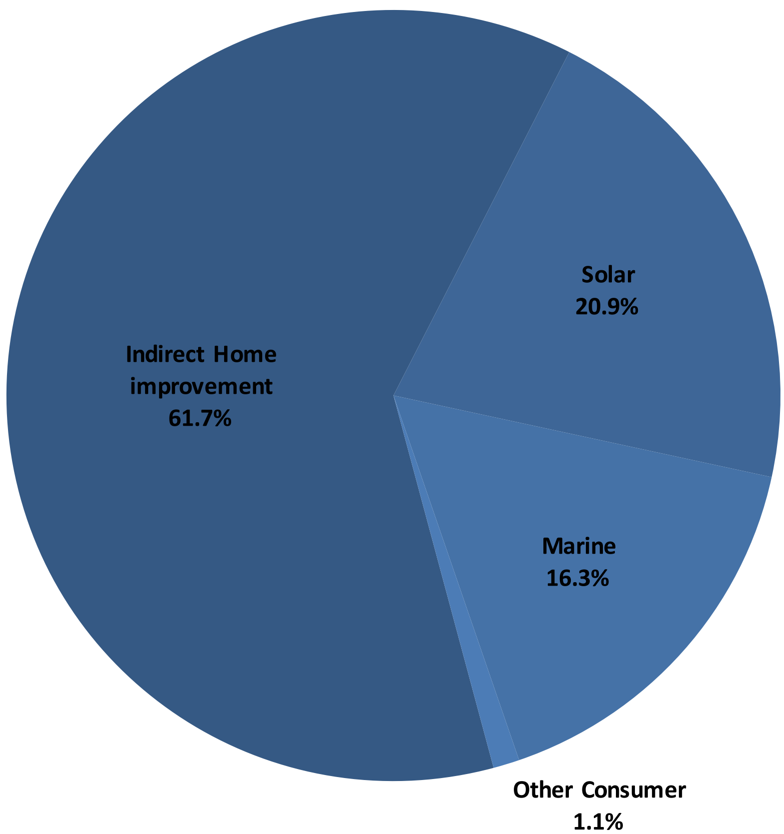
Source: FS Bancorp, Inc. and Raymond James Research Data as of December 31, 2016

Consumer Loan Portfolio

Consumer loans represent the largest portion of FS Bancorp's loan portfolio at $174.7 million, or 28.9% of total loans, as of December 31. The consumer loan portfolio consists primarily of indirect home improvement loans, or fixture secured loans, which totaled $107.8 million, or 61.7% of total consumer loans, as of December 31. Indirect home improvement loans have historically been a focus of the company's core lending strategy from its days as a credit union and are originated through a network of ~115 home improvement contractors and dealers located in Washington, Oregon, Idaho, and California. Indirect home improvement loans are provided for a variety of purposes such as the replacement of windows, siding, roofs, HVAC systems, and roofing material. The typical loan size ranges between $2,500 and $50,000 with terms of up to 15 years and fixed interest rates. The company expanded indirect improvement lending into California in 2012 through a limited number of contractors and dealers of solar loans.

As shown in the pie chart below, solar loans totaled $36.5 million as of December 31, which represented 20.9% of total consumer loans. The company also offers marine loans secured by boats, which are originated with borrowers on both a direct and indirect basis. As of December 31, the company maintained total marine loans of $28.5 million, or 16.3% of total consumer loans. Marine loans typically have terms of up to 20 years and carry fixed rates of interest. Other consumer loans represent the smallest portion of the consumer portfolio at $1.9 million, or 1.1% of total consumer loans, as of December 31, and include personal lines of credit, automobile, direct home improvement, and recreational vehicle loans. We expect indirect home improvement loans to continue to be a mainstay of the company's lending strategy going forward; however, the company remains focused on diversifying the loan portfolio into commercial real estate, 1-4 family residential, and commercial business loans.

Consumer loans ($174.7 million as of December 31)

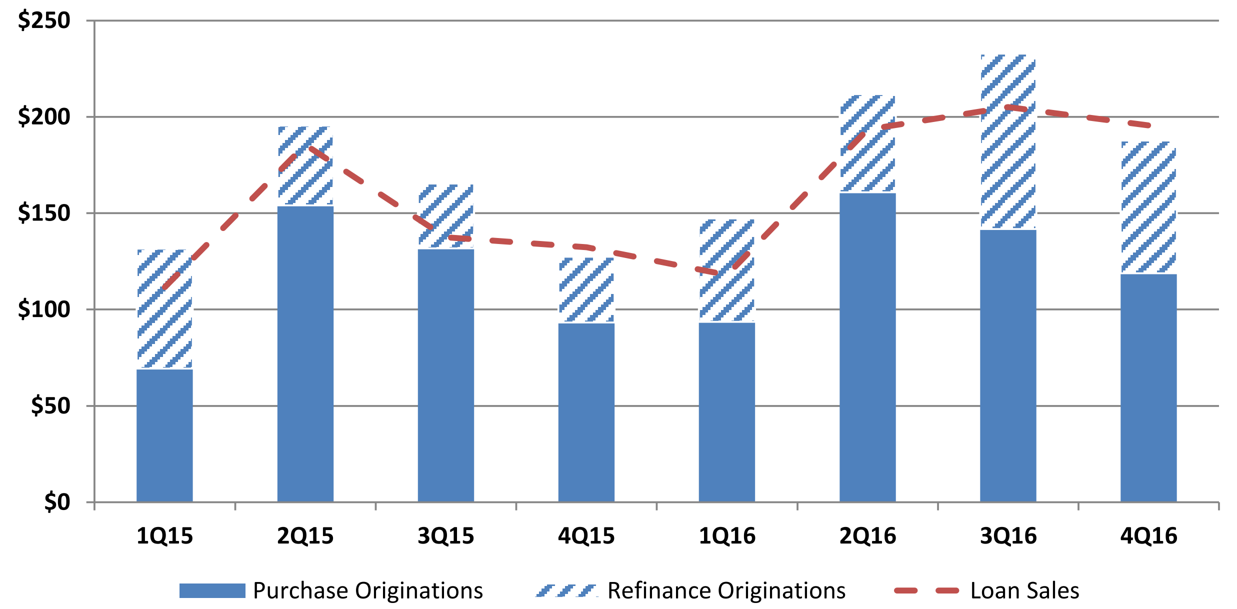


Source: FS Bancorp, Inc. and Raymond James Research. Data as of December 31, 2016

Loans Held-For-Sale

Total loans held-for-sale (HFS), which is comprised entirely of 1-4 family residential mortgage loans originated for sale in the secondary market, decreased by $24.6 million, or 31.9%, on a LQ basis to $52.6 million as of December 31, while total loans HFS increased by $7.6 million, or 17.0%, over the LTM, due primarily to an increase in loan originations. On a year-over-year basis, the origination of 1-4 family residential mortgage loans HFS increased by $159.9 million, or 25.8%, to $779.8 million in 2016 from $619.9 million in 2015. However, on a LQ basis, originations of 1-4 family residential mortgage loans HFS decreased by $45.1 million, or 19.4%, to $187.8 million in 4Q16 from $232.9 million in 3Q16, primarily as a result of seasonal reductions in home purchases and higher interest rates that reduced refinance activity. The company sold $195.5 million in 1-4 family residential mortgage loans in 4Q16, down $9.6 million, or 4.7%, from $205.1 million in 3Q16. As seen in the table below, the increase in originations of HFS loans in 2016 was boosted by an increase in refinance activity, which accounted for 34% of total originations in 2016, up from 28% of total originations in 2015. While the breakdown of purchase (63.3%) versus refinance (36.7%) activity in 4Q16 was similar to the breakdown for the full year 2016, we expect refinance activity to decline in 2017, due to a rising interest rate environment, which could lead to decreases in both originations of 1-4 family residential loans HFS and the volume of loans sold.

