

**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, 2024

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 5, 2024, there were 9,360,666 shares of common stock, \$0.01 par value per share, outstanding.

**FIRST NORTHWEST BANCORP  
FORM 10-Q  
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As used in this report, "First Northwest" refers to First Northwest Bancorp and "First Fed" or the "Bank" refers to First Fed Bank, the wholly owned subsidiary of First Northwest. The terms "we," "our," "us," and "Company" refer to First Northwest together with First Fed, unless the context indicates otherwise. For periods prior to June 30, 2023, Company references also include Quin Ventures, Inc., a former First Northwest joint venture.

# 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, 2024  | December 31, 2023   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                                                                                                                                          |                     |                     |
| Cash and due from banks                                                                                                                                                | \$ 17,953           | \$ 19,845           |
| Interest-earning deposits in banks                                                                                                                                     | 64,769              | 103,324             |
| Investment securities available for sale, at fair value (amortized cost of \$341,011 and \$333,950, respectively)                                                      | 310,860             | 295,623             |
| Loans held for sale                                                                                                                                                    | 378                 | 753                 |
| Loans receivable (net of allowance for credit losses on loans of \$21,970 and \$17,510, respectively)                                                                  | 1,714,416           | 1,642,518           |
| Federal Home Loan Bank (FHLB) stock, at cost                                                                                                                           | 14,435              | 13,664              |
| Accrued interest receivable                                                                                                                                            | 8,939               | 7,894               |
| Premises and equipment, net                                                                                                                                            | 10,436              | 18,049              |
| Servicing rights on sold loans, at fair value                                                                                                                          | 3,584               | 3,793               |
| Bank-owned life insurance, net                                                                                                                                         | 41,429              | 40,578              |
| Equity and partnership investments                                                                                                                                     | 14,912              | 14,794              |
| Goodwill and other intangible assets, net                                                                                                                              | 1,083               | 1,086               |
| Deferred tax asset, net                                                                                                                                                | 10,802              | 13,001              |
| Right-of-use ("ROU") asset, net                                                                                                                                        | 17,315              | 6,047               |
| Prepaid expenses and other assets                                                                                                                                      | 24,175              | 20,828              |
| Total assets                                                                                                                                                           | <u>\$ 2,255,486</u> | <u>\$ 2,201,797</u> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                            |                     |                     |
| Deposits                                                                                                                                                               | \$ 1,711,641        | \$ 1,676,892        |
| Borrowings                                                                                                                                                             | 334,994             | 320,936             |
| Accrued interest payable                                                                                                                                               | 2,153               | 3,396               |
| Lease liability, net                                                                                                                                                   | 17,799              | 6,428               |
| Accrued expenses and other liabilities                                                                                                                                 | 25,625              | 29,545              |
| Advances from borrowers for taxes and insurance                                                                                                                        | 2,485               | 1,260               |
| Total liabilities                                                                                                                                                      | <u>2,094,697</u>    | <u>2,038,457</u>    |
| <b>Shareholders' Equity</b>                                                                                                                                            |                     |                     |
| 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 9,365,979 shares at September 30, 2024, and 9,611,876 shares at December 31, 2023 | 94                  | 96                  |
| Additional paid-in capital                                                                                                                                             | 93,218              | 95,784              |
| Retained earnings                                                                                                                                                      | 100,660             | 107,349             |
| Accumulated other comprehensive loss, net of tax                                                                                                                       | (26,424)            | (32,636)            |
| Unearned employee stock ownership plan (ESOP) shares                                                                                                                   | (6,759)             | (7,253)             |
| Total shareholders' equity                                                                                                                                             | <u>160,789</u>      | <u>163,340</u>      |
| Total liabilities and shareholders' equity                                                                                                                             | <u>\$ 2,255,486</u> | <u>\$ 2,201,797</u> |

See selected notes to the consolidated financial statements.

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

|                                                                         | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|-------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                         | 2024                                | 2023      | 2024                               | 2023      |
| <b>INTEREST INCOME</b>                                                  |                                     |           |                                    |           |
| Interest and fees on loans receivable                                   | \$ 23,536                           | \$ 21,728 | \$ 70,036                          | \$ 62,531 |
| Interest on investment securities                                       | 3,786                               | 3,368     | 11,367                             | 9,886     |
| Interest on deposits and other                                          | 582                                 | 524       | 1,798                              | 1,545     |
| FHLB dividends                                                          | 302                                 | 214       | 942                                | 628       |
| Total interest income                                                   | 28,206                              | 25,834    | 84,143                             | 74,590    |
| <b>INTEREST EXPENSE</b>                                                 |                                     |           |                                    |           |
| Deposits                                                                | 10,960                              | 7,699     | 31,252                             | 18,261    |
| Borrowings                                                              | 3,226                               | 3,185     | 10,708                             | 9,092     |
| Total interest expense                                                  | 14,186                              | 10,884    | 41,960                             | 27,353    |
| Net interest income                                                     | 14,020                              | 14,950    | 42,183                             | 47,237    |
| <b>PROVISION FOR CREDIT LOSSES</b>                                      |                                     |           |                                    |           |
| Provision for credit losses on loans                                    | 3,077                               | 880       | 12,956                             | 1,195     |
| Provision for (recapture of) credit losses on unfunded commitments      | 57                                  | (509)     | (113)                              | (1,024)   |
| Provision for credit losses                                             | 3,134                               | 371       | 12,843                             | 171       |
| Net interest income after provision for credit losses                   | 10,886                              | 14,579    | 29,340                             | 47,066    |
| <b>NONINTEREST INCOME</b>                                               |                                     |           |                                    |           |
| Loan and deposit service fees                                           | 1,059                               | 1,068     | 3,237                              | 3,273     |
| Sold loan servicing fees and servicing rights mark-to-market            | 10                                  | 98        | 303                                | 400       |
| Net gain on sale of loans                                               | 58                                  | 171       | 260                                | 405       |
| Net (loss) gain on sale of investment securities                        | —                                   | —         | (2,117)                            | —         |
| Net gain on sale of premises and equipment                              | —                                   | —         | 7,919                              | —         |
| Increase in cash surrender value of bank-owned life insurance           | 315                                 | 252       | 851                                | 668       |
| Other income                                                            | 337                                 | 1,315     | 861                                | 2,203     |
| Total noninterest income                                                | 1,779                               | 2,904     | 11,314                             | 6,949     |
| <b>NONINTEREST EXPENSE</b>                                              |                                     |           |                                    |           |
| Compensation and benefits                                               | 8,582                               | 7,795     | 25,298                             | 23,812    |
| Data processing                                                         | 2,085                               | 1,945     | 6,037                              | 6,063     |
| Occupancy and equipment                                                 | 1,553                               | 1,173     | 4,592                              | 3,596     |
| Supplies, postage, and telephone                                        | 360                                 | 292       | 970                                | 1,082     |
| Regulatory assessments and state taxes                                  | 548                                 | 446       | 1,518                              | 1,259     |
| Advertising                                                             | 409                                 | 501       | 1,095                              | 2,471     |
| Professional fees                                                       | 698                                 | 929       | 2,292                              | 2,619     |
| FDIC insurance premium                                                  | 533                                 | 369       | 1,392                              | 939       |
| Other expense                                                           | 1,080                               | 926       | 2,566                              | 2,623     |
| Total noninterest expense                                               | 15,848                              | 14,376    | 45,760                             | 44,464    |
| (Loss) income before (benefit) provision for income taxes               | (3,183)                             | 3,107     | (5,106)                            | 9,551     |
| (Benefit) provision for income taxes                                    | (1,203)                             | 603       | (1,303)                            | 1,903     |
| Net (loss) income                                                       | (1,980)                             | 2,504     | (3,803)                            | 7,648     |
| Net loss attributable to noncontrolling interest in Quin Ventures, Inc. | —                                   | —         | —                                  | 160       |
| Net (loss) income attributable to parent                                | \$ (1,980)                          | \$ 2,504  | \$ (3,803)                         | \$ 7,808  |
| Basic and diluted (loss) earnings per common share                      | \$ (0.23)                           | \$ 0.28   | \$ (0.43)                          | \$ 0.87   |

See selected notes to the consolidated financial statements.

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

|                                                                                               | Three Months Ended<br>September 30, |                   | Nine Months Ended<br>September 30, |                 |
|-----------------------------------------------------------------------------------------------|-------------------------------------|-------------------|------------------------------------|-----------------|
|                                                                                               | 2024                                | 2023              | 2024                               | 2023            |
| Net (loss) income                                                                             | \$ (1,980)                          | \$ 2,504          | \$ (3,803)                         | \$ 7,648        |
| Other comprehensive income (loss):                                                            |                                     |                   |                                    |                 |
| Unrealized holding gains (losses) on investments available for sale arising during the period | 8,076                               | (8,327)           | 6,059                              | (7,688)         |
| Tax effect                                                                                    | (1,732)                             | 1,787             | (1,300)                            | 1,873           |
| Amortization of unrecognized DB plan prior service cost                                       | 37                                  | 37                | 112                                | 113             |
| Tax effect                                                                                    | (8)                                 | (8)               | (24)                               | (24)            |
| Unrealized holding (losses) gains on derivatives                                              | (1,527)                             | 925               | (379)                              | 533             |
| Tax effect                                                                                    | 327                                 | (198)             | 81                                 | (114)           |
| Reclassification adjustment for net losses on sales of securities realized in income          | —                                   | —                 | 2,117                              | —               |
| Tax effect                                                                                    | —                                   | —                 | (454)                              | —               |
| Other comprehensive income (loss), net of tax                                                 | 5,173                               | (5,784)           | 6,212                              | (5,307)         |
| Comprehensive income (loss)                                                                   | 3,193                               | (3,280)           | 2,409                              | 2,341           |
| Comprehensive loss attributable to noncontrolling interest                                    | —                                   | —                 | —                                  | (160)           |
| Comprehensive income (loss) attributable to parent                                            | <u>\$ 3,193</u>                     | <u>\$ (3,280)</u> | <u>\$ 2,409</u>                    | <u>\$ 2,501</u> |

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, 2024 and 2023  
(Dollars in thousands, except share information) (Unaudited)

|                                                  | Common Stock     |              | Additional       | Retained          | Unearned          | Accumulated        | Noncontrolling | Total             |
|--------------------------------------------------|------------------|--------------|------------------|-------------------|-------------------|--------------------|----------------|-------------------|
|                                                  | Shares           | Amount       | Paid-in          | Earnings          | ESOP              | Other              | Interest       | Shareholders'     |
|                                                  |                  |              | Capital          |                   | Shares            | Comprehensive      |                | Equity            |
|                                                  |                  |              |                  |                   |                   | Loss,              |                |                   |
|                                                  |                  |              |                  |                   |                   | Net of Tax         |                |                   |
| <b>Balance at June 30, 2023</b>                  | 9,633,496        | \$ 96        | \$ 95,360        | \$ 111,750        | \$ (7,583)        | \$ (40,066)        | \$ —           | \$ 159,557        |
| Net income                                       |                  |              |                  | 2,504             |                   |                    | —              | 2,504             |
| Common stock repurchased                         | (1,073)          | —            | (10)             | (2)               |                   |                    |                | (12)              |
| Restricted stock award grants net of forfeitures | 1,918            | —            | —                |                   |                   |                    |                | —                 |
| Restricted stock awards canceled                 | (3,606)          | —            | (43)             |                   |                   |                    |                | (43)              |
| Other comprehensive loss, net of tax             |                  |              |                  |                   |                   | (5,784)            |                | (5,784)           |
| Share-based compensation expense                 |                  |              | 349              |                   |                   |                    |                | 349               |
| ESOP shares committed to be released             |                  |              | 2                |                   | 165               |                    |                | 167               |
| Cash dividends declared (\$0.07 per share)       |                  |              |                  | (673)             |                   |                    |                | (673)             |
| <b>Balance at September 30, 2023</b>             | <u>9,630,735</u> | <u>\$ 96</u> | <u>\$ 95,658</u> | <u>\$ 113,579</u> | <u>\$ (7,418)</u> | <u>\$ (45,850)</u> | <u>\$ —</u>    | <u>\$ 156,065</u> |
| <b>Balance at June 30, 2024</b>                  | 9,453,247        | \$ 94        | \$ 93,985        | \$ 103,322        | \$ (6,923)        | \$ (31,597)        | \$ —           | \$ 158,881        |
| Net loss                                         |                  |              |                  | (1,980)           |                   |                    | —              | (1,980)           |
| Common stock repurchased                         | (98,156)         | —            | (991)            | (23)              |                   |                    |                | (1,014)           |
| Restricted stock award grants net of forfeitures | 11,755           | —            | —                |                   |                   |                    |                | —                 |
| Restricted stock awards canceled                 | (867)            | —            | (8)              |                   |                   |                    |                | (8)               |
| Other comprehensive income, net of tax           |                  |              |                  |                   |                   | 5,173              |                | 5,173             |
| Share-based compensation expense                 |                  |              | 260              |                   |                   |                    |                | 260               |
| ESOP shares committed to be released             |                  |              | (28)             |                   | 164               |                    |                | 136               |
| Cash dividends declared (\$0.07 per share)       |                  |              |                  | (659)             |                   |                    |                | (659)             |
| <b>Balance at September 30, 2024</b>             | <u>9,365,979</u> | <u>\$ 94</u> | <u>\$ 93,218</u> | <u>\$ 100,660</u> | <u>\$ (6,759)</u> | <u>\$ (26,424)</u> | <u>\$ —</u>    | <u>\$ 160,789</u> |

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, 2024 and 2023  
(Dollars in thousands, except share information) (Unaudited)

|                                                                                               | Common Stock     |              | Additional       | Retained          | Unearned          | Accumulated        | Noncontrolling | Total             |
|-----------------------------------------------------------------------------------------------|------------------|--------------|------------------|-------------------|-------------------|--------------------|----------------|-------------------|
|                                                                                               | Shares           | Amount       | Paid-in          | Earnings          | ESOP              | Other              | Interest       | Shareholders'     |
|                                                                                               |                  |              | Capital          |                   | Shares            | Comprehensive      |                | Equity            |
|                                                                                               |                  |              |                  |                   |                   | Loss,              |                |                   |
|                                                                                               |                  |              |                  |                   |                   | Net of Tax         |                |                   |
| <b>Balance at December 31, 2022</b>                                                           | 9,703,581        | \$ 97        | \$ 95,508        | \$ 114,424        | \$ (7,913)        | \$ (40,543)        | \$ (3,291)     | \$ 158,282        |
| Net income                                                                                    |                  |              |                  | 7,808             |                   |                    | (160)          | 7,648             |
| Common stock repurchased                                                                      | (75,690)         | (1)          | (755)            | (224)             |                   |                    |                | (980)             |
| Restricted stock award grants net of forfeitures                                              | 18,256           | —            | —                |                   |                   |                    |                | —                 |
| Restricted stock awards canceled                                                              | (15,412)         | —            | (205)            |                   |                   |                    |                | (205)             |
| Other comprehensive loss, net of tax                                                          |                  |              |                  |                   |                   | (5,307)            |                | (5,307)           |
| Reclassification resulting from adoption of Accounting Standards Codification 326, net of tax |                  |              |                  | (2,951)           |                   |                    |                | (2,951)           |
| Close out investment in Quin Ventures                                                         |                  |              |                  | (3,451)           |                   |                    | 3,451          | —                 |
| Share-based compensation expense                                                              |                  |              | 1,098            |                   |                   |                    |                | 1,098             |
| ESOP shares committed to be released                                                          |                  |              | 12               |                   | 495               |                    |                | 507               |
| Cash dividends declared (\$0.21 per share)                                                    |                  |              |                  | (2,027)           |                   |                    |                | (2,027)           |
| <b>Balance at September 30, 2023</b>                                                          | <u>9,630,735</u> | <u>\$ 96</u> | <u>\$ 95,658</u> | <u>\$ 113,579</u> | <u>\$ (7,418)</u> | <u>\$ (45,850)</u> | <u>\$ —</u>    | <u>\$ 156,065</u> |
| <b>Balance at December 31, 2023</b>                                                           | 9,611,876        | \$ 96        | \$ 95,784        | \$ 107,349        | \$ (7,253)        | \$ (32,636)        | \$ —           | \$ 163,340        |
| Net loss                                                                                      |                  |              |                  | (3,803)           |                   |                    | —              | (3,803)           |
| Common stock repurchased                                                                      | (312,288)        | (2)          | (3,160)          | (895)             |                   |                    |                | (4,057)           |
| Restricted stock award grants net of forfeitures                                              | 78,418           | —            | —                |                   |                   |                    |                | —                 |
| Restricted stock awards canceled                                                              | (12,027)         | —            | (174)            |                   |                   |                    |                | (174)             |
| Other comprehensive income, net of tax                                                        |                  |              |                  |                   |                   | 6,212              |                | 6,212             |
| Share-based compensation expense                                                              |                  |              | 781              |                   |                   |                    |                | 781               |
| ESOP shares committed to be released                                                          |                  |              | (13)             |                   | 494               |                    |                | 481               |
| Cash dividends declared (\$0.21 per share)                                                    |                  |              |                  | (1,991)           |                   |                    |                | (1,991)           |
| <b>Balance at September 30, 2024</b>                                                          | <u>9,365,979</u> | <u>\$ 94</u> | <u>\$ 93,218</u> | <u>\$ 100,660</u> | <u>\$ (6,759)</u> | <u>\$ (26,424)</u> | <u>\$ —</u>    | <u>\$ 160,789</u> |

