

FS Bancorp, Inc.

(FSBW-NASDAQ)

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Company Comment

Rating _____
Outperform 2

Banking _____

Raise TP to \$61 and Maintain Outperform Following EPS Beat in 3Q17

Recommendation: We maintain our **Outperform** rating on shares of FS Bancorp, Inc. following core operating EPS of \$1.03 in 3Q17, which exceeded our estimate by \$0.06. The company produced strong LQ loan and deposit growth while generating significant margin expansion. Credit quality remains solid and capital ratios are strong. We are raising our 12-month target price by \$6.00 to \$61.00, which provides total return potential of ~9%, including the current dividend yield of 0.8%.

- ◆ **3Q17 results:** FS Bancorp reported EPS of \$1.07 in 3Q17. Excluding a net gain on the sale of securities of \$143,000 and a gain on the sale of mortgage servicing rights (MSRs) of \$38,000, we place core operating EPS at \$1.03, which exceeded our estimate by \$0.06.
- ◆ **Robust loan growth:** Net loans held for investment increased by \$44.8 million, or 6.3% (25.2% annualized), on a LQ basis, and by \$161.1 million, or 27.2%, over the LTM.
- ◆ **LQ margin expansion:** The reported net interest margin (NIM) increased by 7 basis points on a LQ basis to 4.70% in 3Q17 from 4.63% in 2Q17.
- ◆ **Strong credit quality:** Total nonperforming assets (NPAs) increased to \$1.3 million, or only 0.13% of total assets, as of September 30, from \$754,000, or 0.08% of total assets, at June 30.
- ◆ **EPS estimates:** We are increasing our 2017E EPS by \$0.16 to \$4.25 and our 2018E EPS by \$0.04 to \$4.30. We are also establishing our 2019E EPS of \$4.70 with year-over-year EPS growth driven by an increase in top line revenue.

Valuation: FSBW shares are currently trading at 13.1x our 2017E EPS, 13.0x our 2018E EPS, and 181% of TBVPS compared with median valuations of 19.1x 2017E EPS, 16.3x 2018E EPS, and 187% of TBVPS for our West region coverage universe of 21 community banks and thrifts. While we believe some discount to the peer group is warranted given the company's 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 the extent of the discount is unwarranted given the company's above-average profitability metrics, strong loan and deposit growth, solid credit quality, and sound capital ratios. We are raising our 12-month target price by \$6.00 to \$61.00, which represents 14.4x our 2017E EPS, 14.2x our 2018E EPS, and 175% of pro forma TBVPS of \$34.90 one year from now. 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
Old 2017E	0.85A	1.41A	0.97	0.89	4.09	65
New 2017E	0.85A	1.41A	1.07A	0.95	4.25	67
Old 2018E	0.95	1.03	1.13	1.15	4.26	73
New 2018E	0.98	1.04	1.12	1.16	4.30	76
Old 2019E	NA	NA	NA	NA	NA	NA
New 2019E	1.11	1.15	1.23	1.21	4.70	81

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

Current and Target Price _____
Current Price (Nov-02-17 2:07 p.m.) \$55.77
Target Price: Old: \$55.00 New: \$61.00
52-Week Range \$56.84 - \$29.85
Suitability High Risk/Growth

Market Data _____
Shares Out. (mil.) 3.7
Market Cap. (mil.) \$206
Avg. Daily Vol. (10 day) 19,713
Dividend/Yield \$0.44/0.8%
Book Value (Sep-17) \$32.14
Tang. BVPS (Sep-17) \$31.16

Earnings & Valuation Metrics _____

	2016A	2017E	2018E	2019E
P/E Ratios (GAAP)	15.9x	13.1x	13.0x	11.9x

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 11 branches and 7 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 \$994 million in total assets as of September 30, 2017.

Please read domestic and foreign disclosure/risk information beginning on page 7 and Analyst Certification on page 8.