One-To-Four Family HFS Originations

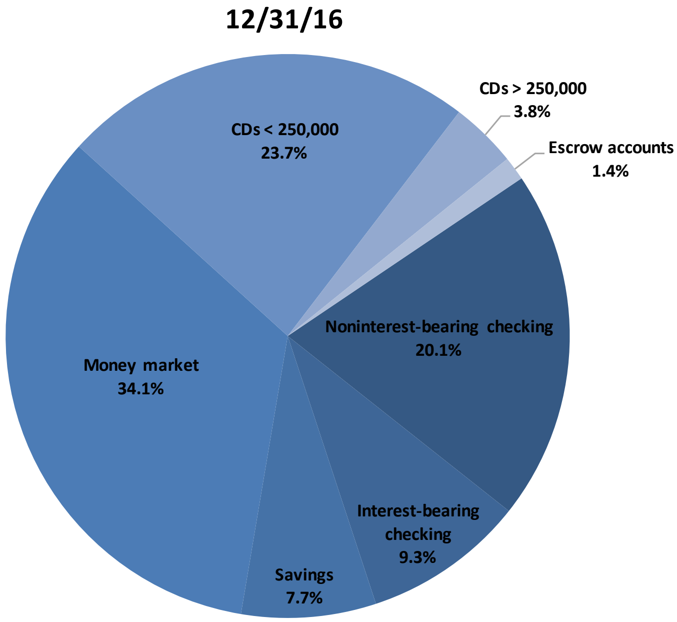


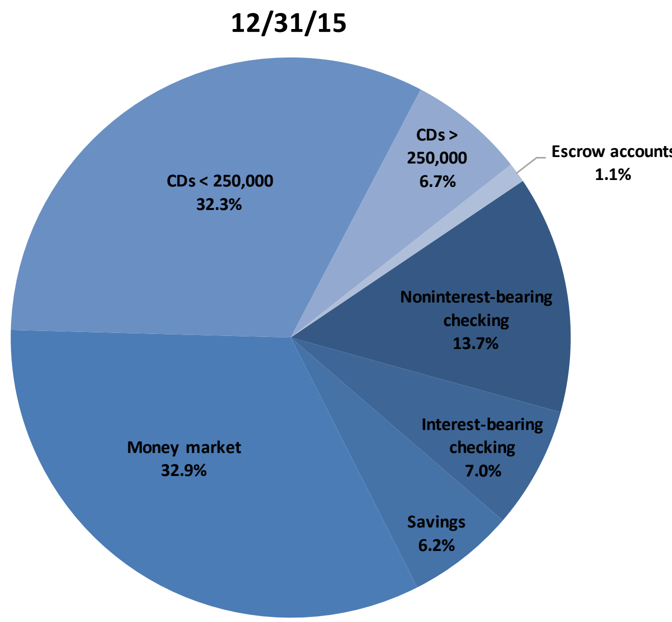
Source: FS Bancorp, Inc. and Raymond James Research. Data as of December 31, 2016

Improving Deposit Mix

Total deposits increased by $9.4 million, or 1.3% (5.4% annualized), on a LQ basis, and by $227.4 million, or 46.9%, over the LTM. The year-over-year deposit growth was boosted by the assumption of $186.4 million in deposits from the acquisition of four branches from Bank of America in 1Q16. Excluding acquired deposits, organic deposit growth was $41.0 million, or 8.5%, over the LTM. As shown in the following pie charts, the company's deposit mix improved significantly in 2016 as the concentration of noninterest-bearing demand deposit accounts (DDAs) increased to 20.1% of total deposits at December 31, 2016, from 13.7% of total deposits one year earlier, while certificates of deposits (CDs) decreased to 27.5% of total deposits from 39.0% of total deposits over the same period. As of December 31, the company's deposit portfolio was comprised of 30.7% in relationship-based transaction accounts (non-interest-bearing checking, interest-bearing checking, and escrow accounts), money market deposit accounts (34.1% of total deposits), CDs (27.5% of total deposits), and other savings accounts (7.7% of total deposits). Management remains focused on generating growth in low-cost relationship deposits.

Deposit Portfolio ($712.6 million as of December 31)





Source: FS Bancorp, Inc. and Raymond James Research Data as of December 31, 2016

Borrowings

FS Bancorp had total borrowings outstanding of $22.5 million, or 2.7% of total assets, as of December 31, 2016, down from $108.6 million, or 16.0% of total assets, at December 31, 2015. Total borrowings as of December 31, 2016, included outstanding advances from the FHLB of Des Moines of $12.7 million and a $9.8 million subordinated note, net of unamortized debt issuance costs. The company paid down borrowings by $86.1 million in 2016 with a portion of the cash received in the 1Q16 branch purchase.

Asset Sensitivity

FS Bancorp's balance sheet is modestly asset sensitive, meaning that an increase in interest rates would benefit net interest income and the net interest margin. The table below shows the impact on net interest income from instantaneous and sustained parallel shifts in the yield curve. The general expectation of further Fed rate increases in 2017 and 2018 would be beneficial to FS Bancorp's earnings, all else equal.

	Net Interest Income		
Change in Interest Rates in Basis Points	Amount ($)	Change ($)	Change (%)
300bp	36,832	2,008	5.77
200bp	36,409	1,585	4.55
100bp	35,674	850	2.44
0bp	34,823	-	-
(100)bp	33,291	-1,533	-4.40

Source: Company 10-K.

Asset Quality

Low Level of Nonperforming Assets

While total nonperforming assets (NPAs) increased slightly on a LQ basis to $736,000, or 0.09% of total assets, as of December 31, 2016, from $594,000, or 0.07% of total assets, at September 30, 2016, NPAs decreased on a year-over-year basis from $1.0 million, or 0.15% of total assets, at December 31, 2015. Total NPAs are comprised of $721,000 in nonaccrual loans and $15,000 in repossessed consumer property. The company had no other real estate owned (OREO) outstanding as of December 31, 2016. The company had one accruing restructured loan of $57,000 as of both December 31, 2016 and September 30, 2016, which is down from $734,000 at December 31, 2015.

Robust Reserve Level

FS Bancorp recorded modest net recoveries of $25,000, or 0.02% of average loans annualized, in 4Q16 and $35,000, or 0.02% of average loans annualized, in 3Q16. On a full-year basis, the company recorded net recoveries of $26,000 in 2016 (a negligible percentage of average loans) compared with net charge-offs (NCOs) of $555,000, or 0.12% of average loans, in 2015. The company recorded provisions for loan losses of $0.6 million in 4Q16 which is in line with the level experienced in 3Q16. Due to the loan loss provision and net recoveries recorded during the quarter, the allowance for loan and lease losses increased to $10.2 million, or 1.69% of total loans, as of December 31, from $9.6 million, or 1.59% of total loans, at September 30. Our model assumes that provisions for loan losses in 2017 and 2018 will be consistent with the level experienced in 2016, primarily to support loan growth. The company's credit quality is excellent and the level of reserves is robust.

Capital Management

FS Bancorp, Inc. is a bank holding company and is subject to the capital adequacy requirements of the Federal Reserve under the Bank Holding Company Act of 1956. For a banking holding company with less than $1.0 billion in total assets, the capital guidelines apply on a bank-only basis. As seen in the following table, 1st Security Bank of Washington has maintained sound capital ratios over the past several quarters and is "well capitalized" according to the regulatory guidelines as of December 31.

Capital Ratios - 1st Security Bank of Washington

	4Q16	3Q16	2Q16	1Q16	4Q15
Total Risk-based	13.9%	13.5%	14.0%	14.3%	15.5%
Tier 1 Risk-based	12.6%	12.2%	12.8%	13.0%	14.3%
Tier 1 Leverage-based	10.3%	10.3%	10.1%	9.9%	12.1%
Common Equity Tier 1	12.6%	12.2%	12.8%	13.0%	14.3%

Source: Company data.

If FS Bancorp, Inc. were subject to regulatory capital requirements for bank holding companies with $1.0 billion or more in assets, the company would have exceeded all regulatory requirements with Total Risk-based, Tier 1 leverage, and Common Equity Tier 1 capital ratios of 12.88%, 9.52%, and 11.63%, respectively, as of December 31, 2016.

The company currently pays a quarterly cash dividend of $0.10 per share, which represents a dividend yield of 1.1%. During 2016, the company repurchased 198,000 shares of its common stock, of which 193,000 shares were purchased under the company's stock repurchase plan at an average price of $24.79 per share. The company's stock repurchase plan ended on August 31, 2016. Moving forward, we expect excess capital to be deployed primarily through organic loan growth and cash dividends.

