UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2022

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-36741

FIRST NORTHWEST BANCORP

(Exact name of registrant as specified in its charter)

Washington	**46-1259100**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. Number)
105 West 8th Street, Port Angeles, Washington	**98362**
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	**(360) 457-0461**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Trading Symbol(s):	Name of each exchange on which registered:
Common Stock, par value $0.01 per share	FNWB	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** ☒ **No** ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). **Yes** ☒ **No** ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐	Emerging growth company	☐
Non-accelerated filer	☒	Smaller reporting company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** ☐ **No** ☒

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: As of November 3, 2022, there were 9,949,057 shares of common stock, $0.01 par value per share, outstanding.

FIRST NORTHWEST BANCORP
FORM 10-Q
TABLE OF CONTENTS

As used in this report, the terms, “we,” “our,” and “us,” and “Company” refer to First Northwest Bancorp ("First Northwest"), its consolidated subsidiary and its joint venture controlling interest, unless the context indicates otherwise. When we refer to “First Fed” or the “Bank” in this report, we are referring to First Fed Bank, the wholly owned subsidiary of First Northwest Bancorp. When we refer to "Quin" or "Quin Ventures" in this report, we are referring to Quin Ventures, Inc., a First Northwest joint venture. First Northwest, the Bank, and Quin Ventures are collectively referred to as the "Company."

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

FIRST NORTHWEST BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share information) (Unaudited)

	September 30, 2022	December 31, 2021
ASSETS		
Cash and due from banks	$ 22,784	$ 13,868
Interest-earning deposits in banks	80,879	112,148
Investment securities available for sale, at fair value	329,436	344,212
Loans held for sale	263	760
Loans receivable (net of allowance for loan losses of $16,273 and $15,124)	1,521,118	1,350,260
Federal Home Loan Bank (FHLB) stock, at cost	11,961	5,196
Accrued interest receivable	6,655	5,289
Premises and equipment, net	20,841	19,830
Servicing rights on sold loans, net	—	3,282
Servicing rights on sold loans, at fair value	3,872	—
Bank-owned life insurance, net	40,003	39,318
Equity and partnership investments	13,990	3,571
Goodwill and other intangible assets, net	1,173	1,183
Prepaid expenses and other assets	38,466	22,164
Total assets	$ 2,091,441	$ 1,921,081
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$ 1,605,235	$ 1,580,580
Borrowings	292,338	119,280
Accrued interest payable	105	393
Accrued expenses and other liabilities	34,940	29,240
Advances from borrowers for taxes and insurance	2,224	1,108
Total liabilities	1,934,842	1,730,601
Shareholders' Equity		
Preferred stock, $0.01 par value, authorized 5,000,000 shares, no shares issued or outstanding	—	—
Common stock, $0.01 par value, authorized 75,000,000 shares; issued and outstanding 9,978,041 shares at September 30, 2022, and 9,972,698 shares at December 31, 2021	100	100
Additional paid-in capital	97,924	96,131
Retained earnings	110,107	103,014
Accumulated other comprehensive (loss) income, net of tax	(41,023)	288
Unearned employee stock ownership plan (ESOP) shares	(8,077)	(8,572)
Total parent's shareholders' equity	159,031	190,961
Noncontrolling interest in Quin Ventures, Inc.	(2,432)	(481)
Total shareholders' equity	156,599	190,480
Total liabilities and shareholders' equity	$ 2,091,441	$ 1,921,081

See selected notes to the consolidated financial statements.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data) (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
INTEREST INCOME				
Interest and fees on loans receivable	$ 17,778	$ 14,581	$ 48,395	$ 39,988
Interest on investment securities	2,817	2,138	7,807	6,296
Interest on deposits and other	118	18	202	46
FHLB dividends	142	41	313	132
Total interest income	20,855	16,778	56,717	46,462
INTEREST EXPENSE				
Deposits	1,251	850	2,764	2,609
Borrowings	1,400	576	3,020	1,369
Total interest expense	2,651	1,426	5,784	3,978
Net interest income	18,204	15,352	50,933	42,484
PROVISION FOR LOAN LOSSES	750	700	1,250	1,500
Net interest income after provision for loan losses	17,454	14,652	49,683	40,984
NONINTEREST INCOME				
Loan and deposit service fees	1,302	1,015	3,566	2,853
Sold loan servicing fees	206	815	665	858
Net gain on sale of loans	285	660	769	3,014
Net gain on sale of investment securities	—	1,286	118	2,410
Increase in cash surrender value of bank-owned life insurance	221	241	686	727
Other income	320	269	1,155	1,000
Total noninterest income	2,334	4,286	6,959	10,862
NONINTEREST EXPENSE				
Compensation and benefits	9,045	8,713	27,583	24,567
Data processing	1,778	1,568	5,420	4,426
Occupancy and equipment	1,499	1,106	4,098	3,139
Supplies, postage, and telephone	322	279	1,043	876
Regulatory assessments and state taxes	365	335	1,167	897
Advertising	645	547	2,802	1,484
Professional fees	695	422	1,883	1,588
FDIC insurance premium	219	134	653	450
Other expense	807	830	2,520	2,308
Total noninterest expense	15,375	13,934	47,169	39,735
INCOME BEFORE PROVISION FOR INCOME TAXES	4,413	5,004	9,473	12,111
PROVISION FOR INCOME TAXES	818	946	1,839	2,082
NET INCOME	3,595	4,058	7,634	10,029
Net loss attributable to noncontrolling interest in Quin Ventures, Inc.	696	120	1,951	265
NET INCOME ATTRIBUTABLE TO PARENT	$ 4,291	$ 4,178	$ 9,585	$ 10,294
Basic and diluted earnings per common share	$ 0.47	$ 0.44	$ 1.04	$ 1.09

See selected notes to the consolidated financial statements.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(In thousands) (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
NET INCOME	$ 3,595	$ 4,058	$ 7,634	$ 10,029
Other comprehensive (loss) income:				
Unrealized holding losses on investments available for sale arising during the period	(15,954)	(2,057)	(52,283)	(1,164)
Income tax benefit related to unrealized holding losses	3,350	432	10,979	245
Unrecognized defined benefit ("DB") plan prior service cost	—	—	—	(2,210)
Income tax benefit related to DB plan prior service cost	—	—	—	465
Amortization of unrecognized DB plan prior service cost	37	36	110	78
Income tax provision related to amortization of DB plan prior service cost	(9)	(7)	(24)	(18)
Reclassification adjustment for net (gains) losses on sales of securities realized in income	—	(1,286)	(118)	(2,410)
Income tax benefit related to reclassification adjustment on sales of securities	—	270	25	506
Other comprehensive loss, net of tax	(12,576)	(2,612)	(41,311)	(4,508)
COMPREHENSIVE (LOSS) INCOME	(8,981)	1,446	(33,677)	5,521
Comprehensive loss attributable to noncontrolling interest	(696)	(120)	(1,951)	(265)
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO PARENT	$ (8,285)	$ 1,566	$ (31,726)	$ 5,786

See selected notes to the consolidated financial statements.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Three Months Ended September 30, 2022 and 2021
(Dollars in thousands, except share information) (Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss), Net of Tax	Noncontrolling Interest	Total Shareholders' Equity
BALANCE, June 30, 2021	10,205,867	$ 102	$ 97,463	$ 96,573	$ (8,901)	$ 3,546	$ (190)	$ 188,593
Net income				4,178			(120)	4,058
Common stock repurchased	(137,953)	—	(1,378)	(1,084)				(2,462)
Restricted stock award forfeitures net of grants	(5,903)	—	—					—
Restricted stock awards canceled	(11,134)	—	(199)					(199)
Other comprehensive loss, net of tax						(2,612)		(2,612)
Share-based compensation expense			433					433
ESOP shares committed to be released			77		165			242
Cash dividends declared ($0.06 per share)				(609)				(609)
BALANCE, September 30, 2021	10,050,877	$ 102	$ 96,396	$ 99,058	$ (8,736)	$ 934	$ (310)	$ 187,444
BALANCE, June 30, 2022	9,950,172	$ 100	$ 96,479	$ 107,000	$ (8,242)	$ (28,447)	$ (1,736)	$ 165,154
Net income				4,291			(696)	3,595
Common stock issued	115,777	1	1,868	—				1,869
Common stock repurchased	(79,054)	—	(790)	(491)				(1,281)
Restricted stock award forfeitures net of grants	(3,350)	(1)	1					—
Restricted stock awards canceled	(5,504)	—	(89)					(89)
Other comprehensive loss, net of tax						(12,576)		(12,576)
Share-based compensation expense			404					404
ESOP shares committed to be released			51		165			216
Cash dividends declared ($0.07 per share)				(693)				(693)
BALANCE, September 30, 2022	9,978,041	$ 100	$ 97,924	$ 110,107	$ (8,077)	$ (41,023)	$ (2,432)	$ 156,599

See selected notes to the consolidated financial statements.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Nine Months Ended September 30, 2022 and 2021
(Dollars in thousands, except share information) (Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss), Net of Tax	Noncontrolling Interest	Total Shareholders' Equity
BALANCE, December 31, 2020	10,247,185	$ 102	$ 97,412	$ 92,657	$ (9,230)	$ 5,442	$ —	$ 186,383
Net income				10,294			(265)	10,029
Common stock issued and initial investment in Quin Ventures	29,719	1	498	(44)			(45)	410
Common stock repurchased	(291,932)	(2)	(2,916)	(2,018)				(4,936)
Restricted stock award grants net of forfeitures	78,993	1	(1)					—
Restricted stock awards canceled	(13,088)	—	(232)					(232)
Other comprehensive loss, net of tax						(4,508)		(4,508)
Share-based compensation expense			1,443					1,443
ESOP shares committed to be released			192		494			686
Cash dividends declared ($0.18 per share)				(1,831)				(1,831)
BALANCE, September 30, 2021	10,050,877	$ 102	$ 96,396	$ 99,058	$ (8,736)	$ 934	$ (310)	$ 187,444
BALANCE, December 31, 2021	9,972,698	$ 100	$ 96,131	$ 103,014	$ (8,572)	$ 288	$ (481)	$ 190,480
Net income				9,585			(1,951)	7,634
Common stock issued	115,777	1	1,868	—				1,869
Common stock repurchased	(131,672)	(1)	(1,315)	(824)				(2,140)
Restricted stock award grants net of forfeitures	37,068	—	—					—
Restricted stock awards canceled	(15,830)	—	(311)					(311)
Other comprehensive loss, net of tax						(41,311)		(41,311)
Reclassification resulting from change in accounting method				424				424
Share-based compensation expense			1,294					1,294
ESOP shares committed to be released			257		495			752
Cash dividends declared ($0.21 per share)				(2,092)				(2,092)
BALANCE, September 30, 2022	9,978,041	$ 100	$ 97,924	$ 110,107	$ (8,077)	$ (41,023)	$ (2,432)	$ 156,599

See selected notes to the consolidated financial statements.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	Nine Months Ended September 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income before noncontrolling interest	$ 7,634	$ 10,029
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,547	1,032
Amortization of core deposit intangible	10	2
Amortization and accretion of premiums and discounts on investments, net	1,280	1,252
Accretion of deferred loan fees and purchased premiums, net	619	754
Amortization of debt issuance costs	58	38
Change in fair value of sold loan servicing rights	91	—
Additions to servicing rights on sold loans, net	(143)	(720)
Amortization of servicing rights on sold loans, net	—	(90)
Net (decrease) increase in the valuation allowance on servicing rights on sold loans	—	(4)
Provision for loan losses	1,250	1,500
Allocation of ESOP shares	546	503
Share-based compensation expense	1,294	1,943
Gain on sale of loans, net	(769)	(3,014)
Gain on sale of securities available for sale, net	(118)	(2,410)
Increase in cash surrender value of life insurance, net	(686)	(727)
Origination of loans held for sale	(22,272)	(86,456)
Proceeds from loans held for sale	23,538	90,899
Change in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(1,366)	1,191
Increase in prepaid expenses and other assets	(4,191)	(14,473)
Decrease in accrued interest payable	(288)	(24)
Increase in accrued expenses and other liabilities	5,680	10,230
Net cash from operating activities	13,714	11,455
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available for sale	(78,409)	(125,909)
Proceeds from maturities, calls, and principal repayments of securities available for sale	26,937	52,071
Proceeds from sales of securities available for sale	12,685	109,829
(Purchase) redemption of FHLB stock	(6,765)	1,580
Net increase in loans receivable	(172,727)	(205,411)
Purchase of premises and equipment, net	(2,556)	(3,976)
Capital contributions to equity and partnership investments	(7,628)	—
Capital contributions to low-income housing tax credit partnerships	(23)	—
Capital contributions to historic tax credit partnerships	(1,829)	—
Net cash acquired from branch acquisition	—	63,545
Net cash from investing activities	(230,315)	(108,271)

See selected notes to the consolidated financial statements.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	Nine Months Ended September 30,	
	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 24,655	$ 124,532
Proceeds from long-term FHLB advances	—	10,000
Repayment of long-term FHLB advances	—	(10,000)
Net increase (decrease) in short-term FHLB advances	161,000	(49,977)
Proceeds from issuance of subordinated debt, net	—	39,223
Net increase (decrease) in line of credit	12,000	—
Net increase in advances from borrowers for taxes and insurance	1,116	1,002
Dividends paid	(2,072)	(1,831)
Restricted stock awards canceled	(311)	(232)
Repurchase of common stock	(2,140)	(4,936)
Net cash from financing activities	194,248	107,781
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(22,353)	10,965
CASH AND CASH EQUIVALENTS, beginning of period	126,016	65,155
CASH AND CASH EQUIVALENTS, end of period	$ 103,663	$ 76,120
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$ 6,072	$ 4,002
Income taxes	$ 2,954	$ 2,890
Prior unrecognized service cost of defined benefit plan transferred to single-employer plan	$ —	$ 2,718
NONCASH INVESTING ACTIVITIES		
Change in unrealized loss on securities available for sale	$ (52,401)	$ (3,573)
Cumulative adjustment to servicing right asset due to election of fair value option	$ 538	$ —
Lease liabilities arising from obtaining right-of-use assets	$ —	$ 1,412
BUSINESS COMBINATION (see Note 12)		
Fair value of assets acquired	$ —	$ 1,340
Fair value of liabilities assumed	$ —	$ 65,947

See selected notes to the consolidated financial statements.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation and Critical Accounting Policies

Organization and nature of business - First Northwest Bancorp, a Washington corporation ("First Northwest"), became the holding company of First Fed Bank ("First Fed" or the "Bank") on January 29, 2015, upon completion of the Bank's conversion from a mutual to stock form of organization (the "Conversion").

In connection with the Conversion, the Company issued an aggregate of 12,167,000 shares of common stock at an offering price of $10.00 per share for gross proceeds of $121.7 million. An additional 933,360 shares of Company common stock and $400,000 in cash were contributed to the First Federal Community Foundation ("Foundation"), a charitable foundation that was established in connection with the Conversion, resulting in the issuance of a total of 13,100,360 shares. The Company received $117.6 million in net proceeds from the stock offering of which $58.4 million were contributed to the Bank upon Conversion.

Pursuant to the Bank's Plan of Conversion (the "Plan") adopted by its Board of Directors, and as approved by its members, the Company established an employee stock ownership plan ("ESOP"). On December 18, 2015, the ESOP completed its open market purchases, with funds borrowed from the Company, of 8% of the common stock issued in the Conversion for a total of 1,048,029 shares.

In April 2021, First Northwest entered into an Amended and Restated Joint Venture Agreement (the "Joint Venture Agreement") with the Bank, POM Peace of Mind, Inc. ("POM"), and Quin Ventures, Inc. ("Quin" or "Quin Ventures"). First Northwest has partially fulfilled its commitment to extend $15.0 million to Quin Ventures under a capital financing agreement and related promissory note and issued 29,719 shares of the Company's common stock to POM with a value of $500,000.

On October 31, 2021, the Bank converted from a State Savings Bank Charter to a State Commercial Bank Charter and was simultaneously renamed First Fed Bank from First Federal Savings and Loan Association of Port Angeles.

On August 5, 2022, First Northwest's election to be treated as a financial holding company became effective, allowing the Company to engage in activities that are financial in nature or incidental to financial activities.

First Northwest, the Bank, and Quin Ventures are collectively referred to as the "Company."

First Northwest's business activities generally are limited to passive investment activities and oversight of its investments in First Fed and Quin Ventures. Accordingly, the information set forth in this report, including the consolidated unaudited financial statements and related data, relates primarily to the Bank for balance sheet related disclosures and the Bank and Quin Ventures for income statement related disclosures.