Raymond James Revised Earnings Estimates

As displayed in the following table, we are increasing our 2017E EPS by \$0.16 to \$4.25 and our 2018E EPS by \$0.04 to \$4.30 to reflect a higher level of net interest income, due to a higher NIM assumption and a larger average earning asset base, a lower provision assumption, and a higher level of noninterest income in 2017, which are partially offset by a higher run rate for noninterest expense compared with our previous projections. We are also establishing our 2019E EPS of \$4.70 with year-over-year EPS growth driven by an increase in top line revenue.

(\$ in millions)	2017E			2018E			2019E
	Old	Current	Change	Old	Current	Change	Current
GAAP EPS	\$4.09	\$4.25	\$0.16	\$4.26	\$4.30	\$0.04	\$4.70
Avg. Earning Assets	880	897	2%	1,058	1,096	4%	1,246
NIM	4.59%	4.64%	5 bps	4.62%	4.72%	10 bps	4.76%
Net Interest Income	40.228	41.576	3%	48.813	51.676	6%	59.260
Provision	1.200	1.050	-13%	2.700	2.530	-6%	2.950
Core Noninterest Income	24.075	24.496	2%	23.829	23.815	0%	21.927
Operating Expense	43.538	44.615	2%	45.784	48.602	6%	51.584
Operating Efficiency	67%	67%	-32 bps	63%	64%	136 bps	64%
Tax Rate	32.7%	33.1%	41 bps	35.0%	35.0%	0 bps	35.0%
Diluted shares	3.261	3.271	0%	3.685	3.685	0%	3.685
Dividends per share	\$0.43	\$0.43	\$0.00	\$0.47	\$0.47	\$0.00	\$0.48
Reserves/Loans	1.39%	1.38%	-1 bps	1.38%	1.34%	-4 bps	1.39%
NCOs/Avg. Loans	0.08%	0.04%	-4 bps	0.12%	0.11%	-1 bps	0.10%

3Q17 Operating Results

FS Bancorp reported EPS of \$1.07 in 3Q17, compared with EPS of \$1.41 in 2Q17 and \$1.18 in 3Q16. Excluding a net gain on the sale of securities of \$143,000 and a gain on the sale of mortgage servicing rights (MSRs) of \$38,000, we place core operating EPS at \$1.03 in 3Q17, down from core operating EPS of \$1.13 in 2Q17, excluding a gain on the sale of MSRs of \$958,000 and a net gain on the sale of securities of \$237,000. Core operating EPS exceeded our estimate by \$0.06 as a higher-than-projected level of net interest income (\$11.0 million versus our estimate of \$10.0 million), which was driven by both a higher-than-anticipated net interest margin (4.70% versus 4.60%) and a larger-than-expected average earning asset base (\$930 million compared with our estimate of \$897million), a lower-than-estimated loan loss provision (\$0.5 million versus our forecast of \$0.6 million), and a higher-than-expected level of gains on the sale of loans (\$5.0 million versus our estimate of \$4.8 million) were partially offset by a higher-than-projected level of noninterest expense (\$11.6 million compared with our forecast of \$11.1 million) and a higher-than-modeled effective tax rate (36.2% versus 35.0%). Noninterest income, excluding gains on the sale of loans and securities, of \$1.3 million was in line with our estimate.

Robust Loan Growth

Net loans held for investment increased by \$44.8 million, or 6.3% (25.2% annualized), on a LQ basis, and by \$161.1 million, or 27.2%, over the LTM. The \$45.3 million LQ increase in total gross loans occurred in most major loan categories, and was led by increases of \$15.4 million in 1-4 family residential mortgage loans (excluding loans held for sale), \$11.3 million in warehouse loans, \$10.9 million in consumer loans, and \$10.0 million in construction and development loans. Total commercial business loans (including commercial and industrial and warehouse loans), were negatively impacted during the quarter due to the transfer of \$1.9 million in substandard shared national credits to loans HFS, which will be sold at a slight discount to market recorded against the allowance for loan and lease losses in 3Q17, with settlement expected to occur in early 4Q17. As shown in the table below, FS Bancorp's current loan portfolio is well diversified with a focus on consumer loans (26.3% of total loans) and 1-4 family residential mortgage loans (22.2% of total loans), followed by construction and development loans (16.9% of total loans), commercial and industrial (C&I) loans (10.9% of total loans), and commercial real estate (CRE) loans (8.3% of total loans).