Recent Operating Results

Operating Performance

FS Bancorp reported EPS of $0.86 in 4Q16, down from EPS of $1.18 in 3Q16, but up from EPS of $0.66 in 4Q15. The LQ decrease in profitability resulted primarily from a decrease in gains on the sale of loans to $4.3 million in 4Q16 from $5.9 million in 3Q16. On a full-year basis, FS Bancorp reported EPS of $3.51 in 2016, up 19.8% from reported EPS of $2.93 in 2015. Excluding acquisition costs of $389,000, a net gain on the sale of investment securities of $146,000, and a net gain on the sale of other real estate owned (OREO) of $150,000, we place core operating EPS at $3.53 in 2016, up 13.9% from core operating EPS of $3.10 in 2015, excluding acquisition costs of $876,000 and a net gain on the sale of investment securities of $76,000. The improvement in core operating EPS resulted from a 20.7% increase in net interest income (to $33.9 million from $28.0 million), a 53.4% increase in noninterest income, excluding gains on the sale of loans and securities (to $4.4 million from $2.8 million), a 29.9% increase in gains on the sale of loans (to $19.1 million from $14.7 million), and a decrease in the effective tax rate (to 34.8% from 35.4%), which were partially offset by an increase of 6.7% in provisions for loan losses (to $2.40 million from $2.25 million) and a 34.5% increase in noninterest expense, excluding nonrecurring items (to $38.7 million from $28.8 million) driven largely by expenses related to the branch acquisition.

Net Interest Margin

The company's net interest margin (NIM) increased by 11 basis points on a LQ basis to 4.66% in 4Q16 from 4.55% in 3Q16. The LQ margin expansion combined with a 3.8% increase in average interest-earning assets led to a 5.1% increase in net interest income to $9.2 million in 4Q16 from $8.8 million in 3Q16. On a full-year basis, the company's reported NIM decreased by 58 basis points to 4.43% in 2016 from 5.01% in 2015. The yield on average interest-earning assets decreased by 70 basis points (to 4.97% in 2016 from 5.67% in 2016), which was only partially offset by a 9-basis-point reduction in the weighted average cost of interest-bearing liabilities (to 0.74% in 2016 from 0.83% in 2015). The year-over-year margin compression was more than offset by a 36.7% increase in average interest-earning assets, and net interest income increased by 20.7% to $33.9 million in 2016 from $28.0 million in 2015. We expect FS Bancorp to experience modest quarterly margin compression in 2017 as the company continues to diversify the loan portfolio into in lower yielding commercial real estate, one-to-four family residential, and commercial business loans (compared with higher yielding consumer loans).

Noninterest Income

The following table compares the composition of noninterest income in 4Q16 with the composition of noninterest income in both 3Q16 and 4Q15. While total noninterest income decreased by $1.8 million, or 24.9%, on a LQ basis to $5.4 million in 4Q16, total noninterest income increased by $1.6 million, or 40.7%, on a year-over-year basis. The LQ decline was driven primarily by decreases of $1.6 million in gains on the sale of loans and $146,000 in gains on the sale of investment securities, while the year-over-year increase was driven by higher levels of gains on the sale of loans and service charges and fee income (due largely to deposits acquired in the branch acquisition).

Noninterest Income Composition (Dollars in thousands)

		4Q16	%		3Q16	%		4Q15	%	Q/Q	Y/Y
Service charges and fee income	$	903	16.6%	$	899	12.4%	$	524	13.5%	0.4%	72.3%
Gain on sale of loans	$	4,335	79.6%	$	5,922	81.7%	$	3,107	80.3%	-26.8%	39.5%
Gain on sale of investment securities	$	-	0.0%	$	146	2.0%	$	-	0.0%	-100.0%	NA
Earnings on cash surrender value of BOLI	$	71	1.3%	$	71	1.0%	$	71	1.8%	0.0%	0.0%
Other noninterest income	$	135	2.5%	$	210	2.9%	$	166	4.3%	-35.7%	-18.7%
Total noninterest income	**$**	**5,444**	**100%**	**$**	**7,248**	**100%**	**$**	**3,868**	**100%**	**-24.9%**	**40.7%**

Source: Company data. Percentages may not total to 100% due to rounding

Year-over-Year Increase in Noninterest Expense Driven by Branch Acquisition

Total noninterest expense, excluding acquisition costs during the past two years and a net gain on the sale of OREO in 2016, increased by $9.9 million, or 34.5%, to $38.7 million in 2016 from $28.8 million 2015. The year-over-year increase resulted from increases in most expense categories driven largely by costs associated with the branch purchase in 1Q16. The company reported an efficiency ratio of 67.78% in 2016, up from 64.95% in 2015. We expect noninterest expense growth to moderate in 2017 and for the efficiency ratio to improve over time as the company realizes economies of scale following the branch purchase.

The following table compares selected financial metrics for FS Bancorp, Inc. with its Washington peer group of similar-sized banks and thrifts. The company's ROAA, ROAE, and NIM are well above the peer group medians based on data for the most recent quarter, while the efficiency ratio is reasonably in line with the peer group median. Credit quality remains above-average as the company has a negligible amount of nonperforming loans and reserves as a percentage of total loans are robust. While the tangible common equity ratio is modestly below the peer group median, FS Bancorp's capital ratios are sound. The company maintains a higher percentage of consumer loans to total loans due to its focus on providing indirect home improvement loans. Additionally, FSBW has an above-average level of fee income as a percentage of total revenue driven by gains on the sale of loans from the company's mortgage-banking operations.

Fundamental Analysis: FS Bancorp, Inc. vs. Washington Peers

Company Name	Ticker	City	Total Assets ($000)	Market Value ($M)	TCE Ratio (%)	ROAA (%)	ROAE (%)	NIM (%)	Efficiency Ratio (%)	NPL / Loans	ALLL / Loans	NCO Ratio (%)	Consumer Loans/ Total Loans (%)	Fee Income/ Revenue (%)
Baker Boyer Bancorp	BBBK	Walla Walla, WA	602,333	90.6	8.5	1.12	13.24	3.25	71.48	0.49	2.16	0.16	6.0	NA
Cashmere Valley Bank	CSHX	Cashmere, WA	1,454,239	207.1	11.0	1.04	9.00	2.86	56.44	1.27	1.28	0.02	24.8	18.7
First Financial Northwest, Inc.	FFNW	Renton, WA	1,037,584	185.1	13.3	1.13	8.65	3.68	58.10	3.75	1.33	-0.02	0.8	7.7
First Northwest Bancorp	FNWB	Port Angeles, WA	1,043,815	185.5	16.9	0.45	2.60	3.10	76.47	1.17	1.15	0.02	6.8	14.8
Northwest Bancorporation, Inc.	NBCT	Spokane, WA	636,528	74.5	9.3	0.88	8.59	4.21	71.67	0.85	1.25	0.04	6.2	16.9
Pacific Financial Corporation	PFLC	Aberdeen, WA	891,383	93.8	7.6	0.66	7.00	4.03	72.97	0.24	1.38	-0.03	14.2	26.4
Puget Sound Bancorp, Inc.	PUGB	Bellevue, WA	519,265	81.5	9.4	1.03	10.74	3.53	59.30	NA	1.17	0.01	5.9	3.8
Riverview Bancorp, Inc.	RVSB	Vancouver, WA	985,669	165.9	8.7	0.81	7.09	3.78	71.46	1.86	1.54	-0.14	6.9	22.3
Sound Financial Bancorp, Inc.	SFBC	Seattle, WA	588,383	74.1	10.2	1.08	10.55	4.41	65.58	1.22	0.96	0.20	11.1	18.9
Timberland Bancorp, Inc.	TSBK	Hoquiam, WA	923,751	164.0	10.2	1.39	12.87	3.91	58.81	1.46	1.45	-0.01	6.2	27.9
Median			**907,567**	**128.9**	**9.8**	**1.04**	**8.83**	**3.73**	**68.52**	**1.22**	**1.30**	**0.01**	**6.5**	**18.7**
Average			**868,295**	**132.2**	**10.5**	**0.96**	**9.03**	**3.68**	**66.23**	**1.37**	**1.37**	**0.02**	**8.9**	**17.5**
FS Bancorp, Inc.	**FSBW**	**Mountlake Terrace,**	**827,926**	**116.5**	**9.3**	**1.23**	**12.92**	**4.66**	**68.91**	**0.12**	**1.69**	**-0.02**	**28.9**	**37.2**

Note: Balance sheet data as of December 31, 2016

Source: SNL Financial, Thomson Reuters, and Raymond James Research.