The Bank is a community-oriented financial institution providing commercial and consumer banking services to individuals and businesses in western Washington State with offices in Clallam, Jefferson, Kitsap, King, and Whatcom counties. These services include deposit and lending transactions that are supplemented with borrowing and investing activities.

Basis of presentation - The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all the information and footnotes required by U.S. Generally Accepted Accounting Principles ("GAAP") for complete financial statements. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. In our opinion, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of the consolidated financial statements in accordance with GAAP have been included. Operating results for the three and nine months ended September 30, 2022, are not necessarily indicative of the results that may be expected for future periods.

In preparing the unaudited interim consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to a determination of the allowance for loan losses ("ALLL"), fair value of financial instruments, and deferred tax assets and liabilities.

Principles of consolidation - The accompanying consolidated financial statements include the accounts of First Northwest; its wholly owned subsidiary, First Fed, and its controlling interest in Quin Ventures, Inc. All material intercompany accounts and transactions have been eliminated in consolidation. While First Northwest and POM share equal ownership in Quin Ventures, it has been determined that First Northwest has a controlling interest for financial reporting purposes under Accounting Standards Codification 810. The Quin Ventures net loss allocable to POM is shown on the financial statements where applicable through a noncontrolling interest adjustment.

Subsequent events - The Company has evaluated subsequent events for potential recognition and disclosure and has included additional information where appropriate.

Recently adopted accounting pronouncements

In November 2019, the FASB issued Accounting Standards Update ("ASU") 2019- 10, which defers the effective date of the current expected credit loss model (CECL) guidance issued in ASUs 2016- 13, 2019- 04, and 2019- 05. The effective date for smaller reporting companies was changed from the interim and annual periods beginning after December 15, 2020 to the interim and annual periods beginning after December 15, 2022. Early adoption is permitted for interim and annual periods beginning after December 15, 2018. The Company adopted this ASU and anticipates implementing CECL effective January 1, 2023.

In January 2021, the FASB issued ASU No. 2021- 01, *Reference Rate Reform (Topic 848): Scope*. ASU No. 2021- 01 clarifies that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. ASU No. 2021-01 also amends the expedients and exceptions in ASC 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. This ASU was effective upon issuance and generally can be applied through December 31, 2022. The adoption of ASU 2021- 01 did not have a material impact on the Company’s financial statements.

Recently issued accounting pronouncements not yet adopted

Credit Losses
In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Loss*, which updates the guidance on recognition and measurement of credit losses for financial assets. The new requirements, known as the current expected credit loss model (CECL) will require entities to adopt an impairment model based on expected losses rather than incurred losses. ASU No. 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Upon adoption, the Company will change processes and procedures to calculate the allowance for credit losses, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. In addition, the current accounting policy and procedures for other-than-temporary impairment on investment securities available for sale will be replaced with an allowance approach.

Additional updates were issued in ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging (Topic 825), Financial Instruments*. This ASU clarifies and improves guidance related to the previously issued standards on credit losses, hedging and recognition and measurement of financial instruments. The amendments provide entities with various measurement alternatives and policy elections related to accounting for credit losses and accrued interest receivable balances. Entities are also able to elect a practical expedient to separately disclose the total amount of accrued interest included in the amortized cost basis as a single balance to meet certain disclosure requirements. The amendments clarify that the estimated allowance for credit losses should include all expected recoveries of financial assets and trade receivables that were previously written off and expected to be written off. The amendments also allow entities to use projections of future interest rate environments when using a discounted cash flow method to measure expected credit losses on variable-rate financial instruments.

In addition, new updates were issued through ASU No. 2019-05, *Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief*. This amendment allows entities to elect the fair value option on certain financial instruments. On adoption, an entity is allowed to irrevocably elect the fair value option on an instrument-by-instrument basis. This alternative is available for all instruments in the scope of Subtopic 326-20 except for existing held-to-maturity debt securities. If an entity elects the fair value option, the difference between the instrument’s fair value and carrying amount is recognized as a cumulative-effect adjustment.

The Company is evaluating the provisions of ASU No. 2016-13, ASU No. 2019-04 and ASU No. 2019-05, and will closely monitor developments and additional guidance to determine the potential impact on the Company’s consolidated financial statements. At this time, we cannot reasonably estimate the impact the implementation of these ASUs will have on the Company's consolidated financial statements. The Company's internal project management team continues to review models, work with our third-party vendor, and discuss changes to processes and procedures to ensure the Company is fully compliant with the amendments at the adoption date, which is anticipated to be January 1, 2023. The Bank began running a parallel analysis comparing actual ALLL results to potential CECL results with the June 2022 quarter end and will continue running parallels through the remainder of 2022. Initial results indicate a moderate increase to the reserve; however, the modeling effort is ongoing with final decisions regarding valuation criteria for each segment yet to be made.

Other Pronouncements
In March 2020, the FASB issued ASU No. 2020-04 *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference the London Inter-Bank Offered Rate ("LIBOR") or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. This ASU is effective for all entities as of March 12, 2020 through December 31, 2022. The Company is implementing a transition plan to identify and modify its loans and other financial instruments that are either directly or indirectly influenced by LIBOR. The Company is in the process of evaluating ASU No. 2020-04 and its impact on the Company's transition away from LIBOR for its loan and other financial instruments, with no material expected impact on the Company's financial statements.

In March 2022, the FASB issued ASU No. 2022-01, *Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method*. ASU 2022-01 expands the portfolio layer method of hedge accounting prescribed in ASU No. 2017-12 to allow multiple hedged layers of a single closed portfolio and to include portfolios of both prepayable and non-prepayable financial assets. This scope expansion is consistent with the FASB's efforts to simplify hedge accounting and allows entities to apply the same accounting method to similar hedging strategies. The ASU also specifies eligible hedging instruments in a single-layer hedge, provides additional guidance on accounting and disclosure of hedge basis adjustments and specifies how hedge basis adjustments should be considered in determining credit losses for assets in the designated closed portfolio. This ASU is effective for public business entities for interim and annual periods in fiscal years beginning after December 15, 2022. The Company is evaluating the effect that ASU 2022-01 will have on its consolidated financial statements.

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings ("TDRs") in ASC 310-40, "Receivables - Troubled Debt Restructurings by Creditors" for entities that have adopted the current expected credit loss model introduced by ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". ASU 2022-02 also requires that public business entities disclose current-period gross charge-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, "Financial Instruments—Credit Losses—Measured at Amortized Cost". ASU 2022-02 is effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. The Company is evaluating the effect that ASU 2022-02 will have on its consolidated financial statements and related disclosures.

In June 2022, the FASB issued ASU No. 2022-03, *Fair Value Measurement (Topic 820)—Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security should not be considered in measuring fair value, nor should the contractual restriction be recognized and measured separately. Further, this ASU requires disclosure of the fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet, the nature and remaining duration of the restriction(s), and the circumstances that could cause a lapse in the restriction(s). ASU 2022-03 is effective for the Company for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years, with early adoption permitted. The Company is evaluating the effect that ASU 2022-03 will have on its consolidated financial statements and related disclosures.

Reclassifications - Certain amounts in the unaudited interim consolidated financial statements for prior periods have been reclassified to conform to the current unaudited financial statement presentation with no effect on net income or shareholders' equity.

Note 2 - Securities

The amortized cost, gross unrealized gains and losses, and estimated fair value of securities classified as available-for-sale at September 30, 2022 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Available for Sale				
Municipal bonds	$ 120,380	$ —	$ (24,250)	$ 96,130
U.S. Treasury notes	2,465	—	(110)	2,355
International agency issued bonds (Agency bonds)	1,953	—	(270)	1,683
Corporate issued debt securities (Corporate debt)	60,754	—	(4,589)	56,165
Mortgage-backed securities:				
U.S. government agency issued mortgage-backed securities (MBS agency)	90,940	2	(12,711)	78,231
Non-agency issued mortgage-backed securities (MBS non-agency)	102,637	—	(7,765)	94,872
Total securities available for sale	$ 379,129	$ 2	$ (49,695)	$ 329,436

The amortized cost, gross unrealized gains and losses, and estimated fair value of securities classified as available-for-sale at December 31, 2021, are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Available for Sale				
Municipal bonds	$ 110,497	$ 3,207	$ (340)	$ 113,364
Agency bonds	1,947	—	(27)	1,920
Corporate issued asset-backed securities (ABS corporate)	14,556	—	(67)	14,489
Corporate debt	58,906	1,450	(567)	59,789
U.S. Small Business Administration securities (SBA)	14,404	276	—	14,680
Mortgage-backed securities:				
MBS agency	80,877	248	(1,163)	79,962
MBS non-agency	60,317	71	(380)	60,008
Total securities available for sale	$ 341,504	$ 5,252	$ (2,544)	$ 344,212

There were no securities classified as held-to-maturity at September 30, 2022 and December 31, 2021.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following shows the unrealized gross losses and fair value of the investment portfolio by length of time that individual securities in each category have been in a continuous loss position as of September 30, 2022:

	Less Than Twelve Months		Twelve Months or Longer		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)					
Available for Sale						
Municipal bonds	$ (16,638)	$ 72,717	$ (7,612)	$ 23,113	$ (24,250)	$ 95,830
U.S. Treasury notes	(110)	2,355	—	—	(110)	2,355
Agency bonds	—	—	(270)	1,683	(270)	1,683
Corporate debt	(2,272)	33,701	(2,317)	22,464	(4,589)	56,165
Mortgage-backed securities:						
MBS agency	(5,896)	47,543	(6,815)	27,891	(12,711)	75,434
MBS non-agency	(4,894)	66,940	(2,871)	27,932	(7,765)	94,872
Total available for sale	$ (29,810)	$ 223,256	$ (19,885)	$ 103,083	$ (49,695)	$ 326,339

The following shows the unrealized gross losses and fair value of the investment portfolio by length of time that individual securities in each category have been in a continuous loss position as of December 31, 2021:

	Less Than Twelve Months		Twelve Months or Longer		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)					
Available for Sale						
Municipal bonds	$ (306)	$ 23,125	$ (34)	$ 1,475	$ (340)	$ 24,600
Agency bonds	(27)	1,920	—	—	(27)	1,920
ABS corporate	(67)	10,976	—	—	(67)	10,976
Corporate debt	(333)	18,890	(234)	9,752	(567)	28,642
SBA	—	—	—	69	—	69
Mortgage-backed securities:						
MBS agency	(713)	39,029	(450)	12,802	(1,163)	51,831
MBS non-agency	(374)	32,849	(6)	5,505	(380)	38,354
Total available for sale	$ (1,820)	$ 126,789	$ (724)	$ 29,603	$ (2,544)	$ 156,392

The Company may hold certain investment securities in an unrealized loss position that are not considered other than temporarily impaired ("OTTI"). At September 30, 2022 and December 31, 2021, there were 183 and 76 investment securities in an unrealized loss position, respectively.

We believe that the unrealized losses on our investment securities relate principally to the general change in interest rates, market demand, and related volatility that has occurred since the initial purchase, and such unrecognized losses or gains will continue to vary with general interest rate level and market fluctuations in the future. We do not believe the unrealized losses on our securities are related to deterioration in credit quality. Certain investments in a loss position are guaranteed by government entities or government sponsored entities. The Company does not intend to sell the securities in an unrealized loss position and believes that it is unlikely that we will be required to sell these investments prior to a market price recovery or maturity.

There were no OTTI losses during the three and nine months ended September 30, 2022 and 2021.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The amortized cost and estimated fair value of investment securities by contractual maturity are shown in the following tables at the dates indicated. Expected maturities of mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties; therefore, these securities are shown separately.

	September 30, 2022	
	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
	(In thousands)	
Mortgage-backed securities:		
Due within one year	$ 6,316	$ 6,239
Due after one through five years	37,243	35,999
Due after five through ten years	13,549	12,252
Due after ten years	136,469	118,613
Total mortgage-backed securities	193,577	173,103
All other investment securities:		
Due within one year	—	—
Due after one through five years	18,741	16,999
Due after five through ten years	66,251	60,092
Due after ten years	100,560	79,242
Total all other investment securities	185,552	156,333
Total investment securities	$ 379,129	$ 329,436

	December 31, 2021	
	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
	(In thousands)	
Mortgage-backed securities:		
Due within one year	$ 7,827	$ 7,832
Due after one through five years	24,347	24,371
Due after five through ten years	8,466	8,391
Due after ten years	100,554	99,376
Total mortgage-backed securities	141,194	139,970
All other investment securities:		
Due within one year	—	—
Due after one through five years	6,391	6,289
Due after five through ten years	79,679	80,807
Due after ten years	114,240	117,146
Total all other investment securities	200,310	204,242
Total investment securities	$ 341,504	$ 344,212

Sales of securities available-for-sale for the periods shown are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands)			
Proceeds from sales	$ —	$ 64,394	$ 12,685	$ 109,829
Gross realized gains	—	1,627	128	2,827
Gross realized losses	—	(341)	(10)	(417)

Note 3 - Loans Receivable

Loans receivable consisted of the following at the dates indicated:

	September 30, 2022	December 31, 2021
	(In thousands)	
Real Estate:		
One-to-four family	$ 335,067	$ 294,965
Multi-family	243,256	172,409
Commercial real estate	385,272	363,299
Construction and land	217,175	224,709
Total real estate loans	1,180,770	1,055,382
Consumer:		
Home equity	50,066	39,172
Auto and other consumer	223,100	182,769
Total consumer loans	273,166	221,941
Commercial business loans	71,269	79,838
Total loans	1,525,205	1,357,161
Less:		
Net deferred loan fees	3,519	4,772
Premium on purchased loans, net	(15,705)	(12,995)
Allowance for loan losses	16,273	15,124
Total loans receivable, net	$ 1,521,118	$ 1,350,260

Allowance for Loan Losses. The Company maintains a general ALLL based on evaluating known and inherent risks in the loan portfolio, including management's continuing analysis of the factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, actual loan loss experience, and current and anticipated economic conditions. The reserve is an estimate based upon factors and trends identified by management at the time the financial statements are prepared.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following tables summarize changes in the ALLL and loan portfolio by segment and impairment method for the periods shown:

	At or For the Three Months Ended September 30, 2022								
	One-to-four family	Multi-family	Commercial real estate	Construction and land	Home equity	Auto and other consumer	Commercial business	Unallocated	Total
					(In thousands)				
ALLL:									
Beginning balance	$ 3,026	$ 2,168	$ 4,154	$ 2,550	$ 486	$ 2,367	$ 680	$ 316	$ 15,747
Provision for (recapture of) loan losses	188	164	(45)	(36)	9	428	14	28	750
Charge-offs	—	—	—	—	—	(265)	—	—	(265)
Recoveries	—	—	—	—	12	29	—	—	41
Ending balance	$ 3,214	$ 2,332	$ 4,109	$ 2,514	$ 507	$ 2,559	$ 694	$ 344	$ 16,273

	At or For the Nine Months Ended September 30, 2022								
	One-to-four family	Multi-family	Commercial real estate	Construction and land	Home equity	Auto and other consumer	Commercial business	Unallocated	Total
					(In thousands)				
ALLL:									
Beginning balance	$ 3,184	$ 1,816	$ 3,996	$ 2,672	$ 407	$ 2,221	$ 470	$ 358	$ 15,124
(Recapture of) provision for loan losses	(2)	516	113	(160)	71	644	82	(14)	1,250
Charge-offs	—	—	—	—	—	(475)	—	—	(475)
Recoveries	32	—	—	2	29	169	142	—	374
Ending balance	$ 3,214	$ 2,332	$ 4,109	$ 2,514	$ 507	$ 2,559	$ 694	$ 344	$ 16,273

	At September 30, 2022								
	One-to-four family	Multi-family	Commercial real estate	Construction and land	Home equity	Auto and other consumer	Commercial business	Unallocated	Total
					(In thousands)				
Total ALLL	$ 3,214	$ 2,332	$ 4,109	$ 2,514	$ 507	$ 2,559	$ 694	$ 344	$ 16,273
General reserve	3,182	2,332	4,109	2,513	504	2,552	694	344	16,230
Specific reserve	32	—	—	1	3	7	—	—	43
Total loans	$ 335,067	$ 243,256	$ 385,272	$ 217,175	$ 50,066	$ 223,100	$ 71,269	$ —	$ 1,525,205
Loans collectively evaluated (1)	332,263	243,256	385,218	215,408	49,852	222,834	71,269	—	1,520,100
Loans individually evaluated (2)	2,804	—	54	1,767	214	266	—	—	5,105

(1) Loans collectively evaluated for general reserves.
(2) Loans individually evaluated for specific reserves.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	At or For the Three Months Ended September 30, 2021								
	One-to-four family	Multi-family	Commercial real estate	Construction and land	Home equity	Auto and other consumer	Commercial business	Unallocated	Total
					(In thousands)				
ALLL:									
Beginning balance	$ 3,356	$ 1,816	$ 3,674	$ 2,221	$ 393	$ 2,368	$ 464	$ 296	$ 14,588
(Recapture of) provision for loan losses	(117)	101	278	260	24	58	26	70	700
Charge-offs	—	—	—	—	—	(421)	—	—	(421)
Recoveries	—	—	—	2	—	374	—	—	376
Ending balance	$ 3,239	$ 1,917	$ 3,952	$ 2,483	$ 417	$ 2,379	$ 490	$ 366	$ 15,243

	At or For the Nine Months Ended September 30, 2021								
	One-to-four family	Multi-family	Commercial real estate	Construction and land	Home equity	Auto and other consumer	Commercial business	Unallocated	Total
					(In thousands)				
ALLL:									
Beginning balance	$ 3,469	$ 1,764	$ 3,420	$ 1,461	$ 368	$ 2,642	$ 429	$ 294	$ 13,847
(Recapture of) provision for loan losses	(236)	153	532	1,016	44	(142)	61	72	1,500
Charge-offs	—	—	—	—	(12)	(801)	—	—	(813)
Recoveries	6	—	—	6	17	680	—	—	709
Ending balance	$ 3,239	$ 1,917	$ 3,952	$ 2,483	$ 417	$ 2,379	$ 490	$ 366	$ 15,243

	At December 31, 2021								
	One-to-four family	Multi-family	Commercial real estate	Construction and land	Home equity	Auto and other consumer	Commercial business	Unallocated	Total
					(In thousands)				
Total ALLL	$ 3,184	$ 1,816	$ 3,996	$ 2,672	$ 407	$ 2,221	$ 470	$ 358	$ 15,124
General reserve	3,159	1,816	3,996	2,672	402	2,138	470	358	15,011
Specific reserve	25	—	—	—	5	83	—	—	113
Total loans	$ 294,965	$ 172,409	$ 363,299	$ 224,709	$ 39,172	$ 182,769	$ 79,838	$ —	$ 1,357,161
Loans collectively evaluated (1)	292,708	172,409	363,228	224,687	38,839	182,257	79,838	—	1,353,966
Loans individually evaluated (2)	2,257	—	71	22	333	512	—	—	3,195

(1) Loans collectively evaluated for general reserves.
(2) Loans individually evaluated for specific reserves.