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 as a percentage of total loans.

Loan Composition (Dollars in thousands)

	3Q17	%	2Q17	%	3Q16	%	Q/Q	Y/Y
CRE	\$ 63,180	8.3%	\$ 57,997	8.1%	\$ 55,794	9.2%	8.9%	13.2%
Construction and Dev.	\$ 129,407	16.9%	\$ 119,455	16.6%	\$ 90,201	14.9%	8.3%	43.5%
Home Equity	\$ 24,026	3.1%	\$ 22,450	3.1%	\$ 19,649	3.3%	7.0%	22.3%
One-to-four-family	\$ 170,187	22.2%	\$ 154,826	21.5%	\$ 116,886	19.3%	9.9%	45.6%
Multifamily	\$ 43,408	5.7%	\$ 42,967	6.0%	\$ 33,988	5.6%	1.0%	27.7%
Consumer loans	\$ 201,674	26.3%	\$ 190,729	26.5%	\$ 170,576	28.2%	5.7%	18.2%
Commercial and Industrial	\$ 83,221	10.9%	\$ 92,713	12.9%	\$ 68,526	11.3%	-10.2%	21.4%
Warehouse lending	\$ 50,468	6.6%	\$ 39,165	5.4%	\$ 48,598	8.0%	28.9%	3.8%
Total gross loans and leases	\$ 765,571	100%	\$ 720,302	100%	\$ 604,218	100%	6.3%	26.7%

Source: Company data

*Percentages may not total to 100% due to rounding

Total loans held-for-sale (HFS), which is comprised entirely of 1-4 family residential mortgage loans, increased by \$7.8 million on a LQ basis to \$65.1 million as of September 30. Originations of 1-4 family residential mortgage loans increased by \$27.3 million, or 12.6%, to \$244.1 million in 3Q17 from \$216.8 million in 2Q17. The increase in originations was driven by seasonally strong home purchase demand in the company's markets. Total 1-4 family loan originations in 3Q17 were comprised of 76.1% in purchase loans and 23.9% in refinance loans, compared with 81.1% purchase loans and 18.9% refinance loans in 2Q17. The company sold \$204.3 million of 1-4 family residential mortgage loans in 3Q17, up from sales of \$171.0 million in 2Q17.

Strong Deposit Growth

Total deposits increased by \$54.9 million, or 7.0% (28.0% annualized), on a LQ basis and by \$137.4 million, or 19.5%, over the LTM. The strong LQ deposit growth was driven primarily by increases of \$53.6 million in certificates of deposit of less than \$250,000 and \$21.0 million in interest-bearing checking accounts. Total non-retail certificates of deposit (which includes brokered certificates of deposit, online certificates of deposit, and public funds) increased by \$45.0 million to \$99.7 million as of September 30 from \$54.7 million at June 30. Brokered deposits were utilized during the quarter to bridge short-term asset growth, such as loans held for sale, and to pay down higher-cost FHLB advances. As of September 30, the company's deposit base was comprised of 33.6% in relationship-based transaction accounts (noninterest-bearing checking, interest-bearing checking, and escrow accounts), certificates of deposit (29.6% of total deposits), money market deposit accounts (28.1% of total deposits), and other savings accounts (8.7% of total deposits). The following table displays the composition of total deposits for 3Q17, 2Q17, and 3Q16.