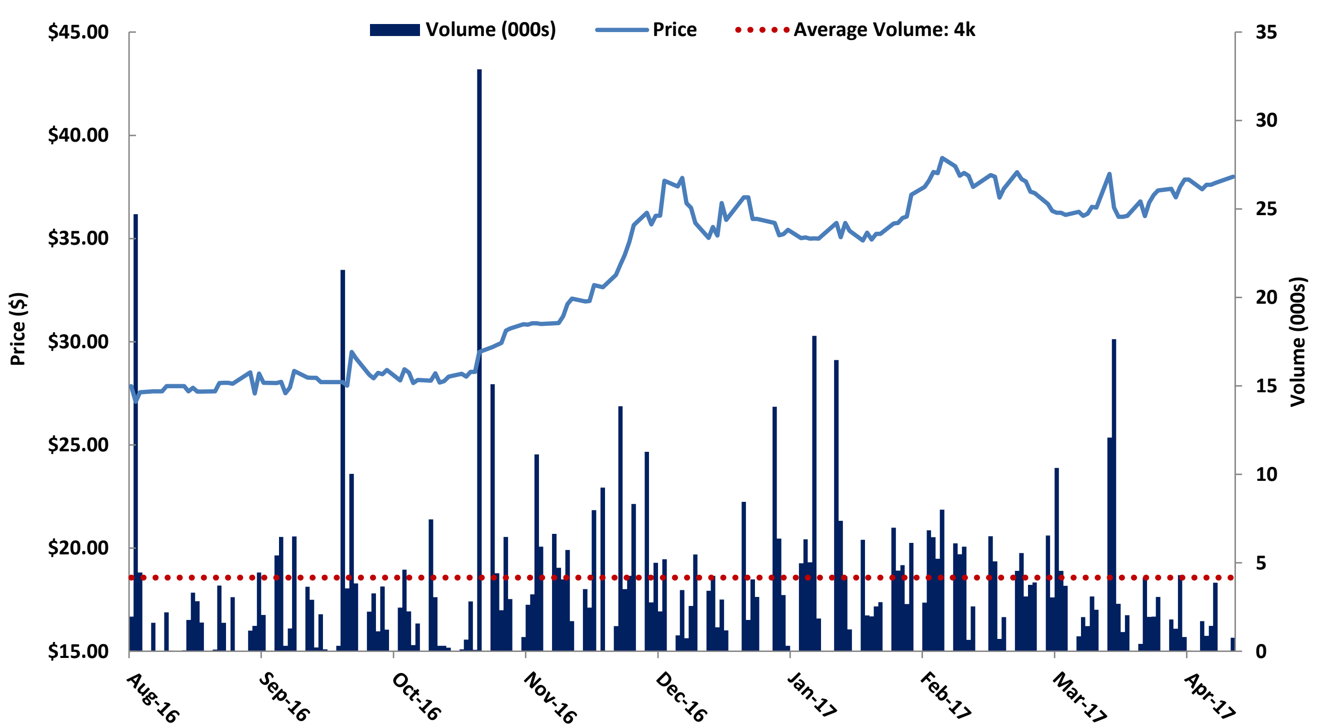
Outlook

We are introducing our 2017E EPS of $3.80 and our 2018E EPS of $4.12. Our estimates assume solid organic loan and deposit growth in the mid-to-high single-digit percentage range over the next two years. While we expect the net interest margin to experience modest compression in the near term as the company continues its loan diversification strategy, the company's NIM remains well above the peer group median. We are also modeling a decrease in gains on the sale of 1-4 family residential mortgage loans from the 2016 level as rising interest rates are expected to reduce mortgage refinance activity. We expect credit quality to remain excellent and we are modeling provisions of $0.6 million per quarter to support loan growth. Deployment of excess capital is expected to occur primarily through organic loan growth and quarterly cash dividends. More details related to our EPS estimates are shown in the earnings model attached in this report.

Stock Price Performance

As shown in the following chart, FSBW shares have traded in the range of $25.00 to $39.00 since July 2016, and the current share price is near the high end of that range. Shares are thinly traded, as the average daily volume has been only ~4,000 shares since June 2016.

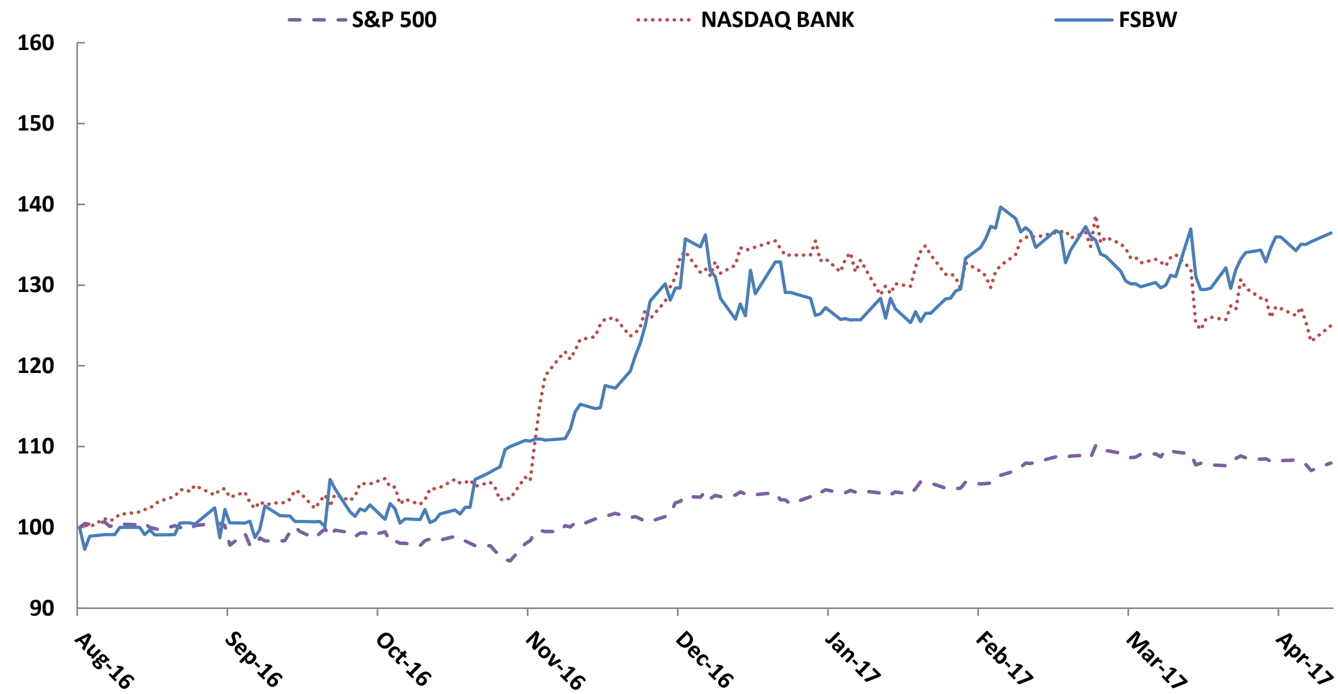
Daily Price and Volume



Source: SNL Financial and Raymond James Research. Data as of 4/17/2017

Shares of FSBW have outperformed the NASDAQ BANK index since July 2016, while significantly outperforming the S&P 500 since November 2016 following the Presidential election, as shown in the graph below. We believe that shares should continue to outperform the market indices given the company's strong loan growth, above-average profitability metrics, excellent credit quality, and sound capital ratios.

