Two Thousand Fourteen

Annual Report

2014

First Federal

Strengthening Our Communities Since 1923.

Stephen Oliver
Chairman, Board of Directors

Larry Hueth
President and Chief Executive Officer

Message to Our Community

Improvement has been management's focus during the past twelve months. We achieved our goals with improved earnings and continued loan growth as we fulfilled our mission to provide innovative solutions that help the communities we serve meet their financial goals and achieve their dreams.

Financial Performance

Net income improved for the second consecutive year. Earnings were $350,000 (15%) above the previous year. Improvements were realized through increased interest income achieved by having a greater percentage of loans to deposits than in previous years. We also achieved a reduction in costs for funds borrowed from the Federal Home Loan Bank.

Total assets increased a modest $10.8 million (1.4%) from $784.5 million at June 30, 2013 to $795.3 million at June 30, 2014. Economic development remained our focus as we continued to transition our balance sheet mix of earning assets from that of a thrift to that of a community bank. We are pleased to report loan growth of $46.8 million or 10.4% during fiscal 2014. Loan growth was the direct result of our teams' ability to cultivate strong relationships with customers in Clallam, Jefferson and Kitsap counties as well as successful efforts from our loan production office located in Whatcom County.

We funded that loan growth through increased borrowings and deposits from customers in Clallam, Jefferson and Kitsap counties. Total deposits increased by $5.4 million from $595.0 million at June 30, 2013, to $600.4 million at June 30, 2014.

We also strengthened our balance sheet by increasing equity at June 30, 2014, to $81.0 million, an increase of 3.0% from $78.6 million at June 30, 2013. Our capital ratios continue to exceed the regulatory definition for a well capitalized financial institution.

The Future

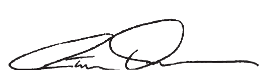
Times are changing. Today's digital world is having widespread effects on an array of consumer behaviors, including how we handle our finances. Electronics and mobility are key trends for financial institutions to keep track of, but consumers aren't ready to sever all ties with their local bank branches just yet.

Our strategic plan continues to focus attention and efforts on the transition to a high performing, publicly owned, independent community bank. That transition will include additional branches such as our new branch in Silverdale. This newest location offers personal attention to address your financial needs as well as the technology to provide financial services at your convenience.

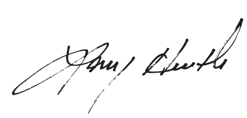
We remain well capitalized, safe and sound. The additional expense of new regulations, compliance, and technology loom large making it important to optimize our operational structure. Having a broader base over which to spread those costs will enhance our ability to achieve our mission.

The Board, management and staff remain committed to the communities we serve. We believe our efforts truly make a difference delivering the best banking experience anywhere with a home town touch.

Sincerely,



Stephen Oliver
Chairman, Board of Directors



Larry Hueth
President and Chief Executive Officer

Products and Services

"As a community bank, First Federal is proud to offer a variety of products and services designed to make your banking experience one to remember. We continue to incorporate innovative technologies, while maintaining the options our customers rely on to manage their finances in a way that fits their lifestyle."

Dawnya Textor
Vice President/Director of Retail Banking

Personal Banking

Personal Checking
Personal Savings
Debit Cards
Credit Cards
Lending
Online Banking
Bill Pay
eStatements
FinanceWorks™
Mobile Banking
Mobile Deposit
Investment Services
Interactive Teller Machines (ITMs)

Business Banking

Business Checking
Business Savings
Business Debit Cards
Business Credit Cards
Business Lending
Online Banking
eStatements
Merchant Services
Remote Deposit Capture
Interactive Teller Machines (ITMs)

Awards and Recognition

Best Place to Bank
First Federal was voted "Best Place to Bank" in Clallam and Jefferson counties by the *Peninsula Daily News*' Best of the Peninsula.

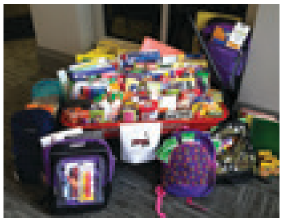
BauerFinancial 5-Star Rating
First Federal was rated 5-Stars in 2014 by BauerFinancial. 5-Star rating is considered "superior," the highest rating possible.

Community Outreach

First Federal contributed to over 200 organizations within our communities.

Sponsor: First Step Family Support, Port Angeles, WA

Tuna Drive, benefiting local food banks



America's Promise, all markets

Whaling Days Parade, Silverdale, WA

"First Federal takes great pride in supporting organizations and events in our communities. The dedication of our employees and their families is a testament to the kind of organization we are and will continue to be, strengthening the communities we serve for over 90 years."

Kelly Liske
Executive Vice President, Chief Banking Officer

Mission

We set the standard for excellence in Community Banking. We're committed to knowing our customers and communities, so we can provide them with innovative solutions that help meet their financial goals and achieve their dreams. We deliver the best banking experience anywhere, with a home town touch.