Deposit Composition (Dollars in thousands)

	3Q17	%	2Q17	%	3Q16	%	Q/Q	Y/Y
Noninterest-bearing checking	\$ 156,017	18.6%	\$ 152,623	19.4%	\$ 143,251	20.4%	2.2%	8.9%
Interest-bearing checking	\$ 115,775	13.8%	\$ 94,751	12.1%	\$ 63,682	9.1%	22.2%	81.8%
Savings	\$ 72,974	8.7%	\$ 73,922	9.4%	\$ 50,348	7.2%	-1.3%	44.9%
Money market	\$ 236,036	28.1%	\$ 261,658	33.3%	\$ 238,321	33.9%	-9.8%	-1.0%
CDs < 250,000	\$ 216,902	25.8%	\$ 163,346	20.8%	\$ 170,808	24.3%	32.8%	27.0%
CDs > 250,000	\$ 31,927	3.8%	\$ 28,010	3.6%	\$ 26,910	3.8%	14.0%	18.6%
Escrow accounts	\$ 10,947	1.3%	\$ 11,387	1.4%	\$ 9,844	1.4%	-3.9%	11.2%
Total deposits	\$ 840,578	100%	\$ 785,697	100%	\$ 703,164	100%	7.0%	19.5%

Source: Company data

*Percentages may not total to 100% due to rounding

Strong LQ deposit growth outpaced net loan growth during the quarter, which, combined with net proceeds from the company's secondary offering in 3Q17, led to an increase of \$13.5 million in cash and cash equivalents to \$31.3 million, or 3.1%

of total assets, and a decrease in borrowings of \$20.4 million to \$10.3 million, or 1.0% of total assets, as of September 30. Additionally, the company sold \$9.0 million of available-for-sale (AFS) securities, for a net gain of \$143,000, during 3Q17 to provide additional funds for loan growth, and the balance of AFS securities decreased by \$0.8 million to \$78.1 million, or 7.9% of total assets, at September 30.

LQ Margin Expansion

The reported net interest margin (NIM) increased by 7 basis points on a LQ basis to 4.70% in 3Q17 from 4.63% in 2Q17, while we had modeled margin compression of 3 basis points. The yield on average interest-earning assets increased by 9 basis points to 5.27% in 3Q17 from 5.18% in 2Q17, while the weighted average cost of interest-bearing liabilities increased by 3 basis points to 0.61% in 3Q17 from 0.58% in 2Q17. The LQ margin expansion, combined with a 7.8% increase in average interest-earning assets, led to a 10.6% increase in net interest income to \$11.0 million in 3Q17 from \$10.0 million in 2Q17.

LQ Decrease in Noninterest Income

The following table compares the composition of noninterest income in 3Q17 with the composition of noninterest income in both 2Q17 and 3Q16. Total noninterest income decreased by \$530,000, or 7.6%, on a LQ basis and by \$821,000, or 11.3%, on a year-over-year basis. Noninterest income was boosted in 2Q17 by the sale of a portion of the company's MSRs for a gain of \$958,000. The LQ decrease in noninterest income was partially offset by an increase of \$565,000 in gains on the sale of loans to \$5.0 million in 3Q17, which exceeded our forecast of \$4.8 million. Noninterest income amounted to 36.8% of total revenue in 3Q17 and was comprised largely of gains on the sale of loans.

Noninterest Income (Dollars in thousands)

	3Q17	%	2Q17	%	3Q16	%	Q/Q	Y/Y
Service charges and fee income	\$ 879	13.7%	\$ 1,003	14.4%	\$ 899	12.4%	-12.4%	-2.2%
Gain on sale of loans	\$ 5,025	78.2%	\$ 4,460	64.1%	\$ 5,922	81.7%	12.7%	-15.1%
Gain on sale of investment securities	\$ 143	2.2%	\$ 237	3.4%	\$ 146	2.0%	-39.7%	-2.1%
Gain on sale of other assets	\$ 38	0.6%	\$ 958	13.8%	\$ -	0.0%	-96.0%	NA
Earnings on cash surrender value of BOLI	\$ 68	1.1%	\$ 71	1.0%	\$ 71	1.0%	-4.2%	-4.2%
Other noninterest income	\$ 274	4.3%	\$ 228	3.3%	\$ 210	2.9%	20.2%	30.5%
Total noninterest income	\$ 6,427	100%	\$ 6,957	100%	\$ 7,248	100%	-7.6%	-11.3%