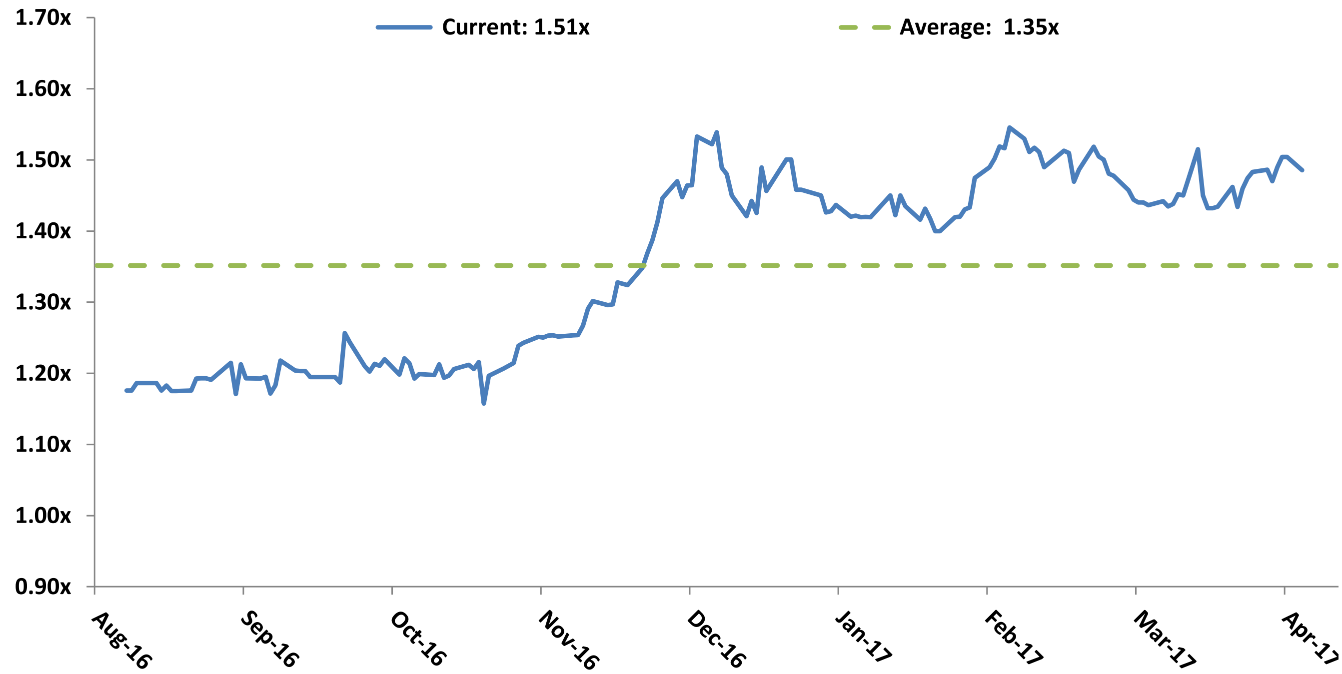
Relative Stock Price Performance (Price Index Base = 100)



Source: SNL Financial and Raymond James Research. Data as of 4/17/17

The historical price to TBVPS valuation trend is shown below. FSBW shares are currently trading above the average valuation since November 2016, which is consistent with the general increase in community bank stock valuations following the presidential election.

Historical Price/Tangible Book



Source: SNL Financial and Raymond James Research. Data as of 4/17/17

Valuation and Risk/Reward Analysis

The following table shows a summary of key valuation metrics for FS Bancorp compared with its regional peer group of similar-sized community banks and thrifts based in Washington.

Valuation Analysis of Comparable Publicly Traded Companies

Company Name	Ticker	City	4/17/17 Stock Price	Dividend Yield	Book Value	Tangible Book Value	Price/ Book Value	Price/ Tangible Book	12-month Trailing P/E
Baker Boyer Bancorp	BBBK	Walla Walla, WA	$ 69.50	4.2%	$ 39.46	$ 39.46	1.76x	1.76x	16.5x
Cashmere Valley Bank	CSHX	Cashmere, WA	$ 50.50	2.1%	$ 40.50	$ 38.83	1.25x	1.30x	11.8x
First Financial Northwest, Inc.	FFNW	Renton, WA	$ 16.77	1.4%	$ 12.63	$ 12.63	1.33x	1.33x	22.7x
First Northwest Bancorp	FNWB	Port Angeles, WA	$ 15.26	NA	$ 14.55	$ 14.55	1.05x	1.05x	44.9x
Northwest Bancorporation, Inc.	NBCT	Spokane, WA	$ 11.60	NA	$ 10.29	$ 9.13	1.13x	1.27x	14.9x
Pacific Financial Corporation	PFLC	Aberdeen, WA	$ 9.00	2.6%	$ 7.67	$ 6.38	1.17x	1.41x	14.5x
Puget Sound Bancorp, Inc.	PUGB	Bellevue, WA	$ 23.85	NA	$ 14.87	$ 14.25	1.60x	1.67x	19.5x
Riverview Bancorp, Inc.	RVSB	Vancouver, WA	$ 7.37	1.1%	$ 4.86	$ 3.72	1.52x	1.98x	24.6x
Sound Financial Bancorp, Inc.	SFBC	Seattle, WA	$ 29.65	1.3%	$ 24.12	$ 24.12	1.23x	1.23x	14.2x
Timberland Bancorp, Inc.	TSBK	Hoquiam, WA	$ 22.33	2.0%	$ 14.32	$ 13.51	1.56x	1.65x	14.8x
Median				**2.0%**	**$ 14.44**	**$ 13.88**	**1.29x**	**1.37x**	**15.7x**
Average				**2.1%**	**$ 18.33**	**$ 17.66**	**1.36x**	**1.47x**	**19.8x**
FS Bancorp, Inc.	**FSBW**	**Mountlake Terrace, WA**	**$ 38.00**	**1.1%**	**$ 26.49**	**$ 25.17**	**1.43x**	**1.51x**	**10.8x**

Note: Balance sheet data as of December 31, 2016; other data as of April 11, 2017.
Source: SNL Financial and Raymond James Research.

FSBW shares are currently trading at 151% of TBVPS and 10.8x trailing earnings compared with median valuations of 137% of TBVPS and 15.7x trailing earnings for the peer group. Typically banks with higher levels of mortgage-banking income garner a lower valuation as this is a lower margin business that is subject to greater volatility from shifts in interest rates. However, we believe that FSBW shares should trade closer in line with the median P/E multiple for the peer group, due to the company's above-average profitability metrics, outlook for solid organic loan and deposit growth, the opportunity to generate operating leverage, excellent credit quality, improving core deposit base, and sound capital ratios. We are establishing a 12-month target price of $43.00, which represents 11.3x our 2017E EPS, 10.4x our 2018E EPS, and 150% of pro forma TBVPS of $28.65 one year from now. Our target price assumes that shares continue to trade reasonably in line with the current valuation based on TBVPS as TBVPS increases due to earnings.

Risk/Reward Analysis

Our target price of $43.00 assumes a P/E multiple of 11.3x our 2017E EPS of $3.80 and 150% of pro forma TBVPS of $28.65 at the end of 2017, which we consider to be the base case. A more bullish outlook for loan growth with a correspondingly higher level of gains on the sale of loans, would result in higher EPS and justify an enhanced valuation. Assuming a 5% increase in our 2017E EPS to $4.00 and a P/E multiple of 12x implies a 12-month target price of $48.00. A more bearish outlook for FSBW would include lower-than-expected organic loan growth and a lower-than-projected level of gains on the sale of loans, with weakening economic conditions in the company's primary market areas, which could cause credit quality to deteriorate. A slower rate of loan growth, a lower level of gains on the sale of loans, and higher credit costs would reduce EPS and result in a lower valuation. Assuming a 10% reduction in our 2017E EPS to

$3.42 and a P/E multiple of 10x implies a target price of $34.00 under the bear case. Given that shares are currently trading at $38.00 per share, there is an attractive risk/reward profile with potential upside of ~26% and potential downside of ~11% based on our assumptions as illustrated below.