Vision

Through service, leadership and strong financial performance, we:

- Put our resources to work strengthening communities and supporting local business.
- Deliver banking services that support customer convenience and choice.
- Attract, develop and retain phenomenal talent who love their jobs and love where they live.

Core Values

- **Community**
- **Excellence**
- **Collaboration**
- **Integrity**
- **Accountability**

First Federal Officers

Stephen Oliver
Chairman, Board of Directors

David Blake
Vice Chairman, Board of Directors

Senior Management

Larry Hueth
President and Chief Executive Officer

Chris Donohue
Executive Vice President/Chief Credit Officer

Elaine Gentilo
Executive Vice President/Chief People Officer

Kelly Liske
Executive Vice President/Chief Banking Officer

Joyce Ruiz
Executive Vice President/Chief Administrative Officer/
Corporate Secretary

Regina Wood
Executive Vice President/Chief Financial Officer/
Treasurer

Brett Bies
Senior Vice President/Chief Information Officer

Ed Brady
Senior Vice President/Chief Risk Officer/Compliance
and BSA Officer

Jeff Davis
Senior Vice President/Bank Operations Officer

Vice Presidents

Stacy Buell
Vice President/Loan Systems Manager

Michelle Catton
Vice President/Systems and Services Supervisor

Lisa Due
Vice President/Retail Operations Manager

Tyanna Gadbaw
Vice President/Operations and
Electronic Delivery Manager

Jackie Gold
Vice President/Loan Servicing Manager

Dawn Green
Vice President/Senior Human Resource Generalist

Gloria Hacko
Vice President/Internal Audit

Diane Harrison
Vice President/Organizational Learning and
Development Manager

Dwight Jeppson
Vice President/Commercial Relationship Manager

Jeanine Lee
Vice President/Marketing and Corporate
Communications Manager

John Locke
Vice President/Commercial Relationship Manager

Dawn Luchsinger
Vice President/Compliance Officer

Kammah Morgan
Vice President/Special Assets Manager

Gerad Nucci
Vice President/Commercial Relationship Manager

James Preston
Vice President/Commercial Credit Administrator

Christie Sharpe
Vice President/Controller

Kent Sommerfeld
Vice President/Facilities Manager

Laurie Szczepczynski
Vice President/Business Development Specialist/
Eastside Branch Manager

Dawnya Textor
Vice President/Director of Retail Banking

Kendra Waggoner
Vice President/Mortgage and
Consumer Credit Administrator

Teresa Ward
Vice President/Secondary Marketing Manager

Donn Wiley
Vice President/Director of Lending

Assistant Vice Presidents

Anthony Aceto
Assistant Vice President/
Sequim Village Branch Manager

Jeremy Hendren
Assistant Vice President/Loan Officer

Kathi Larsen
Assistant Vice President/Loan Officer

Laurie Liske
Assistant Vice President/
Port Townsend Branch Manager

Jesse Long
Assistant Vice President/Sixth Street, Downtown
and Administration Branch Manager

Jon Murock
Assistant Vice President/
Commercial Relationship Manager

Julie Myers
Assistant Vice President/Loan Officer

Traci Pederson
Assistant Vice President/Forks Branch Manager

Christine Rookard
Assistant Vice President/
Sequim Avenue Branch Manager

Shawnee Spencer
Assistant Vice President/Loan Officer

KristiAnn Stecker
Assistant Vice President/Silverdale Branch Manager

Terri Wood
Assistant Vice President/Loan Officer

First Federal Board of Directors

Stephen Oliver
Chairman
Port Hadlock, WA

David Blake
Vice Chairman
Sequim, WA

Craig Curtis
Suquamish, WA

Lloyd Eisenman
Port Angeles, WA

Cindy Finnie
Port Townsend, WA

David Flodstrom
Port Angeles, WA

Larry Hueth
Sequim, WA

Richard Kott
Port Angeles, WA

Norman Tonina
Seattle and Port Townsend, WA

Jennifer Zaccardo
Beaver, WA

Financial Statements

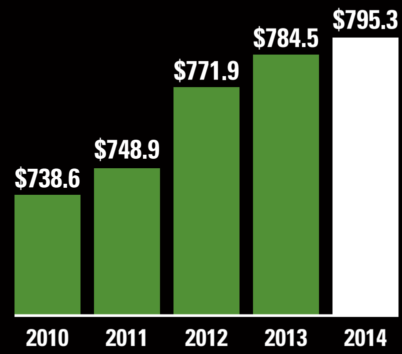
(Dollars in thousands)