Source: Company data

*Percentages may not total to 100% due to rounding

Strong Credit Quality

Total nonperforming assets (NPAs) increased to \$1.3 million, or 0.13% of total assets, as of September 30 from \$754,000, or 0.08% of total assets, at June 30. The NPAs are comprised entirely of nonperforming loans as the company had no other real estate owned (OREO) outstanding as of September 30. FS Bancorp recorded net recoveries of \$5,000, or less than 0.01% of average loans annualized, in 3Q17 compared with net charge-offs (NCOs) of \$4,000, or less than 0.01% of average loans annualized, in 2Q17. The company recorded a loan loss provision of \$450,000 in 3Q17 and the percentage of reserves to total loans decreased to 1.38% at September 30 from 1.41% at June 30 due to strong LQ loan growth. Reserve coverage remains robust at 838% of total nonperforming loans as of September 30.

Sound Capital Ratios

As shown in the following table, the company's 1st Security Bank of Washington subsidiary has maintained sound capital ratios over the past several quarters, which were further strengthened by the completed secondary offering in 3Q17.

Capital Ratios - 1st Security Bank of Washington

	3Q17	2Q17	1Q17	4Q16	3Q16
Tier 1 Leverage	12.50%	10.12%	10.38%	10.33%	10.33%
Tier 1 Risk-Based	14.89%	11.97%	12.52%	12.62%	12.21%
Total Risk-Based	16.14%	13.23%	13.77%	13.87%	13.46%
Common Equity Tier 1	14.89%	11.97%	12.52%	12.62%	12.21%

Source: Company data

At the holding company level, FS Bancorp reported total risk-based capital (TRBC), Tier 1 leverage, and common equity Tier 1 (CET1) ratios of 15.49%, 11.94%, and 14.24%, respectively, as of September 30. The company's tangible common equity ratio was strong at 11.56% as of September 30. FSBW currently pays a quarterly cash dividend of \$0.11 per share, which represents a dividend yield of 0.8%. The company's capital ratios are sound, and FS Bancorp remains well positioned for future growth.

On September 12, 2017, the company issued and sold in an underwritten public offering 587,234 shares of common stock at a price of \$47.00 per share and received \$25.6 million in net proceeds (Raymond James & Associates served as book-running manager for the offering). The capital received was used to fund the majority of a \$26.0 million contribution to the subsidiary bank at the end of 3Q17 to support growth planned over the next 24 months.

Investment Summary

FS Bancorp reported strong results in 3Q17, including core operating EPS of \$1.03, which exceeded our estimate by \$0.06, due to a higher-than-projected level of net interest income, a lower-than-expected loan loss provision, and a higher-than-estimated level of gains on the sale of loans. The company continues to generate strong loan and deposit growth as well as above-average profitability metrics. Credit quality is solid and capital ratios remain sound.

FSBW shares are currently trading at 13.1x our 2017E EPS, 13.0x our 2018E EPS, and 181% of TBVPS compared with median valuations of 19.1x 2017E EPS, 16.3x 2018E EPS, and 187% of TBVPS for our West region coverage universe of 21 community banks and thrifts. While we believe some discount to the peer group is warranted given the company's 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 the extent of the discount is unwarranted given the company's above-average profitability metrics, strong loan and deposit growth, solid credit quality, and sound capital ratios. We are raising our 12-month target price by \$6.00 to \$61.00, which represents 14.4x our 2017E EPS, 14.2x our 2018E EPS, and 175% of pro forma TBVPS of \$34.90 one year from now. 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. With ~9% total return potential given our target price and the current dividend yield of 0.8%, we are maintaining our **Outperform** rating.