FS Bancorp, Inc. Risk/Reward Analysis

FS Bancorp, Inc. Risk/Reward Analysis — RAYMOND JAMES®

Bear		Base		Bull	
2017 EPS	$3.42	2017 EPS	$3.80	2017 EPS	$4.00
P/E Multiple	10.0x	P/E Multiple	11.3x	P/E Multiple	12.0x
Implied PT	**$34.00**	**Implied PT**	**$43.00**	**Implied PT**	**$48.00**
Up/Downside	**-11%**	**Up/Downside**	**13%**	**Up/Downside**	**26%**

Source: Raymond James Research.

Executive Management Team

Joseph C. Adams, Chief Executive Officer

Joseph C. Adams is a Director and has been the Chief Executive Officer of 1st Security Bank of Washington since July 2004. He has also served in these capacities for FS Bancorp, Inc. since September 2011. He joined the bank in April 2003 as its Chief Financial Officer, when it was known as Washington's Credit Union. Mr. Adams is a lawyer having worked for Deloitte as a tax consultant, K&L Gates as a lawyer and then at Univar USA as a lawyer and Director, Regulatory Affairs.

Matthew D. Mullet, Chief Financial Officer

Matthew D. Mullet joined 1st Security Bank of Washington in July 2011 and was appointed Chief Financial Officer in September 2011. Mr. Mullet started his banking career in June 2000 as a financial examiner with the Washington State Department of Financial Institutions, Division of Banks, where he worked until October 2004. From October 2004 until August 2010, Mr. Mullet was employed at Golf Savings Bank, Mountlake Terrace, WA, where he served in several financial capacities, including Chief Financial Officer from May 2007 until August 2010. In August 2010, Golf Savings Bank was merged with Sterling Savings Bank, where Mr. Mullet held the position of Senior Vice President of the Home Loan Division until resigning and commencing work at the bank.

Dennis V. O'Leary, Chief Lending Officer

Dennis V. O'Leary joined 1st Security Bank of Washington as a Senior Vice President and manager of the newly formed construction lending division. His responsibilities currently include overseeing loan production for the commercial, consumer, and commercial real estate sectors, including residential construction lending. Mr. O'Leary brings over 25 years of experience in the banking industry and over 20 years of experience in commercial lending to the bank. Prior to joining 1st Security Bank of Washington, he served for five years as Senior Vice President and Puget Sound Regional Director of the residential construction lending division for Sterling Savings Bank. Sterling Savings Bank purchased Golf Savings Bank in 2006 where Mr. O'Leary was a 20-year employee that culminated in the position of Executive Vice President of the residential construction lending department and a five-year member of the Board of Directors for that bank.

Ownership Summary

Inside ownership amounts to 23.88% of outstanding common stock, while institutional investors own 40.87% of total outstanding shares. Short interest is modest at only 1.29% of outstanding shares as of March 31. As shown in the table below, the two largest inside ownership positions are held by the FS Bancorp Employee Stock Ownership Plan and Joel S. Lawson IV with 8.35% and 6.10%, respectively. CEO Joseph C. Adams and SVP of Home Lending, Donn C. Costa hold the next largest inside ownership positions with 1.70% and 1.60% of total outstanding shares, respectively.

The company currently has a reasonably diversified level of institutional ownership. As displayed in the table below, the top 10 institutional shareholders hold 34.00% of outstanding common shares, with T. Rowe Price Group Inc. owning the largest amount at 6.41% of total shares outstanding, followed by AWH Capital with 5.10% of total outstanding shares and Wellington Management Co. LLP with 4.98% of total outstanding shares.

Insider Ownership	Shares	Percent
FS Bancorp, Inc. Employee Stock Ownership Plan	256,095	8.35
Joel S. Lawson IV	187,090	6.10
Joseph C. Adams	52,208	1.70
Donn C. Costa	49,046	1.60
Matthew D. Mullet	34,380	1.12
Dennis V. O'Leary	32,597	1.06
Michael J. Mansfield	28,641	0.93
Debra Lynn Steck	17,540	0.57
Ted A. Leech	17,187	0.56
Mark H. Tueffers	13,200	0.43
Top 10 Total Insider Ownership	**687,984**	**22.44**

Institutional Holder	Shares	Percent
T. Rowe Price Group Inc.	196,630	6.41
AWH Capital	156,272	5.10
Wellington Management Co. LLP	152,691	4.98
Stilwell Value LLC	120,000	3.91
The TCW Group, Inc.	112,868	3.68
Raymond James Financial Inc.	95,045	3.10
FJ Capital Management LLC	66,000	2.15
Vanguard Group Inc.	62,404	2.04
BlackRock Inc.	40,798	1.33
Pacific Ridge Capital Partners LLC	39,343	1.28
Top 10 Total Institutional Ownership	**1,042,051**	**34.00**

Source: SNL Financial. Data as of 4/12/17

Conclusion

We are initiating coverage on shares of FS Bancorp, Inc. with an **Outperform** rating. The company generated strong loan and deposit growth in 2016, and it is well positioned for future growth, in our view. FS Bancorp has developed a diversified loan portfolio with a niche in indirect home improvement lending that has produced above-average profitability metrics. With a loan-to-deposit ratio of 85%, the company has the opportunity to deploy excess liquidity into higher yielding loans over time. The deposit mix improved significantly in 2016, as the company has focused on growing relationship-based transaction deposits while running off higher cost time deposits. While the NIM is expected to be under some pressure in the near term as the company continues to diversify its loan portfolio, the NIM of 4.66% in 4Q16 is well above the median NIM of 3.73% for the regional peer group. We think credit quality is excellent, as the company has a negligible amount of nonperforming assets and reserve coverage is robust. Capital ratios are sound and supportive of continued balance sheet growth, in our opinion. Our 12-month target price of $43.00 is based on a TBVPS multiple of 1.5x applied to pro forma TBVPS of $28.65 at the end of 2017. There is total return potential of ~14%, including the current dividend of 1.1%, which supports the **Outperform** investment rating.

.

FS Bancorp, Inc.