	Year Ended June 30, 2014	2013
Interest Income		
Interest on loans	$ 22,366	$ 21,934
Interest on investments and other	4,193	3,861
Total interest income	26,559	25,795
Interest Expense		
Deposits	1,537	1,968
Borrowings	3,192	4,032
Total interest expense	4,729	6,000
Net interest income	21,830	19,795
Provision for loan losses	1,307	1,376
Net interest income after provision for loan losses	20,523	18,419
Noninterest income		
Loan and deposit service fees	3,447	3,353
Net gain on sale of loans and investments	874	1,633
Other noninterest income	669	581
Total noninterest income	4,990	5,567
Noninterest expense		
Compensation and benefits	11,683	10,560
Occupancy, equipment, and data processing	5,253	4,837
Other expenses	5,169	5,849
Total noninterest expense	22,105	21,246
Income before provision for income taxes	3,408	2,740
Provision for income taxes	740	422
Net Income	$ 2,668	$ 2,318

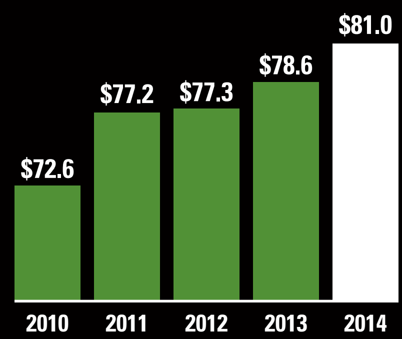
	At June 30, 2014	2013
Assets		
Cash and cash equivalents	$ 18,960	$ 22,948
Investment securities	232,216	264,368
Loans receivable, net	496,184	449,353
Federal Home Loan Bank stock	10,047	10,433
Premises and equipment, net	12,287	11,444
Bank-owned life insurance	18,066	17,972
Other assets	7,532	7,992
Total assets	$ 795,292	$ 784,510
Liabilities and Equity		
Liabilities:		
Customer deposits	$ 600,399	$ 595,044
Borrowings	105,133	100,033
Other liabilities	8,765	10,810
Total liabilities	714,297	705,887
Equity:		
Total equity	80,995	78,623
Total liabilities and equity	$ 795,292	$ 784,510

	At June 30, 2014	2013
Regulatory Capital Ratios		
Total capital to risk-weighted assets (Well capitalized 10%)	19.58%	20.91%
Tier 1 capital to adjusted tangible assets (Well capitalized 5%)	9.92%	9.86%
Tier 1 capital to risk-weighted assets (Well capitalized 6%)	18.32%	19.65%

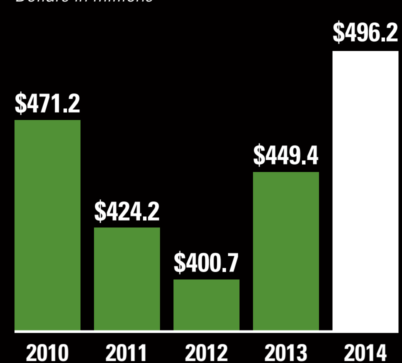
Total Assets
Dollars in millions



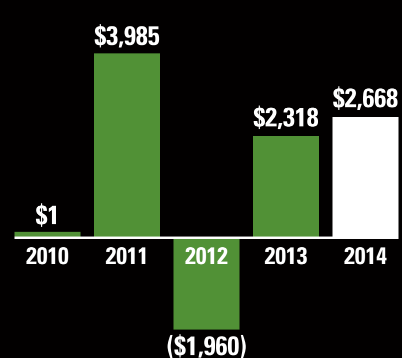
Total Equity
Dollars in millions



Total Loans
Dollars in millions



Net Income (Loss)
Dollars in thousands



Customer Contact Center

360.417.3204
800.800.1577 toll-free
Hours:
M–F 7:00 am–7:00 pm
Sat 9:00 am–1:00 pm

Touch Tone Teller

360.457.0464
877.322.0464 toll-free

Website

ourfirstfed.com

Facebook

facebook.com/ourfirstfed

NEW! Interactive Teller Machines (ITMs)

Real People in Real Time.
ITMs offer a two-way video option with First Federal representatives who manage withdrawals, deposits, check cashing, transfers, inquiries, and more. Visit our ITMs at the following locations:

Downtown
141 W. 1st Street
Port Angeles, WA
Hours:
M–Th 9:00 am–5:00 pm
Fri 9:00 am–6:00 pm

Silverdale Branch
3035 Bucklin Hill Road
Silverdale, WA
Hours:
M–F 7:00 am–7:00 pm
Sat 9:00 am–1:00 pm

First Federal
Strengthening Our Communities Since 1923.

Locations

Port Angeles

Administration Center
105 W. 8th Street

Downtown
141 W. 1st Street

Eastside
1603 E. 1st Street

Sixth Street
227 E. 6th Street

Sequim

Sequim Avenue
333 N. Sequim Avenue

Sequim Village Marketplace
1201 W. Washington Street

Forks

131 Calawah Way

Port Townsend

1321 Sims Way

NEW! Silverdale

3035 Bucklin Hill Road

Bellingham

Lending Center
1313 E. Maple Street, Suite 230

Member FDIC
EQUAL HOUSING LENDER