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, |          |
|--------------------------------------------------------------------------------------------|---------------------------------|----------|
|                                                                                            | 2024                            | 2023     |
| Cash flows from operating activities:                                                      |                                 |          |
| Net (loss) income before noncontrolling interest                                           | \$ (3,803)                      | \$ 7,648 |
| Adjustments to reconcile net income to net cash from operating activities:                 |                                 |          |
| Depreciation and amortization                                                              | 1,091                           | 1,201    |
| Amortization of core deposit intangible                                                    | 3                               | 2        |
| Amortization and accretion of premiums and discounts on investments, net                   | 459                             | 1,078    |
| Accretion of deferred loan fees and purchased premiums, net                                | (1,133)                         | (451)    |
| Amortization of debt issuance costs                                                        | 58                              | 58       |
| Change in fair value of sold loan servicing rights                                         | 247                             | 303      |
| Additions to servicing rights on sold loans, net                                           | (38)                            | (145)    |
| Provision for credit losses on loans                                                       | 12,956                          | 1,195    |
| Recapture of provision for credit losses on unfunded commitments                           | (113)                           | (1,024)  |
| Allocation of ESOP shares                                                                  | 481                             | 507      |
| Share-based compensation expense                                                           | 781                             | 1,098    |
| Gain on sale of loans, net                                                                 | (260)                           | (405)    |
| Loss on sale of securities available for sale, net                                         | 2,117                           | —        |
| Increase in cash surrender value of life insurance, net                                    | (851)                           | (668)    |
| Origination of loans held for sale                                                         | (13,553)                        | (21,351) |
| Proceeds from sale of loans held for sale                                                  | 14,188                          | 21,664   |
| Change in assets and liabilities:                                                          |                                 |          |
| Increase in accrued interest receivable                                                    | (1,045)                         | (1,350)  |
| (Increase) decrease in ROU asset                                                           | (11,268)                        | 433      |
| (Increase) decrease in prepaid expenses and other assets                                   | (396)                           | 1,718    |
| (Decrease) increase in accrued interest payable                                            | (1,243)                         | 1,821    |
| Increase (decrease) in lease liabilities                                                   | 11,371                          | (399)    |
| (Decrease) increase in accrued expenses and other liabilities                              | (5,654)                         | 2,359    |
| Net cash provided by operating activities                                                  | 4,395                           | 15,292   |
| Cash flows from investing activities:                                                      |                                 |          |
| Purchase of securities available for sale                                                  | (53,027)                        | —        |
| Proceeds from maturities, calls, and principal repayments of securities available for sale | 22,345                          | 8,480    |
| Proceeds from sales of securities available for sale                                       | 21,048                          | —        |
| Purchase of FHLB stock                                                                     | (771)                           | (940)    |
| Purchase of bank-owned life insurance, net of surrenders                                   | (6,140)                         | —        |
| Early surrender of bank-owned life insurance policy                                        | 6,140                           | 15       |
| Net increase in loans receivable                                                           | (83,721)                        | (89,551) |
| Net sale (purchase) of premises and equipment, net of amortization                         | 6,521                           | (1,066)  |
| Capital contributions to equity and partnership investments                                | (6,386)                         | (335)    |
| Capital disbursements received from equity and partnership investments                     | 6,782                           | 99       |
| Capital contributions to low-income housing tax credit partnerships                        | (1,387)                         | —        |
| Net cash used by investing activities                                                      | (88,596)                        | (83,298) |

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, |            |
|-------------------------------------------------------------------------------------------------------|---------------------------------|------------|
|                                                                                                       | 2024                            | 2023       |
| Cash flows from financing activities:                                                                 |                                 |            |
| Net increase in deposits                                                                              | \$ 34,749                       | \$ 93,507  |
| Proceeds from long-term FHLB advances                                                                 | 105,000                         | 15,000     |
| Repayment of long-term FHLB advances                                                                  | (25,000)                        | (15,000)   |
| Net (decrease) increase in short-term FHLB advances                                                   | (65,000)                        | 19,000     |
| Net decrease in line of credit                                                                        | (1,000)                         | (4,000)    |
| Net increase in advances from borrowers for taxes and insurance                                       | 1,225                           | 999        |
| Payment of dividends                                                                                  | (1,989)                         | (2,025)    |
| Restricted stock awards canceled                                                                      | (174)                           | (205)      |
| Repurchase of common stock                                                                            | (4,057)                         | (980)      |
| Net cash provided by financing activities                                                             | 43,754                          | 106,296    |
| Net (decrease) increase in cash and cash equivalents                                                  | (40,447)                        | 38,290     |
| Cash and cash equivalents at beginning of period                                                      | 123,169                         | 45,596     |
| Cash and cash equivalents at end of period                                                            | \$ 82,722                       | \$ 83,886  |
| Supplemental disclosures of cash flow information:                                                    |                                 |            |
| Cash paid for interest on deposits and borrowings                                                     | \$ 43,203                       | \$ 25,532  |
| Cash paid for income taxes                                                                            | \$ 3                            | \$ 1,859   |
| Supplemental disclosures of noncash investing activities:                                             |                                 |            |
| Change in unrealized gain (loss) on securities available for sale                                     | \$ 8,176                        | \$ (7,688) |
| Change in unrealized (loss) gain on fair value hedge                                                  | \$ (379)                        | \$ 533     |
| Amortization of unrecognized DB plan prior service cost                                               | \$ 112                          | \$ 113     |
| Cumulative effect of adoption of ASU 2016-13 Financial Instruments - Credit Losses on January 1, 2023 | \$ —                            | \$ (3,735) |
| Lease liabilities arising from obtaining right-of-use assets                                          | \$ 12,158                       | \$ 152     |

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 was 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, Peace of Mind, Inc. ("POM"), and Quin Ventures, Inc. ("Quin" or "Quin Ventures"). First Northwest extended \$8.0 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. Quin Ventures sold substantially all of its assets in December 2022 to Quil Ventures, Inc. ("Quil"), at which time POM returned the 29,719 shares previously issued and the joint venture agreement was terminated. As part of the sale transaction, the Company received a 5% ownership stake in Quil valued at \$225,000 and recorded a \$1.5 million commitment receivable. In June 2023, First Northwest determined that Quin Ventures was no longer a going concern. The Company wrote off the remaining investment in Quin Ventures through retained earnings in accordance with applicable non-controlling interest accounting methods. The noncontrolling interest in Quin Ventures balance was moved to retained earnings, with no change to total shareholders' equity as a result of the transaction. In December 2023, the Company determined that Quil was no longer a going concern, making the collectability of the receivable from and investment in Quil unlikely. As result, the related investment of \$225,000 and commitment receivable of \$1.5 million were written off during the fourth quarter of 2023, impacting other noninterest income and other noninterest expense, respectively.

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 and the Bank are collectively referred to as the "Company." For periods prior to June 30, 2023, Company references also include Quin Ventures.

First Northwest's business activities generally are limited to passive investment activities and oversight of its investment in First Fed and former controlling interest in 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, 2023. 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, 2024, 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 credit losses ("ACL"), fair value of financial instruments and derivatives, and deferred tax assets and liabilities.

**Restatement** - On October 21, 2024, the Audit Committee of the Board of Directors (the "Audit Committee") of the Company, based on the recommendation of, and after consultation with, the Company's management and independent registered public accounting firm, concluded that certain charge-offs of commercial construction loans, commercial business loans and the Splash unsecured consumer loan program as well as increased provision on Splash consumer loans should have been reported in the interim period ending June 30, 2024. On October 25, 2024, the Company filed amendments to its quarterly report for the period ended June 30, 2024 to restate the consolidated financial statements included therein. The consolidated financial statements as of and for the nine months ended September 30, 2024, reflect the effects of the restatement as of and for the period ended June 30, 2024.

**Principles of consolidation** - The accompanying consolidated financial statements include the accounts of First Northwest; its wholly owned subsidiary, First Fed, and its former controlling interest in Quin Ventures. All material intercompany accounts and transactions have been eliminated in consolidation. Through June 2023, First Northwest and POM shared equal ownership in Quin Ventures; however, it was previously determined that First Northwest had a controlling interest for financial reporting purposes under Accounting Standards Codification Topic 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.

### **Recently adopted accounting pronouncements**

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 adoption of this ASU did not have a material impact on the consolidated financial statements and related disclosures.

In March 2023, the FASB issued ASU 2023-02, *Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method, a consensus of the Emerging Issues Task Force*. ASU 2023-02 allows an entity the option to apply the proportional amortization method of accounting to other equity investments that are made for the primary purpose of receiving tax credits or other income tax benefits if certain conditions are met. Prior to this ASU, the application of the proportional amortization method of accounting was limited to investments in low-income housing tax credit structures. The proportional amortization method of accounting results in the amortization of applicable investments, as well as the related income tax credits or other income tax benefits received, being presented on a single line in the statements of income, income tax expense. Under this ASU, an entity has the option to apply the proportional amortization method of accounting to applicable investments on a tax-credit-program-by-tax-credit-program basis. In addition, the amendments in this ASU require that all tax equity investments accounted for using the proportional amortization method use the delayed equity contribution guidance in paragraph 323-740-25-3, requiring a liability to be recognized for delayed equity contributions that are unconditional and legally binding or for equity contributions that are contingent upon a future event when that contingent event becomes probable. Under this ASU, low-income housing tax credit investments for which the proportional amortization method is not applied can no longer be accounted for using the delayed equity contribution guidance. Further, this ASU specifies that impairment of low-income housing tax credit investments not accounted for using the equity method must apply the impairment guidance in Subtopic 323-10: *Investments - Equity Method and Joint Ventures - Overall*. This ASU also clarifies that for low-income housing tax credit investments not accounted for under the proportional amortization method or the equity method, an entity shall account for them under Topic 321: *Investments - Equity Securities*. The amendments in this ASU also require additional disclosures in interim and annual periods concerning investments for which the proportional amortization method is applied, including (i) the nature of tax equity investments, and (ii) the effect of tax equity investments and related income tax credits and other income tax benefits on the financial position and results of operations. ASU 2023-02 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 adoption of this ASU did not have a material impact on the consolidated financial statements and related disclosures.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. ASU 2023-07 requires public companies to provide more transparency in both quarterly and annual reports about the expenses they incur from revenue generating business units to better understand the Company's overall performance and potential future cash flows. The Company has identified one reporting segment. ASU 2023-07 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 adoption of this ASU did not have a material impact on the consolidated financial statements and related disclosures.

## Recently issued accounting pronouncements not yet adopted

In March 2024, the FASB issued ASU 2024-01, *Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards*. ASU 2024-01 added an illustrative example to demonstrate how an entity should apply the scope guidance in paragraph 718-10-15-3 to determine whether a profits interest award should be accounted for in accordance with Topic 718. Awards not meeting the criteria should be accounted for in accordance with Topic 710. The illustrative example provides four fact patterns which are intended to reduce complexity in determining whether a profits interest award is subject to the guidance in Topic 718 and reduce existing diversity in practice. ASU 2024-01 is effective for the Company for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years, with early adoption permitted. The adoption of this ASU is not expected to have a material impact on the consolidated financial statements and related disclosures.

In November 2024, the FASB issued ASU 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*. ASU 2024-03 requires additional disclosure of the nature of expenses included in the income statement in response to requests from investors for more information to better understand an entity's performance and potential future cash flows. The new standard requires disclosures about specific types of expenses included in the expense captions presented on the face of the income statement as well as disclosures about selling expenses. ASU 2024-03 is effective for the Company for fiscal years beginning after December 15, 2026, including interim periods within those fiscal years, with early adoption permitted. The adoption of this ASU is not expected to have a material impact on the consolidated financial statements and related disclosures.

## 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, 2024 are summarized as follows:

|                                                                       | Amortized Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated Fair<br>Value | Allowance for<br>Credit Losses |
|-----------------------------------------------------------------------|-------------------|------------------------------|-------------------------------|-------------------------|--------------------------------|
|                                                                       |                   |                              | (In thousands)                |                         |                                |
| <b>Available for Sale</b>                                             |                   |                              |                               |                         |                                |
| Municipal bonds                                                       | \$ 93,573         | \$ —                         | \$ (12,210)                   | \$ 81,363               | \$ —                           |
| U.S. government agency issued asset-backed securities (ABS agency)    | 13,312            | 16                           | (32)                          | 13,296                  | —                              |
| Corporate issued asset-backed securities (ABS corporate)              | 16,364            | 48                           | (21)                          | 16,391                  | —                              |
| Corporate issued debt securities (Corporate debt)                     | 58,131            | —                            | (4,073)                       | 54,058                  | —                              |
| U.S. Small Business Administration securities (SBA)                   | 9,268             | 56                           | (7)                           | 9,317                   | —                              |
| <b>Mortgage-backed securities:</b>                                    |                   |                              |                               |                         |                                |
| U.S. government agency issued mortgage-backed securities (MBS agency) | 88,822            | 167                          | (10,440)                      | 78,549                  | —                              |
| Non-agency issued mortgage-backed securities (MBS non-agency)         | 61,541            | —                            | (3,655)                       | 57,886                  | —                              |
| <b>Total securities available for sale</b>                            | <u>\$ 341,011</u> | <u>\$ 287</u>                | <u>\$ (30,438)</u>            | <u>\$ 310,860</u>       | <u>\$ —</u>                    |

The amortized cost, gross unrealized gains and losses, and estimated fair value of securities classified as available-for-sale at December 31, 2023, are summarized as follows:

|                                            | Amortized Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated Fair<br>Value | Allowance for<br>Credit Losses |
|--------------------------------------------|-------------------|------------------------------|-------------------------------|-------------------------|--------------------------------|
|                                            |                   |                              | (In thousands)                |                         |                                |
| <b>Available for Sale</b>                  |                   |                              |                               |                         |                                |
| Municipal bonds                            | \$ 102,998        | \$ —                         | \$ (15,237)                   | \$ 87,761               | \$ —                           |
| ABS agency                                 | 11,847            | —                            | (65)                          | 11,782                  | —                              |
| ABS corporate                              | 5,370             | —                            | (84)                          | 5,286                   | —                              |
| Corporate debt                             | 56,515            | —                            | (5,061)                       | 51,454                  | —                              |
| <b>Mortgage-backed securities:</b>         |                   |                              |                               |                         |                                |
| MBS agency                                 | 75,665            | —                            | (12,418)                      | 63,247                  | —                              |
| MBS non-agency                             | 81,555            | —                            | (5,462)                       | 76,093                  | —                              |
| <b>Total securities available for sale</b> | <u>\$ 333,950</u> | <u>\$ —</u>                  | <u>\$ (38,327)</u>            | <u>\$ 295,623</u>       | <u>\$ —</u>                    |

There were no securities classified as held-to-maturity at September 30, 2024 and December 31, 2023. There was no allowance for credit losses on investment securities recorded at September 30, 2024 and December 31, 2023, based on analysis performed by the Company.

Accrued interest receivable on available-for-sale debt securities totaled \$2.4 million and \$1.9 million as of September 30, 2024 and December 31, 2023, respectively. Accrued interest receivable on securities is reported in accrued interest receivable on the Consolidated Balance Sheets and is excluded from the calculation of the allowance for credit losses on investment securities.

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, 2024:

|                                             | 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)          |                  |                         |                   |                         |                   |
| <b>Available for Sale</b>                   |                         |                  |                         |                   |                         |                   |
| Municipal bonds                             | \$ —                    | \$ —             | \$ (12,210)             | \$ 81,363         | \$ (12,210)             | \$ 81,363         |
| ABS agency                                  | (32)                    | 9,520            | —                       | —                 | (32)                    | 9,520             |
| ABS corporate                               | (21)                    | 4,815            | —                       | —                 | (21)                    | 4,815             |
| Corporate debt                              | (50)                    | 1,640            | (4,023)                 | 52,418            | (4,073)                 | 54,058            |
| SBA                                         | (7)                     | 983              | —                       | —                 | (7)                     | 983               |
| Mortgage-backed securities:                 |                         |                  |                         |                   |                         |                   |
| MBS agency                                  | (119)                   | 7,242            | (10,321)                | 51,487            | (10,440)                | 58,729            |
| MBS non-agency                              | —                       | —                | (3,655)                 | 56,845            | (3,655)                 | 56,845            |
| Total available-for-sale in a loss position | <u>\$ (229)</u>         | <u>\$ 24,200</u> | <u>\$ (30,209)</u>      | <u>\$ 242,113</u> | <u>\$ (30,438)</u>      | <u>\$ 266,313</u> |

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, 2023:

|                                             | 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)          |                  |                         |                   |                         |                   |
| <b>Available for Sale</b>                   |                         |                  |                         |                   |                         |                   |
| Municipal bonds                             | \$ —                    | \$ —             | \$ (15,237)             | \$ 87,461         | \$ (15,237)             | \$ 87,461         |
| ABS agency                                  | (65)                    | 11,782           | —                       | —                 | (65)                    | 11,782            |
| ABS corporate                               | (84)                    | 3,771            | —                       | —                 | (84)                    | 3,771             |
| Corporate debt                              | —                       | —                | (5,061)                 | 51,454            | (5,061)                 | 51,454            |
| Mortgage-backed securities:                 |                         |                  |                         |                   |                         |                   |
| MBS agency                                  | (27)                    | 3,941            | (12,391)                | 59,305            | (12,418)                | 63,246            |
| MBS non-agency                              | —                       | —                | (5,462)                 | 76,086            | (5,462)                 | 76,086            |
| Total available-for-sale in a loss position | <u>\$ (176)</u>         | <u>\$ 19,494</u> | <u>\$ (38,151)</u>      | <u>\$ 274,306</u> | <u>\$ (38,327)</u>      | <u>\$ 293,800</u> |

There were 10 available-for-sale securities with unrealized losses of less than one year, and 145 available-for-sale securities with an unrealized loss of more than one year at September 30, 2024. There were 6 available-for-sale securities with unrealized losses of less than one year, and 156 available-for-sale securities with an unrealized loss of more than one year at December 31, 2023. Management believes that the unrealized losses on our investment securities relate principally to the general change in interest rates, market liquidity and demand, and market 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 a deterioration in credit quality. Certain investments in a loss position are guaranteed by government entities or government sponsored entities. The Company believes that it is unlikely that we would be required to sell these investments prior to a market price recovery or maturity. Based on the Company's evaluation of these securities, no credit impairment was recorded at September 30, 2024, or December 31, 2023.