	Annual				2016 Quarterly				2017 Quarterly				2018 Quarterly			
	2015A	2016A	2017E	2018E	1Q16A	2Q16A	3Q16A	4Q16A	1Q17E	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E
Income Data: ($ in Millions)																
Net Interest Margin	5.01%	4.43%	4.64%	4.64%	4.19%	4.34%	4.55%	4.66%	4.65%	4.64%	4.63%	4.62%	4.62%	4.63%	4.64%	4.65%
Avg. Earning Assets	$559	$765	$834	$903	$752	$749	$764	$793	$809	$825	$842	$859	$876	$893	$911	$930
Net Interest Income	$28.0	$33.9	$38.6	$41.8	$7.8	$8.1	$8.8	$9.2	$9.4	$9.6	$9.7	$9.9	$10.1	$10.3	$10.6	$10.8
Loan Loss Provision	$2.3	$2.4	$2.4	$2.4	$0.6	$0.6	$0.6	$0.6	$0.6	$0.6	$0.6	$0.6	$0.6	$0.6	$0.6	$0.6
Noninterest Income	$2.8	$4.4	$4.5	$4.7	$1.0	$1.1	$1.2	$1.1	$1.1	$1.1	$1.1	$1.2	$1.2	$1.2	$1.2	$1.2
Gain/Loss on Loans	$14.7	$19.1	$17.6	$17.3	$3.4	$5.4	$5.9	$4.3	$3.6	$4.8	$5.2	$4.0	$3.5	$4.7	$5.1	$4.0
Gain/Loss on Sale of Securities	$0.1	$0.1	$0.0	$0.0	$0.0	$0.0	$0.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total Revenues	$45.6	$57.4	$60.8	$63.9	$12.1	$14.6	$16.0	$14.6	$14.1	$15.5	$16.1	$15.1	$14.8	$16.2	$16.9	$16.0
Noninterest Expense	$29.6	$38.9	$41.0	$42.6	$8.9	$9.6	$10.3	$10.1	$10.1	$10.2	$10.3	$10.4	$10.5	$10.6	$10.7	$10.8
Pre-Tax Income	$13.7	$16.1	$17.4	$18.9	$2.6	$4.4	$5.1	$4.0	$3.4	$4.7	$5.2	$4.1	$3.7	$5.0	$5.6	$4.6
Taxes	$4.9	$5.6	$6.1	$6.6	$1.0	$1.6	$1.6	$1.4	$1.2	$1.7	$1.8	$1.4	$1.3	$1.8	$1.9	$1.6
Extraordinary Items	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Net Income	$8.9	$10.5	$11.3	$12.3	$1.7	$2.8	$3.5	$2.546	$2.2	$3.1	$3.4	$2.7	$2.4	$3.3	$3.6	$3.0
Avg. Shares	3.0	3.0	3.0	3.0	3.0	3.0	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
EPS (Reported)	$2.93	$3.51	$3.80	$4.12	$0.55	$0.96	$1.18	$0.86	$0.74	$1.03	$1.14	$0.89	$0.81	$1.10	$1.21	$1.00
Per Share Data:																
Book Value (Stated)	$23.24	$26.49	$29.78	$33.35	$23.85	$24.88	$26.02	$26.49	$27.11	$28.01	$29.01	$29.78	$30.45	$31.41	$32.48	$33.35
Book Value (Tang.)	$23.24	$25.17	$28.65	$32.31	$22.44	$23.47	$24.65	$25.17	$25.84	$26.78	$27.83	$28.65	$29.35	$30.33	$31.42	$32.31
Dividends	$0.28	$0.37	$0.40	$0.44	$0.07	$0.10	$0.10	$0.10	$0.10	$0.10	$0.10	$0.10	$0.11	$0.11	$0.11	$0.11
Profitability Ratios:																
Return on Avg Assets	1.51%	1.31%	1.30%	1.30%	0.85%	1.44%	1.72%	1.23%	1.04%	1.43%	1.54%	1.18%	1.05%	1.40%	1.52%	1.23%
Return on Avg Equity	12.69%	13.84%	13.17%	12.73%	8.95%	15.19%	18.18%	12.92%	10.76%	14.56%	15.50%	11.80%	10.41%	13.79%	14.78%	11.86%
Efficiency Ratio	64.95%	67.78%	67.44%	66.72%	73.47%	65.57%	64.46%	68.91%	71.74%	65.69%	63.95%	68.94%	70.99%	65.35%	63.50%	67.55%
Overhead Ratio	5.06%	4.87%	4.71%	4.53%	4.58%	4.88%	5.13%	4.87%	4.80%	4.73%	4.69%	4.64%	4.59%	4.55%	4.50%	4.46%
Balance Sheet:																
Total Assets	$678	$828	$896	$970	$805	$784	$827	$828	$844	$861	$879	$896	$914	$932	$951	$970
Total Loans	$511	$605	$655	$709	$530	$561	$604	$605	$618	$630	$642	$655	$668	$682	$695	$709
Allowance for loan losses	$8	$10	$12	$13	$8	$9	$10	$10	$11	$11	$11	$12	$12	$12	$13	$13
Intangible Assets	$0	$4	$3	$3	$4	$4	$4	$4	$4	$4	$4	$3	$3	$3	$3	$3
Total Deposits	$485	$713	$771	$819	$697	$666	$703	$713	$727	$741	$756	$771	$783	$795	$807	$819
Preferred Equity	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Common Equity	$75	$81	$91	$102	$75	$76	$80	$81	$83	$86	$89	$91	$93	$96	$99	$102
Total Equity	$75	$81	$91	$102	$75	$76	$80	$81	$83	$86	$89	$91	$93	$96	$99	$102
Average Balances: ($ in Millions)																
Avg. Assets	$586	$800	$870	$942	$780	$787	$803	$828	$844	$861	$878	$896	$914	$932	$951	$970
Avg. Loans	$479	$601	$636	$688	$560	$596	$644	$605	$617	$629	$642	$655	$668	$681	$695	$709
Avg. Deposits	$466	$676	$744	$795	$635	$676	$685	$708	$722	$736	$751	$766	$778	$789	$801	$813
Avg. Common Equity	$70	$76	$86	$96	$74	$75	$76	$80	$82	$84	$87	$90	$92	$95	$98	$101
Avg. Loans/Deposits	102.7%	89.0%	85.4%	86.5%	88.2%	88.3%	94.0%	85.4%	85.4%	85.4%	85.4%	85.4%	85.9%	86.3%	86.7%	87.1%
Avg. Equity/Assets	11.94%	9.54%	9.87%	10.23%	9.52%	9.49%	9.47%	9.70%	9.71%	9.79%	9.93%	10.04%	10.08%	10.15%	10.28%	10.38%
Growth Rates:																
Average Earning Assets	29.04%	36.67%	9.05%	8.24%	19.98%	-0.31%	2.01%	3.79%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Average Loans	38.52%	25.65%	5.71%	8.24%	11.80%	6.48%	7.97%	-6.08%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Average Deposits	28.73%	45.12%	10.05%	6.91%	29.00%	6.32%	1.44%	3.30%	2.00%	2.00%	2.00%	2.00%	1.50%	1.50%	1.50%	1.50%
Noninterest Income	14.48%	53.37%	4.19%	4.06%	25.76%	16.93%	5.45%	-6.02%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Noninterest Expense	24.08%	31.31%	5.33%	3.93%	12.41%	7.66%	7.36%	-2.20%	0.50%	0.50%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

Source: Company Documents and Raymond James Research

Important Investor Disclosures

Raymond James & Associates (RJA) is a FINRA member firm and is responsible for the preparation and distribution of research created in the United States. Raymond James & Associates is located at The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, FL 33716, (727) 567-1000. Non-U.S. affiliates, which are not FINRA member firms, include the following entities that are responsible for the creation and distribution of research in their respective areas: in Canada, Raymond James Ltd. (RJL), Suite 2100, 925 West Georgia Street, Vancouver, BC V6C 3L2, (604) 659-8200; in Europe, Raymond James Euro Equities SAS (also trading as Raymond James International), 40, rue La Boetie, 75008, Paris, France, +33 1 45 64 0500, and Raymond James Financial International Ltd., Broadwalk House, 5 Appold Street, London, England EC2A 2AG, +44 203 798 5600.

This document is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. The securities discussed in this document may not be eligible for sale in some jurisdictions. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. **Investors should consider this report as only a single factor in making their investment decision.**

For clients in the United States: Any foreign securities discussed in this report are generally not eligible for sale in the U.S. unless they are listed on a U.S. exchange. This report is being provided to you for informational purposes only and does not represent a solicitation for the purchase or sale of a security in any state where such a solicitation would be illegal. Investing in securities of issuers organized outside of the U.S., including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of, the U.S. Securities and Exchange Commission. There may be limited information available on such securities. Investors who have received this report may be prohibited in certain states or other jurisdictions from purchasing the securities mentioned in this report. Please ask your Financial Advisor for additional details and to determine if a particular security is eligible for purchase in your state.

The information provided is as of the date above and subject to change, and it should not be deemed a recommendation to buy or sell any security. Certain information has been obtained from third-party sources we consider reliable, but we do not guarantee that such information is accurate or complete. Persons within the Raymond James family of companies may have information that is not available to the contributors of the information contained in this publication. Raymond James, including affiliates and employees, may execute transactions in the securities listed in this publication that may not be consistent with the ratings appearing in this publication.

Raymond James ("RJ") research reports are disseminated and available to RJ's retail and institutional clients simultaneously via electronic publication to RJ's internal proprietary websites (RJ Investor Access & RJ Capital Markets). Not all research reports are directly distributed to clients or third-party aggregators. Certain research reports may only be disseminated on RJ's internal proprietary websites; however such research reports will not contain estimates or changes to earnings forecasts, target price, valuation, or investment or suitability rating. Individual Research Analysts may also opt to circulate published research to one or more clients electronically. This electronic communication distribution is discretionary and is done only after the research has been publically disseminated via RJ's internal proprietary websites. The level and types of communications provided by Research Analysts to clients may vary depending on various factors including, but not limited to, the client's individual preference as to the frequency and manner of receiving communications from Research Analysts. For research reports, models, or other data available on a particular security, please contact your RJ Sales Representative or visit RJ Investor Access or RJ Capital Markets.

Additional information is available on request.

Analyst Information

Registration of Non-U.S. Analysts: The analysts listed on the front of this report who are not employees of Raymond James & Associates, Inc., are not registered/qualified as research analysts under FINRA rules, are not associated persons of Raymond James & Associates, Inc., and are not subject to FINRA Rule 2241 restrictions on communications with covered companies, public companies, and trading securities held by a research analyst account.