Impaired loans. A loan is considered impaired when the Bank has determined that it may be unable to collect payments of principal or interest when due under the contractual terms of the loan. Impairment is measured on a loan-by-loan basis for all loans in the portfolio except smaller balance homogeneous loans and certain qualifying troubled debt restructuring ("TDR") loans.

The following table presents a summary of loans individually evaluated for impairment by portfolio segment at the dates indicated:

	September 30, 2022			December 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
With no allowance recorded:						
One-to-four family	$ 77	$ 115	$ —	$ 212	$ 247	$ —
Commercial real estate	54	151	—	71	177	—
Construction and land	1,748	1,765	—	—	24	—
Home equity	—	—	—	26	59	—
Auto and other consumer	238	243	—	—	77	—
Total	2,117	2,274	—	309	584	—
With an allowance recorded:						
One-to-four family	2,727	2,871	32	2,045	2,245	25
Construction and land	19	19	1	22	22	—
Home equity	214	216	3	307	329	5
Auto and other consumer	28	28	7	512	512	83
Total	2,988	3,134	43	2,886	3,108	113
Total impaired loans:						
One-to-four family	2,804	2,986	32	2,257	2,492	25
Commercial real estate	54	151	—	71	177	—
Construction and land	1,767	1,784	1	22	46	—
Home equity	214	216	3	333	388	5
Auto and other consumer	266	271	7	512	589	83
Total	$ 5,105	$ 5,408	$ 43	$ 3,195	$ 3,692	$ 113

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents the average recorded investment in loans individually evaluated for impairment and the related interest income recognized for the periods shown:

	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
With no allowance recorded:				
One-to-four family	$ 211	$ 1	$ 259	$ 1
Commercial real estate	56	—	63	—
Construction and land	583	1	194	1
Home equity	—	—	3	—
Auto and other consumer	239	5	246	14
Total	1,089	7	765	16
With an allowance recorded:				
One-to-four family	2,258	51	2,138	120
Commercial real estate	—	—	7	—
Construction and land	18	—	21	—
Home equity	232	3	273	8
Auto and other consumer	33	1	104	2
Total	2,541	55	2,543	130
Total impaired loans:				
One-to-four family	2,469	52	2,397	121
Commercial real estate	56	—	70	—
Construction and land	601	1	215	1
Home equity	232	3	276	8
Auto and other consumer	272	6	350	16
Total	$ 3,630	$ 62	$ 3,308	$ 146

Interest income recognized on a cash basis on impaired loans for the three and nine months ended September 30, 2022, was $42,000 and $126,000, respectively.

The following table presents the average recorded investment in loans individually evaluated for impairment and the related interest income recognized for the periods shown:

	Three Months Ended September 30, 2021		Nine Months Ended September 30, 2021	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
With no allowance recorded:				
One-to-four family	$ 217	$ 3	$ 221	$ 9
Multi-family	—	—	125	—
Commercial real estate	1,200	18	1,081	55
Home equity	31	—	34	1
Auto and other consumer	47	3	39	5
Total	1,495	24	1,500	70
With an allowance recorded:				
One-to-four family	2,199	46	2,357	110
Commercial real estate	17	—	162	—
Construction and land	24	2	25	3
Home equity	122	3	117	—
Auto and other consumer	464	6	715	17
Total	2,826	57	3,376	130
Total impaired loans:				
One-to-four family	2,416	49	2,578	119
Multi-family	—	—	125	—
Commercial real estate	1,217	18	1,243	55
Construction and land	24	2	25	3
Home equity	153	3	151	1
Auto and other consumer	511	9	754	22
Total	$ 4,321	$ 81	$ 4,876	$ 200

Interest income recognized on a cash basis on impaired loans for the three and nine months ended September 30, 2021, was $65,000 and $183,000, respectively.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents the recorded investment in nonaccrual loans by class of loan at the dates indicated:

	September 30, 2022	December 31, 2021
	(In thousands)	
One-to-four family	$ 1,089	$ 494
Commercial real estate	54	71
Construction and land	1,767	22
Home equity	187	282
Auto and other consumer	266	512
Total nonaccrual loans	$ 3,363	$ 1,381

Past due loans. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. At September 30, 2022, $154,000 of purchased loans serviced by others were past due 90 days or more and still accruing interest. There were no loans past due 90 days or more and still accruing interest at December 31, 2021.

The following table presents the recorded investment in past due loans, by class, as of September 30, 2022:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
			(In thousands)			
Real Estate:						
One-to-four family	$ 1,529	$ —	$ 623	$ 2,152	$ 332,915	$ 335,067
Multi-family	—	—	—	—	243,256	243,256
Commercial real estate	—	—	—	—	385,272	385,272
Construction and land	—	—	1,750	1,750	215,425	217,175
Total real estate loans	1,529	—	2,373	3,902	1,176,868	1,180,770
Consumer:						
Home equity	—	—	—	—	50,066	50,066
Auto and other consumer	1,514	366	154	2,034	221,066	223,100
Total consumer loans	1,514	366	154	2,034	271,132	273,166
Commercial business loans	4	—	—	4	71,265	71,269
Total loans	$ 3,047	$ 366	$ 2,527	$ 5,940	$ 1,519,265	$ 1,525,205

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents the recorded investment in past due loans, by class, as of December 31, 2021:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
	(In thousands)					
Real Estate:						
One-to-four family	$ 786	$ —	$ —	$ 786	$ 294,179	$ 294,965
Multi-family	—	—	—	—	172,409	172,409
Commercial real estate	—	—	—	—	363,299	363,299
Construction and land	293	—	—	293	224,416	224,709
Total real estate loans	1,079	—	—	1,079	1,054,303	1,055,382
Consumer:						
Home equity	83	—	—	83	39,089	39,172
Auto and other consumer	469	368	99	936	181,833	182,769
Total consumer loans	552	368	99	1,019	220,922	221,941
Commercial business loans	7	—	—	7	79,831	79,838
Total loans	$ 1,638	$ 368	$ 99	$ 2,105	$ 1,355,056	$ 1,357,161

Credit quality indicator. Federal regulations provide for the classification of lower quality loans and other assets, such as debt and equity securities, as substandard, doubtful, or loss; risk ratings 6, 7, and 8 in our 8-point risk rating system, respectively. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the borrower or of any collateral pledged. Substandard assets include those characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions, and values. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When the Bank classifies problem assets as either substandard or doubtful, it may establish a specific allowance to address the risk specifically or allow the loss to be addressed in the general allowance. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities but that, unlike specific allowances, have not been specifically allocated to certain problem assets. When an insured institution classifies problem assets as a loss, it is required to charge off such assets in the period in which they are deemed uncollectible. Assets that do not currently expose the Bank to enough risk to warrant classification as substandard or doubtful but do possess identified weaknesses are designated as either watch or special mention assets; risk ratings 4 and 5 in our risk rating system, respectively. Loans not otherwise classified are considered pass graded loans and are rated 1-3 in our risk rating system.

Additionally, the Bank categorizes loans as performing or nonperforming based on payment activity. Loans that are more than 90 days past due and nonaccrual loans are considered nonperforming.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table represents the internally assigned grade as of September 30, 2022, by class of loans:

	Pass	Watch	Special Mention	Substandard	Total
			(In thousands)		
Real Estate:					
One-to-four family	$ 330,386	$ 3,358	$ —	$ 1,323	$ 335,067
Multi-family	227,505	15,751	—	—	243,256
Commercial real estate	344,907	28,514	10,526	1,325	385,272
Construction and land	201,238	402	13,465	2,070	217,175
Total real estate loans	1,104,036	48,025	23,991	4,718	1,180,770
Consumer:					
Home equity	49,558	307	14	187	50,066
Auto and other consumer	221,890	847	107	256	223,100
Total consumer loans	271,448	1,154	121	443	273,166
Commercial business loans	64,308	6,610	351	—	71,269
Total loans	$ 1,439,792	$ 55,789	$ 24,463	$ 5,161	$ 1,525,205

The following table represents the internally assigned grade as of December 31, 2021, by class of loans:

	Pass	Watch	Special Mention	Substandard	Total
			(In thousands)		
Real Estate:					
One-to-four family	$ 291,421	$ 2,727	$ 53	$ 764	$ 294,965
Multi-family	153,704	18,705	—	—	172,409
Commercial real estate	326,444	22,850	3,057	10,948	363,299
Construction and land	215,262	295	9,130	22	224,709
Total real estate loans	986,831	44,577	12,240	11,734	1,055,382
Consumer:					
Home equity	38,739	83	—	350	39,172
Auto and other consumer	181,356	835	65	513	182,769
Total consumer loans	220,095	918	65	863	221,941
Commercial business loans	79,616	222	—	—	79,838
Total loans	$ 1,286,542	$ 45,717	$ 12,305	$ 12,597	$ 1,357,161

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table represents the credit risk profile based on payment activity as of September 30, 2022, by class of loans:

	Nonperforming	Performing	Total
		(In thousands)	
Real Estate:			
One-to-four family	$ 1,089	$ 333,978	$ 335,067
Multi-family	—	243,256	243,256
Commercial real estate	54	385,218	385,272
Construction and land	1,767	215,408	217,175
Consumer:			
Home equity	187	49,879	50,066
Auto and other consumer	420	222,680	223,100
Commercial business	—	71,269	71,269
Total loans	$ 3,517	$ 1,521,688	$ 1,525,205

The following table represents the credit risk profile based on payment activity as of December 31, 2021, by class of loans:

	Nonperforming	Performing	Total
		(In thousands)	
Real Estate:			
One-to-four family	$ 494	$ 294,471	$ 294,965
Multi-family	—	172,409	172,409
Commercial real estate	71	363,228	363,299
Construction and land	22	224,687	224,709
Consumer:			
Home equity	282	38,890	39,172
Auto and other consumer	512	182,257	182,769
Commercial business	—	79,838	79,838
Total loans	$ 1,381	$ 1,355,780	$ 1,357,161

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Troubled debt restructuring. A TDR is a loan to a borrower who is experiencing financial difficulty that has been modified from its original terms and conditions in such a way that the Bank is granting the borrower a concession of some kind. First Fed has granted a variety of concessions to borrowers in the form of loan modifications. The modifications are generally related to the loan's interest rate, term and payment amount or a combination thereof.

The following table is a summary of information pertaining to TDR loans included in impaired loans at the dates indicated:

	September 30, 2022	December 31, 2021
	(In thousands)	
Total TDR loans	$ 1,771	$ 1,843
Allowance for loan losses related to TDR loans	18	21
Total nonaccrual TDR loans	29	29

There were no newly restructured, renewals, or modifications of existing TDR loans that occurred during the three and nine months ended September 30, 2022 or 2021.

There were no TDR loans that incurred a payment default within 12 months of the restructure date during the three and nine months ended September 30, 2022 or 2021.

No additional funds were committed to be advanced in connection with TDR loans at September 30, 2022.

The following table presents TDR loans by class at the dates indicated by accrual and nonaccrual status:

	September 30, 2022		
	Accrual	Nonaccrual	Total
		(In thousands)	
One-to-four family	$ 1,714	$ 29	$ 1,743
Home equity	28	—	28
Total TDR loans	$ 1,742	$ 29	$ 1,771

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 4 - Deposits

The aggregate amount of time deposits in excess of the Federal Deposit Insurance Corporation ("FDIC") insured limit, currently $250,000, at September 30, 2022 and December 31, 2021, were $96.4 million and $75.1 million, respectively. Deposits and weighted-average interest rates at the dates indicated are as follows:

	September 30, 2022		December 31, 2021	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
	(Dollars in thousands)			
Noninterest-bearing demand deposits	$ 342,808	0.00%	$ 343,932	0.00%
Interest-bearing demand deposits	192,504	0.01%	196,970	0.01%
Money market accounts	519,018	0.37%	597,815	0.21%
Savings accounts	196,780	0.05%	194,620	0.05%
Certificates of deposit	354,125	1.62%	247,243	0.62%
Total deposits	$ 1,605,235	0.48%	$ 1,580,580	0.19%

Brokered certificates of deposits of $129.6 million and $65.7 million are included in the September 30, 2022 and December 31, 2021 certificates of deposit totals above, respectively.

Maturities of certificates at the dates indicated are as follows:

	September 30, 2022	December 31, 2021
	(In thousands)	
Within one year or less	$ 242,591	$ 153,472
After one year through two years	51,403	54,970
After two years through three years	43,563	17,620
After three years through four years	8,374	14,358
After four years through five years	8,194	6,823
Total certificates of deposit	$ 354,125	$ 247,243

At September 30, 2022 and December 31, 2021, deposits included $99.3 million and $134.1 million, respectively, in public fund deposits. Investment securities with a carrying value of $55.4 million and $67.9 million were pledged as collateral for these deposits at September 30, 2022 and December 31, 2021, respectively. This exceeds the minimum collateral requirements established by the Washington Public Deposit Protection Commission. Also included in deposits at September 30, 2022 and December 31, 2021, were funds held by federally recognized tribes totaling $14.4 million and $33.4 million, respectively. Investment securities with a carrying value of $29.3 million and $40.9 million were pledged as collateral for these deposits at September 30, 2022 and December 31, 2021, respectively. This exceeds the minimum collateral requirements established by the Bureau of Indian Affairs.

Interest on deposits by type for the periods shown was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands)			
Demand deposits	$ 16	$ 11	$ 58	$ 28
Money market accounts	468	291	1,089	852
Savings accounts	24	28	76	102
Certificates of deposit	743	520	1,541	1,627
Total interest expense on deposits	$ 1,251	$ 850	$ 2,764	$ 2,609

Note 5 - Borrowings

First Fed is a member of the FHLB. As a member, First Fed has a committed line of credit of up to 40% of total assets, subject to the amount of FHLB stock ownership and certain collateral requirements.

First Fed maintains borrowing arrangements with the FHLB to borrow funds primarily under long-term, fixed-rate advance agreements. First Fed also has overnight borrowings through FHLB which renew daily until paid. First Fed periodically uses fixed-rate advances maturing in less than one year as an alternative source of funds. All borrowings are secured by collateral consisting of single-family, home equity, commercial real estate, and multi-family loans receivable in the amounts of $711.0 million and $699.6 million at September 30, 2022 and December 31, 2021, respectively.

First Fed also has an established borrowing arrangement with the Federal Reserve Board of San Francisco ("FRB") to utilize the discount window for short-term borrowing. Available borrowing capacity was $8.6 million and $17.3 million at September 30, 2022 and December 31, 2021, respectively. No funds have been borrowed to date. Investment securities with a carrying value of $9.0 million and $17.2 million were pledged to the FRB at September 30, 2022 and December 31, 2021, respectively.

On March 25, 2021, the Company completed a private placement of $40.0 million of 3.75% fixed-to-floating rate subordinated notes due 2031 (the “Notes”) to certain qualified institutional buyers and institutional accredited investors. The net proceeds to the Company from the sale of the Notes were approximately $39.3 million after deducting placement agent fees and other offering expenses. The Notes have been structured to qualify as Tier 2 capital for the Company for regulatory capital purposes. The Company used the net proceeds of the offering for general corporate purposes and provided $20.0 million to the Bank as Tier 1 capital.

On May 20, 2022, First Northwest entered into a borrowing arrangement with NexBank for a $20.0 million revolving line of credit. Borrowings are secured by a blanket lien on First Northwest's personal property assets (with certain exclusions), including all the outstanding shares of First Fed, cash, loans receivable, and limited partnership investments. The line of credit matures on May 19, 2023.

The following table sets forth information regarding our borrowings at the end of and during the nine months ended September 30, 2022. The table includes both long- and short-term borrowings.

	FHLB Long-Term Advances	FHLB Overnight Variable-Rate Advances	FHLB Short-Term Fixed-Rate Advances	Line of Credit	Subordinated Debt, net
			(Dollars in thousands)		
Balance outstanding	$ 80,000	$ 141,000	$ 20,000	$ 12,000	$ 39,338
Maximum outstanding at any month-end	80,000	141,000	30,000	12,000	39,338
Average monthly outstanding during the period	80,000	39,993	14,689	3,788	39,301
Weighted-average daily interest rates					
Annual	1.52%	1.85%	1.76%	5.67%	4.03%
Period End	1.52%	2.85%	1.93%	6.75%	4.02%

The amounts by year of maturity and weighted-average interest rate of FHLB long-term, fixed-rate advances at September 30, 2022 are as follows:

	Amount	Weighted- Average Interest Rate
	(Dollars in thousands)	
Within one year or less	$ 15,000	1.54%
After one year through two years	15,000	1.47
After two years through three years	15,000	1.35
After three years through four years	15,000	1.49
After four years through five years	10,000	1.63
After five years	10,000	1.76
Total FHLB long-term advances	$ 80,000	1.52%

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table sets forth information regarding our borrowings at the end of and during the year ended December 31, 2021. The table includes both long- and short-term borrowings.

	FHLB Long-Term Advances	FHLB Overnight Variable-Rate Advances	Subordinated Debt, net
		(Dollars in thousands)	
Balance outstanding	$ 80,000	$ —	$ 39,280
Maximum outstanding at any month-end	80,000	40,000	40,000
Average monthly outstanding during the period	52,500	5,207	30,370
Weighted-average daily interest rates			
Annual	1.46%	0.30%	3.96%
Period End	1.52%	0.31%	3.01%

Note 6 - Federal Taxes on Income

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. These calculations are based on many complex factors including estimates of the timing of reversals of temporary differences, the interpretation of federal income tax laws, and a determination of the differences between the tax and the financial reporting basis of assets and liabilities. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income tax assets and liabilities.

The effective tax rates were 19.4% and 17.2% for the nine months ended September 30, 2022 and 2021, respectively. The effective tax rates differ from the statutory maximum federal tax rate for 2022 and 2021 of 21%, largely due to the nontaxable earnings on bank-owned life insurance ("BOLI") and tax-exempt interest income earned on certain investment securities and loans. Additionally, a tax accrual true-up was recorded in the first quarter of 2021, which reduced the prior year provision and resulted in a lower effective tax rate. In the second quarter of 2022, the Company began accruing a provision for income tax for certain states in which we have employees and collateral for loans, thereby creating a nexus in those states for income tax purposes. The additional accrual for state income tax results in a higher effective tax rate.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 7 - Earnings per Common Share

The two-class method is used for computing basic and diluted earnings per share. Under the two-class method, EPS is determined for each class of common stock and participating security according to dividends declared and participating rights in undistributed earnings. The Company has issued restricted shares under share-based compensation plans which qualify as participating securities.

The following table presents a reconciliation of the components used to compute basic and diluted earnings per share for the three and nine months ended September 30, 2022 and 2021.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands, except share data)			
Net income:				
Net income available to common shareholders	$ 4,291	$ 4,178	$ 9,585	$ 10,294
Earnings allocated to participating securities	(35)	(130)	(92)	(352)
Earnings allocated to common shareholders	$ 4,256	$ 4,048	$ 9,493	$ 9,942
Basic:				
Weighted average common shares outstanding	9,955,322	10,168,417	9,979,152	10,193,680
Weighted average unvested restricted stock awards	(212,930)	(296,563)	(231,253)	(324,159)
Weighted average unallocated ESOP shares	(648,571)	(701,530)	(661,670)	(714,768)
Total basic weighted average common shares outstanding	9,093,821	9,170,324	9,086,229	9,154,753
Diluted:				
Basic weighted average common shares outstanding	9,093,821	9,170,324	9,086,229	9,154,753
Dilutive restricted stock awards	44,302	83,508	69,584	97,527
Total diluted weighted average common shares outstanding	9,138,123	9,253,832	9,155,813	9,252,280
Basic earnings per common share	$ 0.47	$ 0.44	$ 1.04	$ 1.09
Diluted earnings per common share	$ 0.47	$ 0.44	$ 1.04	$ 1.09

Potentially dilutive shares are excluded from the computation of EPS if their effect is anti-dilutive. At September 30, 2022 and 2021, antidilutive shares as calculated under the treasury stock method totaled 2,617 and 0, respectively.

Note 8 - Employee Benefits

Employee Stock Ownership Plan

In connection with the Conversion, the Company established an ESOP for eligible employees of the Company and the Bank. Employees of the Company and the Bank who have been credited with at least 1,000 hours of service during a 12-month period are eligible to participate in the ESOP.

Pursuant to the Plan, the ESOP purchased shares in the open market with funds borrowed from First Northwest. The Bank will make contributions to the ESOP in amounts necessary to amortize the ESOP loan payable to First Northwest over a period of 20 years, bearing estimated interest at 2.46%. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Bank's discretionary contributions to the ESOP and earnings on the ESOP assets. A principal and interest payment of $835,000 was made by the ESOP during the nine months ended September 30, 2022.

As shares are committed to be released from collateral, the Company reports compensation expense equal to the average daily market prices of the shares and the shares become outstanding for EPS computations. The compensation expense is accrued monthly throughout the year. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings; dividends on unallocated ESOP shares are recorded as a reduction of debt and accrued interest.

Compensation expense related to the ESOP for the three months ended September 30, 2022 and 2021, was $216,000 and $242,000, respectively. Compensation expense related to the ESOP for the nine months ended September 30, 2022 and 2021, was $752,000 and $686,000, respectively.

Shares issued to the ESOP as of the dates indicated are as follows:

	September 30, 2022	December 31, 2021
	(Dollars in thousands)	
Allocated shares	386,285	333,396
Committed to be released shares	13,221	26,442
Unallocated shares	648,523	688,191
Total ESOP shares issued	1,048,029	1,048,029
Fair value of unallocated shares	$ 10,441	$ 13,901

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 9 - Stock-based Compensation

In May 2020, the Company's shareholders approved the First Northwest Bancorp 2020 Equity Incentive Plan ("2020 EIP"), which provides for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock shares or restricted stock units, and performance share awards to eligible participants through May 2030. The cost of awards under the 2020 EIP generally is based on the fair value of the awards on their grant date. The maximum number of shares that may be utilized for awards under the 2020 EIP is 520,000. As of September 30, 2022, there were 300,869 total shares available for grant under the 2020 EIP, all of which are available to be granted as restricted shares.

As a result of the approval of the 2020 EIP, the First Northwest Bancorp 2015 Equity Incentive Plan (the "2015 EIP") was frozen and no additional awards will be made. As of September 30, 2022, there were no shares available for grant under the 2015 EIP. At this date, there are 72,520 shares granted under the 2015 EIP that are expected to vest subject to the 2015 EIP plan provisions.

There were 55,443 and 96,205 shares of restricted stock awarded, respectively, during the nine months ended September 30, 2022 and 2021. Awarded shares of restricted stock vest ratably over periods ranging from one to five years from the date of grant provided the eligible participant remains in service to the Company. The Company recognizes compensation expense for the restricted stock awards based on the fair value of the shares at the grant date amortized over the vesting period.

For the three months ended September 30, 2022 and 2021, total compensation expense for the equity incentive plans was $404,000 and $433,000, respectively. Included in the compensation expense for the three months ended September 30, 2022 and 2021, was directors' equity compensation of $50,000 and $64,000, respectively.

For the nine months ended September 30, 2022 and 2021, total compensation expense for the equity incentive plans was $1.3 million and $1.4 million, respectively. Included in the compensation expense for the nine months ended September 30, 2022 and 2021, was directors' equity compensation of $189,000 and $324,000, respectively.

The following tables provide a summary of changes in non-vested restricted stock awards for the period shown:

	For the Three Months Ended September 30, 2022	
	Shares	Weighted-Average Grant Date Fair Value
Non-vested at July 1, 2022	240,054	$ 17.13
Granted	2,100	16.20
Vested	(25,972)	15.48
Canceled (1)	(5,504)	15.48
Forfeited	(5,450)	14.85
Non-vested at September 30, 2022	205,228	$ 17.43

(1) A surrender of vested stock awards by a participant surrendering the number of shares valued at the current stock price at the vesting date to cover the participant's tax obligation on the vested shares. The surrendered shares are canceled and are unavailable for reissue.

	For the Nine Months Ended September 30, 2022	
	Shares	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2022	236,432	$ 16.19
Granted	55,443	21.28
Vested	(52,442)	16.50
Canceled (1)	(15,830)	16.50
Forfeited	(18,375)	16.54
Non-vested at September 30, 2022	205,228	$ 17.43

(1) A surrender of vested stock awards by a participant surrendering the number of shares valued at the current stock price at the vesting date to cover the participant's tax obligation on the vested shares. The surrendered shares are canceled and are unavailable for reissue.

As of September 30, 2022, there was $2.6 million of total unrecognized compensation cost related to non-vested shares granted as restricted stock awards. The cost is expected to be recognized over the remaining weighted-average vesting period of approximately 1.87 years.

Note 10 - Fair Value Accounting and Measurement

Fair value is the price to sell an asset or transfer a liability in an orderly transaction between market participants in the Company's principal market. The Company has established and documented its process for determining the fair values of its assets and liabilities, where applicable. Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, management determines the fair value of the Company's assets and liabilities using valuation models or third-party pricing services, both of which rely on market-based parameters when available, such as interest rate yield curves, option volatilities and credit spreads, or unobservable inputs. Unobservable inputs may be based on management's judgment, assumptions, and estimates related to credit quality, liquidity, interest rates, and other relevant inputs.

Any changes to valuation methodologies are reviewed by management to ensure they are relevant and justified. Valuation methodologies are refined as more market-based data becomes available.

A three-level valuation hierarchy is used in determining fair value that is based on the transparency of the inputs used in the valuation process. The inputs used in determining fair value in each of the three levels of the hierarchy are as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Either: (i) quoted prices for similar assets or liabilities; (ii) observable inputs, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data.

Level 3 - Unobservable inputs.

The hierarchy gives the highest ranking to Level 1 inputs and the lowest ranking to Level 3 inputs. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the overall fair value measurement.

The Company used the following methods to measure fair value on a recurring and nonrecurring basis.

Securities available for sale and partnership investments: Where quoted prices are available in an active market, securities are classified as Level 1. Level 1 instruments include highly liquid government bonds, securities issued by the U.S. Treasury, and exchange-traded equity securities. If quoted prices are not available, management determines fair value using pricing models, quoted prices of similar securities, which are considered Level 2, or discounted cash flows. In certain cases, where there is limited activity in the market for an instrument, assumptions must be made to determine their fair value. Such instruments are classified as Level 3.

Sold loan servicing rights, at fair value: The fair value of sold loan servicing rights is determined through a discounted cash flow analysis, which uses interest rates, prepayment speeds, discount rates, and delinquency rate assumptions as inputs. Servicing rights are classified as Level 3 due to reliance on assumptions used in the valuation.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Assets and liabilities measured at fair value on a recurring basis - Assets and liabilities are considered to be valued on a recurring basis if fair value is measured regularly (i.e., daily, weekly, monthly, or quarterly). The following tables show the Company's assets measured at fair value on a recurring basis at the dates indicated:

	September 30, 2022			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In thousands)			
Securities available-for-sale				
Municipal bonds	$ 4,602	$ 91,528	$ —	$ 96,130
U.S. Treasury notes	2,355	—	—	2,355
Agency bonds	—	1,683	—	1,683
Corporate debt	5,208	50,957	—	56,165
MBS agency	—	78,231	—	78,231
MBS non-agency	—	94,872	—	94,872
Sold loan servicing rights	—	—	3,872	3,872
Partnership investments	—	12,490	—	12,490
	$ 12,165	$ 329,761	$ 3,872	$ 345,798

	December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In thousands)			
Securities available-for-sale				
Municipal bonds	$ 5,902	$ 107,462	$ —	$ 113,364
Agency bonds	—	1,920	—	1,920
ABS corporate	—	14,489	—	14,489
Corporate debt	6,061	53,728	—	59,789
SBA	—	14,680	—	14,680
MBS agency	—	79,962	—	79,962
MBS non-agency	—	60,008	—	60,008
Partnership investments	—	3,071	—	3,071
	$ 11,963	$ 335,320	$ —	$ 347,283

Table of Contents

The following table provides a description of the valuation technique, unobservable input, and qualitative information about the unobservable inputs for the Company's assets and liabilities classified as Level 3 and measured at fair value on a recurring basis at the date indicated:

September 30, 2022	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Sold loan servicing rights	$3,872	Discounted cash flow	Constant prepayment rate	6.20% - 16.07% (8.06%)
			Discount rate	11.88% - 16.38% (13.51%)

The following tables summarize the changes in Level 3 assets measured at fair value on a recurring basis at the dates indicated:

	As of or For the Three Months Ended September 30, 2022			
	Balance at July 1, 2022	Servicing rights that result from transfers and sale of financial assets	Changes in fair value due to changes in model inputs or assumptions (1)	Total
	(In thousands)			
Sold loan servicing rights	$ 3,865	$ 45	$ (38)	$ 3,872

(1) Represents changes due to collection/realization of expected cash flows and curtailments.

	As of or For the Nine Months Ended September 30, 2022			
	Election of Fair Value Option for Servicing Rights at January 1, 2022	Servicing rights that result from transfers and sale of financial assets	Changes in fair value due to changes in model inputs or assumptions (1)	Total
	(In thousands)			
Sold loan servicing rights	$ 3,820	$ 143	$ (91)	$ 3,872

(1) Represents changes due to collection/realization of expected cash flows and curtailments.

	As of or For the Nine Months Ended September 30, 2021				
	Balance at January 1, 2021	Transfers Out of Level 3 (1)	Purchases	Unrealized	Total
	(In thousands)				
Securities available for sale					
Corporate debt	$ 2,540	$ (2,540)	$ —	$ —	$ —
MBS non-agency	6,372	(6,372)	—	—	—
	$ 8,912	$ (8,912)	$ —	$ —	$ —

(1) Transferred from Level 3 to Level 2 after obtaining observable market data.

Assets and liabilities measured at fair value on a nonrecurring basis - Assets are considered to be valued on a nonrecurring basis if the fair value measurement of the instrument does not necessarily result in a change in the amount recorded on the consolidated balance sheets. Generally, nonrecurring valuation is the result of the application of other accounting pronouncements that require assets or liabilities to be assessed for impairment or recorded at the lower of cost or fair value.

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following tables present the Company's assets measured at fair value on a nonrecurring basis at the dates indicated:

	September 30, 2022			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Impaired loans	$ —	$ —	$ 5,105	$ 5,105

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Impaired loans	$ —	$ —	$ 3,195	$ 3,195

At September 30, 2022 and December 31, 2021, there were no impaired loans with discounts to appraisal disposition value or other unobservable inputs.

The following tables present the carrying value and estimated fair value of financial instruments at the dates indicated:

	September 30, 2022				
			Fair Value Measurements Using:		
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
			(In thousands)		
Financial assets					
Cash and cash equivalents	$ 103,663	$ 103,663	$ 103,663	$ —	$ —
Investment securities available for sale	329,436	329,436	12,165	317,271	—
Loans held for sale	263	263	—	263	—
Loans receivable, net	1,521,118	1,460,472	—	—	1,460,472
FHLB stock	11,961	11,961	—	11,961	—
Accrued interest receivable	6,655	6,655	—	6,655	—
Sold loan servicing rights, at fair value	3,872	3,872	—	—	3,872
Partnership investments	12,490	12,490	—	12,490	—
Financial liabilities					
Demand deposits	$ 1,251,110	$ 1,251,110	$ 1,251,110	$ —	$ —
Time deposits	354,125	344,911	—	—	344,911
FHLB Borrowings	241,000	234,470	—	—	234,470
Line of Credit	12,000	12,034	—	—	12,034
Subordinated debt, net	39,338	37,192	—	—	37,192
Accrued interest payable	105	105	—	105	—

FIRST NORTHWEST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	December 31, 2021				
			Fair Value Measurements Using:		
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
			(In thousands)		
Financial assets					
Cash and cash equivalents	$ 126,016	$ 126,016	$ 126,016	$ —	$ —
Investment securities available for sale	344,212	344,212	11,963	332,249	—
Loans held for sale	760	760	—	760	—
Loans receivable, net	1,350,260	1,328,589	—	—	1,328,589
FHLB stock	5,196	5,196	—	5,196	—
Accrued interest receivable	5,289	5,289	—	5,289	—
Sold loan servicing rights, net	3,282	3,820	—	—	3,820
Partnership investments	3,071	3,071	—	3,071	—
Financial liabilities					
Demand deposits	1,333,337	$ 1,333,337	$ 1,333,337	$ —	$ —
Time deposits	247,243	247,217	—	—	247,217
FHLB Borrowings	80,000	80,192	—	—	80,192
Subordinated debt, net	39,280	39,144	—	—	39,144
Accrued interest payable	393	393	—	393	—

Financial assets and liabilities other than investment securities are not traded in active markets. Estimated fair values require subjective judgments and are approximate. The estimates of fair value in the previous table are not necessarily representative of amounts that could be realized in actual market transactions, or of the underlying value of the Company. The methods and assumptions used by the Company in estimating fair values of financial instruments as set forth below in accordance with ASC Topic 825, *Financial Instruments*, as amended by ASU 2016-01 requiring public entities to use the exit price notion effective January 1, 2018, are as follows:

Loans receivable, net - At September 30, 2022, the fair value of loans is estimated by discounting the future cash flows using the current rate at which similar loans and leases would be made to borrowers with similar credit and for the same remaining maturities. Additionally, to be consistent with the requirements under FASB ASC Topic 820 for Fair Value Measurements and Disclosures, the loans were valued at a price that represents the Company's exit price or the price at which these instruments would be sold or transferred.

Note 11- Change in Accumulated Other Comprehensive Income ("AOCI")

Our AOCI includes unrealized gain (loss) on available-for-sale securities and an unrecognized defined benefit plan prior service cost. The following table presents changes to accumulated other comprehensive income after-tax for the periods shown:

	Unrealized Gains and Losses on Available-for-Sale Securities	Unrecognized Defined Benefit Plan Prior Service Cost, Net of Amortization	Total
		(In thousands)	
BALANCE, June 30, 2021	$ 5,260	$ (1,714)	$ 3,546
Other comprehensive loss before reclassification	(1,625)	—	(1,625)
Amounts reclassified from accumulated other comprehensive income	(1,016)	29	(987)
Net other comprehensive (loss) income	(2,641)	29	(2,612)
BALANCE, September 30, 2021	$ 2,619	$ (1,685)	$ 934
BALANCE, June 30, 2022	$ (26,653)	$ (1,794)	$ (28,447)
Other comprehensive loss before reclassification	(12,604)	—	(12,604)
Amounts reclassified from accumulated other comprehensive income	—	28	28
Net other comprehensive (loss) income	(12,604)	28	(12,576)
BALANCE, September 30, 2022	$ (39,257)	$ (1,766)	$ (41,023)
BALANCE, December 31, 2020	$ 5,442	$ —	$ 5,442
Other comprehensive loss before reclassification	(919)	(1,745)	(2,664)
Amounts reclassified from accumulated other comprehensive income	(1,904)	60	(1,844)
Net other comprehensive loss	(2,823)	(1,685)	(4,508)
BALANCE, September 30, 2021	$ 2,619	$ (1,685)	$ 934
BALANCE, December 31, 2021	$ 2,140	$ (1,852)	$ 288
Other comprehensive loss before reclassification	(41,304)	—	(41,304)
Amounts reclassified from accumulated other comprehensive income	(93)	86	(7)
Net other comprehensive (loss) income	(41,397)	86	(41,311)
BALANCE, September 30, 2022	$ (39,257)	$ (1,766)	$ (41,023)

Note 12- Business Combination

On July 23, 2021, the Bank acquired certain assets and assumed liabilities of the Sterling Bank and Trust of Southfield, Michigan ("Sterling") upon purchasing their sole branch located in Washington State. As a result of the Sterling transaction, the Bank has established a presence in Bellevue, Washington, and expanded its deposit base. Total consideration paid under the Sterling transaction consisted of $63.5 million in cash. There were no transfers of common stock or other equity instruments in connection with the transaction, and the Bank did not obtain any equity interests in Sterling.

The acquired assets and assumed liabilities were recorded in the Company's consolidated balance sheets at their estimated fair value as of the July 23, 2021, transaction date. The excess of the consideration transferred over the fair value of the identifiable net assets acquired was recorded as goodwill. The goodwill arising from the transaction consists largely of a premium paid for the deposit accounts.

In most instances, determining the estimated fair values of the acquired assets and assumed liabilities required the Bank to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at the appropriate rate of interest. Differences may arise between contractually required payments and the expected cash flows at the acquisition date due to items such as prepayments or early withdrawals, and other factors. Goodwill is expected to be fully deductible for income tax purposes as, under the terms of the transaction, the Bank purchased certain assets and assumed certain liabilities of Sterling but did not acquire any equity or other ownership interests.

The following table summarizes the fair value of consideration transferred, the estimated fair values of assets acquired and liabilities assumed as of the acquisition date, and the resulting goodwill relating to the transaction (in thousands):

	At July 23, 2021		
	Book Value	Fair Value Adjustment	Estimated Fair Value
		(In thousands)	
Cash consideration transferred			$ 63,545
Recognized amounts of identifiable assets acquired and liabilities assumed			
Identifiable assets acquired			
Core deposit intangible ("CDI")	$ —	$ 126	$ 126
Premises and equipment	459	—	459
Accrued interest receivable and other assets	755	—	755
Total identifiable assets acquired	1,214	126	1,340
Liabilities assumed			
Deposits	$ 65,096	$ (229)	$ 64,867
Accrued expenses and other liabilities	1,080	—	1,080
Total liabilities assumed	66,176	(229)	65,947
Total identifiable net liabilities assumed	(64,962)	355	(64,607)
Goodwill recognized			$ 1,062

CDI represents the value assigned to demand, interest checking, money market and savings accounts acquired as part of an acquisition. CDI represents the future economic benefit of the potential cost savings from acquiring core deposits as part of an acquisition compared to the cost of alternative funding sources. CDI is amortized to non-interest expense using an accelerated method based on an estimated runoff of related deposits over a period of ten years. CDI is evaluated for impairment and recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable, with any changes in estimated useful life accounted for prospectively over the revised remaining life.

ITEM 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Certain matters discussed in this Quarterly Report on Form 10-Q constitute forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by the use of words such as “believes,” “expects,” “anticipates,” “estimates” or similar expressions. Forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios;
- estimates of our risks and future costs and benefits; and
- statements concerning the continuing effects of the COVID-19 pandemic on the Bank's business and financial results and conditions.

These forward-looking statements are based on current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company’s control. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- the risks associated with lending and potential adverse changes in the credit quality of loans in our portfolio, particularly with respect to borrowers affected by the COVID-19 pandemic, natural disasters, or climate change;
- legislative or regulatory changes, including expanded consumer protection regulation and responses to inflation, climate change issues and the COVID-19 pandemic which could adversely affect the Company's business;
- a decrease in the market demand for loans that we originate for sale;
- our ability to control operating costs and expenses;
- whether our management team can implement our operational strategy, including but not limited to our efforts to achieve loan and revenue growth;
- our ability to successfully execute on merger and/or acquisition strategies and integrate any newly acquired assets, liabilities, customers, systems, and management personnel into our operations and our ability to realize related cost savings within expected time frames;
- our ability to successfully execute on growth strategies related to our entry into new markets;
- our ability to develop user-friendly digital applications to serve existing customers and attract new customers;
- the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation;
- changes in the levels of general interest rates, and the relative differences between short and long-term interest rates, deposit interest rates, our net interest margin and funding sources;
- increased competitive pressures among financial services companies, particularly from non-traditional banking entities such as challenger banks, fintech, and mega technology companies;
- our ability to attract and retain deposits;
- changes in consumer spending, borrowing and savings habits, resulting in reduced demand for banking products and services, particularly in the event of a recession that affects our market areas;
- results of examinations of us by the Washington State Department of Financial Institutions, Department of Banks, the Federal Deposit Insurance Corporation, Federal Reserve Bank of San Francisco, or other regulatory authorities, which could result in restrictions that may adversely affect our liquidity and earnings;
- legislative or regulatory changes that adversely affect our business;
- disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems or on the third-party vendors who perform several of our critical processing functions;
- the impacts related to or resulting from Russia's military action in Ukraine, including the broader impacts to financial markets and economic conditions;
- any failure of key third-party vendors to perform their obligations to us; and
- other economic, competitive, governmental, regulatory and technical factors affecting our operations, pricing, products and services and other risks described elsewhere in our filings with the Securities and Exchange Commission, including this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2021.

Further, statements about the potential effects of the COVID-19 pandemic on the Bank’s businesses and financial results and condition may constitute forward-looking statements and are subject to the risk that the actual effects may differ, possibly materially, from what is reflected in those forward-looking statements due to factors and future developments that are uncertain, unpredictable and in many cases beyond the Bank’s control, including the direct and indirect impact of the ongoing pandemic on the Bank, its customers and third parties. These developments could have an adverse impact on our financial position and our results of operations.

Any of the forward-looking statements that we make in this report and in other statements we make may turn out to be wrong because of inaccurate assumptions we might make, because of the factors illustrated above or because of other factors that we cannot anticipate or predict. Any forward-looking statements are based upon management’s beliefs and assumptions at the time they are made. We undertake no obligation to publicly update or revise any forward-looking statements included or incorporated by reference in this document or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. Due to these risks, uncertainties and assumptions, the forward-looking statements discussed in this report might not occur, and you should not put undue reliance on any forward-looking statements.

General

First Northwest Bancorp, a Washington corporation, is a financial holding company engaged in banking and financial activities, including those of its wholly owned subsidiary, First Fed Bank. The Company also has a controlling interest in Quin Ventures, Inc., a fintech joint venture formed in April 2021 focused on financial wellness and lifestyle protection products for consumers nationwide, and limited partnership investments. First Northwest's business activities are generally limited to passive investment activities and oversight of its investments in First Fed and Quin Ventures.

First Fed Bank is a community-oriented financial institution serving western Washington with offices in Clallam, Jefferson, King, Kitsap, and Whatcom counties. We have twelve full-service branches and two business centers. First Fed's business and operating strategy is focused on building sustainable earnings by delivering a fully array of financial products and services for individuals, small business, and commercial customers. Additionally, First Fed focuses on strategic partnerships with financial technology ("fintech") companies to develop and deploy digitally focused financial solutions to meet customers' needs on a broader scale. Lending activities include the origination of first lien one- to four-family mortgage loans, commercial and multi-family real estate loans, construction and land loans (including lot loans), commercial business loans, and consumer loans, consisting primarily of automobile loans as well as home equity loans and lines of credit. Over the last five years, we have significantly increased the origination of commercial real estate, multi-family real estate, construction, and commercial business loans, and more recently have increased our consumer loan portfolio through our manufactured home and auto loan purchase programs. We offer traditional consumer and business deposit products, including transaction accounts, savings and money market accounts and certificates of deposit for individuals and businesses. Deposits are our primary source of funding for our lending and investing activities.

First Northwest's limited partnership investments include Canapi Ventures Fund, L.P., BankTech Ventures, L.P., and JAM FINTOP Blockchain, L.P. These limited partnerships invest in fintech-related businesses with a focus on developing digital solutions applicable to the banking industry. In addition, First Northwest has invested in Meriwether Group Capital Hero Fund LP ("Hero Fund"), a private commercial lender focused on lower-middle market businesses, primarily in the Pacific Northwest. In September 2022, First Northwest completed an additional purchase and now holds a 33.3% interest in The Meriwether Group, LLC, a modern-day merchant bank focusing on providing entrepreneurs with resources to help them succeed. In October 2022, the Company completed an additional purchase and now holds a 25% equity interest in Meriwether Group Capital, LLC, which provides financial advice for borrowers and capital for the Hero Fund. The Meriwether Group, LLC, also holds a 20% interest in Meriwether Group Capital, LLC.

First Northwest is affected by prevailing economic conditions as well as government policies and regulations concerning, among other things, monetary and fiscal affairs, housing and financial institutions. Deposit flows are influenced by several factors, including interest rates paid on competing time deposits, alternative investment options available to our customers, account maturities, the number and quality of our deposit originators, digital delivery systems, branding and customer acquisition, and the overall level of personal income and savings in the markets where we do business. Lending activities are influenced by the demand for funds, our credit policies, the number and quality of our lenders and credit underwriters, digital delivery systems, branding and customer acquisition, and regional economic cycles.

Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income earned on our loans and investments and interest expense paid on our deposits and borrowings. Changes in levels of interest rates and cash flows from existing assets and liabilities affect our net interest income. A secondary source of income is noninterest income, which includes revenue we receive from providing products and services, including service charges on deposit accounts, late and other charges on loans, mortgage banking income, loan sales and servicing income, interest rate swap fee income, earnings from bank-owned life insurance, investment services income, and gains and losses from sales of securities.

An offset to net interest income is the provision for loan losses, which represents the periodic charge to operations that is required to adequately provide for losses inherent in our loan portfolio through our ALLL. A recapture of previously recognized provision for loan losses may be added to net income as credit metrics improve, such as a loan's risk rating, increased property values, improvements in the economic environment, or receipt of recoveries of amounts previously charged off.

Noninterest expenses we incur in operating our business consist of salaries and employee benefit costs, occupancy and equipment expenses, federal deposit insurance premiums and regulatory assessments, data processing expenses, marketing and other customer acquisition expenses, professional fees, expenses related to real estate and personal property owned, and other expenses.

Actions to Address Economic Uncertainties. Our business and consumer customers are subject to varying degrees of financial distress in the face of uncertainties presented by such factors as the continued development of COVID-19 variant infections, inflationary pressures, and the potential for economic recession. The commercial real estate sector has also been negatively impacted by the effects of COVID-19 on the hospitality, restaurant and food services industry, as well as changes in workforce behavior and demand for retail products. If commercial activity slows, it may result in lower demand for loans and other services we offer, as well the inability of customers to meet their loan obligations to us. We have taken specific actions to ensure that we have the balance sheet strength to serve our clients and communities, including managing our assets and liabilities in order to maintain liquidity and a strong capital position; however, future economic conditions are subject to significant uncertainty. While uncertainty exists, we believe we are well-positioned to operate effectively through the present economic environment.

Critical Accounting Policies

Effective January 1, 2022, the Bank elected to measure servicing rights using the fair value method of accounting. We record servicing rights on loans originated and subsequently sold into the secondary market. We stratify our capitalized servicing rights based on the type, term and interest rates of the underlying loans. Servicing rights are measured at fair value at each reporting date with the change reported in earnings. The value is determined through a discounted cash flow analysis, which uses interest rates, prepayment speeds and delinquency rate assumptions as inputs. All of these assumptions require a significant degree of management judgment. If our assumptions prove to be incorrect, the value of our mortgage servicing rights could be negatively affected.

There were no other material changes to the critical accounting policies from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Comparison of Financial Condition at September 30, 2022 and December 31, 2021

Assets*.* Total assets increased to $2.09 billion at September 30, 2022, from $1.92 billion at December 31, 2021.

Cash and cash equivalents decreased by $22.4 million, or 17.7%, to $103.7 million as of September 30, 2022, compared to $126.0 million as of December 31, 2021. Excess cash was deployed into the investment and loan portfolios as the Bank continued to build earning assets.

Net loans, excluding loans held for sale, increased $170.9 million to $1.52 billion at September 30, 2022, from $1.35 billion at December 31, 2021. During the nine months ended September 30, 2022, multi-family loans increased $70.9 million through new originations, and through $20.4 million of commercial construction and $13.0 million of acquisition-renovation construction loans converting into permanent amortizing loans. Auto and other consumer loans increased $40.3 million, as a result of a $16.0 million purchase of a pool of manufactured home loans, $10.3 million in individual manufactured home loan purchases, an increase in other consumer loans of $10.8 million, and a net increase in auto loans of $8.5 million, offset by payment activity. One- to four-family residential loans increased $40.1 million as $28.5 million in residential construction loans converted to permanent amortizing loans and new originations exceeded payments of loans. Home equity loans increased $10.9 million through $7.2 million in new fixed-rate originations and draws on unfunded commitments. Commercial business loans decreased $8.6 million, mainly as the result of a decrease in Northpointe Mortgage Participation Program ("Northpointe") of $26.3 million and PPP loans paid off year-to-date totaling $15.8 million, offset by $13.9 million in SBA loan originations, $8.1 million of Water Station Program loans, $6.3 million of Bankers Healthcare Group loan purchases and draws on unfunded commitments. Our participation in the Northpointe program is based on current funding needs of the program. Given the slowdown in the mortgage market, as well as recent funding raises by Northpointe, we do not anticipate significant activity in the near term.

Construction and land loans decreased $7.5 million, or 3.4%, to $217.2 million at September 30, 2022, from $224.7 million at December 31, 2021. Our construction loans are geographically dispersed throughout western Washington with two loans in Oregon and two loans in Idaho. We manage our construction lending by utilizing a licensed third-party vendor to assist us in monitoring the progress toward completion of our construction projects. We continue to monitor the impact of supply chain challenges, inflation and consumer demand in a rising interest rate environment on completion of the projects currently in our portfolio. As of the date of this report, we have no reason to believe that any of the projects in process will not be completed. At September 30, 2022, acquisition-renovation loans of $18.8 million were included in the construction loan total compared to $51.1 million at December 31, 2021. These commercial acquisition-renovation loans represent financing primarily for the acquisition of multi-family properties with a construction component used for the renovation of common areas and specific units of the building. Given the construction component of these loans, we are required to report them as construction under regulatory guidelines; however, we consider these loans to be lower risk than typical ground-up construction projects.

We monitor real estate values and general economic conditions in our market areas, in addition to assessing the strength of our borrowers, including their equity contributions to a project, to prudently underwrite construction loans. We continually assess our lending strategies across all product lines and markets where we do business to improve earnings while also prudently managing credit risk.

Table of Contents

The following tables show our construction commitments by type and geographic concentrations at the dates indicated:

September 30, 2022	North Olympic Peninsula (1)	Puget Sound Region (2)	Other Washington	Oregon	Idaho	Total
	(In thousands)					
Construction Commitment						
One- to four-family residential	$ 43,826	$ 72,413	$ 10,730	$ —	$ —	$ 126,969
Multi-family residential	—	143,202	8,761	415	3,592	155,970
Commercial acquisition-renovation	1,638	18,711	—	—	—	20,349
Commercial real estate	8,615	31,699	—	540	—	40,854
Total commitment	$ 54,079	$ 266,025	$ 19,491	$ 955	$ 3,592	$ 344,142
Construction Funds Disbursed						
One- to four-family residential	$ 18,565	$ 32,206	$ 2,634	$ —	$ —	$ 53,405
Multi-family residential	—	91,947	4,841	42	2,454	99,284
Commercial acquisition-renovation	1,445	17,316	—	—	—	18,761
Commercial real estate	8,823	26,286	—	11	—	35,120
Total disbursed	$ 28,833	$ 167,755	$ 7,475	$ 53	$ 2,454	$ 206,570
Undisbursed Commitment						
One- to four-family residential	$ 25,261	$ 40,207	$ 8,096	$ —	$ —	$ 73,564
Multi-family residential	—	51,255	3,920	373	1,138	56,686
Commercial acquisition-renovation	193	1,395	—	—	—	1,588
Commercial real estate	(208)	5,413	—	529	—	5,734
Total undisbursed	$ 25,246	$ 98,270	$ 12,016	$ 902	$ 1,138	$ 137,572
Land Funds Disbursed						
One- to four-family residential	$ 3,326	$ 3,368	$ 326	$ —	$ —	$ 7,020
Commercial real estate	—	3,585	—	—	—	3,585
Total disbursed for land	$ 3,326	$ 6,953	$ 326	$ —	$ —	$ 10,605

(1) Includes Clallam and Jefferson counties.
(2) Includes Kitsap, Mason, Thurston, Pierce, King, Snohomish, Skagit, Whatcom, and Island counties.

December 31, 2021	North Olympic Peninsula (1)	Puget Sound Region (2)	Other Washington	Oregon	Total
			(In thousands)		
Construction Commitment					
One- to four-family residential	$ 32,785	$ 57,050	$ 4,430	$ —	$ 94,265
Multi-family residential	—	182,151	4,095	8,435	194,681
Commercial acquisition-renovation	2,938	36,536	16,638	—	56,112
Commercial real estate	12,489	50,372	2,535	—	65,396
Total commitment	$ 48,212	$ 326,109	$ 27,698	$ 8,435	$ 410,454
Construction Funds Disbursed					
One- to four-family residential	$ 10,242	$ 28,929	$ 562	$ —	$ 39,733
Multi-family residential	—	79,707	2,414	7,534	89,655
Commercial acquisition-renovation	2,449	32,789	15,861	—	51,099
Commercial real estate	3,486	29,484	2,701	—	35,671
Total disbursed	$ 16,177	$ 170,909	$ 21,538	$ 7,534	$ 216,158
Undisbursed Commitment					
One- to four-family residential	$ 22,543	$ 28,121	$ 3,868	$ —	$ 54,532
Multi-family residential	—	102,444	1,681	901	105,026
Commercial acquisition-renovation	489	3,747	777	—	5,013
Commercial real estate	9,003	20,888	(166)	—	29,725
Total undisbursed	$ 32,035	$ 155,200	$ 6,160	$ 901	$ 194,296
Land Funds Disbursed					
One- to four-family residential	$ 3,502	$ 3,556	$ 191	$ —	$ 7,249
Commercial real estate	—	1,302	—	—	1,302
Total disbursed for land	$ 3,502	$ 4,858	$ 191	$ —	$ 8,551

During the nine months ended September 30, 2022, the Company originated $478.7 million of loans, of which $320.6 million, or 66.9%, were originated in the Puget Sound region, $94.7 million, or 19.8%, in the North Olympic Peninsula, $41.1 million, or 8.6%, in other areas throughout Washington State, and $22.4 million, or 4.7%, in other states. The Company purchased an additional $46.9 million in auto loans, $26.3 million in manufactured home loans, and $6.4 million in commercial business loans with collateral located throughout the United States during the nine months ended September 30, 2022. We will continue to evaluate opportunities to acquire assets through wholesale channels in order to supplement our organic originations and increase net interest income. Our total loan portfolio was comprised of 81.8% organic originations and 18.2% purchased loans at September 30, 2022.

Our ALLL increased to $16.3 million at September 30, 2022, as a $1.3 million loan loss provision was recorded for the nine-month period. Net charge-offs were $101,000 for the nine-month period. The loan loss provision was made to account for growth in the loan portfolio, adjusted for qualitative factors. We continue to monitor the economic impact of the COVID-19 pandemic and uncertain economic conditions, which is reflected in the qualitative factor adjustments. The ALLL as a percentage of total loans was 1.1% at both September 30, 2022 and December 31, 2021.

Nonperforming loans increased $2.1 million, or 154.7%, to $3.5 million at September 30, 2022, from $1.4 million at December 31, 2021, reflecting the deterioration of a $1.8 million speculative single-family home construction project and a $595,000 mortgage loan, offset by improvements in nonperforming auto and other consumer loans of $92,000, home equity loans of $95,000 and commercial real estate loans of $17,000. Nonperforming loans to total loans was 0.2% at September 30, 2022, up from 0.1% at December 31, 2021. The ALLL as a percentage of nonperforming loans decreased to 463% at September 30, 2022, from 1095% at December 31, 2021. A contract to sell the speculative single-family home was entered into subsequent to quarter end and the loan is expected to be paid off by year end.

At September 30, 2022, there were $1.8 million in restructured loans, of which $1.7 million were performing in accordance with their modified payment terms and are accruing loans. Classified loans decreased $7.4 million to $5.2 million at September 30, 2022, from $12.6 million at December 31, 2021, due to commercial real estate loan upgrades offset by declines in in two construction loans.

Loan charge-offs are concentrated mainly in our quin CoreCard program and indirect auto loan portfolio. The quin CoreCard program was frozen in October 2022, halting future losses. We stopped originating loans from one of our indirect auto loan product offerings in 2020 in order to reduce credit risk and future charge-off activity. The balance of indirect auto loans decreased to $5.9 million at September 30, 2022 from $10.6 million at December 31, 2021. We believe our ALLL is adequate to absorb the known and inherent risks of loss in the overall loan portfolio as of September 30, 2022.

Loans receivable, excluding loans held for sale, consisted of the following at the dates indicated**:**

	September 30, 2022	December 31, 2021	Increase (Decrease) Amount	Increase (Decrease) Percent
	(In thousands)			
Real Estate:				
One-to-four family	$ 335,067	$ 294,965	$ 40,102	13.6%
Multi-family	243,256	172,409	70,847	41.1
Commercial real estate	385,272	363,299	21,973	6.0
Construction and land	217,175	224,709	(7,534)	(3.4)
Total real estate loans	1,180,770	1,055,382	125,388	11.9
Consumer:				
Home equity	50,066	39,172	10,894	27.8
Auto and other consumer	223,100	182,769	40,331	22.1
Total consumer loans	273,166	221,941	51,225	23.1
Commercial business loans	71,269	79,838	(8,569)	(10.7)
Total loans	1,525,205	1,357,161	168,044	12.4
Less:				
Net deferred loan fees	3,519	4,772	(1,253)	(26.3)
Premium on purchased loans, net	(15,705)	(12,995)	(2,710)	20.9
Allowance for loan losses	16,273	15,124	1,149	7.6
Loans receivable, net	$ 1,521,118	$ 1,350,260	$ 170,858	12.7

The following table represents nonperforming assets at the dates indicated.

	September 30, 2022	December 31, 2021	Increase (Decrease) Amount	Percent
	(In thousands)			
Nonperforming loans:				
Real estate loans:				
One- to four-family	$ 1,089	$ 494	$ 595	120.4%
Commercial real estate	54	71	(17)	(23.9)
Construction and land	1,767	22	1,745	7,931.8
Total real estate loans	2,910	587	2,323	395.7
Consumer loans:				
Home equity	187	282	(95)	(33.7)
Auto and other consumer	420	512	(92)	(18.0)
Total consumer loans	607	794	(187)	(23.6)
Total nonperforming assets	$ 3,517	$ 1,381	$ 2,136	154.7
Nonaccrual and 90 days or more past due loans as a percentage of total loans	0.2%	0.1%	0.1%	100.0

Investment securities decreased $14.8 million, or 4.3%, to $329.4 million at September 30, 2022, from $344.2 million at December 31, 2021, as declines in mark-to-market valuation, sales, normal payments and prepayment activity outpaced purchases. The investment portfolio, including mortgage-backed securities, had an estimated projected average life of 8.4 years as of September 30, 2022, compared to 5.7 years as of December 31, 2021, and had an estimated average repricing term of 7.6 years as of September 30, 2022, compared to 5.4 years as of December 31, 2021, based on the interest rate environment at those times. We believe prepayment activity is likely to slow in a rising rate environment, extending the projected duration of our securities portfolio.

The investment portfolio was composed of 50.8% in amortizing securities at September 30, 2022, compared to 49.8% at December 31, 2021. The projected average life of our securities may vary due to prepayment activity, which, particularly in the mortgage-backed securities portfolio, is impacted by prevailing mortgage interest rates. Management maintains a focus on enhancing the mix of earning assets by originating loans as a percentage of earning assets; however, we may continue to purchase investment securities as a source of additional interest income. Securities are sold to provide liquidity, improve long-term portfolio yields, reduce LIBOR risk, and manage duration in the portfolio. For additional information, see Note 2 of the Notes to Consolidated Financial Statements contained in Item 1 of this Form 10-Q.

Liabilities. Total liabilities increased to $1.93 billion at September 30, 2022, from $1.73 billion at December 31, 2021, primarily due to an increase in borrowing of $173.0 million.

Deposit balances increased $24.7 million to $1.61 billion at September 30, 2022 from $1.58 billion at December 31, 2021. During the nine-month period ended September 30, 2022, there were increases of $106.9 million in certificates of deposits ("CDs") and $2.2 million in savings accounts offset by a $78.8 million decrease in money market accounts and a $5.6 million decrease in demand deposit accounts. Runoffs in commercial and public fund account balances of $50.3 million during the nine-month period ended September 30, 2022, was offset by increases in consumer account balances of $11.2 million and brokered CDs of $63.8 million. We utilize brokered CDs as an additional funding source in order to provide liquidity, manage cost of funds, reduce reliance on public funds deposits, and manage interest rate risk. Brokered CDs totaling $129.6 million were included in the $354.1 million balance of certificates of deposit at September 30, 2022.

FHLB advances increased 201.3% to $241.0 million at September 30, 2022, from $80.0 million at December 31, 2021. We increased short-term advances as strong loan demand outpaced deposit growth.

Equity. Total shareholders' equity decreased $33.9 million to $156.6 million for the nine months ended September 30, 2022. The Company recorded year-to-date net income of $9.6 million. The net income increase was offset by a decrease in the after-tax unrealized loss on available-for-sale investments of $41.4 million. All categories of the investment portfolio have been significantly impacted by the rising rate environment with 97.9% below book value at September 30, 2022. Year-to-date, we repurchased 131,672 shares of common stock under the October 2020 stock repurchase plan at an average price of $16.21 per share for a total of $2.1 million, leaving 526,698 shares remaining in the share repurchase program.

Table of Contents

Comparison of Results of Operations for the Three Months Ended September 30, 2022 and 2021

General. Net income attributable to the Company was $4.3 million for the three months ended September 30, 2022, compared to $4.2 million for the three months ended September 30, 2021. A $2.8 million increase in net interest income after provision for loan loss was offset by a $2.0 million decrease in noninterest income and a $1.4 million increase in noninterest expense.

Net Interest Income. Net interest income increased $2.9 million to $18.2 million for the three months ended September 30, 2022, from $15.4 million for the three months ended September 30, 2021. This increase was mainly the result of an increase in average earning assets of $156.6 million combined with an increase to the yield on average interest-earning assets of 54 basis points to 4.45% for the three months ended September 30, 2022, compared to 3.91% for the same period in the prior year.

The average cost of interest-bearing liabilities increased to 0.73% for the three months ended September 30, 2022, compared to 0.45% for the same period last year, due primarily to increases in the average balance in FHLB advances of $130.9 million in combination with higher rates paid on money market accounts, CDs and borrowings. Total cost of funds increased 23 basis points to 0.59% for the three months ended September 30, 2022, from 0.36% for the same period in 2021. The net interest margin increased 30 basis points to 3.88% for the three months ended September 30, 2022, from 3.58% for the same period in 2021, due to an improvement in our earning asset mix and expanding realized returns for both fixed and variable rate assets relative to funding costs.

Interest Income. Total interest income increased $4.1 million, or 24.3%, to $20.9 million for the three months ended September 30, 2022, from $16.8 million for the comparable period in 2021, primarily due to an increase in the average balances on interest-earning assets and improvement in the mix of assets. Interest and fees on loans receivable increased $3.2 million, to $17.8 million for the three months ended September 30, 2022, from $14.6 million for the three months ended September 30, 2021, primarily due to an increase in the average balance of net loans receivable of $189.7 million compared to the prior year. Average loan yields were 4.75% and 4.47% for the three months ended September 30, 2022 and 2021, respectively.

The following table compares average earning asset balances, associated yields, and resulting changes in interest income for the periods shown:

	Three Months Ended September 30,				
	2022		2021		
	Average Balance Outstanding	Yield	Average Balance Outstanding	Yield	Increase (Decrease) in Interest Income
			(Dollars in thousands)		
Loans receivable, net	$ 1,484,615	4.75%	$ 1,294,877	4.47%	$ 3,197
Investment securities	348,281	3.21	365,014	2.32	679
FHLB stock	9,269	6.08	4,061	4.01	101
Interest-earning deposits in banks	17,231	2.72	38,810	0.18	100
Total interest-earning assets	$ 1,859,396	4.45%	$ 1,702,762	3.91%	$ 4,077

Interest Expense. Total interest expense increased $1.2 million, or 85.9%, to $2.7 million for the three months ended September 30, 2022, compared to $1.4 million for the three months ended September 30, 2021, due to an increase in borrowing costs of $824,000 primarily related to additional FHLB borrowings in the current period along with an increase in interest expense on deposits of $401,000 given a 12 basis point increase in the average cost of interest-bearing deposits. The average balance of interest-bearing deposits increased $45.5 million, or 3.9%, to $1.22 billion for the three months ended September 30, 2022, from $1.18 billion for the three months ended September 30, 2021, due to core deposit growth in new and existing market areas.

During the three months ended September 30, 2022, interest expense increased on certificates of deposit and money market accounts due to increases in the average balances of $21.7 million and $3.6 million, respectively, along with increases in the average rates paid of 26 basis points and 12 basis points, compared to the three months ended September 30, 2021. During the same period, the average balances of interest-bearing demand and savings accounts increased $10.4 million and $9.7 million, respectively, with a 1 basis point increase in the average rate paid on interest-bearing demand and a 1 basis point decrease in the average rate paid on savings accounts, resulting in comparatively minor changes to interest expense. The average cost of interest-bearing deposit products increased to 0.41% for the three months ended September 30, 2022, from 0.29% for the three months ended September 30, 2021, due in large part to the expiration of promotional rates offered on CD products. Borrowing costs increased due to increases in both the average balance and cost of overnight FHLB advances, which are more sensitive to Federal Reserve Bank rate increases, compared to the same period in 2021.

The following table details average balances, cost of funds and the change in interest expense for the periods shown:

	Three Months Ended September 30,				
	2022		2021		
	Average Balance Outstanding	Rate	Average Balance Outstanding	Rate	Increase (Decrease) in Interest Expense
	(Dollars in thousands)				
Transaction accounts	$ 190,542	0.03%	$ 180,162	0.02%	$ 5
Money market accounts	556,434	0.33	552,811	0.21	177
Savings accounts	198,403	0.05	188,664	0.06	(4)
Certificates of deposit	279,169	1.06	257,459	0.80	223
Advances	182,554	2.18	51,613	1.43	819
Subordinated debt	39,326	3.98	39,249	3.94	5
Total interest-bearing liabilities	$ 1,446,428	0.73%	$ 1,269,958	0.45%	$ 1,225

Provision for Loan Losses. The Company recorded a $750,000 loan loss provision during the third quarter of 2022. This compares to a provision for loan losses of $700,000 for the three months ended September 30, 2021. The provision reflects loan growth, higher charge-offs and an assessment of dynamic economic conditions, offset by continued stable credit quality metrics.

The following table details activity and information related to the ALLL for the periods shown:

	Three Months Ended September 30,	
	2022	2021
	(Dollars in thousands)	
Provision for loan losses	$ 750	$ 700
Net charge-offs	(224)	(45)
Allowance for loan losses	16,273	15,243
Allowance for losses as a percentage of total gross loans receivable at period end	1.1%	1.1%
Total nonaccrual loans	3,517	1,183
Allowance for loan losses as a percentage of nonaccrual loans at period end	462.7%	1288.5%
Nonaccrual and 90 days or more past due loans as a percentage of total loans	0.2%	0.1%
Total loans	$ 1,525,205	$ 1,352,878

Noninterest Income. Noninterest income decreased $2.0 million, or 45.5%, to $2.3 million for the three months ended September 30, 2022, from $4.3 million for the three months ended September 30, 2021. The increase in loan and deposit service fees was primarily driven by late fee income from loans; other income reflects a valuation increase of $231,000 recorded on our partnership fintech investments compared to a gain of $79,000 in the same period in 2021, offset by a decline in ARC loan fee income of $114,000. Increases were also offset by a decline of $576,000 in gain on sales of mortgage loans over the same period in 2021 as rising mortgage loan rates and lack of single-family home borrowing demand resulted in a decline in saleable loans, as well as a decline of $1.3 million from investment securities sales as there were no sales in the current quarter compared to the same period in 2021. The $609,000 decline in sold loan servicing fee income over the three months ended September 30, 2021, reflects a fair market value decrease in the loan servicing rights asset.

The following table provides a detailed analysis of the changes in the components of noninterest income for the periods shown:

	Three Months Ended September 30,		Increase (Decrease)	
	2022	2021	Amount	Percent
	(Dollars in thousands)			
Loan and deposit service fees	$ 1,302	$ 1,015	$ 287	28.3%
Sold loan servicing fees	206	815	(609)	(74.7)
Net gain on sale of loans	285	660	(375)	(56.8)
Net gain on sale of investment securities	—	1,286	(1,286)	(100.0)
Increase in cash surrender value of bank-owned life insurance	221	241	(20)	(8.3)
Other income	320	269	51	19.0
Total noninterest income	$ 2,334	$ 4,286	$ (1,952)	(45.5)%

Noninterest Expense. Noninterest expense increased $1.4 million, or 10.3%, to $15.4 million for the three months ended September 30, 2022, compared to $13.9 million for the three months ended September 30, 2021. The increase over the third quarter of 2021 was due to higher Quin Ventures expenses, mainly related to compensation and advertising, and reflects increases in Bank compensation expense as well as other costs associated with our expansion of two new retail locations, technology enhancements for data and digital banking, and higher professional fees.

The following table provides an analysis of the changes in the components of noninterest expense for the periods shown:

	Three Months Ended September 30,		Increase (Decrease)	
	2022	2021	Amount	Percent
	(Dollars in thousands)			
Compensation and benefits	$ 9,045	$ 8,713	$ 332	3.8%
Data processing	1,778	1,568	210	13.4
Occupancy and equipment	1,499	1,106	393	35.5
Supplies, postage, and telephone	322	279	43	15.4
Regulatory assessments and state taxes	365	335	30	9.0
Advertising	645	547	98	17.9
Professional fees	695	422	273	64.7
FDIC insurance premium	219	134	85	63.4
Other expense	807	830	(23)	(2.8)
Total noninterest expense	$ 15,375	$ 13,934	$ 1,441	10.3%

Provision for Income Tax. An income tax expense of $818,000 was recorded for the three months ended September 30, 2022, compared to $946,000 for the three months ended September 30, 2021. There was a year-over-year decrease in income before taxes of $591,000 reflecting the decrease in pre-tax income. For additional information, see Note 6 of the Notes to Consolidated Financial Statements contained in Item 1 of this Form 10-Q.

Comparison of Results of Operations for the Nine Months Ended September 30, 2022 and 2021

General. Net income attributable to the Company was $9.6 million for the nine months ended September 30, 2022, compared to $10.3 million for the nine months ended September 30, 2021. A $8.5 million increase in net interest income after provision for loan loss was offset by a $3.9 million decrease in noninterest income and a $7.4 million increase in noninterest expense.

Net Interest Income. Net interest income increased $8.5 million to $50.9 million for the nine months ended September 30, 2022, from $42.5 million for the nine months ended September 30, 2021. This increase was mainly the result of an increase in average earning assets of $193.6 million. The yield on average interest-earning assets increased 35 basis points to 4.16% for the nine months ended September 30, 2022, compared to 3.81% for the same period in the prior year, due to an increase in the average net loans receivable balance, higher loan yields, and an increase in yields earned on investment securities.

The average cost of interest-bearing liabilities increased to 0.55% for the nine months ended September 30, 2022, compared to 0.44% for the same period last year, due primarily to an increase in the average balance of borrowings related to additional FHLB advances. Total cost of funds increased 9 basis points to 0.44% for the nine months ended September 30, 2022, from 0.35% for the same period in 2021. The net interest margin increased 25 basis points to 3.73% for the nine months ended September 30, 2022, from 3.48% for the same period in 2021.

Interest Income. Total interest income increased $10.3 million, or 22.1%, to $56.7 million for the nine months ended September 30, 2022, from $46.5 million for the comparable period in 2021, primarily due to an increase in the average balances on interest-earning assets. Interest and fees on loans receivable increased $8.4 million, to $48.4 million for the nine months ended September 30, 2022, from $40.0 million for the nine months ended September 30, 2021, primarily due to an increase in the average balance of net loans receivable of $209.0 million compared to the prior year, coupled with an increase in average loan yields to 4.56% for the nine months ended September 30, 2022, from 4.42% for the same period in 2021. The yield earned on investment securities also increased 67 basis points to 2.91% compared to the same period in 2021.

Table of Contents

The following table compares average earning asset balances, associated yields, and resulting changes in interest income for the periods shown:

	Nine Months Ended September 30,				
	2022		2021		
	Average Balance Outstanding	Yield	Average Balance Outstanding	Yield	Increase (Decrease) in Interest Income
			(Dollars in thousands)		
Loans receivable, net	$ 1,418,734	4.56%	$ 1,209,710	4.42%	$ 8,407
Investment securities	358,419	2.91	376,463	2.24	1,511
FHLB stock	7,605	5.50	3,982	4.43	181
Interest-earning deposits in banks	39,976	0.68	41,024	0.15	156
Total interest-earning assets	$ 1,824,734	4.16%	$ 1,631,179	3.81%	$ 10,255

Interest Expense. Total interest expense increased $1.8 million, or 45.4%, to $5.8 million for the nine months ended September 30, 2022, compared to $4.0 million for the nine months ended September 30, 2021, due to an increase in borrowing costs of $1.7 million primarily related to additional FHLB advances. The average balance of interest-bearing deposits increased $88.1 million, or 7.8%, to $1.22 billion for the nine months ended September 30, 2022, from $1.14 billion for the nine months ended September 30, 2021, due to core deposit growth in new and existing market areas. Average deposit account balances were composed of 78% in interest-bearing deposits and 22% in noninterest-bearing deposits at September 30, 2022.

During the nine months ended September 30, 2022, interest expense decreased on certificates of deposit due to a decrease in the average balances of $20.2 million, along with an increase in the average rates paid of 1 basis point, compared to the nine months ended September 30, 2021. During the same period, the average balances of money market accounts increased $70.6 million, with a 2 basis point average rate increase, resulting in an increase to interest expense. The average cost of interest-bearing deposit accounts decreased to 0.30% for the nine months ended September 30, 2022, from 0.31% for the nine months ended September 30, 2021, due in large part to the expiration of promotional rates and a shift in deposit mix to higher levels of transaction accounts. Borrowing costs increased due to increases in both the average balance and cost of FHLB advances compared to the same period in 2021 and the issuance of subordinated debt in March 2021.

The following table details average balances, cost of funds and the change in interest expense for the periods shown:

	Nine Months Ended September 30,				
	2022		2021		
	Average Balance Outstanding	Rate	Average Balance Outstanding	Rate	Increase (Decrease) in Interest Expense
			(Dollars in thousands)		
Transaction accounts	$ 194,568	0.04%	$ 170,482	0.02%	$ 30
Money market accounts	576,019	0.25	505,379	0.23	237
Savings accounts	196,170	0.05	182,604	0.07	(26)
Certificates of deposit	256,508	0.80	276,748	0.79	(86)
Advances	138,470	1.77	52,975	1.41	1,277
Subordinated debt	39,301	4.02	27,371	3.95	374
Total interest-bearing liabilities	$ 1,401,036	0.55%	$ 1,215,559	0.44%	$ 1,806

Provision for Loan Losses. The Company recorded a $1.3 million loan loss provision during the nine months ended September 30, 2022, compared to a provision for loan losses of $1.5 million for the nine months ended September 30, 2021. The provision reflects loan growth and changing economic conditions, offset by stable credit quality metrics.

The following table details activity and information related to the ALLL for the periods shown:

	Nine Months Ended September 30,	
	2022	2021
	(Dollars in thousands)	
Provision for loan losses	$ 1,250	$ 1,500
Net charge-offs	(101)	(104)
Allowance for loan losses	16,273	15,243
Allowance for losses as a percentage of total gross loans receivable at period end	1.1%	1.1%
Total nonaccrual loans	3,517	1,183
Allowance for loan losses as a percentage of nonaccrual loans at period end	462.7%	1288.5%
Nonaccrual and 90 days or more past due loans as a percentage of total loans	0.2%	0.1%
Total loans	$ 1,525,205	$ 1,352,878

Noninterest Income. Noninterest income decreased $3.9 million, or 35.9%, to $7.0 million for the nine months ended September 30, 2022, from $10.9 million for the nine months ended September 30, 2021. The year-over-year change in loan and deposit service fees included increases in commercial loan late fees of $292,000, business deposit account fee income of $174,000, deposit account overdraft fees of $131,000 and deposit account interchange fee income of $74,000. Other income increased due to higher ARC loan fee income of $228,000 in the current year-to-date period compared to the same period in 2021 and Quin Ventures subscription fee income of $130,000, offset by a year-over-year decrease of $237,000 in the recorded value of our partnership fintech investments. Increases in fee income and other income were offset by a decline of $2.5 million in gain on sales of mortgage loans over the same period in 2021 as rising mortgage loan rates and lack of single-family home loan demand continue to dampen mortgage loan sales, and a decline of $2.3 million in investment securities sales during the current year compared to the same period in 2021.

The following table provides a detailed analysis of the changes in the components of noninterest income for the periods shown:

	Nine Months Ended September 30,		Increase (Decrease)	
	2022	2021	Amount	Percent
		(Dollars in thousands)		
Loan and deposit service fees	$ 3,566	$ 2,853	$ 713	25.0%
Sold loan servicing fees	665	858	(193)	(22.5)
Net gain on sale of loans	769	3,014	(2,245)	(74.5)
Net gain on sale of investment securities	118	2,410	(2,292)	(95.1)
Increase in cash surrender value of bank-owned life insurance	686	727	(41)	(5.6)
Other income	1,155	1,000	155	15.5
Total noninterest income	$ 6,959	$ 10,862	$ (3,903)	(35.9)%

Noninterest Expense. Noninterest expense increased $7.4 million, or 18.7%, to $47.2 million for the nine months ended September 30, 2022, compared to $39.7 million for the nine months ended September 30, 2021. Quin Ventures launched the Credit Builder product during the second quarter of 2022 and, as a result, a portion of the costs which were previously capitalized to software during the development phase were expensed. Additional Quin Ventures expenses resulted in increases to advertising, compensation, depreciation and data processing. Noninterest expenses attributable to Quin Ventures for the nine months ended September 30, 2022, totaled $3.9 million. We expect expenses related to Quin Ventures to decline in future quarters. The Bank also recorded increases over the same period in 2021 in compensation expense as we added staff to manage the company and enhance data and fintech infrastructure, as well as costs associated with expanding our footprint with two new locations. The Bank also invested in technology enhancements for core and digital banking products to support digital initiatives and customer relationship management tools. Regulatory assessments and state taxes were higher due to an increase in taxable income compared to the same period in 2021 combined with an accrual for regulatory exams in the current year.

The following table provides an analysis of the changes in the components of noninterest expense for the periods shown:

	Nine Months Ended September 30,		Increase (Decrease)	
	2022	2021	Amount	Percent
		(Dollars in thousands)		
Compensation and benefits	$ 27,583	$ 24,567	$ 3,016	12.3%
Data processing	5,420	4,426	994	22.5
Occupancy and equipment	4,098	3,139	959	30.6
Supplies, postage, and telephone	1,043	876	167	19.1
Regulatory assessments and state taxes	1,167	897	270	30.1
Advertising	2,802	1,484	1,318	88.8
Professional fees	1,883	1,588	295	18.6
FDIC insurance premium	653	450	203	45.1
Other expense	2,520	2,308	212	9.2
Total noninterest expense	$ 47,169	$ 39,735	$ 7,434	18.7%

Provision for Income Tax. An income tax expense of $1.8 million was recorded for the nine months ended September 30, 2022, compared to $2.1 million for the nine months ended September 30, 2021. There was a year-over-year decrease in income before taxes of $2.6 million; however, the expense recorded for the nine months ended September 30, 2021, included a tax accrual true-up. The current year provision includes accruals for both federal and state income taxes, resulting in a higher effective tax rate. The provision for state income tax began in the second quarter of 2022 with respect to certain states in which we have employees and collateral for loans, thereby creating nexus in those states for income tax purposes. For additional information, see Note 6 of the Notes to Consolidated Financial Statements contained in Item 1 of this Form 10-Q.

Average Balances, Interest and Average Yields/Cost

The following tables set forth, for the periods indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities, resultant yields, interest rate spread, net interest margin (otherwise known as net yield on interest-earning assets), and the ratio of average interest-earning assets to average interest-bearing liabilities. Also presented is the weighted average yield on interest-earning assets, rates paid on interest-bearing liabilities and the net spread as of September 30, 2022 and 2021. Income and all average balances are monthly average balances, which management deems to be not materially different than daily averages. Nonaccrual loans have been included in the table as loans carrying a zero yield.

	Three Months Ended September 30,					
	2022			2021		
	Average Balance Outstanding	Interest Earned/ Paid	Yield/ Rate	Average Balance Outstanding	Interest Earned/ Paid	Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans receivable, net (1)	$ 1,484,615	$ 17,778	4.75%	$ 1,294,877	$ 14,581	4.47%
Investment securities	348,281	2,817	3.21	365,014	2,138	2.32
FHLB dividends	9,269	142	6.08	4,061	41	4.01
Interest-earning deposits in banks	17,231	118	2.72	38,810	18	0.18
Total interest-earning assets (2)	1,859,396	20,855	4.45	1,702,762	16,778	3.91
Noninterest-earning assets	137,369			107,781		
Total average assets	$ 1,996,765			$ 1,810,543		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 190,542	$ 16	0.03	$ 180,162	$ 11	0.02
Money market accounts	556,434	468	0.33	552,811	291	0.21
Savings accounts	198,403	24	0.05	188,664	28	0.06
Certificates of deposit	279,169	743	1.06	257,459	520	0.80
Total interest-bearing deposits (3)	1,224,548	1,251	0.41	1,179,096	850	0.29
Advances	182,554	1,005	2.18	51,613	186	1.43
Subordinated debt	39,326	395	3.98	39,249	390	3.94
Total interest-bearing liabilities	1,446,428	2,651	0.73	1,269,958	1,426	0.45
Noninterest-bearing deposits (3)	342,944			314,677		
Other noninterest-bearing liabilities	39,129			35,144		
Total average liabilities	1,828,501			1,619,779		
Average equity	168,264			190,764		
Total average liabilities and equity	$ 1,996,765			$ 1,810,543		
Net interest income		$ 18,204			$ 15,352	
Net interest rate spread			3.72			3.46
Net earning assets	$ 412,968			$ 432,804		
Net interest margin (4)			3.88			3.58
Average interest-earning assets to average interest-bearing liabilities	128.6%			134.1%		

(1) The average loans receivable, net balances include nonaccrual loans.
(2) Includes interest-earning deposits (cash) at other financial institutions.
(3) Cost of all deposits, including noninterest-bearing demand deposits, was 0.32% and 0.23% for the three months ended September 30, 2022 and 2021, respectively.
(4) Net interest income divided by average interest-earning assets.

	Nine Months Ended September 30,					
	2022			2021		
	Average Balance Outstanding	Interest Earned/ Paid	Yield/ Rate	Average Balance Outstanding	Interest Earned/ Paid	Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans receivable, net (1)	$ 1,418,734	$ 48,395	4.56%	$ 1,209,710	$ 39,988	4.42%
Total investment securities	358,419	7,807	2.91	376,463	6,296	2.24
FHLB dividends	7,605	313	5.50	3,982	132	4.43
Interest-earning deposits in banks	39,976	202	0.68	41,024	46	0.15
Total interest-earning assets (2)	1,824,734	56,717	4.16	1,631,179	46,462	3.81
Noninterest-earning assets	129,004			100,662		
Total average assets	$ 1,953,738			$ 1,731,841		
Interest-bearing liabilities:						
Interest-bearing demand deposits (3)	$ 194,568	$ 58	0.04	$ 170,482	$ 28	0.02
Money market accounts	576,019	1,089	0.25	505,379	852	0.23
Savings accounts	196,170	76	0.05	182,604	102	0.07
Certificates of deposit	256,508	1,541	0.80	276,748	1,627	0.79
Total interest-bearing deposits	1,223,265	2,764	0.30	1,135,213	2,609	0.31
Advances	138,470	1,837	1.77	52,975	560	1.41
Subordinated debt	39,301	1,183	4.02	27,371	809	3.95
Total interest-bearing liabilities	1,401,036	5,784	0.55	1,215,559	3,978	0.44
Noninterest-bearing deposits (3)	338,745			300,903		
Other noninterest-bearing liabilities	36,934			27,666		
Total average liabilities	1,776,715			1,544,128		
Average equity	177,023			187,713		
Total average liabilities and equity	$ 1,953,738			$ 1,731,841		
Net interest income		$ 50,933			$ 42,484	
Net interest rate spread			3.60			3.37
Net earning assets	$ 423,698			$ 415,620		
Net interest margin (4)			3.73			3.48
Average interest-earning assets to average interest-bearing liabilities	130.2%			134.2%		

(1) The average loans receivable, net balances include nonaccrual loans.
(2) Includes interest-earning deposits (cash) at other financial institutions.
(3) Cost of all deposits, including noninterest-bearing demand deposits, was 0.24% for each of the nine months ended September 30, 2022 and 2021.
(4) Net interest income divided by average interest-earning assets.

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes related to outstanding balances and changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e., changes in volume multiplied by old rate) and (ii) changes in rate (i.e., changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	Three Months Ended September 30, 2022 vs. 2021 Increase (Decrease) Due to			Nine Months Ended September 30, 2022 vs. 2021 Increase (Decrease) Due to		
	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
		(In thousands)			(In thousands)	
Interest-earning assets:						
Loans receivable, net	$ 2,144	$ 1,053	$ 3,197	$ 6,916	$ 1,491	$ 8,407
Investments	(98)	777	679	(302)	1,813	1,511
FHLB stock	53	48	101	120	61	181
Other (1)	(10)	110	100	(1)	157	156
Total interest-earning assets	$ 2,089	$ 1,988	$ 4,077	$ 6,733	$ 3,522	$ 10,255
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 1	$ 4	$ 5	$ 4	$ 26	$ 30
Money market accounts	2	175	177	119	118	237
Savings accounts	1	(5)	(4)	8	(34)	(26)
Certificates of deposit	44	179	223	(119)	33	(86)
Advances	472	347	819	904	373	1,277
Subordinated debt	1	4	5	353	21	374
Total interest-bearing liabilities	$ 521	$ 704	$ 1,225	$ 1,269	$ 537	$ 1,806
Net change in interest income	$ 1,568	$ 1,284	$ 2,852	$ 5,464	$ 2,985	$ 8,449

(1) Includes interest-earning deposits (cash) at other financial institutions.

Off-Balance Sheet Activities

In the normal course of operations, First Fed engages in a variety of financial transactions that are not recorded in the financial statements. These transactions involve varying degrees of off-balance sheet credit, interest rate and liquidity risks. These transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. For the nine months ended September 30, 2022 and the year ended December 31, 2021, we engaged in no off-balance sheet transactions likely to have a material effect on our financial condition, results of operations or cash flows.

Contractual Obligations

At September 30, 2022, our scheduled maturities of contractual obligations were as follows:

	Within 1 Year	After 1 Year Through 3 Years	After 3 Years Through 5 Years	Beyond 5 Years	Total Balance
			(In thousands)		
Certificates of deposit	$ 242,591	$ 94,966	$ 16,568	$ —	$ 354,125
FHLB advances	176,000	30,000	25,000	10,000	241,000
Line of credit	12,000	—	—	—	12,000
Subordinated debt obligation	—	—	—	39,338	39,338
Operating leases	814	1,728	1,781	4,150	8,473
Borrower taxes and insurance	2,224	—	—	—	2,224
Deferred compensation	82	87	79	753	1,001
Total contractual obligations	$ 433,711	$ 126,781	$ 43,428	$ 54,241	$ 658,161

Commitments and Off-Balance Sheet Arrangements

The following table summarizes our commitments and contingent liabilities with off-balance sheet risks as of September 30, 2022:

	Amount of Commitment Expiration				
	Within 1 Year	After 1 Year Through 3 Years	After 3 Years Through 5 Years	Beyond 5 Years	Total Amounts Committed
			(In thousands)		
Commitments to originate loans:					
Fixed-rate	$ 363	$ —	$ —	$ —	$ 363
Variable-rate	350	—	—	—	350
Unfunded commitments under lines of credit or existing loans	78,989	35,841	6,032	110,346	231,208
Standby letters of credit	566	58	—	200	824
Total commitments	$ 80,268	$ 35,899	$ 6,032	$ 110,546	$ 232,745

Liquidity Management

Liquidity is the ability to meet current and future financial obligations of a short-term and long-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities, and borrowings from the FHLB. While maturities and scheduled amortization of loans and securities are usually predictable sources of funds, deposit flows, calls of investment securities and borrowed funds, and prepayments on loans and investment securities are greatly influenced by general interest rates, economic conditions and competition, which can cause those sources of funds to fluctuate.

Management regularly adjusts our investments in liquid assets based upon an assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and securities, and the objectives of our interest-rate risk and investment policies.

Our most liquid assets are cash and cash equivalents followed by available-for-sale securities. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At September 30, 2022, cash and cash equivalents totaling $103.7 million and unpledged securities classified as available-for-sale with a market value of $235.8 million provided additional sources of liquidity. The Bank pledged collateral of $503.7 million to support borrowings from the FHLB and has an established borrowing arrangement with the Federal Reserve Bank of San Francisco, for which available-for-sale securities with a market value of $9.0 million were pledged as of September 30, 2022. First Northwest has a $20.0 million borrowing arrangement with NexBank which is secured by First Northwest's personal property assets (with certain exclusions), including all the outstanding shares of First Fed, cash, loans receivable, and limited partnership investments.

At September 30, 2022, we had $713,000 in loan commitments outstanding and $232.0 million in undisbursed loans and standby letters of credit, including $137.6 million in undisbursed construction loan commitments.

Certificates of deposit due within one year as of September 30, 2022, totaled $242.6 million, or 68.5% of certificates of deposit with a weighted-average rate of 1.74%. We believe the large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for longer periods as market interest rates were in decline. If these maturing deposits are not renewed, however, we will be required to seek other sources of funds, including other certificates of deposit, non-maturity deposits, and borrowings. We have the ability to attract and retain deposits by adjusting the interest rates offered as well as through sales and marketing efforts in the markets we serve. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on certificates of deposit. In addition, we believe that our branch network, and the general cash flows from our existing lending and investment activities, will provide us more than adequate long-term liquidity. For additional information, see the Consolidated Statements of Cash Flows in Item 1 of this Form 10-Q.

The Company is a separate legal entity from the Bank and provides for its own liquidity. At September 30, 2022, the Company, on an unconsolidated basis, had liquid assets of $1.8 million. In addition to its operating expenses, the Company is responsible for paying dividends declared, if any, to its shareholders, funds paid for Company stock repurchases, payments on subordinated notes held at the Company level, payments on the NexBank revolving credit facility, and commitments to limited partnership investments. The Company has the ability to receive dividends or capital distributions from the Bank, although there are regulatory restrictions on the ability of the Bank to pay dividends. At September 30, 2022, First Northwest had contributed $8.0 million in partial fulfillment of its commitment to extend $15.0 million to Quin Ventures, Inc. under a capital financing agreement and related promissory note.

Capital Resources

At September 30, 2022, shareholders' equity totaled $156.6 million, or 7.5% of total assets. Our book value per share of common stock was $15.69 at September 30, 2022, compared to $19.10 at December 31, 2021.

At September 30, 2022, the Bank exceeded all regulatory capital requirements and was considered "well capitalized" under FDIC regulatory capital guidelines.

The following table provides the capital requirements and actual results for First Fed at September 30, 2022.

	Actual		Minimum Capital Requirements		Minimum Required to be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Tier I leverage capital (to average assets)	$ 210,720	10.5%	$ 80,308	4.0%	$ 100,385	5.0%
Common equity tier I (to risk-weighted assets)	$ 210,720	12.6	75,308	4.5	108,779	6.5
Tier I risk-based capital (to risk-weighted assets)	$ 210,720	12.6	100,411	6.0	133,881	8.0
Total risk-based capital (to risk-weighted assets)	$ 227,286	13.6	133,881	8.0	167,352	10.0

In order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses, the Bank must maintain common equity tier 1 capital ("CET1") at an amount greater than the required minimum levels plus a capital conservation buffer of 2.5%.

Effect of Inflation and Changing Prices

The consolidated financial statements and related financial data presented in this report have been prepared according to generally accepted accounting principles in the United States, which require the measurement of financial and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs and the effect that general inflation may have on both short-term and long-term interest rates. Unlike companies in many other industries, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Although inflation expectations do affect interest rates, interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There has not been any material change in the market risk disclosures contained in First Northwest Bancorp's Annual Report on Form 10-K for the year ended December 31, 2021.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) was carried out under the supervision and with the participation of the Company's Chief Executive Officer (Principal Executive Officer), Chief Financial Officer (Principal Financial and Accounting Officer), and other members of the Company's management team as of the end of the period covered by this quarterly report. The Company's Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2022, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in Internal Controls.

There have been no changes in the Company's internal control over financial reporting (as defined in 13a-15(f) of the Exchange Act) that occurred during the quarter ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company intends to continually review and evaluate the design and effectiveness of its disclosure controls and procedures and to improve its controls and procedures over time and to correct any deficiencies that it may discover in the future. The goal is to ensure that senior management has timely access to all material financial and non-financial information concerning the Company's business. While the Company believes the present design of its disclosure controls and procedures is effective to achieve its goal, future events affecting its business may cause the Company to modify its disclosure controls and procedures. The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent every error or instance of fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns in controls or procedures can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is engaged in legal proceedings in the ordinary course of business, none of which are currently considered to have a material impact on the Company's financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes to the risk factors set forth in Part I. Item 1A of the Company's Form 10-K for the year ended December 31, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) On September 2, 2022, First Northwest Bancorp (the "Company") issued 115,777 shares of the Company's common stock in the second closing under a Membership Interest Purchase Agreement dated June 30, 2022, as amended effective September 2, 2022, among the Company and the individual members of The Meriwether Group LLC ("Meriwether"). The shares had a total value of approximately $1,869,321 at the time of issuance and were issued to the individual members of Meriwether as partial consideration for the Company's purchase of a portion of their limited liability company interests in Meriwether. In exchange for the 115,777 shares of the Company's common stock, together with approximately $458,410 in cash, the Company received limited liability company interests totaling 28.33% of the percentage interests in Meriwether, bringing the Company's total percentage interest in Meriwether to 33.33%. The shares were issued in reliance on the exemption from registration provided in Section 4(a)(2) of the Securities Act of 1933, as amended.

(b) Not applicable.

(c) The following table summarizes common stock repurchases during the three months ended September 30, 2022:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans (2)	Maximum Number of Shares that May Yet Be Repurchased Under the Plans
July 1, 2022 - July 31, 2022	23,671	$ 16.14	19,863	585,889
August 1, 2022 - August 31, 2022	30,066	16.22	29,462	556,427
September 1, 2022 - September 30, 2022	30,821	16.09	29,729	526,698
Total	84,558	$ 16.15	79,054	

(1) Shares repurchased by the Company during the quarter include shares acquired from participants in connection with cancellation of restricted stock to pay withholding taxes totaling 3,808 shares, 604 shares, and 1,092 shares, respectively, for the periods indicated.
(2) On October 28, 2020, the Company announced that its Board of Directors had authorized the repurchase of up to an additional 1,023,420 shares of its common stock, or approximately 10% of its shares of common stock issued and outstanding as of October 27, 2020. As of September 30, 2022, a total of 496,722 shares, or 48.5% percent of the shares authorized in the October 2020 stock repurchase plan, have been purchased at an average cost of $16.83 per share, leaving 526,698 shares available for future purchases.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit No.	Exhibit Description	Filed Herewith	Form	Original Exhibit No.	Filing Date
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act	X			
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act	X			
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act	X			
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, formatted in Inline Extensible Business Reporting Language (iXBRL): (1) Consolidated Balance Sheets; (2) Consolidated Statements of Income; (3) Consolidated Statements of Comprehensive (Loss) Income; (4) Consolidated Statements of Changes in Shareholders' Equity; (5) Consolidated Statements of Cash Flows; and (6) Selected Notes to Consolidated Financial Statements				
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST NORTHWEST BANCORP

Date: November 10, 2022

/s/ Matthew P. Deines

Matthew P. Deines
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: November 10, 2022

/s/ Geraldine L. Bullard

Geraldine L. Bullard
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 31.1

Certification of Chief Executive Officer Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Matthew P. Deines, President, Chief Executive Officer and Director of First Northwest Bancorp, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Northwest Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fiscal fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions);

    a. All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2022

/s/Matthew P. Deines
Matthew P. Deines
President, Chief Executive Officer and Director
(Principal Executive Officer)

EXHIBIT 31.2

**Certification of Chief Financial Officer Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Geraldine Bullard, Executive Vice President and Chief Financial Officer of First Northwest Bancorp, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Northwest Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fiscal fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions);

    a. All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2022

/s/Geraldine Bullard
Geraldine Bullard
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32

**Certification of Chief Executive Officer and Chief Financial Officer of First Northwest Bancorp
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Each of the undersigned hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with this Quarterly Report on Form 10-Q, for the quarter ended September 30, 2022, that:

1. the report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in the report.

/s/Matthew P. Deines	/s/Geraldine Bullard
Matthew P. Deines	Geraldine Bullard
President, Chief Executive Officer and Director	Executive Vice President and Chief Financial Officer
(Principal Executive Officer)	(Principal Financial and Accounting Officer)

Dated: November 10, 2022