FS Bancorp, Inc.

	Annual				2017 Quarterly				2018 Quarterly				2019 Quarterly			
	2016A	2017E	2018E	2019E	1Q17A	2Q17A	3Q17A	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Income Data: (\$ in Millions)																
Net Interest Margin	4.43%	4.64%	4.72%	4.76%	4.54%	4.63%	4.70%	4.68%	4.70%	4.71%	4.72%	4.73%	4.74%	4.75%	4.76%	4.77%
Avg. Earning Assets	\$765	\$897	\$1,096	\$1,246	\$802	\$863	\$930	\$993	\$1,032	\$1,074	\$1,116	\$1,161	\$1,196	\$1,232	\$1,263	\$1,294
Net Interest Income	\$33.9	\$41.6	\$51.7	\$59.3	\$9.0	\$10.0	\$11.0	\$11.6	\$12.1	\$12.6	\$13.2	\$13.7	\$14.2	\$14.6	\$15.0	\$15.4
Loan Loss Provision	\$2.4	\$1.1	\$2.5	\$3.0	\$0.0	\$0.0	\$0.5	\$0.6	\$0.6	\$0.6	\$0.7	\$0.7	\$0.7	\$0.8	\$0.8	\$0.8
Noninterest Income	\$4.4	\$5.9	\$5.2	\$5.4	\$1.1	\$2.3	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3	\$1.4	\$1.4
Gain/Loss on Loans	\$19.1	\$18.6	\$18.6	\$16.5	\$4.4	\$4.5	\$5.0	\$4.8	\$4.6	\$4.6	\$4.8	\$4.6	\$4.1	\$4.1	\$4.3	\$4.0
Gain/Loss on Sale of Securities	\$0.1	\$0.4	\$0.0	\$0.0	\$0.0	\$0.2	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Revenues	\$57.4	\$66.5	\$75.5	\$81.2	\$14.4	\$16.9	\$17.4	\$17.7	\$18.0	\$18.5	\$19.3	\$19.7	\$19.6	\$20.1	\$20.7	\$20.8
Noninterest Expense	\$38.9	\$44.6	\$48.6	\$51.6	\$10.4	\$10.9	\$11.6	\$11.7	\$11.9	\$12.1	\$12.2	\$12.4	\$12.6	\$12.8	\$13.0	\$13.2
Pre-Tax Income	\$16.1	\$20.8	\$24.4	\$26.7	\$4.0	\$6.0	\$5.4	\$5.4	\$5.5	\$5.9	\$6.4	\$6.6	\$6.3	\$6.5	\$6.9	\$6.9
Taxes	\$5.6	\$6.9	\$8.5	\$9.3	\$1.4	\$1.6	\$2.0	\$1.9	\$1.9	\$2.1	\$2.2	\$2.3	\$2.2	\$2.3	\$2.4	\$2.4
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	\$10.5	\$13.9	\$15.8	\$17.3	\$2.6	\$4.4	\$3.5	\$3.5	\$3.6	\$3.8	\$4.1	\$4.3	\$4.1	\$4.2	\$4.5	\$4.5
Avg. Shares	3.0	3.3	3.7	3.7	3.1	3.1	3.2	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
EPS (Reported)	\$3.51	\$4.25	\$4.30	\$4.70	\$0.85	\$1.41	\$1.07	\$0.95	\$0.98	\$1.04	\$1.12	\$1.16	\$1.11	\$1.15	\$1.23	\$1.21
Per Share Data:																
Book Value (Stated)	\$26.49	\$33.02	\$36.85	\$41.09	\$27.39	\$28.88	\$32.17	\$33.02	\$33.88	\$34.80	\$35.81	\$36.85	\$37.85	\$38.88	\$39.99	\$41.09
Book Value (Tang.)	\$25.17	\$32.03	\$35.98	\$40.32	\$26.11	\$27.64	\$31.16	\$32.03	\$32.92	\$33.87	\$34.90	\$35.98	\$37.00	\$38.06	\$39.20	\$40.32
Dividends	\$0.37	\$0.43	\$0.47	\$0.48	\$0.10	\$0.11	\$0.11	\$0.11	\$0.11	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12
Profitability Ratios:																
Return on Avg Assets	1.31%	1.49%	1.39%	1.34%	1.24%	1.93%	1.43%	1.36%	1.34%	1.37%	1.43%	1.42%	1.32%	1.33%	1.38%	1.33%
Return on Avg Equity	13.84%	14.60%	12.36%	12.11%	12.80%	20.56%	14.50%	11.68%	11.70%	12.11%	12.75%	12.81%	11.93%	12.04%	12.47%	12.00%
Efficiency Ratio	67.78%	67.14%	64.38%	63.54%	72.09%	64.67%	66.42%	66.19%	65.95%	65.05%	63.47%	63.21%	64.30%	63.74%	62.79%	63.36%
Overhead Ratio	4.87%	4.77%	4.27%	3.99%	4.95%	4.85%	4.80%	4.54%	4.43%	4.33%	4.22%	4.12%	4.06%	4.00%	3.96%	3.92%
Balance Sheet:																
Total Assets	\$828	\$1,061	\$1,241	\$1,383	\$878	\$929	\$994	\$1,061	\$1,103	\$1,148	\$1,193	\$1,241	\$1,278	\$1,317	\$1,350	\$1,383
Total Loans	\$605	\$796	\$931	\$1,038	\$630	\$720	\$766	\$796	\$828	\$861	\$896	\$931	\$959	\$988	\$1,013	\$1,038
Allowance for loan losses	\$10	\$11	\$12	\$14	\$10	\$10	\$11	\$11	\$11	\$12	\$12	\$12	\$13	\$13	\$14	\$14
Intangible Assets	\$4	\$4	\$3	\$3	\$4	\$4	\$4	\$4	\$4	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Total Deposits	\$713	\$870	\$998	\$1,091	\$758	\$786	\$841	\$870	\$900	\$932	\$965	\$998	\$1,023	\$1,049	\$1,070	\$1,091
Preferred Equity	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Common Equity	\$81	\$121	\$135	\$151	\$84	\$89	\$118	\$121	\$125	\$128	\$132	\$135	\$139	\$143	\$147	\$151
Total Equity	\$81	\$121	\$135	\$151	\$84	\$89	\$118	\$121	\$125	\$128	\$132	\$135	\$139	\$143	\$147	\$151
Average Balances: (\$ in Millions)																
Avg. Assets	\$800	\$934	\$1,138	\$1,294	\$839	\$902	\$966	\$1,031	\$1,072	\$1,115	\$1,160	\$1,206	\$1,242	\$1,279	\$1,311	\$1,344
Avg. Loans	\$601	\$752	\$922	\$1,049	\$650	\$721	\$803	\$836	\$869	\$904	\$940	\$977	\$1,007	\$1,037	\$1,063	\$1,089
Avg. Deposits	\$676	\$784	\$917	\$1,023	\$723	\$758	\$812	\$841	\$870	\$900	\$932	\$965	\$989	\$1,013	\$1,034	\$1,054
Avg. Common Equity	\$76	\$95	\$128	\$143	\$81	\$85	\$95	\$120	\$123	\$126	\$130	\$134	\$137	\$141	\$145	\$149
Avg. Loans/Deposits	89.0%	96.0%	100.6%	102.6%	89.9%	95.1%	98.9%	99.4%	99.9%	100.4%	100.8%	101.3%	101.8%	102.3%	102.8%	103.3%
Avg. Equity/Assets	9.54%	10.19%	11.26%	11.05%	9.66%	9.40%	9.87%	11.62%	11.47%	11.32%	11.19%	11.07%	11.05%	11.02%	11.05%	11.08%
Growth Rates:																
Average Earning Assets	36.67%	17.27%	22.21%	13.72%	1.06%	7.61%	7.76%	6.75%	4.00%	4.00%	4.00%	4.00%	3.00%	3.00%	2.50%	2.50%
Average Loans	25.65%	25.12%	22.61%	13.72%	7.49%	10.84%	11.50%	4.00%	4.00%	4.00%	4.00%	4.00%	3.00%	3.00%	2.50%	2.50%
Average Deposits	45.12%	15.90%	17.01%	11.54%	2.18%	4.79%	7.15%	3.50%	3.50%	3.50%	3.50%	3.50%	2.50%	2.50%	2.00%	2.00%
Noninterest Income	53.37%	34.15%	-10.94%	4.06%	-3.97%	112.21%	-44.29%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Noninterest Expense	31.31%	14.62%	8.94%	6.14%	2.90%	5.46%	5.89%	1.00%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%

Source: Company Documents and Raymond James Research

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	Coverage Universe Rating Distribution*			Investment Banking Distribution		
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Market Perform (Hold)	43%	30%	35%	12%	23%	0%
Underperform (Sell)	5%	2%	12%	9%	25%	0%

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

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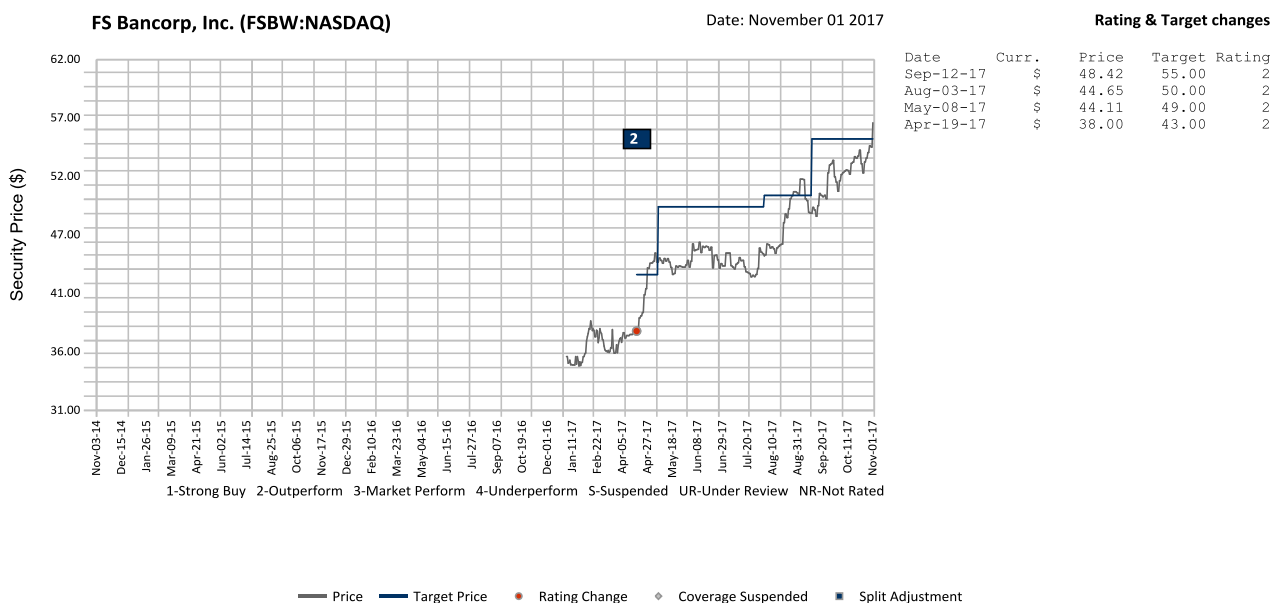
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Company Name	Disclosure
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Valuation Methodology: For FS Bancorp, Inc., our valuation methodology takes into consideration the company's P/E ratio in comparison to comparable P/Es from a peer group 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.

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