Analyst Holdings and Compensation: Equity analysts and their staffs at Raymond James are compensated based on a salary and bonus system. Several factors enter into the bonus determination including quality and performance of research product, the analyst's success in rating stocks versus an industry index, and support effectiveness to trading and the retail and institutional sales forces. Other factors may include but are not limited to: overall ratings from internal (other than investment banking) or external parties and the general productivity and revenue generated in covered stocks.

The views expressed in this report accurately reflect the personal views of the analyst(s) covering the subject securities. No part of said person's compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report. In addition, said analyst has not received compensation from any subject company in the last 12 months.

Ratings and Definitions

Raymond James & Associates (U.S.) definitions

Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.
Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.
Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months.
Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.
Suspended (S) The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

Raymond James Ltd. (Canada) definitions

Strong Buy (SB1) The stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months.
Outperform (MO2) The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.
Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.
Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

Raymond James Europe (Raymond James Euro Equities SAS & Raymond James Financial International Limited) rating definitions

Strong Buy (1) Expected to appreciate, produce a total return of at least 15%, and outperform the Stoxx 600 over the next 6 to 12 months.
Outperform (2) Expected to appreciate and outperform the Stoxx 600 over the next 12 months.
Market Perform (3) Expected to perform generally in line with the Stoxx 600 over the next 12 months.
Underperform (4) Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.
Suspended (S) The rating and target price have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and target price are no longer in effect for this security and should not be relied upon.

In transacting in any security, investors should be aware that other securities in the Raymond James research coverage universe might carry a higher or lower rating. Investors should feel free to contact their Financial Advisor to discuss the merits of other available investments.

Rating Distributions

	Coverage Universe Rating Distribution*			Investment Banking Distribution		
	RJA	RJL	RJEE/RJFI	RJA	RJL	RJEE/RJFI
Strong Buy and Outperform (Buy)	51%	74%	54%	24%	50%	0%
Market Perform (Hold)	44%	26%	32%	10%	15%	0%
Underperform (Sell)	5%	1%	14%	7%	0%	0%

* Columns may not add to 100% due to rounding.

Suitability Ratings (SR)

Medium Risk/Income (M/INC) Lower to average risk equities of companies with sound financials, consistent earnings, and dividend yields above that of the S&P 500. Many securities in this category are structured with a focus on providing a consistent dividend or return of capital.

Medium Risk/Growth (M/GRW) Lower to average risk equities of companies with sound financials, consistent earnings growth, the potential for long-term price appreciation, a potential dividend yield, and/or share repurchase program.

High Risk/Income (H/INC) Medium to higher risk equities of companies that are structured with a focus on providing a meaningful dividend but may face less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and potential risk of principal. Securities of companies in this category may have a less predictable income stream from dividends or distributions of capital.

High Risk/Growth (H/GRW) Medium to higher risk equities of companies in fast growing and competitive industries, with less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial or legal issues, higher price volatility (beta), and potential risk of principal.

High Risk/Speculation (H/SPEC) High risk equities of companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, significant financial or legal issues, or a substantial risk/loss of principal.

Raymond James Relationship Disclosures

Raymond James expects to receive or intends to seek compensation for investment banking services from the subject companies in the next three months.

Company Name	Disclosure
FS Bancorp, Inc.	Raymond James & Associates makes a market in shares of FSBW.

Stock Charts, Target Prices, and Valuation Methodologies

Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences. Only stocks rated Strong Buy (SB1) or Outperform (MO2) have target prices and thus valuation methodologies.

Target Prices: The information below indicates our target price and rating changes for FSBW stock over the past three years.

Valuation Methodology: For FS Bancorp, Inc., our valuation methodology takes into consideration the company's P/E ratio in comparison to comparable P/Es from a peer group and the company's tangible book value multiple in comparison to tangible book value multiples from a peer group and its own historical trading levels.

Risk Factors

General Risk Factors: Following are some general risk factors that pertain to the businesses of the subject companies and the projected target prices and recommendations included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

Specific Investment Risks Related to the Industry or Issuer

Banking Industry Risk Factors

Risks include various geopolitical and macroeconomic variables, including credit quality deterioration, sudden changes in interest rates, M&A risk related to deal announcements, integration risk, and regulatory and mortgage-related concerns. Furthermore, competition for loans and deposits could exert downward pressure on revenue growth.

Company-Specific Risks for FS Bancorp, Inc.

Asset Quality Risk
Asset quality is a key consideration when investing in bank stocks. An economic slowdown or prolonged recession on a national or regional basis could result in higher nonperforming assets and net charge-offs, which could, in turn, create a shortfall in the company's net income relative to our EPS estimates.

Interest Rate Risk
Interest rate risk is always an important consideration when investing in bank stocks. FS Bancorp primarily manages interest rate risk by managing the volume and mix of earning assets and funding liabilities while typically placing an equal emphasis on maximizing the net interest margin and matching the interest rate sensitivity of the assets and liabilities. The company's balance sheet is slightly asset sensitive, implying that an increase in interest rates would expand the company's net interest margin, providing upside potential to net interest income relative to our earnings model. Conversely, FS Bancorp could experience a shortfall in net interest income compared with our projections from a decrease in interest rates.

Geographic Concentration
Geographic concentration is an important factor when contemplating an investment in any bank stock. FS Bancorp's operations are concentrated within Puget Sound region of Washington. A decline in local economic conditions could negatively impact company earnings and capital.

Macroeconomic Risk
FS Bancorp delivers banking and financial services primarily to local families, local and regional businesses, and industry niches within the Puget Sound region. If unemployment levels rise or the housing market weakens in its local markets, credit losses could accelerate more rapidly than anticipated causing downside to our earnings expectations.

Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available at rjcapitalmarkets.com/Disclosures/index. Copies of research or Raymond James' summary policies relating to research analyst independence can be obtained by contacting any Raymond James & Associates or Raymond James Financial Services office (please see raymondjames.com for office locations) or by calling 727-567-1000, toll free 800-237-5643 or sending a written request to the Equity Research Library, Raymond James & Associates, Inc., Tower 3, 6th Floor, 880 Carillon Parkway, St. Petersburg, FL 33716.

For clients in the United Kingdom:

For clients of Raymond James Financial International Limited (RJFI): This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in the FCA rules or persons described in Articles 19(5) (Investment professionals) or 49(2) (High net worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) or any other person to whom this promotion may lawfully be directed. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is therefore not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Investment Services, Ltd.: This report is for the use of professional investment advisers and managers and is not intended for use by clients.

For purposes of the Financial Conduct Authority requirements, this research report is classified as independent with respect to conflict of interest management. RJFI, and Raymond James Investment Services, Ltd. are authorised and regulated by the Financial Conduct Authority in the United Kingdom.

For clients in France:

This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in "Code Monétaire et Financier" and Règlement Général de l'Autorité des Marchés Financiers. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is therefore not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Euro Equities: Raymond James Euro Equities is authorised and regulated by the Autorité de Contrôle Prudentiel et de Résolution and the Autorité des Marchés Financiers.

For institutional clients in the European Economic Area (EEA) outside of the United Kingdom:

This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

For Canadian clients:

This report is not prepared subject to Canadian disclosure requirements, unless a Canadian analyst has contributed to the content of the report. In the case where there is Canadian analyst contribution, the report meets all applicable IIROC disclosure requirements.

Proprietary Rights Notice: By accepting a copy of this report, you acknowledge and agree as follows:

This report is provided to clients of Raymond James only for your personal, noncommercial use. Except as expressly authorized by Raymond James, you may not copy, reproduce, transmit, sell, display, distribute, publish, broadcast, circulate, modify, disseminate or commercially exploit the information contained in this report, in printed, electronic or any other form, in any manner, without the prior express written consent of Raymond James. You also agree not to use the information provided in this report for any unlawful purpose.

This report and its contents are the property of Raymond James and are protected by applicable copyright, trade secret or other intellectual property laws (of the United States and other countries). United States law, 17 U.S.C. Sec.501 et seq, provides for civil and criminal penalties for copyright infringement. No copyright claimed in incorporated U.S. government works.