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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, 2024 |                      |
|---------------------------------------|----|--------------------|----------------------|
|                                       |    | Available-for-Sale |                      |
|                                       |    | Amortized Cost     | Estimated Fair Value |
|                                       |    | (In thousands)     |                      |
| Mortgage-backed securities:           |    |                    |                      |
| Due within one year                   | \$ | 19,249             | \$ 19,091            |
| Due after one through five years      |    | 4,264              | 4,226                |
| Due after five through ten years      |    | 8,141              | 7,782                |
| Due after ten years                   |    | 118,709            | 105,336              |
| Total mortgage-backed securities      |    | 150,363            | 136,435              |
| All other investment securities:      |    |                    |                      |
| Due within one year                   |    | 1,000              | 815                  |
| Due after one through five years      |    | 20,574             | 19,857               |
| Due after five through ten years      |    | 53,073             | 48,893               |
| Due after ten years                   |    | 116,001            | 104,860              |
| Total all other investment securities |    | 190,648            | 174,425              |
| Total investment securities           | \$ | 341,011            | \$ 310,860           |

|                                       | December 31, 2023  |                      |
|---------------------------------------|--------------------|----------------------|
|                                       | Available-for-Sale |                      |
|                                       | Amortized Cost     | Estimated Fair Value |
|                                       | (In thousands)     |                      |
| Mortgage-backed securities:           |                    |                      |
| Due within one year                   | \$ 25,279          | \$ 25,017            |
| Due after one through five years      | 16,622             | 16,029               |
| Due after five through ten years      | 8,874              | 8,197                |
| Due after ten years                   | 106,445            | 90,097               |
| Total mortgage-backed securities      | 157,220            | 139,340              |
| All other investment securities:      |                    |                      |
| Due within one year                   | 300                | 300                  |
| Due after one through five years      | 18,187             | 17,384               |
| Due after five through ten years      | 57,328             | 50,768               |
| Due after ten years                   | 100,915            | 87,831               |
| Total all other investment securities | 176,730            | 156,283              |
| Total investment securities           | \$ 333,950         | \$ 295,623           |

Sales of available-for-sale securities were as follows:

|                       | Three Months Ended September 30, |      | Nine Months Ended September 30, |      |
|-----------------------|----------------------------------|------|---------------------------------|------|
|                       | 2024                             | 2023 | 2024                            | 2023 |
|                       | (In thousands)                   |      |                                 |      |
| Proceeds from sales   | \$ —                             | \$ — | \$ 21,048                       | \$ — |
| Gross realized gains  | —                                | —    | —                               | —    |
| Gross realized losses | —                                | —    | (2,117)                         | —    |

### Note 3 - Loans Receivable

The Company has identified three segments of its loan portfolio that reflect the structure of the lending function, the Company's strategic plan and the manner in which management monitors performance and credit quality. The three loan portfolio segments are: Real Estate Loans, Consumer Loans and Commercial Business Loans. These segments are further disaggregated into classes based on similar attributes and risk characteristics.

Loan amounts are presented at amortized cost which is comprised of the loan balance net of unearned loan fees in excess of unamortized costs and unamortized purchase premiums of \$19.5 million as of September 30, 2024 and \$14.8 million as of December 31, 2023. The amortized cost reflected in total loans receivable does not include accrued interest receivable. Accrued interest receivable on loans was \$6.5 million as of September 30, 2024 and \$6.0 million as of December 31, 2023, and was reported in accrued interest receivable on the consolidated balance sheets and is excluded from the calculation of the allowance for credit losses on loans.

The amortized cost of loans receivable, net of the allowance for credit losses on loans ("ACLL"), consisted of the following at the dates indicated:

|                                      | September 30, 2024 | December 31, 2023 |
|--------------------------------------|--------------------|-------------------|
|                                      | (In thousands)     |                   |
| <b>Real Estate:</b>                  |                    |                   |
| One-to-four family                   | \$ 395,792         | \$ 378,432        |
| Multi-family                         | 353,813            | 333,094           |
| Commercial real estate               | 376,008            | 387,983           |
| Construction and land                | 95,709             | 129,691           |
| Total real estate loans              | 1,221,322          | 1,229,200         |
| <b>Consumer:</b>                     |                    |                   |
| Home equity                          | 76,960             | 69,403            |
| Auto and other consumer              | 281,198            | 249,130           |
| Total consumer loans                 | 358,158            | 318,533           |
| Commercial business loans            | 155,327            | 112,295           |
| Total loans receivable               | 1,734,807          | 1,660,028         |
| <b>Less:</b>                         |                    |                   |
| Derivative basis adjustment          | (1,579)            | —                 |
| Allowance for credit losses on loans | 21,970             | 17,510            |
| Total loans receivable, net          | \$ 1,714,416       | \$ 1,642,518      |

**Nonaccrual Loans.** The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. For those loans placed on nonaccrual status due to payment delinquency, return to accrual status will generally not occur until the borrower demonstrates repayment ability over a period of not less than six months.

The following table presents the amortized cost of nonaccrual loans by class of loan at the dates indicated:

|                         | September 30, 2024               |                                     |                              | December 31, 2023                |                                     |                              |
|-------------------------|----------------------------------|-------------------------------------|------------------------------|----------------------------------|-------------------------------------|------------------------------|
|                         | Nonaccrual<br>Loans with<br>ACLL | Nonaccrual<br>Loans with No<br>ACLL | Total<br>Nonaccrual<br>Loans | Nonaccrual<br>Loans with<br>ACLL | Nonaccrual<br>Loans with No<br>ACLL | Total<br>Nonaccrual<br>Loans |
|                         | (In thousands)                   |                                     |                              |                                  |                                     |                              |
| One-to-four family      | \$ 312                           | \$ 1,319                            | \$ 1,631                     | \$ 418                           | \$ 1,426                            | \$ 1,844                     |
| Multi-family            | —                                | —                                   | —                            | —                                | —                                   | —                            |
| Commercial real estate  | 10                               | 5,624                               | 5,634                        | 28                               | —                                   | 28                           |
| Construction and land   | 16                               | 19,366                              | 19,382                       | 6                                | 14,980                              | 14,986                       |
| Home equity             | 87                               | 29                                  | 116                          | 92                               | 31                                  | 123                          |
| Auto and other consumer | 31                               | 863                                 | 894                          | 38                               | 748                                 | 786                          |
| Commercial business     | 2,100                            | 619                                 | 2,719                        | 165                              | 712                                 | 877                          |
| Total nonaccrual loans  | <u>\$ 2,556</u>                  | <u>\$ 27,820</u>                    | <u>\$ 30,376</u>             | <u>\$ 747</u>                    | <u>\$ 17,897</u>                    | <u>\$ 18,644</u>             |

Interest income recognized on a cash basis on nonaccrual loans for the three months ended September 30, 2024 and 2023, was \$1,000 and \$19,000, respectively. Interest income recognized on a cash basis on nonaccrual loans for the nine months ended September 30, 2024 and 2023, was \$35,000 and \$52,000, respectively.

**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. There were no loans past due 90 days or more and still accruing interest at September 30, 2024 and December 31, 2023.



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The following tables present the amortized cost of past due loans (including both accruing and nonaccruing loans) by segment and class as of the periods shown:

| September 30, 2024        | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90 Days or<br>More<br>Past Due | Total<br>Past Due | Current      | Total Loans  |
|---------------------------|------------------------|------------------------|--------------------------------|-------------------|--------------|--------------|
| (In thousands)            |                        |                        |                                |                   |              |              |
| <b>Real Estate:</b>       |                        |                        |                                |                   |              |              |
| One-to-four family        | \$ —                   | \$ 360                 | \$ 1,003                       | \$ 1,363          | \$ 394,429   | \$ 395,792   |
| Multi-family              | —                      | —                      | —                              | —                 | 353,813      | 353,813      |
| Commercial real estate    | —                      | —                      | 5,624                          | 5,624             | 370,384      | 376,008      |
| Construction and land     | —                      | 8,172                  | 11,198                         | 19,370            | 76,339       | 95,709       |
| Total real estate loans   | —                      | 8,532                  | 17,825                         | 26,357            | 1,194,965    | 1,221,322    |
| <b>Consumer:</b>          |                        |                        |                                |                   |              |              |
| Home equity               | 53                     | 29                     | —                              | 82                | 76,878       | 76,960       |
| Auto and other consumer   | 2,378                  | 430                    | 894                            | 3,702             | 277,496      | 281,198      |
| Total consumer loans      | 2,431                  | 459                    | 894                            | 3,784             | 354,374      | 358,158      |
| Commercial business loans | 1,350                  | 646                    | 605                            | 2,601             | 152,726      | 155,327      |
| Total loans               | \$ 3,781               | \$ 9,637               | \$ 19,324                      | \$ 32,742         | \$ 1,702,065 | \$ 1,734,807 |

  

| December 31, 2023         | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90 Days or<br>More<br>Past Due | Total<br>Past Due | Current      | Total Loans  |
|---------------------------|------------------------|------------------------|--------------------------------|-------------------|--------------|--------------|
| (In thousands)            |                        |                        |                                |                   |              |              |
| <b>Real Estate:</b>       |                        |                        |                                |                   |              |              |
| One-to-four family        | \$ 802                 | \$ —                   | \$ 1,010                       | \$ 1,812          | \$ 376,620   | \$ 378,432   |
| Multi-family              | —                      | —                      | —                              | —                 | 333,094      | 333,094      |
| Commercial real estate    | —                      | 8,526                  | —                              | 8,526             | 379,457      | 387,983      |
| Construction and land     | 14                     | —                      | —                              | 14                | 129,677      | 129,691      |
| Total real estate loans   | 816                    | 8,526                  | 1,010                          | 10,352            | 1,218,848    | 1,229,200    |
| <b>Consumer:</b>          |                        |                        |                                |                   |              |              |
| Home equity               | 59                     | —                      | —                              | 59                | 69,344       | 69,403       |
| Auto and other consumer   | 1,854                  | 601                    | 791                            | 3,246             | 245,884      | 249,130      |
| Total consumer loans      | 1,913                  | 601                    | 791                            | 3,305             | 315,228      | 318,533      |
| Commercial business loans | 1,117                  | 757                    | —                              | 1,874             | 110,421      | 112,295      |
| Total loans               | \$ 3,846               | \$ 9,884               | \$ 1,801                       | \$ 15,531         | \$ 1,644,497 | \$ 1,660,028 |

**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 First Fed classifies problem assets as either substandard or doubtful, it may choose to individually evaluate the expected credit loss or may determine that the characteristics are not significantly different from those in pooled loan analysis. The Company evaluates individual loans for expected credit losses when those loans do not share similar risk characteristics with loans evaluated using a collective (pooled) basis. 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 First Fed to sufficient risk to warrant classification as substandard or doubtful but 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.

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The following table presents the amortized cost of loans receivable by internally assigned risk grade and class of loans as of September 30, 2024, as well as gross charge-off activity for the nine months ended September 30, 2024. Term loans that are renewed or extended for periods longer than 90 days are presented as a new origination in the year of most recent renewal or extension.

|                                      | Term Loans by Year of Origination or Most Recent Renewal or Extension (1) |            |            |            |            |            | Revolving<br>Loans | Total<br>Loans |
|--------------------------------------|---------------------------------------------------------------------------|------------|------------|------------|------------|------------|--------------------|----------------|
|                                      | 2024                                                                      | 2023       | 2022       | 2021       | 2020       | Prior      |                    |                |
|                                      | (In thousands)                                                            |            |            |            |            |            |                    |                |
| <b>One-to-four family</b>            |                                                                           |            |            |            |            |            |                    |                |
| Pass (Grades 1-3)                    | \$ 725                                                                    | \$ 10,300  | \$ 125,483 | \$ 117,096 | \$ 65,822  | \$ 69,553  | \$ —               | \$ 388,979     |
| Watch (Grade 4)                      | —                                                                         | —          | 570        | 1,314      | 1,011      | 2,170      | —                  | 5,065          |
| Special Mention (Grade 5)            | —                                                                         | —          | —          | —          | —          | 79         | —                  | 79             |
| Substandard (Grade 6)                | —                                                                         | —          | —          | —          | 845        | 824        | —                  | 1,669          |
| Total one-to-four family             | 725                                                                       | 10,300     | 126,053    | 118,410    | 67,678     | 72,626     | —                  | 395,792        |
| Gross charge-offs year-to-date       | —                                                                         | —          | —          | —          | —          | —          | —                  | —              |
| <b>Multi-family</b>                  |                                                                           |            |            |            |            |            |                    |                |
| Pass (Grades 1-3)                    | 7,185                                                                     | 37,138     | 107,903    | 94,588     | 50,179     | 11,417     | —                  | 308,410        |
| Watch (Grade 4)                      | 8,787                                                                     | 14,869     | 1,772      | 16,208     | 2,787      | 980        | —                  | 45,403         |
| Total multi-family                   | 15,972                                                                    | 52,007     | 109,675    | 110,796    | 52,966     | 12,397     | —                  | 353,813        |
| Gross charge-offs year-to-date       | —                                                                         | —          | —          | —          | —          | —          | —                  | —              |
| <b>Commercial Real Estate</b>        |                                                                           |            |            |            |            |            |                    |                |
| Pass (Grades 1-3)                    | 13,843                                                                    | 52,041     | 72,061     | 98,202     | 68,103     | 31,619     | —                  | 335,869        |
| Watch (Grade 4)                      | 556                                                                       | 3,801      | 10,430     | —          | 8,522      | 772        | —                  | 24,081         |
| Special Mention (Grade 5)            | —                                                                         | —          | —          | —          | 1,265      | 2,720      | —                  | 3,985          |
| Substandard (Grade 6)                | —                                                                         | —          | 10         | 12,063     | —          | —          | —                  | 12,073         |
| Total commercial real estate         | 14,399                                                                    | 55,842     | 82,501     | 110,265    | 77,890     | 35,111     | —                  | 376,008        |
| Gross charge-offs year-to-date       | —                                                                         | —          | —          | —          | —          | —          | —                  | —              |
| <b>Construction and Land</b>         |                                                                           |            |            |            |            |            |                    |                |
| Pass (Grades 1-3)                    | 21,753                                                                    | 15,971     | 20,158     | 11,394     | 512        | 559        | —                  | 70,347         |
| Watch (Grade 4)                      | 192                                                                       | 5,541      | —          | 224        | —          | 25         | —                  | 5,982          |
| Substandard (Grade 6)                | 8,177                                                                     | 11,187     | —          | —          | —          | 16         | —                  | 19,380         |
| Total construction and land          | 30,122                                                                    | 32,699     | 20,158     | 11,618     | 512        | 600        | —                  | 95,709         |
| Gross charge-offs year-to-date       | —                                                                         | 3,978      | —          | —          | —          | —          | —                  | 3,978          |
| <b>Home Equity</b>                   |                                                                           |            |            |            |            |            |                    |                |
| Pass (Grades 1-3)                    | 4,554                                                                     | 6,169      | 6,564      | 4,282      | 2,695      | 4,834      | 47,262             | 76,360         |
| Watch (Grade 4)                      | —                                                                         | —          | —          | —          | 36         | 27         | 411                | 474            |
| Substandard (Grade 6)                | —                                                                         | —          | —          | 29         | 55         | 11         | 31                 | 126            |
| Total home equity                    | 4,554                                                                     | 6,169      | 6,564      | 4,311      | 2,786      | 4,872      | 47,704             | 76,960         |
| Gross charge-offs year-to-date       | —                                                                         | —          | —          | —          | —          | —          | —                  | —              |
| <b>Auto and Other Consumer</b>       |                                                                           |            |            |            |            |            |                    |                |
| Pass (Grades 1-3)                    | 57,620                                                                    | 49,772     | 69,604     | 38,192     | 13,372     | 48,000     | 515                | 277,075        |
| Watch (Grade 4)                      | 1,032                                                                     | 524        | 572        | 59         | 386        | 225        | 1                  | 2,799          |
| Special Mention (Grade 5)            | 206                                                                       | 70         | —          | 148        | 6          | —          | —                  | 430            |
| Substandard (Grade 6)                | 31                                                                        | 111        | 224        | 241        | 134        | 153        | —                  | 894            |
| Total auto and other consumer        | 58,889                                                                    | 50,477     | 70,400     | 38,640     | 13,898     | 48,378     | 516                | 281,198        |
| Gross charge-offs year-to-date       | —                                                                         | 406        | 1,319      | 92         | 17         | 234        | 62                 | 2,130          |
| <b>Commercial business</b>           |                                                                           |            |            |            |            |            |                    |                |
| Pass (Grades 1-3)                    | 22,827                                                                    | 21,000     | 9,059      | 4,047      | 1,714      | 42,683     | 35,786             | 137,116        |
| Watch (Grade 4)                      | —                                                                         | 144        | 1,086      | 90         | —          | —          | 974                | 2,294          |
| Special Mention (Grade 5)            | —                                                                         | —          | 1,534      | 1,595      | —          | —          | —                  | 3,129          |
| Substandard (Grade 6)                | 1,619                                                                     | 263        | 5,649      | 2,145      | 614        | —          | 2,495              | 12,785         |
| Loss (Grade 8)                       | —                                                                         | —          | —          | —          | —          | —          | 3                  | 3              |
| Total commercial business            | 24,446                                                                    | 21,407     | 17,328     | 7,877      | 2,328      | 42,683     | 39,258             | 155,327        |
| Gross charge-offs year-to-date       | —                                                                         | —          | 813        | 1,748      | 139        | —          | —                  | 2,700          |
| <b>Total loans</b>                   |                                                                           |            |            |            |            |            |                    |                |
| Pass (Grades 1-3)                    | 128,507                                                                   | 192,391    | 410,832    | 367,801    | 202,397    | 208,665    | 83,563             | 1,594,156      |
| Watch (Grade 4)                      | 10,567                                                                    | 24,879     | 14,430     | 17,895     | 12,742     | 4,199      | 1,386              | 86,098         |
| Special Mention (Grade 5)            | 206                                                                       | 70         | 1,534      | 1,743      | 1,271      | 2,799      | —                  | 7,623          |
| Substandard (Grade 6)                | 9,827                                                                     | 11,561     | 5,883      | 14,478     | 1,648      | 1,004      | 2,526              | 46,927         |
| Loss (Grade 8)                       | —                                                                         | —          | —          | —          | —          | —          | 3                  | 3              |
| Total loans                          | \$ 149,107                                                                | \$ 228,901 | \$ 432,679 | \$ 401,917 | \$ 218,058 | \$ 216,667 | \$ 87,478          | \$ 1,734,807   |
| Total gross charge-offs year-to-date | \$ —                                                                      | \$ 4,384   | \$ 2,132   | \$ 1,840   | \$ 156     | \$ 234     | \$ 62              | \$ 8,808       |

(1) Term loans that are renewed or extended for periods longer than 90 days are presented as a new origination in the year of most recent renewal or extension.

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The following table presents the amortized cost of loans receivable by internally assigned risk grade and class of loans as of December 31, 2023, as well as gross charge-off activity for the year then ended. Term loans that are renewed or extended for periods longer than 90 days are presented as a new origination in the year of most recent renewal or extension.

|                                      | Term Loans by Year of Origination or Most Recent Renewal or Extension (1) |            |            |            |           |            | Revolving | Total        |
|--------------------------------------|---------------------------------------------------------------------------|------------|------------|------------|-----------|------------|-----------|--------------|
|                                      | 2023                                                                      | 2022       | 2021       | 2020       | 2019      | Prior      | Loans     | Loans        |
|                                      | (In thousands)                                                            |            |            |            |           |            |           |              |
| <b>One-to-four family</b>            |                                                                           |            |            |            |           |            |           |              |
| Pass (Grades 1-3)                    | \$ 2,282                                                                  | \$ 102,389 | \$ 118,028 | \$ 69,229  | \$ 13,882 | \$ 65,701  | \$ —      | \$ 371,511   |
| Watch (Grade 4)                      | —                                                                         | 275        | 1,338      | 1,569      | —         | 1,295      | —         | 4,477        |
| Special Mention (Grade 5)            | —                                                                         | —          | —          | 300        | —         | 80         | —         | 380          |
| Substandard (Grade 6)                | —                                                                         | —          | —          | 327        | 482       | 1,255      | —         | 2,064        |
| Total one-to-four family             | 2,282                                                                     | 102,664    | 119,366    | 71,425     | 14,364    | 68,331     | —         | 378,432      |
| Gross charge-offs for the year       | —                                                                         | —          | —          | —          | —         | —          | —         | —            |
| <b>Multi-family</b>                  |                                                                           |            |            |            |           |            |           |              |
| Pass (Grades 1-3)                    | 52,208                                                                    | 105,902    | 88,293     | 57,588     | 6,922     | 5,356      | —         | 316,269      |
| Watch (Grade 4)                      | —                                                                         | —          | 15,126     | 708        | —         | 991        | —         | 16,825       |
| Total multi-family                   | 52,208                                                                    | 105,902    | 103,419    | 58,296     | 6,922     | 6,347      | —         | 333,094      |
| Gross charge-offs for the year       | —                                                                         | —          | —          | —          | —         | —          | —         | —            |
| <b>Commercial Real Estate</b>        |                                                                           |            |            |            |           |            |           |              |
| Pass (Grades 1-3)                    | 52,823                                                                    | 87,712     | 99,058     | 76,664     | 13,096    | 22,425     | —         | 351,778      |
| Watch (Grade 4)                      | 4,433                                                                     | 1,168      | 1,340      | 8,829      | 3,561     | 496        | —         | 19,827       |
| Special Mention (Grade 5)            | —                                                                         | —          | 6,528      | —          | —         | 2          | —         | 6,530        |
| Substandard (Grade 6)                | —                                                                         | 28         | 8,526      | 1,294      | —         | —          | —         | 9,848        |
| Total commercial real estate         | 57,256                                                                    | 88,908     | 115,452    | 86,787     | 16,657    | 22,923     | —         | 387,983      |
| Gross charge-offs for the year       | —                                                                         | —          | —          | —          | —         | —          | —         | —            |
| <b>Construction and Land</b>         |                                                                           |            |            |            |           |            |           |              |
| Pass (Grades 1-3)                    | 20,772                                                                    | 49,508     | 23,988     | 727        | 344       | 464        | —         | 95,803       |
| Watch (Grade 4)                      | 6,512                                                                     | 4,935      | 229        | —          | —         | 15         | —         | 11,691       |
| Special Mention (Grade 5)            | 7,196                                                                     | —          | —          | —          | —         | 14         | —         | 7,210        |
| Substandard (Grade 6)                | 14,981                                                                    | —          | —          | —          | —         | 6          | —         | 14,987       |
| Total construction and land          | 49,461                                                                    | 54,443     | 24,217     | 727        | 344       | 499        | —         | 129,691      |
| Gross charge-offs for the year       | —                                                                         | —          | —          | —          | —         | —          | —         | —            |
| <b>Home Equity</b>                   |                                                                           |            |            |            |           |            |           |              |
| Pass (Grades 1-3)                    | 7,179                                                                     | 7,169      | 4,638      | 3,063      | 1,331     | 4,283      | 41,105    | 68,768       |
| Watch (Grade 4)                      | —                                                                         | —          | —          | —          | —         | 155        | 345       | 500          |
| Substandard (Grade 6)                | —                                                                         | —          | 30         | 59         | —         | 13         | 33        | 135          |
| Total home equity                    | 7,179                                                                     | 7,169      | 4,668      | 3,122      | 1,331     | 4,451      | 41,483    | 69,403       |
| Gross charge-offs for the year       | —                                                                         | —          | —          | —          | —         | 10         | —         | 10           |
| <b>Auto and Other Consumer</b>       |                                                                           |            |            |            |           |            |           |              |
| Pass (Grades 1-3)                    | 49,649                                                                    | 69,052     | 64,101     | 29,113     | 14,660    | 18,593     | 385       | 245,553      |
| Watch (Grade 4)                      | 270                                                                       | 919        | 579        | 204        | 138       | 59         | 4         | 2,173        |
| Special Mention (Grade 5)            | 90                                                                        | 334        | 33         | 162        | —         | —          | —         | 619          |
| Substandard (Grade 6)                | 84                                                                        | 393        | —          | —          | 30        | 278        | —         | 785          |
| Total auto and other consumer        | 50,093                                                                    | 70,698     | 64,713     | 29,479     | 14,828    | 18,930     | 389       | 249,130      |
| Gross charge-offs for the year       | —                                                                         | 3,018      | 15         | 52         | 11        | 112        | 104       | 3,312        |
| <b>Commercial business</b>           |                                                                           |            |            |            |           |            |           |              |
| Pass (Grades 1-3)                    | 23,499                                                                    | 19,191     | 11,032     | 2,440      | 455       | 13,635     | 29,976    | 100,228      |
| Watch (Grade 4)                      | 340                                                                       | 62         | 275        | 270        | —         | (1)        | 3,806     | 4,752        |
| Substandard (Grade 6)                | 291                                                                       | 3,653      | 104        | 779        | —         | (1)        | 2,489     | 7,315        |
| Total commercial business            | 24,130                                                                    | 22,906     | 11,411     | 3,489      | 455       | 13,633     | 36,271    | 112,295      |
| Gross charge-offs for the year       | —                                                                         | —          | —          | —          | —         | —          | —         | —            |
| <b>Total loans</b>                   |                                                                           |            |            |            |           |            |           |              |
| Pass (Grades 1-3)                    | 208,412                                                                   | 440,923    | 409,138    | 238,824    | 50,690    | 130,457    | 71,466    | 1,549,910    |
| Watch (Grade 4)                      | 11,555                                                                    | 7,359      | 18,887     | 11,580     | 3,699     | 3,010      | 4,155     | 60,245       |
| Special Mention (Grade 5)            | 7,286                                                                     | 334        | 6,561      | 462        | —         | 96         | —         | 14,739       |
| Substandard (Grade 6)                | 15,356                                                                    | 4,074      | 8,660      | 2,459      | 512       | 1,551      | 2,522     | 35,134       |
| Total loans                          | \$ 242,609                                                                | \$ 452,690 | \$ 443,246 | \$ 253,325 | \$ 54,901 | \$ 135,114 | \$ 78,143 | \$ 1,660,028 |
| Total Gross charge-offs for the year | \$ —                                                                      | \$ 3,018   | \$ 15      | \$ 52      | \$ 11     | \$ 122     | \$ 104    | \$ 3,322     |

(1) Term loans that are renewed or extended for periods longer than 90 days are presented as a new origination in the year of most recent renewal or extension.

**Individually Evaluated Loans.** The Company evaluates loans collectively for purposes of determining the ACLL in accordance with ASC 326 by aggregating loans deemed to possess similar risk characteristics and individually evaluates loans that it believes no longer possess risk characteristics similar to other loans in the portfolio. These loans are typically identified from a substandard or worse internal risk grade, since the specific attributes and risks associated with such loans tend to become unique as the credit deteriorates. Such loans are typically nonperforming, modified loans made to borrowers experiencing financial difficulty, and/or are deemed collateral dependent, where the ultimate repayment of the loan is expected to come from the operation of or eventual sale of the collateral.

Loans that are deemed by management to possess unique risk characteristics are evaluated individually for purposes of determining an appropriate lifetime ACLL. The Company uses a discounted cash flow approach, using the loan's effective interest rate, for determining the ACL on individually evaluated loans, unless the loan is deemed collateral dependent. Collateral dependent loans are evaluated based on the estimated fair value of the underlying collateral, less estimated costs to sell. The Company may increase or decrease the ACLL for collateral dependent individually evaluated loans based on changes in the estimated expected fair value of the collateral. In cases where the loan is well-secured and the estimated value of the collateral exceeds the amortized cost of the loan, no ACLL is recorded. Changes in the ACLL for all other individually evaluated loans is based substantially on the Company's evaluation of cash flows expected to be received from such loans.

As of September 30, 2024, \$31.8 million of loans were individually evaluated with \$2.6 million of ACLL attributed to such loans. At September 30, 2024, eight individually evaluated loans totaling \$4.6 million were evaluated using a discounted cash flow approach and the remaining loans totaling \$27.2 million were evaluated based on the underlying value of the collateral. One loan evaluated using the discounted cash flow method remained on accrual at quarter end, while the other loans evaluated using the discounted cash flow method and all loans evaluated based on collateral value were on nonaccrual at September 30, 2024.

At December 31, 2023, \$20.0 million of loans were individually evaluated with \$165,000 of ACLL attributed to such loans. At December 31, 2023, one individually evaluated loan with a recorded investment of \$2.5 million was evaluated using a discounted cash flow approach and the remaining loans totaling \$17.5 million were evaluated based on the underlying value of the collateral. The loan evaluated using the discounted cash flow method was accruing at year end, while the collateral dependent loans were all on nonaccrual status at December 31, 2023.

**Collateral Dependent Loans.** Loans that have been classified as collateral dependent are loans where substantially all repayment of the loan is expected to come from the operation of or eventual liquidation of the collateral.

The following table summarizes individually evaluated collateral dependent loans by segment and collateral type as of the periods shown:

| September 30, 2024               | Collateral Type         |                 |                  |               |                 | Total            |
|----------------------------------|-------------------------|-----------------|------------------|---------------|-----------------|------------------|
|                                  | Single Family Residence | Warehouse       | Condominium      | Automobile    | Business Assets |                  |
|                                  | (In thousands)          |                 |                  |               |                 |                  |
| One-to-four family               | \$ 1,319                | \$ —            | \$ —             | \$ —          | \$ —            | \$ 1,319         |
| Commercial real estate           | —                       | 5,624           | —                | —             | —               | 5,624            |
| Construction and land            | 8,178                   | —               | 11,187           | —             | —               | 19,365           |
| Home equity                      | 29                      | —               | —                | —             | —               | 29               |
| Auto and other consumer          | —                       | —               | —                | 241           | —               | 241              |
| Commercial business              | —                       | —               | —                | —             | 603             | 603              |
| Total collateral dependent loans | <u>\$ 9,526</u>         | <u>\$ 5,624</u> | <u>\$ 11,187</u> | <u>\$ 241</u> | <u>\$ 603</u>   | <u>\$ 27,181</u> |

| December 31, 2023                | Collateral Type         |                  |               |                 | Total            |
|----------------------------------|-------------------------|------------------|---------------|-----------------|------------------|
|                                  | Single Family Residence | Condominium      | Automobile    | Business Assets |                  |
|                                  | (In thousands)          |                  |               |                 |                  |
| One-to-four family               | \$ 1,426                | \$ —             | \$ —          | \$ —            | \$ 1,426         |
| Construction and land            | —                       | 14,981           | —             | —               | 14,981           |
| Home equity                      | 30                      | —                | —             | —               | 30               |
| Auto and other consumer          | —                       | —                | 180           | —               | 180              |
| Commercial business              | —                       | 119              | —             | 652             | 771              |
| Total collateral dependent loans | <u>\$ 1,456</u>         | <u>\$ 15,100</u> | <u>\$ 180</u> | <u>\$ 652</u>   | <u>\$ 17,388</u> |

**Modified Loans to Troubled Borrowers.** On January 1, 2023, the Company adopted ASU 2022-02, which introduced new reporting requirements for modifications of loans to borrowers experiencing financial difficulty. The Company refers to these loans as modified loans to troubled borrowers ("MLTB"). A MLTB arises from a modification made to a loan in order to alleviate temporary difficulties in the borrower's financial condition and/or constraints on the borrower's ability to repay the loan, and to minimize potential losses to the Company. GAAP requires that certain types of modifications be reported, which consist of the following: principal forgiveness, interest rate reduction, other-than-insignificant payment delay, term extension, or any combination of the foregoing. The ACLL for a MLTB is measured on a collective basis, as with other loans in the loan portfolio, unless management determines that such loans no longer possess risk characteristics similar to others in the loan portfolio. In those instances, the ACLL for a MLTB is determined through individual evaluation.

During the nine months ended September 30, 2024, there was one new MLTB, a commercial business loan with a recorded investment of \$17,000 for which the Bank agreed to defer payments. The borrower has agreed to resume principal and interest payments at the end of the deferral period. The loan was current at September 30, 2024, based on the modified terms.

During the year ended December 31, 2023, there was one new MLTB, a commercial business loan with a recorded investment of \$119,000 for which the Bank agreed to defer principal payments. The borrower continues to make interest-only payments and the loan was current at year end based on the modified terms.

#### **Note 4 - Allowance for Credit Losses on Loans**

The Company maintains an ACLL and an ACLUC in accordance with ASC 326: *Financial Instruments - Credit Losses*. ASC 326 requires the Company to recognize estimates for lifetime credit losses on loans and unfunded loan commitments at the time of origination or acquisition. The recognition of credit losses at origination or acquisition represents the Company's best estimate of lifetime expected credit losses, given the facts and circumstances associated with a particular loan or group of loans with similar risk characteristics. Determining the ACLL involves the use of significant management judgement and estimates, which are subject to change based on management's ongoing assessment of the credit quality of the loan portfolio and changes in economic forecasts used in the Bank's Current Expected Credit Loss ("CECL") model. The reserve is an estimate based upon factors and trends at the time the financial statements are prepared. The Company adopted ASU 2016-13 effective January 1, 2023, which increased the beginning ACLL.

The Company has identified segments of loans with similar risk characteristics for which it then applies one of two loss methodologies. The Company uses a DCF methodology for most of its segments to calculate the ACLL. For certain segments with smaller portfolios or where data is prohibitive to running a DCF calculation, management has elected to use a Remaining Life methodology. The Company will evaluate individual loans for expected credit losses when those loans do not share similar risk characteristics with loans evaluated using a collective (pooled) basis. The allowance for individually evaluated loans is calculated using the collateral value method, which considers the likely source of repayment as the value of the collateral, less estimated costs to sell, or another method such as the cash flow method, which considers the contractual principal and interest terms and estimated cash flows available from the borrower to satisfy the debt. When the cash flow method is used, cash flows are discounted back by the effective interest rate and compared to the total recorded investment. If the present value of cash flows is less than the total recorded investment, a reserve is calculated.

The following tables detail activity in the allowance for credit losses on loans by class for the periods shown:

| At or For the Three Months Ended September 30, 2024 |                      |                 |                              |                                                  |                  |
|-----------------------------------------------------|----------------------|-----------------|------------------------------|--------------------------------------------------|------------------|
|                                                     | Beginning<br>Balance | Charge-offs     | Recoveries<br>(In thousands) | Provision for<br>(Recapture of)<br>Credit Losses | Ending Balance   |
| One-to-four family                                  | \$ 4,536             | \$ —            | \$ 42                        | \$ (270)                                         | \$ 4,308         |
| Multi-family                                        | 1,624                | —               | —                            | 965                                              | 2,589            |
| Commercial real estate                              | 3,132                | —               | —                            | (495)                                            | 2,637            |
| Construction and land                               | 801                  | —               | —                            | (85)                                             | 716              |
| Home equity                                         | 1,692                | —               | —                            | (446)                                            | 1,246            |
| Auto and other consumer                             | 2,596                | (492)           | 24                           | 805                                              | 2,933            |
| Commercial business                                 | 4,962                | (24)            | —                            | 2,603                                            | 7,541            |
| Total                                               | <u>\$ 19,343</u>     | <u>\$ (516)</u> | <u>\$ 66</u>                 | <u>\$ 3,077</u>                                  | <u>\$ 21,970</u> |

| At or For the Nine Months Ended September 30, 2024 |                      |                   |                              |                                                  |                  |
|----------------------------------------------------|----------------------|-------------------|------------------------------|--------------------------------------------------|------------------|
|                                                    | Beginning<br>Balance | Charge-offs       | Recoveries<br>(In thousands) | Provision for<br>(Recapture of)<br>Credit Losses | Ending Balance   |
| One-to-four family                                 | \$ 2,975             | \$ —              | \$ 44                        | \$ 1,289                                         | \$ 4,308         |
| Multi-family                                       | 1,154                | —                 | —                            | 1,435                                            | 2,589            |
| Commercial real estate                             | 3,671                | —                 | —                            | (1,034)                                          | 2,637            |
| Construction and land                              | 1,889                | (3,978)           | —                            | 2,805                                            | 716              |
| Home equity                                        | 1,077                | —                 | —                            | 169                                              | 1,246            |
| Auto and other consumer                            | 4,409                | (2,130)           | 268                          | 386                                              | 2,933            |
| Commercial business                                | 2,335                | (2,700)           | —                            | 7,906                                            | 7,541            |
| Total                                              | <u>\$ 17,510</u>     | <u>\$ (8,808)</u> | <u>\$ 312</u>                | <u>\$ 12,956</u>                                 | <u>\$ 21,970</u> |

| At or For the Three Months Ended September 30, 2023 |                      |                 |                              |                                                  |                  |
|-----------------------------------------------------|----------------------|-----------------|------------------------------|--------------------------------------------------|------------------|
|                                                     | Beginning<br>Balance | Charge-offs     | Recoveries<br>(In thousands) | Provision for<br>(Recapture of)<br>Credit Losses | Ending Balance   |
| One-to-four family                                  | \$ 3,012             | \$ —            | \$ —                         | \$ 526                                           | \$ 3,538         |
| Multi-family                                        | 1,041                | —               | —                            | 230                                              | 1,271            |
| Commercial real estate                              | 2,924                | —               | —                            | (390)                                            | 2,534            |
| Construction and land                               | 2,535                | —               | —                            | (352)                                            | 2,183            |
| Home equity                                         | 1,125                | —               | —                            | 178                                              | 1,303            |
| Auto and other consumer                             | 4,795                | (731)           | (501)                        | 601                                              | 4,164            |
| Commercial business                                 | 1,865                | —               | —                            | 87                                               | 1,952            |
| Total                                               | <u>\$ 17,297</u>     | <u>\$ (731)</u> | <u>\$ (501)</u>              | <u>\$ 880</u>                                    | <u>\$ 16,945</u> |

At or For the Nine Months Ended September 30, 2023

|                         | Beginning<br>Balance | Impact of<br>Day 1 CECL<br>Adoption | Adjusted<br>Beginning<br>Balance | Charge-offs<br>(In thousands) | Recoveries   | Provision for<br>(Recapture<br>of) Credit<br>Losses | Ending<br>Balance |
|-------------------------|----------------------|-------------------------------------|----------------------------------|-------------------------------|--------------|-----------------------------------------------------|-------------------|
| One-to-four family      | \$ 3,343             | \$ (429)                            | \$ 2,914                         | \$ —                          | \$ 4         | \$ 620                                              | \$ 3,538          |
| Multi-family            | 2,468                | (1,449)                             | 1,019                            | —                             | —            | 252                                                 | 1,271             |
| Commercial real estate  | 4,217                | (604)                               | 3,613                            | —                             | —            | (1,079)                                             | 2,534             |
| Construction and land   | 2,344                | 1,555                               | 3,899                            | —                             | —            | (1,716)                                             | 2,183             |
| Home equity             | 549                  | 346                                 | 895                              | (11)                          | 5            | 414                                                 | 1,303             |
| Auto and other consumer | 2,024                | 2,381                               | 4,405                            | (2,657)                       | 84           | 2,332                                               | 4,164             |
| Commercial business     | 786                  | 794                                 | 1,580                            | —                             | —            | 372                                                 | 1,952             |
| Unallocated             | 385                  | (385)                               | —                                | —                             | —            | —                                                   | —                 |
| Total                   | <u>\$ 16,116</u>     | <u>\$ 2,209</u>                     | <u>\$ 18,325</u>                 | <u>\$ (2,668)</u>             | <u>\$ 93</u> | <u>\$ 1,195</u>                                     | <u>\$ 16,945</u>  |

**Allowance for Credit Losses on Unfunded Loan Commitments.** The Company estimates expected credit losses on unfunded, off-balance sheet commitments over the contractual period in which the Company is exposed to credit risk from a contractual obligation to extend credit, unless the obligation is unconditionally cancellable by the Company. The Company has determined that no allowance is necessary for its home equity line of credit portfolio as it has the contractual ability to unconditionally cancel the available lines of credit. The allowance methodology is similar to the ACLL, but additionally includes an estimate of the future utilization of the commitment as determined by historical commitment utilization. The credit risks associated with the unfunded commitments are consistent with the risks outlined for each loan class. The allowance is recognized in accrued expenses and other liabilities on the Consolidated Balance Sheets and is adjusted as a provision, or recapture of provision, for credit losses on unfunded commitments on the Consolidated Statements of Income. The allowance for unfunded commitments was \$704,000 and \$817,000 at September 30, 2024, and December 31, 2023, respectively.

## Note 5 - Premises and Equipment

Premises and equipment consist of the following as of:

|                                                                          | September 30, 2024 | December 31, 2023 |
|--------------------------------------------------------------------------|--------------------|-------------------|
|                                                                          | (In thousands)     |                   |
| Land                                                                     | \$ 676             | \$ 2,907          |
| Buildings                                                                | 3,652              | 6,697             |
| Building improvements                                                    | 11,235             | 17,945            |
| Furniture, fixtures, and equipment                                       | 7,598              | 7,300             |
| Software                                                                 | 534                | 599               |
| Automobiles                                                              | 66                 | 66                |
| Construction in progress                                                 | 35                 | 104               |
| Total premises and equipment                                             | 23,796             | 35,618            |
| Less accumulated depreciation and amortization                           | (13,360)           | (17,569)          |
| Premises and equipment, net of accumulated depreciation and amortization | <u>\$ 10,436</u>   | <u>\$ 18,049</u>  |

Depreciation expense for the three months ended September 30, 2024 and 2023, was \$346,000 and \$402,000, respectively. Depreciation expense for the nine months ended September 30, 2024 and 2023, was \$1.1 million and \$1.2 million, respectively.

## Note 6 - Leases

The Bank has lease agreements with unaffiliated parties for fifteen locations, comprised of eleven full-service branches, three business centers, and a parking easement. Lease expirations range from one to twenty years, with additional renewal options on certain leases ranging from two to ten years. If the exercise of a renewal option is considered to be reasonably certain, the Company includes the extended term in the calculation of the right-of-use asset and lease liability. At September 30, 2024, the Company's ROU assets and lease liabilities were \$17.3 million and \$17.8 million, respectively.

Total costs incurred by the Company, as a lessee, were \$1.6 million and \$857,000 for the nine months ended September 30, 2024 and 2023, respectively, and principally related to contractual lease payments on operating leases. The Company's leases do not impose significant covenants or other restrictions on the Company.

The following table presents amounts relevant to the Company's assets leased for use in its operations at the dates indicated:

|                                                                              | Three Months Ended September 30, |        | Nine Months Ended September 30, |        |
|------------------------------------------------------------------------------|----------------------------------|--------|---------------------------------|--------|
|                                                                              | 2024                             | 2023   | 2024                            | 2023   |
|                                                                              | (In Thousands)                   |        |                                 |        |
| Operating cash flows from operating leases                                   | \$ 700                           | \$ 284 | \$ 1,564                        | \$ 857 |
| Right of use assets obtained in exchange for new operating lease liabilities | —                                | 152    | 12,158                          | 152    |

The following table presents the weighted-average remaining lease terms and discount rates of the Company's assets leased for use in its operations at the dates indicated:

|                                                                      | September 30, 2024 | December 31, 2023 |
|----------------------------------------------------------------------|--------------------|-------------------|
| Weighted-average remaining lease term of operating leases (in years) | 12.6               | 9.0               |
| Weighted-average discount rate of operating leases                   | 7.2%               | 2.4%              |

All lease agreements require the Bank to pay its pro-rata share of building operating expenses. The minimum annual lease payments under non-cancelable operating leases with initial or remaining terms of one year or more through the initial lease term are as follows:

| Twelve-month period ending:        | (In Thousands) |
|------------------------------------|----------------|
| September 30, 2025                 | \$ 2,310       |
| September 30, 2026                 | 2,333          |
| September 30, 2027                 | 2,321          |
| September 30, 2028                 | 2,206          |
| September 30, 2029                 | 2,106          |
| Thereafter                         | 18,547         |
| Total minimum payments required    | \$ 29,823      |
| Less imputed interest              | 12,095         |
| Present value of lease liabilities | \$ 17,728      |



## Note 7 - Deposits

Deposits and weighted-average interest rates at the dates indicated are as follows:

|                                     | September 30, 2024     |                                | December 31, 2023   |                                |
|-------------------------------------|------------------------|--------------------------------|---------------------|--------------------------------|
|                                     | Amount                 | Weighted-Average Interest Rate | Amount              | Weighted-Average Interest Rate |
|                                     | (Dollars in thousands) |                                |                     |                                |
| Noninterest-bearing demand deposits | \$ 252,999             | —%                             | \$ 252,083          | —%                             |
| Interest-bearing demand deposits    | 167,202                | 0.60                           | 169,418             | 0.56                           |
| Money market accounts               | 433,307                | 3.18                           | 362,205             | 1.78                           |
| Savings accounts                    | 212,763                | 1.45                           | 242,148             | 1.62                           |
| Certificates of deposit, retail     | 441,665                | 4.21                           | 443,412             | 4.04                           |
| Certificates of deposit, brokered   | 203,705                | 4.65                           | 207,626             | 4.85                           |
| Total deposits                      | <u>\$ 1,711,641</u>    | <u>2.68</u>                    | <u>\$ 1,676,892</u> | <u>2.34</u>                    |

The aggregate amount of time deposits in excess of the Federal Deposit Insurance Corporation ("FDIC") insured limit, currently \$250,000, at September 30, 2024 and December 31, 2023, were \$170.7 million and \$173.8 million, respectively.

Maturities of certificates at the dates indicated are as follows:

|                                      | September 30, 2024 | December 31, 2023 |
|--------------------------------------|--------------------|-------------------|
|                                      | (In thousands)     |                   |
| Within one year or less              | \$ 523,584         | \$ 495,605        |
| After one year through two years     | 45,754             | 79,537            |
| After two years through three years  | 31,221             | 24,777            |
| After three years through four years | 24,305             | 28,302            |
| After four years through five years  | 20,506             | 22,817            |
| Total certificates of deposit        | <u>\$ 645,370</u>  | <u>\$ 651,038</u> |

At September 30, 2024 and December 31, 2023, deposits included \$119.0 million and \$114.2 million, respectively, in public fund deposits. The Bank had an outstanding letter of credit from the Federal Home Loan Bank of Des Moines ("FHLB") with a notional amount of \$60.0 million at September 30, 2024 and December 31, 2023, to secure public deposits. This exceeds the minimum collateral requirements established by the Washington Public Deposit Protection Commission. Also included in deposits at September 30, 2024 and December 31, 2023, were funds held by federally recognized tribes totaling \$20.7 million and \$18.4 million, respectively. Investment securities with a carrying value of \$24.2 million and \$23.8 million were pledged as collateral for these deposits at September 30, 2024 and December 31, 2023, 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, |                  |
|------------------------------------|----------------------------------|-----------------|---------------------------------|------------------|
|                                    | 2024                             | 2023            | 2024                            | 2023             |
|                                    | (In thousands)                   |                 |                                 |                  |
| Demand deposits                    | \$ 187                           | \$ 204          | \$ 567                          | \$ 599           |
| Money market accounts              | 2,875                            | 1,146           | 7,244                           | 2,866            |
| Savings accounts                   | 923                              | 918             | 2,791                           | 2,056            |
| Certificates of deposit, retail    | 4,340                            | 3,505           | 12,913                          | 8,323            |
| Certificates of deposit, brokered  | 2,635                            | 1,926           | 7,737                           | 4,417            |
| Total interest expense on deposits | <u>\$ 10,960</u>                 | <u>\$ 7,699</u> | <u>\$ 31,252</u>                | <u>\$ 18,261</u> |

## Note 8 - Borrowings

First Fed is a member of the FHLB. As a member, First Fed has a committed line of credit of up to 35% 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. Available borrowing capacity was \$226.1 million and \$253.8 million at September 30, 2024 and December 31, 2023, respectively. All borrowings are secured by collateral consisting of single-family, home equity, commercial real estate, and multi-family loans receivable in the amounts of \$907.3 million and \$896.2 million at September 30, 2024 and December 31, 2023, respectively. The Bank had outstanding letters of credit from the FHLB with notional amounts of \$60.0 million to secure public deposits and \$772,000 to secure the Bellevue, Washington branch lease at September 30, 2024.

First Fed also has an established borrowing arrangement with the Federal Reserve Bank of San Francisco ("FRB") to utilize the discount window for short-term borrowing. Available borrowing capacity was \$18.7 million and \$6.6 million at September 30, 2024 and December 31, 2023, respectively. An overnight test of the line of credit was performed at the end of June 2024. Investment securities with a carrying value of \$19.3 million and \$6.9 million were pledged to the FRB at September 30, 2024 and December 31, 2023, 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.

On May 20, 2022, First Northwest consummated 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 17, 2025.

In June 2023, First Fed established a Bank Term Funding Program ("BTFP") borrowing arrangement with the FRB as an additional source of liquidity. Available borrowing capacity was \$15.2 million at December 31, 2023. No funds were borrowed between June 2023 and March 2024, when the BTFP stopped funding new loans, effectively ending the Bank's participation in the program. Investment securities with a carrying value of \$12.9 million were pledged to secure the BTFP at December 31, 2023.

The following table sets forth information regarding our borrowings at the end of and during the nine months ended September 30, 2024. The table includes both long- and short-term borrowings.

|                                               | FHLB Long-Term Advances | FHLB Overnight Variable-Rate Advances | FRB Discount Window | Line of Credit | Subordinated Debt, net |
|-----------------------------------------------|-------------------------|---------------------------------------|---------------------|----------------|------------------------|
|                                               | (Dollars in thousands)  |                                       |                     |                |                        |
| Balance outstanding                           | \$ 160,000              | \$ 130,000                            | \$ —                | \$ 5,500       | \$ 39,494              |
| Maximum outstanding at any month-end          | 170,000                 | 270,000                               | 100                 | 10,000         | 39,494                 |
| Average monthly outstanding during the period | 128,333                 | 154,778                               | 11                  | 6,856          | 39,465                 |
| Weighted-average daily interest rates         |                         |                                       |                     |                |                        |
| Annual                                        | 3.24%                   | 5.51%                                 | 5.27%               | 9.60%          | 4.01%                  |
| Period End                                    | 3.63%                   | 5.35%                                 | —%                  | 8.50%          | 4.00%                  |

The amounts by year of maturity and weighted-average interest rate of FHLB long-term, fixed-rate advances at September 30, 2024 are as follows:

|                                      | Amount                 | Weighted- Average Interest Rate |
|--------------------------------------|------------------------|---------------------------------|
|                                      | (Dollars in thousands) |                                 |
| Within one year or less              | \$ 20,000              | 2.12%                           |
| After one year through two years     | 55,000                 | 3.85                            |
| After two years through three years  | 50,000                 | 3.93                            |
| After three years through four years | 35,000                 | 3.72                            |
| Total FHLB long-term advances        | \$ 160,000             | 3.63                            |

The following table sets forth information regarding our borrowings at the end of and during the year ended December 31, 2023. The table includes both long- and short-term borrowings.

|                                               | FHLB Long-<br>Term Advances | FHLB<br>Overnight<br>Variable-Rate<br>Advances | FHLB Short-<br>Term Fixed-<br>Rate Advances | Line of Credit | Subordinated<br>Debt, net |
|-----------------------------------------------|-----------------------------|------------------------------------------------|---------------------------------------------|----------------|---------------------------|
|                                               | (Dollars in thousands)      |                                                |                                             |                |                           |
| Balance outstanding                           | \$ 80,000                   | \$ 195,000                                     | \$ —                                        | \$ 6,500       | \$ 39,436                 |
| Maximum outstanding at any month-end          | 85,000                      | 195,000                                        | 95,000                                      | 11,000         | 39,436                    |
| Average monthly outstanding during the period | 81,667                      | 149,500                                        | 25,000                                      | 9,327          | 39,395                    |
| Weighted-average daily interest rates         |                             |                                                |                                             |                |                           |
| Annual                                        | 2.00%                       | 5.26%                                          | 5.08%                                       | 9.15%          | 4.01%                     |
| Period End                                    | 2.09%                       | 5.52%                                          | 5.27%                                       | 9.00%          | 4.00%                     |

## Note 9 - Income Tax

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 25.5% and 19.9% for the nine months ended September 30, 2024 and 2023, respectively. The effective tax rates differ from the statutory maximum federal tax rate for 2024 and 2023 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. The current period rate includes an estimate for taxes and penalties on the early surrender of a BOLI contract which was recorded in the first quarter of 2024.

## Note 10 - Earnings (Loss) 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 periods shown:

|                                                                            | Three Months Ended September<br>30, |                  | Nine Months Ended September<br>30, |                  |
|----------------------------------------------------------------------------|-------------------------------------|------------------|------------------------------------|------------------|
|                                                                            | 2024                                | 2023             | 2024                               | 2023             |
|                                                                            | (In thousands, except share data)   |                  |                                    |                  |
| <b>Net income:</b>                                                         |                                     |                  |                                    |                  |
| Net (loss) income available to common shareholders                         | \$ (1,980)                          | \$ 2,504         | \$ (3,803)                         | \$ 7,808         |
| Dividends and undistributed earnings allocated to participating securities | (1)                                 | (11)             | (3)                                | (39)             |
| (Loss) earnings allocated to common shareholders                           | <u>\$ (1,981)</u>                   | <u>\$ 2,493</u>  | <u>\$ (3,806)</u>                  | <u>\$ 7,769</u>  |
| <b>Basic:</b>                                                              |                                     |                  |                                    |                  |
| Weighted average common shares outstanding                                 | 9,419,143                           | 9,631,929        | 9,469,960                          | 9,666,900        |
| Weighted average unvested restricted stock awards                          | (115,322)                           | (125,338)        | (104,622)                          | (143,326)        |
| Weighted average unallocated ESOP shares                                   | (547,056)                           | (600,065)        | (560,214)                          | (613,183)        |
| Total basic weighted average common shares outstanding                     | <u>8,756,765</u>                    | <u>8,906,526</u> | <u>8,805,124</u>                   | <u>8,910,391</u> |
| <b>Diluted:</b>                                                            |                                     |                  |                                    |                  |
| Basic weighted average common shares outstanding                           | 8,756,765                           | 8,906,526        | 8,805,124                          | 8,910,391        |
| Dilutive restricted stock awards                                           | —                                   | 28,356           | —                                  | 20,013           |
| Total diluted weighted average common shares outstanding                   | <u>8,756,765</u>                    | <u>8,934,882</u> | <u>8,805,124</u>                   | <u>8,930,404</u> |
| Basic (loss) earnings per common share                                     | <u>\$ (0.23)</u>                    | <u>\$ 0.28</u>   | <u>\$ (0.43)</u>                   | <u>\$ 0.87</u>   |
| Diluted (loss) earnings per common share                                   | <u>\$ (0.23)</u>                    | <u>\$ 0.28</u>   | <u>\$ (0.43)</u>                   | <u>\$ 0.87</u>   |

Potentially dilutive shares are excluded from the computation of EPS if their effect is anti-dilutive. At September 30, 2024 and 2023, antidilutive shares as calculated under the treasury stock method totaled 20,663 and 13,582, respectively.

## Note 11 - 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. Principal and interest payments of \$837,000 and \$835,000, respectively, were made by the ESOP during the nine months ended September 30, 2024 and 2023.

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, 2024 and 2023, was \$136,000 and \$167,000, respectively. Compensation expense related to the ESOP for the nine months ended September 30, 2024 and 2023, was \$481,000 and \$507,000, respectively.

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

|                                  | September 30, 2024     | December 31, 2023 |
|----------------------------------|------------------------|-------------------|
|                                  | (Dollars in thousands) |                   |
| Allocated shares                 | 492,208                | 439,174           |
| Committed to be released shares  | 13,221                 | 26,514            |
| Unallocated shares               | 542,600                | 582,341           |
| Total ESOP shares issued         | 1,048,029              | 1,048,029         |
| Fair value of unallocated shares | \$ 5,806               | \$ 9,283          |

## Note 12 - 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, 2024, there were 210,093 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, 2024, there were no shares available for grant under the 2015 EIP. At this date, there are 10,220 shares granted under the 2015 EIP that are expected to vest subject to the 2015 EIP plan provisions.

There were 81,181 and 32,449 shares of restricted stock awarded, respectively, during the nine months ended September 30, 2024 and 2023. 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, 2024 and 2023, total compensation expense for the equity incentive plans was \$260,000 and \$349,000, respectively. Included in the compensation expense for the three months ended September 30, 2024 and 2023, was directors' equity compensation of \$75,000 and \$59,000, respectively.

For the nine months ended September 30, 2024 and 2023, total compensation expense for the equity incentive plans was \$781,000 and \$1.1 million, respectively. Included in the compensation expense for the nine months ended September 30, 2024 and 2023, was directors' equity compensation of \$185,000 and \$190,000, respectively.

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

| Three Months Ended September 30, 2024 | Shares  | Weighted-Average Grant Date Fair Value |
|---------------------------------------|---------|----------------------------------------|
| Non-vested at July 1, 2024            | 108,143 | \$ 15.60                               |
| Granted                               | 13,043  | 9.48                                   |
| Vested                                | (4,956) | 15.70                                  |
| Canceled (1)                          | (867)   | 15.70                                  |
| Forfeited                             | (1,288) | 20.19                                  |
| Non-vested at September 30, 2024      | 114,075 | 14.84                                  |

(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.

| Nine Months Ended September 30, 2024 |          | Weighted-Average Grant Date Fair |       |
|--------------------------------------|----------|----------------------------------|-------|
|                                      | Shares   |                                  | Value |
| Non-vested at January 1, 2024        | 96,022   | \$                               | 17.02 |
| Granted                              | 81,181   |                                  | 13.93 |
| Vested                               | (48,338) |                                  | 17.00 |
| Canceled (1)                         | (12,027) |                                  | 17.00 |
| Forfeited                            | (2,763)  |                                  | 16.62 |
| Non-vested at September 30, 2024     | 114,075  |                                  | 14.84 |

(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, 2024, there was \$1.1 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 1.94 years.

## Note 13 - Fair Value Measurements

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:** 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.

**Equity and partnership investments:** Management determines fair value using quoted prices of similar investments or discounted cash flows, which are considered Level 2, when available. Where there is limited activity in the market for an instrument, assumptions must be made to determine their fair value. The Company believes that the net asset value obtained through financial statements provided by each partnership approximates 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.

**Loans receivable, net:** 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.

**Interest rate swap derivative:** The fair values of interest rate swap agreements are based on valuation models using observable market data as of the measurement date (Level 2). The Company's securities derivatives are traded in an over-the-counter market where quoted market prices are not always available. The Company also entered into pay-fixed and receive-floating interest rate swaps associated with certain fixed rate loans. The fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including market transactions and third-party pricing services. The fair values of all interest rate swaps are determined from third-party pricing services without adjustment.

**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 and liabilities measured at fair value on a recurring basis at the dates indicated:

| September 30, 2024                  |                                                                                        |                                                     |                                                    |            |
|-------------------------------------|----------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|------------|
|                                     | Quoted Prices in Active<br>Markets for Identical<br>Assets or Liabilities<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total      |
| <b>Financial Assets</b>             | (In thousands)                                                                         |                                                     |                                                    |            |
| Securities available-for-sale       |                                                                                        |                                                     |                                                    |            |
| Municipal bonds                     | \$ 5,054                                                                               | \$ 76,309                                           | \$ —                                               | \$ 81,363  |
| ABS agency                          | —                                                                                      | 13,296                                              | —                                                  | 13,296     |
| ABS corporate                       | —                                                                                      | 16,391                                              | —                                                  | 16,391     |
| Corporate debt                      | 1,945                                                                                  | 52,113                                              | —                                                  | 54,058     |
| SBA                                 | —                                                                                      | 9,317                                               | —                                                  | 9,317      |
| MBS agency                          | —                                                                                      | 78,549                                              | —                                                  | 78,549     |
| MBS non-agency                      | —                                                                                      | 40,791                                              | 17,095                                             | 57,886     |
| Sold loan servicing rights          | —                                                                                      | —                                                   | 3,584                                              | 3,584      |
| Equity and partnership investments  | —                                                                                      | 1,762                                               | 12,650                                             | 14,412     |
| Total assets measured at fair value | \$ 6,999                                                                               | \$ 288,528                                          | \$ 33,329                                          | \$ 328,856 |
| <b>Financial Liabilities</b>        |                                                                                        |                                                     |                                                    |            |
| Interest rate swap derivative       | \$ —                                                                                   | \$ 2,749                                            | \$ —                                               | \$ 2,749   |
| December 31, 2023                   |                                                                                        |                                                     |                                                    |            |
|                                     | Quoted Prices in Active<br>Markets for Identical<br>Assets or Liabilities<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total      |
| <b>Financial Assets</b>             | (In thousands)                                                                         |                                                     |                                                    |            |
| Securities available-for-sale       |                                                                                        |                                                     |                                                    |            |
| Municipal bonds                     | \$ 5,118                                                                               | \$ 82,643                                           | \$ —                                               | \$ 87,761  |
| ABS agency                          | —                                                                                      | 11,782                                              | —                                                  | 11,782     |
| ABS corporate                       | —                                                                                      | 5,286                                               | —                                                  | 5,286      |
| Corporate debt                      | 1,883                                                                                  | 49,571                                              | —                                                  | 51,454     |
| MBS agency                          | —                                                                                      | 63,247                                              | —                                                  | 63,247     |
| MBS non-agency                      | —                                                                                      | 48,624                                              | 27,469                                             | 76,093     |
| Sold loan servicing rights          | —                                                                                      | —                                                   | 3,793                                              | 3,793      |
| Partnership investments             | —                                                                                      | —                                                   | 13,183                                             | 13,183     |
| Total assets measured at fair value | \$ 7,001                                                                               | \$ 261,153                                          | \$ 44,445                                          | \$ 312,599 |
| <b>Financial Liabilities</b>        |                                                                                        |                                                     |                                                    |            |
| Interest rate swap derivative       | \$ —                                                                                   | \$ 1,002                                            | \$ —                                               | \$ 1,002   |



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The following tables provide 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 dates indicated:

| <b>September 30, 2024</b>  | Fair Value (In thousands) | Valuation Technique       | Unobservable Input (1)   | Range (Weighted Average) |
|----------------------------|---------------------------|---------------------------|--------------------------|--------------------------|
| Sold loan servicing rights | \$ 3,584                  | Discounted cash flow      | Constant prepayment rate | 5.21% - 41.27% (7.83%)   |
|                            |                           |                           | Discount rate            | 10.25% - 12.53% (10.92%) |
| MBS non-agency             | \$ 17,095                 | Consensus pricing         | Offered quotes           | 99 - 100                 |
| Partnership investments    | \$ 12,650                 | Net asset value per share | Net asset value          | n/a                      |

(1) Unobservable inputs were weighted by the relative fair value of the instruments.

| <b>December 31, 2023</b>   | Fair Value (In thousands) | Valuation Technique       | Unobservable Input (1)   | Range (Weighted Average) |
|----------------------------|---------------------------|---------------------------|--------------------------|--------------------------|
| Sold loan servicing rights | \$ 3,793                  | Discounted cash flow      | Constant prepayment rate | 4.10% - 47.53% (7.39%)   |
|                            |                           |                           | Discount rate            | 11.00% - 13.42% (11.74%) |
| MBS non-agency             | \$ 27,469                 | Consensus pricing         | Offered quotes           | 98 - 100                 |
| Partnership investments    | \$ 13,183                 | Net asset value per share | Net asset value          | n/a                      |

(1) Unobservable inputs were weighted by the relative fair value of the instruments.

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<br>September 30, |          | As of or For the Nine Months Ended<br>September 30, |          |
|--------------------------------------------------------------------------|------------------------------------------------------|----------|-----------------------------------------------------|----------|
|                                                                          | 2024                                                 | 2023     | 2024                                                | 2023     |
| Sold loan servicing rights:                                              | (In thousands)                                       |          |                                                     |          |
| Balance at beginning of period                                           | \$ 3,740                                             | \$ 3,825 | \$ 3,793                                            | \$ 3,887 |
| Servicing rights that result from transfers and sale of financial assets | 5                                                    | 71       | 38                                                  | 145      |
| Changes in fair value due to changes in model inputs or assumptions (1)  | (161)                                                | (167)    | (247)                                               | (303)    |
| Balance at end of period                                                 | \$ 3,584                                             | \$ 3,729 | \$ 3,584                                            | \$ 3,729 |

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

|                                | As of or For the Three Months Ended<br>September 30, |           | As of or For the Nine Months Ended<br>September 30, |           |
|--------------------------------|------------------------------------------------------|-----------|-----------------------------------------------------|-----------|
|                                | 2024                                                 | 2023      | 2024                                                | 2023      |
| Securities available for sale: | (In thousands)                                       |           |                                                     |           |
| MBS non-agency                 |                                                      |           |                                                     |           |
| Balance at beginning of period | \$ 17,231                                            | \$ 29,378 | \$ 27,469                                           | \$ 29,599 |
| Principal payments received    | (148)                                                | —         | (10,530)                                            | —         |
| Unrealized Gains (Losses)      | 12                                                   | (186)     | 156                                                 | (407)     |
| Balance at end of period       | \$ 17,095                                            | \$ 29,192 | \$ 17,095                                           | \$ 29,192 |

|                                | As of or For the Three Months Ended<br>September 30, |                  | As of or For the Nine Months Ended<br>September 30, |                  |
|--------------------------------|------------------------------------------------------|------------------|-----------------------------------------------------|------------------|
|                                | 2024                                                 | 2023             | 2024                                                | 2023             |
| Partnership investments:       | (In thousands)                                       |                  |                                                     |                  |
| Balance at beginning of period | \$ 12,823                                            | \$ 12,733        | \$ 13,183                                           | \$ 12,563        |
| Funding contributions (1)      | 80                                                   | 126              | 6,386                                               | 335              |
| Distributions received (1)     | (283)                                                | (57)             | (6,782)                                             | (404)            |
| Unrealized Gains (Losses)      | 30                                                   | (15)             | (137)                                               | 293              |
| Balance at end of period       | <u>\$ 12,650</u>                                     | <u>\$ 12,787</u> | <u>\$ 12,650</u>                                    | <u>\$ 12,787</u> |

(1) In the second quarter of 2024, a redemption of First Northwest's limited partnership investment in Meriwether Group Hero Fund LP was offset by a subsequent limited partnership investment in the same entity by First Fed.

**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.

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

|                                                   | September 30, 2024 |         |           |           |
|---------------------------------------------------|--------------------|---------|-----------|-----------|
|                                                   | Level 1            | Level 2 | Level 3   | Total     |
|                                                   | (In thousands)     |         |           |           |
| Individually evaluated collateral dependent loans | \$ —               | \$ —    | \$ 27,181 | \$ 27,181 |

  

|                                                   | December 31, 2023 |         |           |           |
|---------------------------------------------------|-------------------|---------|-----------|-----------|
|                                                   | Level 1           | Level 2 | Level 3   | Total     |
|                                                   | (In thousands)    |         |           |           |
| Individually evaluated collateral dependent loans | \$ —              | \$ —    | \$ 17,388 | \$ 17,388 |

At September 30, 2024 and December 31, 2023, there were no individually evaluated 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, 2024                        |                 |                      |                                |         |           |  |
|-------------------------------------------|-----------------|----------------------|--------------------------------|---------|-----------|--|
|                                           |                 |                      | Fair Value Measurements Using: |         |           |  |
|                                           | Carrying Amount | Estimated Fair Value | Level 1                        | Level 2 | Level 3   |  |
|                                           |                 |                      | (In thousands)                 |         |           |  |
| Financial assets                          |                 |                      |                                |         |           |  |
| Cash and cash equivalents                 | \$ 82,722       | \$ 82,722            | \$ 82,722                      | \$ —    | \$ —      |  |
| Investment securities available for sale  | 310,860         | 310,860              | 6,999                          | 286,766 | 17,095    |  |
| Loans held for sale                       | 378             | 378                  | —                              | 378     | —         |  |
| Loans receivable, net                     | 1,714,416       | 1,580,047            | —                              | —       | 1,580,047 |  |
| FHLB stock                                | 14,435          | 14,435               | —                              | 14,435  | —         |  |
| Accrued interest receivable               | 8,939           | 8,939                | —                              | 8,939   | —         |  |
| Sold loan servicing rights, at fair value | 3,584           | 3,584                | —                              | —       | 3,584     |  |
| Equity and partnership investments        | 14,412          | 14,412               | —                              | 1,762   | 12,650    |  |
| Financial liabilities                     |                 |                      |                                |         |           |  |
| Demand deposits                           | \$ 1,066,271    | \$ 1,066,271         | \$ 1,066,271                   | \$ —    | \$ —      |  |
| Time deposits                             | 645,370         | 647,583              | —                              | —       | 647,583   |  |
| FHLB Borrowings                           | 290,000         | 290,119              | —                              | —       | 290,119   |  |
| Line of Credit                            | 5,500           | 5,525                | —                              | —       | 5,525     |  |
| Subordinated debt, net                    | 39,494          | 42,016               | —                              | —       | 42,016    |  |
| Accrued interest payable                  | 2,153           | 2,153                | —                              | 2,153   | —         |  |
| Interest rate swap derivative             | 2,749           | 2,749                | —                              | 2,749   | —         |  |
| December 31, 2023                         |                 |                      |                                |         |           |  |
|                                           |                 |                      | Fair Value Measurements Using: |         |           |  |
|                                           | Carrying Amount | Estimated Fair Value | Level 1                        | Level 2 | Level 3   |  |
|                                           |                 |                      | (In thousands)                 |         |           |  |
| Financial assets                          |                 |                      |                                |         |           |  |
| Cash and cash equivalents                 | \$ 123,169      | \$ 123,169           | \$ 123,169                     | \$ —    | \$ —      |  |
| Investment securities available for sale  | 295,623         | 295,623              | 7,001                          | 261,153 | 27,469    |  |
| Loans held for sale                       | 753             | 753                  | —                              | 753     | —         |  |
| Loans receivable, net                     | 1,642,518       | 1,506,130            | —                              | —       | 1,506,130 |  |
| FHLB stock                                | 13,664          | 13,664               | —                              | 13,664  | —         |  |
| Accrued interest receivable               | 7,894           | 7,894                | —                              | 7,894   | —         |  |
| Sold loan servicing rights, at fair value | 3,793           | 3,793                | —                              | —       | 3,793     |  |
| Partnership investments                   | 13,183          | 13,183               | —                              | —       | 13,183    |  |
| Financial liabilities                     |                 |                      |                                |         |           |  |
| Demand deposits                           | 1,025,854       | \$ 1,025,854         | \$ 1,025,854                   | \$ —    | \$ —      |  |
| Time deposits                             | 651,038         | 648,428              | —                              | —       | 648,428   |  |
| FHLB Borrowings                           | 275,000         | 271,284              | —                              | —       | 271,284   |  |
| Line of Credit                            | 6,500           | 6,524                | —                              | —       | 6,524     |  |
| Subordinated debt, net                    | 39,436          | 42,116               | —                              | —       | 42,116    |  |
| Accrued interest payable                  | 3,396           | 3,396                | —                              | 3,396   | —         |  |
| Interest rate swap derivative             | 1,002           | 1,002                | —                              | 1,002   | —         |  |

**Note 14- Change in Accumulated Other Comprehensive Income ("AOCI")**

Our AOCI includes unrealized gains (losses) on available-for-sale securities, defined benefit plan assets and derivatives as well as 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<br>Losses on Available-<br>for-Sale Securities | Net Actuarial Gains<br>(Losses) on Defined<br>Benefit Plan Assets | Unrecognized<br>Defined Benefit Plan<br>Prior Service Cost,<br>Net of Amortization | Unrealized<br>Gains and<br>Losses on<br>Derivatives | Total              |
|---------------------------------------------------------------------|---------------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------------------------|-----------------------------------------------------|--------------------|
|                                                                     | (In thousands)                                                      |                                                                   |                                                                                    |                                                     |                    |
| Balance at June 30, 2023                                            | \$ (37,679)                                                         | \$ (600)                                                          | \$ (1,479)                                                                         | \$ (308)                                            | \$ (40,066)        |
| Other comprehensive (loss) income before<br>reclassification        | (6,540)                                                             | —                                                                 | —                                                                                  | 727                                                 | (5,813)            |
| Amounts reclassified from accumulated<br>other comprehensive income | —                                                                   | —                                                                 | 29                                                                                 | —                                                   | 29                 |
| Net other comprehensive (loss) income                               | (6,540)                                                             | —                                                                 | 29                                                                                 | 727                                                 | (5,784)            |
| Balance at September 30, 2023                                       | <u>\$ (44,219)</u>                                                  | <u>\$ (600)</u>                                                   | <u>\$ (1,450)</u>                                                                  | <u>\$ 419</u>                                       | <u>\$ (45,850)</u> |
| Balance at June 30, 2024                                            | \$ (30,021)                                                         | \$ (288)                                                          | \$ (1,362)                                                                         | \$ 74                                               | \$ (31,597)        |
| Other comprehensive income (loss) before<br>reclassification        | 6,344                                                               | —                                                                 | —                                                                                  | (1,200)                                             | 5,144              |
| Amounts reclassified from accumulated<br>other comprehensive income | —                                                                   | —                                                                 | 29                                                                                 | —                                                   | 29                 |
| Net other comprehensive income                                      | 6,344                                                               | —                                                                 | 29                                                                                 | (1,200)                                             | 5,173              |
| Balance at September 30, 2024                                       | <u>\$ (23,677)</u>                                                  | <u>\$ (288)</u>                                                   | <u>\$ (1,333)</u>                                                                  | <u>\$ (1,126)</u>                                   | <u>\$ (26,424)</u> |
| Balance at December 31, 2022                                        | \$ (38,404)                                                         | \$ (600)                                                          | \$ (1,539)                                                                         | \$ —                                                | \$ (40,543)        |
| Other comprehensive (loss) income before<br>reclassification        | (5,815)                                                             | —                                                                 | —                                                                                  | 419                                                 | (5,396)            |
| Amounts reclassified from accumulated<br>other comprehensive income | —                                                                   | —                                                                 | 89                                                                                 | —                                                   | 89                 |
| Net other comprehensive (loss) income                               | (5,815)                                                             | —                                                                 | 89                                                                                 | 419                                                 | (5,307)            |
| Balance at September 30, 2023                                       | <u>\$ (44,219)</u>                                                  | <u>\$ (600)</u>                                                   | <u>\$ (1,450)</u>                                                                  | <u>\$ 419</u>                                       | <u>\$ (45,850)</u> |
| Balance at December 31, 2023                                        | \$ (30,099)                                                         | \$ (288)                                                          | \$ (1,421)                                                                         | \$ (828)                                            | \$ (32,636)        |
| Other comprehensive income (loss) before<br>reclassification        | 4,759                                                               | —                                                                 | —                                                                                  | (298)                                               | 4,461              |
| Amounts reclassified from accumulated<br>other comprehensive income | 1,663                                                               | —                                                                 | 88                                                                                 | —                                                   | 1,751              |
| Net other comprehensive income                                      | 6,422                                                               | —                                                                 | 88                                                                                 | (298)                                               | 6,212              |
| Balance at September 30, 2024                                       | <u>\$ (23,677)</u>                                                  | <u>\$ (288)</u>                                                   | <u>\$ (1,333)</u>                                                                  | <u>\$ (1,126)</u>                                   | <u>\$ (26,424)</u> |

## Note 15 - Derivatives and Hedging Activities

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates.

### *Fair Value Hedges of Interest Rate Risk*

The Company is exposed to changes in the fair value of certain of its fixed-rate assets due to changes in benchmark interest rates. The Company uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate, the Secured Overnight Financing Rate. Interest rate swaps designated as fair value hedges involve the payment of fixed-rate amounts to a counterparty in exchange for the Company receiving variable-rate payments over the life of the agreement without the exchange of the underlying notional amount. The fair value hedges are recorded as components of other assets and other liabilities in the Company's consolidated balance sheets. The gain or loss on these derivatives, as well as the offsetting loss or gain on the hedged items attributable to the hedged risk, are recognized in interest income in the Company's consolidated statements of income.

The following amounts were recorded on the balance sheet related to cumulative basis adjustment for fair value hedges for the periods shown.

|                                                                                 | Carrying Amount of the Hedged Assets | Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets |
|---------------------------------------------------------------------------------|--------------------------------------|---------------------------------------------------------------------------------------------------------|
|                                                                                 |                                      | (In thousands)                                                                                          |
| Line item in the Consolidated Balance Sheets where the hedged item is included: |                                      |                                                                                                         |
| <b>September 30, 2024</b>                                                       |                                      |                                                                                                         |
| Investment securities (1)                                                       | \$ 51,433                            | \$ 1,433                                                                                                |
| Loans receivable (2)                                                            | 101,579                              | 1,579                                                                                                   |
| <b>Total</b>                                                                    | <b>\$ 153,012</b>                    | <b>\$ 3,012</b>                                                                                         |
| <b>December 31, 2023</b>                                                        |                                      |                                                                                                         |
| Investment securities                                                           | \$ 51,054                            | \$ 1,054                                                                                                |
| <b>Total</b>                                                                    | <b>\$ 51,054</b>                     | <b>\$ 1,054</b>                                                                                         |

(1) These amounts include the amortized cost basis of a closed portfolio of AFS securities used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolio anticipated to be outstanding for the designated hedged period. At September 30, 2024 and December 31, 2023, the amortized cost basis of the closed portfolio used in this hedging relationship was \$56.8 million and \$57.4 million, respectively; the cumulative basis adjustments associated with this hedging relationship was \$1.4 million and \$1.1 million, respectively; and the amount of the designated hedged items was \$50.0 million for both periods.

(2) These amounts include the amortized cost basis of a closed portfolio of loans receivable used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolio anticipated to be outstanding for the designated hedged period. At September 30, 2024, the amortized cost basis of the closed portfolio used in this hedging relationship was \$283.2 million, the cumulative basis adjustments associated with this hedging relationship was \$1.6 million, and the amount of the designated hedged items was \$100.0 million. No prior year end information is provided as this hedging relationship was initiated in 2024.

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The following table summarizes the Company's derivative instruments at the date indicated. The Company has master netting agreements with derivative dealers with which it does business, but reflects gross assets and liabilities as "Other assets" and "Other liabilities," respectively, on the Consolidated Balance Sheets, as follows:

|                                  |                 |    | Fair Value     |                   |
|----------------------------------|-----------------|----|----------------|-------------------|
|                                  | Notional Amount |    | Other Assets   | Other Liabilities |
|                                  |                 |    | (In thousands) |                   |
| September 30, 2024               |                 |    |                |                   |
| Fair value hedges:               |                 |    |                |                   |
| Interest rate swaps - securities | \$ 50,000       | \$ | —              | \$ 1,310          |
| Interest rate swaps - loans      | 100,000         |    | —              | 1,439             |

**December 31, 2023**

|                                  |           |      |          |
|----------------------------------|-----------|------|----------|
| Fair value hedges:               |           |      |          |
| Interest rate swaps - securities | \$ 50,000 | \$ — | \$ 1,002 |

The following table summarizes the effect of fair value accounting on the Consolidated Statements of Income for the periods shown:

|                                                                       | Three Months Ended September 30, |          | Nine Months Ended September 30, |          |
|-----------------------------------------------------------------------|----------------------------------|----------|---------------------------------|----------|
|                                                                       | 2024                             | 2023     | 2024                            | 2023     |
|                                                                       | (In thousands)                   |          |                                 |          |
| Total amounts recognized in interest on investment securities         | \$ 3,786                         | \$ 3,368 | \$ 11,367                       | \$ 9,886 |
| Total amounts recognized in interest and fees on loans receivable (1) | 23,536                           | —        | 70,036                          | —        |
| Net gains (losses) on fair value hedging relationships                |                                  |          |                                 |          |
| Interest rate swaps - securities                                      |                                  |          |                                 |          |
| Recognized on hedged items                                            | \$ 1,338                         | \$ —     | \$ 1,433                        | \$ 392   |
| Recognized on derivatives designated as hedging instruments           | (1,102)                          | —        | (1,350)                         | (254)    |
| Interest rate swaps - loans                                           |                                  |          |                                 |          |
| Recognized on hedged items (1)                                        | 562                              | —        | 1,579                           | —        |
| Recognized on derivatives designated as hedging instruments (1)       | (300)                            | —        | (1,544)                         | —        |
| Net income recognized on fair value                                   | \$ 498                           | \$ —     | \$ 118                          | \$ 138   |

(1) Fair value hedge on loans initiated in 2024. Amounts presented for 2023 are limited to the fair value hedge on securities.

### ***Credit Risk-related Contingent Features***

The Company is exposed to credit-related losses in the event of nonperformance by counterparties to hedging instruments. The counterparties to all derivative transactions are major financial institutions with investment grade credit ratings. However, this does not eliminate the Company's exposure to credit risk with these institutions. This credit risk is limited to the unrealized gains in such contracts should any of these counterparties fail to perform as contracted.

The Company has interest rate swap agreements with its derivative counterparties that contain provisions where if the Company either defaults or fails to maintain its status as a well or adequately capitalized institution, then the Company could be required to terminate the contract or post additional collateral. At September 30, 2024, the Company had derivatives in a net liability position related to these agreements. The Company has minimum collateral posting thresholds with its derivative counterparties and has posted cash of \$3.5 million at September 30, 2024, to secure the related interest rate swap agreements as needed. In certain cases, the Company will have posted excess collateral compared to total exposure due to initial margin requirements or day-to-day rate volatility.

As of September 30, 2024, the Company was in compliance with all credit risk-related contingent features. Given the considerations described above, the Company considers the impact of the risk of counterparty default to be immaterial.

### **Note 16 - Segment Reporting**

First Fed is engaged in the business of attracting deposits and providing lending services. Substantially all income is derived from a diverse base of commercial, mortgage, and consumer lending activities and investments. The Company's activities are considered to be a single industry segment for financial reporting purposes. The chief operating decision maker ("CODM") is comprised of the chief financial officer, chief operating officer and the chief executive officer.

The accounting policies of the Bank are the same as those described in the summary of significant accounting policies in Note 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2023 ("2023 Form 10-K"). The CODM assesses performance for the Bank and decides how to allocate resources based on net income that is reported on the income statement as consolidated net income. The measurement of segment assets is reported on the balance sheet as total consolidated assets.

The CODM uses net income to evaluate income generated from the segment assets (return on assets) in deciding whether to reinvest profits into the Bank or into other parts of the entity, such as to pay dividends or a share repurchase plan. Net income is used to monitor budget versus actual results and assess the performance of the Bank.

### **Note 17 - Sale and Leaseback of Premises**

On January 30, 2024, the Bank entered into an agreement for the purchase and sale of real property (the "Sale Agreement") with Mountainseed Real Estate Services, LLC, a Georgia limited liability company ("Mountainseed"), providing for the Bank's sale to Mountainseed of up to six properties (the "Properties"). All of the Properties are currently operated as branches and located in Clallam County, Washington or Jefferson County, Washington. Upon signing the agreement, the Company classified the related properties as held for sale and presented them separately on the Consolidated Balance Sheets at cost, net of accumulated amortization.

The sale of all six properties was completed on May 7, 2024, for an aggregate cash sales price of \$14.7 million. A pre-tax gain on sale of \$7.9 million was recorded in noninterest income for the second quarter of 2024. Premises and equipment, net of depreciation, decreased by \$6.8 million in the second quarter of 2024.

Concurrent with the closing of the sale of the Properties, the Bank entered into triple net lease agreements (the "Lease Agreements") to lease back each of the Properties sold. Each Lease Agreement has an initial term of 15 years with one 15-year renewal option. Going forward, a monthly rent expense of \$130,000 in the aggregate for all Properties will be recorded in Occupancy and Equipment. The total estimated rent expense for the leaseback of these properties for 2024 is \$1.0 million. The annual increase in rent is expected to be partially offset by the elimination of annualized depreciation expense on the buildings of \$204,000. The executed Lease Agreements also generated ROU assets totaling \$12.2 million and lease liabilities of \$12.2 million resulting in increases to other assets and other liabilities, respectively, on the Consolidated Balance Sheets that was recorded during the second quarter of 2024.

## 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; and
- estimates of our risks and future costs and benefits.

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:

- risks associated with lending and potential adverse changes in the credit quality of loans in our portfolio;
- legislative or regulatory changes, including increased insurance rates and assessments or expanded consumer protection regulations, responses to recent events in the banking industry, interest rates along the yield curve, and inflation, which could adversely affect the Company's business;
- continued depressed market demand for mortgage and Small Business Administration loans that we originate for sale;
- changes in monetary and fiscal policies including interest rate policies of the Federal Reserve and the relative differences between short and long-term interest rates, deposit interest rates, our net interest margin and funding sources;
- our ability to control operating costs and expenses;
- whether our management team can succeed in implementing our operational strategy, including but not limited to our ability to achieve higher net interest income and noninterest revenue growth;
- our ability to successfully execute on growth strategies related to our entry into new markets and delivery channels, including banking as a service;
- 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;
- pressures on liquidity, including as a result of withdrawals of customer deposits or declines in the value of our investment portfolio;
- 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 at a reasonable cost relative to the market;
- 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 by our primary or other regulatory authorities could have an adverse impact on our business and operations;
- the material weakness in our internal controls could result in inaccuracies in the reporting of our financial condition;
- 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;
- risks related to overall economic conditions, including the impact on the economy of an elevated interest rate environment and geopolitical instability, including the wars in Ukraine and the Middle East;
- any failure of key third-party vendors to perform their obligations to us;
- risks related to natural disasters, including droughts, fires, floods, earthquakes, pandemics, and other unexpected events;
- the effects of any reputational damage to the Company resulting from any of the foregoing; 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 the Company's 2023 Form 10-K.

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 is a bank holding company and a financial holding company and is engaged in banking activities through its wholly owned subsidiary, First Fed Bank, as well as certain non-banking financial activities. Non-financial investments include several limited partnership investments, including a 33.3% interest in The Meriwether Group, LLC ("MWG"). The Company's business activities are generally focused on passive investment activities and oversight of the activities of First Fed. The Company also entered into partnerships to strategically invest in fintech-related businesses.

First Fed Bank is a community-oriented financial institution founded in 1923 in Port Angeles, Washington. We have 18 locations including 12 full-service branches, three business centers and three administration centers in Clallam, Jefferson, King, Kitsap, Snohomish and Whatcom counties. First Fed's business and operating strategy is focused on building sustainable earnings by delivering a full array of financial products and services for individuals, small business, and commercial customers. Lending activities include the origination of first lien one-to-four family mortgage loans, commercial and multi-family real estate loans, residential and commercial construction and land loans, commercial business loans, SBA loans, and consumer loans, consisting primarily of 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 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 ("CDs" or "term certificate") for individuals and businesses. Deposits are our primary source of funding for our lending and investing activities. First Fed has a limited partnership investment in the Canapi Ventures SBIC Fund II, LP. First Fed also has a limited partnership investment in the Meriwether Group Capital Hero Fund LP ("Hero Fund") which was previously held by First Northwest. The Hero Fund is a private commercial lender focused on lower-middle market businesses, primarily in the Pacific Northwest.

First Northwest's limited partnership investments include Canapi Ventures Fund, LP; BankTech Ventures, LP; and JAM FINTOP Blockchain, LP. These limited partnerships invest in fintech-related businesses with a focus on developing digital solutions applicable to the banking industry. In 2022, First Northwest acquired a 33.3% interest in MWG, a boutique investment bank and consulting firm focused on providing entrepreneurs with resources to help them succeed. Also in 2022, the Company acquired a 25% equity interest as a general partner in Meriwether Group Capital, LLC ("MWGC"), which provides financial advice for borrowers and capital for the Hero Fund. MWG also holds a 20% general partner interest in MWGC. MWGC holds a 0.01% general partner interest in the Hero Fund.

First Northwest is impacted 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 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 and pricing for loan 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 our asset and liability mix, market and portfolio interest rates and cash flows from existing assets and liabilities affect our net interest income. A secondary source of income for the Company is noninterest income, which includes revenue earned 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, gains and losses from sales of securities, and changes in the market value of our equity and partnership investments.

An offset to net interest income is the provision for credit losses, which represents the periodic charge to operations that is required to adequately provide for losses inherent in our investment, loan and unfunded commitment portfolios through the ACL. A recapture of previously recognized provision for credit losses may be added to net income if the underlying assumptions driving anticipated loss rates within the CECL model improve, such as the United States unemployment and gross domestic product metrics; lowered qualitative factor adjustments to reflect improvements in the nonaccrual and past due status or upgrades in risk ratings of a particular loan segment; lower loan or unfunded commitment balances, or receipt of recoveries for amounts previously charged off.

Noninterest expenses incurred 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, legal and other professional fees, expenses related to real estate and personal property owned, and other expenses.

## Recent Regulatory Developments

**Brokered Deposits Rulemaking.** On July 30, 2024, the Board of Directors of the FDIC approved a proposed rule that would amend the FDIC's regulations governing the classification and treatment of brokered deposits. The proposal would, among other changes, broaden the definition of deposit broker to include agents that place or facilitate the placement of third-party deposits at only one insured depository institution and narrow the exception to the definition of deposit broker for agents whose primary purpose is not the placement of funds with depository institutions. While the Company is evaluating the potential impact of the proposed rule, if the rule is finalized as proposed, the Bank would likely be required to classify a greater amount of its deposits obtained with the involvement of third parties as brokered deposits. An increase in the amount of brokered deposits on the Bank's balance sheet could, among other consequences, increase the Bank's deposit insurance assessment costs.

**Third-Party Deposit Arrangements Guidance.** On July 25, 2024, the Federal Reserve, FDIC, and Office of the Comptroller of the Currency released a joint statement discussing potential risks related to arrangements between banks and third parties to deliver bank deposit products and services to end users, as well as examples of effective practices for the management of those risks. Additionally, the agencies issued a request for information and comment on the nature of banks' relationships with financial technology companies and effective risk management practices for those relationships. The agencies also indicated that they are considering whether additional steps, such as enhancements to supervisory guidance, could help ensure that banks effectively manage risks associated with these various types of arrangements.

## Critical Accounting Policies

There are no material changes to the critical accounting policies from those disclosed in the Company's 2023 Form 10-K.

## Comparison of Financial Condition at September 30, 2024 and December 31, 2023

**Assets.** Total assets increased to \$2.26 billion, or 2.4%, at September 30, 2024, from \$2.2 billion at December 31, 2023.

Cash and cash equivalents decreased by \$40.5 million, or 32.8%, to \$82.7 million as of September 30, 2024, compared to \$123.2 million as of December 31, 2023. Cash decreased during the current year as the Bank deployed funds into higher-yielding investment securities and loans.

Investment securities increased \$15.2 million, or 5.2%, to \$310.9 million at September 30, 2024, from \$295.6 million at December 31, 2023. Investment security purchases during the nine months ended September 30, 2024, totaled \$53.0 million with an estimated weighted-average yield of 6.4% and a weighted-average life of 5.4 years. The security purchases and a portfolio market value increase of \$8.1 million were partially offset by the sale of \$23.2 million of securities, with an average yield of 3.0%, during the nine months ended September 30, 2024, and payment activity during the period. Our recent investment purchases have primarily been floating rate securities to take advantage of higher short-term rates above those offered on cash and to reduce liability sensitivity. The investment portfolio, including mortgage-backed securities, had an estimated projected average life of 7.4 years as of September 30, 2024, compared to 7.7 years as of December 31, 2023, and had an estimated average repricing term of 5.6 years as of September 30, 2024, compared to 6.3 years as of December 31, 2023, based on the interest rate environment at those times. The effective duration of the investment portfolio was 3.9 years at September 30, 2024, compared to 4.8 years at December 31, 2023. If prevailing market interest rates fall, we expect prepayments will accelerate due to the current coupons of fixed rate bonds.

Included in MBS non-agency were \$29.6 million of commercial mortgage-backed securities ("CMBS"), of which 89.8% were in "A" tranches with the remaining 10.2% in "B" tranches. Our largest exposure in the CMBS portfolio was to long-term care facilities, which comprised 65.0%, or \$19.2 million, of our private label CMBS securities. All of the CMBS had credit enhancements ranging from 28.8% to 71.8%, with a weighted-average credit enhancement of 55.3%, that further reduced the risk of loss on these investments.

The investment portfolio was comprised of 55.8% in amortizing securities at September 30, 2024, compared to 52.0% at December 31, 2023. The projected average life of the securities portfolio may vary due to prepayment activity, particularly in the mortgage-backed securities portfolio, which is impacted by prevailing market interest rates. Our securities portfolio is utilized to manage liquidity, improve long-term interest income and manage interest rate risk. For additional information, see Note 2 of the Notes to Consolidated Financial Statements contained in Item 1 of this Form 10-Q.

Net loans, excluding loans held for sale, increased \$71.9 million, or 4.4%, to \$1.71 billion at September 30, 2024, from \$1.64 billion at December 31, 2023. During the nine months ended September 30, 2024, commercial business loans increased \$43.0 million, including a \$28.7 million increase to our Northpointe Bank Mortgage Purchase Program ("Northpointe MPP") participation, \$26.9 million of organic originations, \$9.5 million of purchased loans and \$6.4 million of draws on existing line of credit commitments, offset by repayments. Auto and other consumer loans increased \$32.1 million with \$32.6 million of auto loan purchases, manufactured home loan pool purchases of \$17.7 million, additional manufactured home loan purchases of \$10.1 million and \$14.2 million of auto loan purchases, partially offset by prepayments and scheduled payments. Multi-family loans increased \$20.7 million during the nine months ended September 30, 2024, with \$30.4 million of construction loans converting into permanent amortizing loans, partially offset by payment activity. One-to-four family loans increased \$17.4 million during the nine months ended September 30, 2024, as a result of \$36.1 million in residential construction loans which converted to permanent amortizing loans, partially offset by payments received. Home equity loan outstanding balances increased \$7.6 million over the prior year end due to \$13.7 million from home equity loan originations and draws on new and existing line of credit commitments. Commercial real estate loans decreased \$12.0 million during the nine months ended September 30, 2024, due to prepayments, scheduled payments, maturities and a reclassification of \$3.9 million to multi-family offsetting originations of \$13.8 million.

Construction and land loans decreased \$34.0 million, or 26.2%, to \$95.7 million at September 30, 2024, from \$129.7 million at December 31, 2023, with \$66.5 million converting into fully amortizing loans, partially offset by draws on new and existing loan commitments. Construction loans in the portfolio are geographically dispersed throughout Western Washington. All construction projects are monitored by either a third-party firm or our internal construction administration team. Projects with larger loan commitments have more robust monitoring by firms with more services and expertise. We continue to monitor the impact inflation and housing demand may have on the completion of the projects currently in the 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, 2024, 39% of construction commitments were secured by one-to-four family residential properties, which are anticipated to convert into amortizing loans upon completion and may be sold at that time.

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.

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

| September 30, 2024                  | North Olympic Peninsula (1)<br>(In thousands) | Puget Sound Region<br>(2) | Other Washington | Total             |
|-------------------------------------|-----------------------------------------------|---------------------------|------------------|-------------------|
| <b>Construction Commitment</b>      |                                               |                           |                  |                   |
| One-to-four family residential      | \$ 7,678                                      | \$ 49,280                 | \$ 1,425         | \$ 58,383         |
| Multi-family residential            | 3,900                                         | 30,577                    | 5,922            | 40,399            |
| Commercial real estate              | —                                             | 45,794                    | 4,214            | 50,008            |
| Total commitment                    | <u>\$ 11,578</u>                              | <u>\$ 125,651</u>         | <u>\$ 11,561</u> | <u>\$ 148,790</u> |
| <b>Construction Funds Disbursed</b> |                                               |                           |                  |                   |
| One-to-four family residential      | \$ 3,170                                      | \$ 37,967                 | \$ 1,283         | \$ 42,420         |
| Multi-family residential            | 164                                           | 24,730                    | 4,405            | 29,299            |
| Commercial real estate              | —                                             | 18,013                    | 484              | 18,497            |
| Total disbursed for construction    | 3,334                                         | 80,710                    | 6,172            | 90,216            |
| Net deferred fees (costs)           | 9                                             | (456)                     | (33)             | (480)             |
| Amortized cost for construction     | <u>\$ 3,343</u>                               | <u>\$ 80,254</u>          | <u>\$ 6,139</u>  | <u>\$ 89,736</u>  |
| <b>Undisbursed Commitment</b>       |                                               |                           |                  |                   |
| One-to-four family residential      | \$ 4,508                                      | \$ 11,313                 | \$ 142           | \$ 15,963         |
| Multi-family residential            | 3,736                                         | 5,847                     | 1,517            | 11,100            |
| Commercial real estate              | —                                             | 27,781                    | 3,730            | 31,511            |
| Total undisbursed                   | <u>\$ 8,244</u>                               | <u>\$ 44,941</u>          | <u>\$ 5,389</u>  | <u>\$ 58,574</u>  |
| <b>Land Funds Disbursed</b>         |                                               |                           |                  |                   |
| One-to-four family residential      | \$ 2,638                                      | \$ 2,238                  | \$ 214           | \$ 5,090          |
| Commercial real estate              | —                                             | 845                       | —                | 845               |
| Total disbursed for land            | 2,638                                         | 3,083                     | 214              | 5,935             |
| Net deferred fees                   | 19                                            | 13                        | 6                | 38                |
| Amortized cost for land             | <u>\$ 2,657</u>                               | <u>\$ 3,096</u>           | <u>\$ 220</u>    | <u>\$ 5,973</u>   |

(1) Includes Clallam and Jefferson counties.

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

| December 31, 2023                   | North Olympic Peninsula (1) | Puget Sound Region (2) | Other Washington (In thousands) | Oregon        | Total             |
|-------------------------------------|-----------------------------|------------------------|---------------------------------|---------------|-------------------|
| <b>Construction Commitment</b>      |                             |                        |                                 |               |                   |
| One-to-four family residential      | \$ 10,260                   | \$ 54,320              | \$ 6,489                        | \$ 540        | \$ 71,609         |
| Multi-family residential            | —                           | 78,196                 | 11,076                          | —             | 89,272            |
| Commercial real estate              | —                           | 17,332                 | 1                               | —             | 17,333            |
| Total commitment                    | <u>\$ 10,260</u>            | <u>\$ 149,848</u>      | <u>\$ 17,566</u>                | <u>\$ 540</u> | <u>\$ 178,214</u> |
| <b>Construction Funds Disbursed</b> |                             |                        |                                 |               |                   |
| One-to-four family residential      | \$ 3,790                    | \$ 34,725              | \$ 5,065                        | \$ 175        | \$ 43,755         |
| Multi-family residential            | —                           | 61,288                 | 5,879                           | —             | 67,167            |
| Commercial real estate              | —                           | 11,849                 | —                               | —             | 11,849            |
| Total disbursed                     | <u>3,790</u>                | <u>107,862</u>         | <u>10,944</u>                   | <u>175</u>    | <u>122,771</u>    |
| Net deferred fees (costs)           | 27                          | (544)                  | (39)                            | 1             | (555)             |
| Amortized cost for construction     | <u>\$ 3,817</u>             | <u>\$ 107,318</u>      | <u>\$ 10,905</u>                | <u>\$ 176</u> | <u>\$ 122,216</u> |
| <b>Undisbursed Commitment</b>       |                             |                        |                                 |               |                   |
| One-to-four family residential      | \$ 6,470                    | \$ 19,595              | \$ 1,424                        | \$ 365        | \$ 27,854         |
| Multi-family residential            | —                           | 16,908                 | 5,197                           | —             | 22,105            |
| Commercial real estate              | —                           | 5,483                  | 1                               | —             | 5,484             |
| Total undisbursed                   | <u>\$ 6,470</u>             | <u>\$ 41,986</u>       | <u>\$ 6,622</u>                 | <u>\$ 365</u> | <u>\$ 55,443</u>  |
| <b>Land Funds Disbursed</b>         |                             |                        |                                 |               |                   |
| One-to-four family residential      | \$ 3,310                    | \$ 3,002               | \$ 272                          | \$ —          | \$ 6,584          |
| Commercial real estate              | —                           | 845                    | —                               | —             | 845               |
| Total disbursed for land            | <u>3,310</u>                | <u>3,847</u>           | <u>272</u>                      | <u>—</u>      | <u>7,429</u>      |
| Net deferred fees                   | 28                          | 16                     | 2                               | —             | 46                |
| Amortized cost for land             | <u>\$ 3,338</u>             | <u>\$ 3,863</u>        | <u>\$ 274</u>                   | <u>\$ —</u>   | <u>\$ 7,475</u>   |

(1) Includes Clallam and Jefferson counties.

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

During the nine months ended September 30, 2024, the Company added \$144.5 million of organic loan originations, of which \$100.1 million, or 69.2%, were located in the Puget Sound region, \$30.9 million, or 21.4%, on the North Olympic Peninsula, \$7.2 million, or 5.0%, in other areas throughout Washington State, and \$6.3 million, or 4.4%, in other states. The Company purchased an additional \$46.8 million in auto loans, \$27.8 million in manufactured home loans, and \$9.5 million in commercial business loans to borrowers located throughout the United States during the nine months ended September 30, 2024. We will continue to strategically evaluate opportunities to acquire assets through wholesale channels in order to supplement organic originations and increase net interest income. The Northpointe MPP also provides a source of additional interest income but is dependent on demand for mortgage funding, with repayment of advances to this program typically occurring within 30 days or less. The total loan portfolio was composed of 77.3% organic originations and 22.7% purchased loans at September 30, 2024.

The ACLL increased to \$22.0 million at September 30, 2024, as the Company recorded a \$13.0 million provision for credit loss on loans for the nine-month period. Net charge-offs were \$8.5 million for the nine-month period. The ACLL as a percentage of total loans was 1.27% and 1.10% at September 30, 2024 and December 31, 2023, respectively.

Nonaccrual loans increased \$11.7 million, or 62.9%, to \$30.4 million at September 30, 2024, from \$18.6 million at December 31, 2023, primarily attributable to a \$8.1 million commercial construction loan placed on nonaccrual during the quarter ended June 30, 2024, a \$5.6 million commercial real estate relationship placed on nonaccrual during the quarter ended September 30, 2024, three delinquent commercial business loans with an aggregate total of \$2.0 million, a \$535,000 delinquent purchased one-to-four family loan, four delinquent auto loans totaling \$425,000 and a \$184,000 increase to a commercial construction relationship previously placed on nonaccrual. These increases were partially offset by a \$4.5 million charge-off to a commercial construction loan and a \$591,000 single family residence loan that was paid off during the first quarter of 2024. Nonaccrual loans to total loans was 1.75% at September 30, 2024, compared to 1.12% at December 31, 2023. The ACLL as a percentage of nonaccrual loans decreased to 72% at September 30, 2024, down from 94% at December 31, 2023.

Classified loans increased \$11.8 million to \$46.9 million at September 30, 2024, from \$35.1 million at December 31, 2023, due to the downgrade during the first nine months of 2024 of the loans noted above. An \$11.2 million construction loan relationship which became classified in the fourth quarter of 2022, a \$6.2 million commercial loan relationship which became classified in the fourth quarter of 2023 and an \$8.1 million commercial construction loan relationship which became classified in the second quarter of 2024, account for 55% of the classified loan balance at September 30, 2024. The Bank has exercised legal remedies, including the appointment of a third-party receiver and foreclosure actions, to liquidate the underlying collateral to satisfy the real estate loans in two of the three collateral-dependent relationships. Proceeds from the sale of a unit in the \$15.2 million construction loan relationship during the first quarter of 2024 were used to the paydown principal of the related loan balance. A property included in the \$6.2 million commercial loan relationship was sold, resulting in a \$3.0 million loan payoff recorded in the third quarter of 2024.

The Bank recorded commercial construction loan charge-offs totaling \$4.0 million and commercial business loan charge-offs of \$2.7 million in the second quarter of 2024 as a result of uncertainty in the collectability of the underlying collateral in specific loan relationships. Charge-offs are based on individual loan evaluations and do not represent a universal decline in the collectability of all loans in these categories. Additional charged-off balances related to purchased unsecured consumer loans totaled \$1.7 million during the nine months ended September 30, 2024, or 19% of gross charge-offs. The Bank's active participation in the program was discontinued in 2023. Total Splash purchased unsecured consumer loan balances of \$3.9 million and \$7.3 million were included in Auto and Other Consumer loans at September 30, 2024 and December 31, 2023, respectively. We believe the ACLL is adequate to absorb the known and inherent risks of loss in the overall loan portfolio as of September 30, 2024.

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

|                                      | September 30, 2024 | December 31, 2023 | Increase (Decrease) |         |  |
|--------------------------------------|--------------------|-------------------|---------------------|---------|--|
|                                      |                    |                   | Amount              | Percent |  |
|                                      | (In thousands)     |                   |                     |         |  |
| <b>Real Estate:</b>                  |                    |                   |                     |         |  |
| One-to-four family                   | \$ 395,792         | \$ 378,432        | \$ 17,360           | 4.6%    |  |
| Multi-family                         | 353,813            | 333,094           | 20,719              | 6.2     |  |
| Commercial real estate               | 376,008            | 387,983           | (11,975)            | (3.1)   |  |
| Construction and land                | 95,709             | 129,691           | (33,982)            | (26.2)  |  |
| Total real estate loans              | 1,221,322          | 1,229,200         | (7,878)             | (0.6)   |  |
| <b>Consumer:</b>                     |                    |                   |                     |         |  |
| Home equity                          | 76,960             | 69,403            | 7,557               | 10.9    |  |
| Auto and other consumer              | 281,198            | 249,130           | 32,068              | 12.9    |  |
| Total consumer loans                 | 358,158            | 318,533           | 39,625              | 12.4    |  |
| <b>Commercial business loans</b>     | 155,327            | 112,295           | 43,032              | 38.3    |  |
| Total loans receivable               | 1,734,807          | 1,660,028         | 74,779              | 4.5     |  |
| <b>Less:</b>                         |                    |                   |                     |         |  |
| Derivative basis adjustment          | (1,579)            | —                 | (1,579)             | 100.0   |  |
| Allowance for credit losses on loans | 21,970             | 17,510            | 4,460               | 25.5    |  |
| Loans receivable, net                | \$ 1,714,416       | \$ 1,642,518      | \$ 71,898           | 4.4     |  |

The following table represents nonperforming assets at the dates indicated.

|                                                                              | September 30, 2024 | December 31, 2023 | Increase (Decrease) |          |
|------------------------------------------------------------------------------|--------------------|-------------------|---------------------|----------|
|                                                                              |                    |                   | Amount              | Percent  |
|                                                                              | (In thousands)     |                   |                     |          |
| Nonaccrual loans:                                                            |                    |                   |                     |          |
| Real estate loans:                                                           |                    |                   |                     |          |
| One-to-four family                                                           | \$ 1,631           | \$ 1,844          | \$ (213)            | (11.6)%  |
| Commercial real estate                                                       | 5,634              | 28                | 5,606               | 20,021.4 |
| Construction and land                                                        | 19,382             | 14,986            | 4,396               | 29.3     |
| Total real estate loans                                                      | 26,647             | 16,858            | 9,789               | 58.1     |
| Consumer loans:                                                              |                    |                   |                     |          |
| Home equity                                                                  | 116                | 123               | (7)                 | (5.7)    |
| Auto and other consumer                                                      | 894                | 786               | 108                 | 13.7     |
| Total consumer loans                                                         | 1,010              | 909               | 101                 | 11.1     |
| Commercial business                                                          | 2,719              | 877               | 1,842               | 210.0    |
| Total nonaccrual loans                                                       | \$ 30,376          | \$ 18,644         | \$ 11,732           | 62.9     |
| