

RANKING BANKING®

**BEST
COMMUNITY
BANKS**

(UNDER \$5 BILLION)



Summary Analysis

A **gong features prominently** in the conference room at FS Bancorp.

Bank leaders bang the gong to celebrate individual and team accomplishments at the \$2.2 billion bank, but it's actually not the first gong that Chief Financial Officer Matthew Mullet purchased; the first one wasn't big enough.

"He loves that thing," jokes CEO Joseph Adams. "It's a symbol of who he is and how he wants to celebrate individual and team [achievements]." It's also an indicator of the culture that the bank's leadership team has spent about a decade building.

Looking back 10 years ago, "bank profitability wise, we had difficulty attracting top talent in our market," says Adams. Around that time, the Mountlake Terrace, Washington-based bank converted from a mutual to a stock company, and Adams charged Chief Human Resources Officer Vickie Jarman and a select group of employees with establishing the bank's vision. "It's one sentence: to build a truly great place to work and bank," says Adams. "We believe if you build a great place to work, it will be a great place to bank. We intentionally put those words in that order."

That drives who they want to hire and promote: "smart, driven, nice" people who want to work in a collaborative environment. "We don't just seek to fill seats here," says Jarman. "We want to make sure we're building a really strong team."

FS Bancorp scored best among the community banks below \$5 billion in assets in the RankingBanking study, rating well for its strong leadership team — No. 1 among the 50 banks in our analysis. In terms of financial metrics, the bank performed well across the board, and generated a five-

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Joseph Adams / CEO, FS Bancorp

year total shareholder return of 125% from 2015 to 2020. Ann Arbor, Michigan-based University Bancorp ranked second. Its model — focused heavily on mortgage subservicing — launched it to the top of the growth category. It also earned a return on average assets (ROAA) of 7.85% as of year-end 2020, and a return on average equity (ROAE) of 64.21%.

Having a clear vision and empathetic leaders can have a tremendous impact on a bank's success. "When people care about the company that they work in — because [they're] cared for by [their] leadership team — they are so much more invested in making the success happen," says Crowe LLP Partner Rick Childs.

FS Bancorp focuses on five business areas: indirect consumer lending, centered around home improvement; home lending, as a portfolio originator and seller to Fannie Mae and Freddie Mac; commercial and industrial (C&I) lending; commercial real estate, specializing in infill development in the Seattle area; and deposits. Consistent with the mortgage lending boom, the bank's home loan and home improvement areas proved particularly robust in 2020-21.

Bank Director selected the top 10 banks in each peer group based on a number of metrics provided by S&P Global Market Intelligence as of year-end 2020. A profitability score was calculated based on ROAA and ROAE, and received a double weight. Year-over-year growth in pre-provision net revenue (PPNR) from 2019 to 2020 was also examined, and PPNR was ranked to provide a balance against growth from a low base. Five-year total shareholder return, from 2015 to 2020, was ranked as a nod to building long-term value, and credit quality was examined, based on net charge offs and non-performing loans as a percentage of total loans.

Once the top 10 were selected, Bank Director studied each bank further for its performance in the four subcategories that contribute to overall performance: leadership, board, innovation and growth. (The methodologies about each specific subcategory can be found later in this report.)

HIGHEST FIVE-YEAR TSR

Oregon Bancorp
1,077%

LOWEST EFFICIENCY RATIO, YE 2020

Hingham Institution for Savings
24.9%

Each institution's within-peer rank for these categories was factored into the final scoring, with the growth category receiving double weight due to its potential to drive future earnings.

With the merger between two prominent Pacific Northwest banks — Umpqua Holdings Corp. and Columbia Banking System — announced in October 2021, Janney Montgomery Scott's Timothy Coffey believes FS Bancorp is well positioned for growth. "They've got longevity and a runway [because] they've got a very good culture over there," he says. That "lowers attrition, improves the institutional knowledge and ultimately improves customer service [so they'll] be a place that customers want to bank."

Fresno, California-based Communities First Financial Corp., which ranked third, generated a strong TSR at 205%. This is second only to fourth-ranked Oregon Bancorp, with a TSR exceeding 1,000%. Salem-based Oregon Bancorp, which operates as Willamette Valley Bank, boasted a 8.57% ROAA at year-end 2020, and 60.2% ROAE. Placing fifth, CF Bankshares in Worthington, Ohio, rated well for growth, ranking second overall in the Growth Strategy subcategory.

How They Ranked: Best Community Banks



	TICKER	SCORE	ROAA, YE 2020	TSR, 2015-2020	
1	FS Bancorp	FSBW	3.29	2.02%	124.91%
2	University Bancorp	UNIB	3.71	7.85%	99.13%
3	Communities First Financial Corp.	CFST	4.14	1.60%	205.22%
4	Oregon Bancorp (<i>TIE</i>)	ORBN	5.00	8.57%	1,076.98%
4	CF Bankshares (<i>TIE</i>)	CFBK	5.00	2.59%	144.20%
6	BNCCORP	BNCC	5.86	4.21%	175.91%
7	Waterstone Financial	WSBF	6.00	3.77%	73.58%
8	Hingham Institution for Savings	HIFS	7.14	1.88%	91.09%
9	NASB Financial	NASB	7.29	4.49%	165.07%
10	First Bancorp	FBLV	7.57	1.47%	112.26%

SOURCE: S&P Global Market Intelligence and other public information

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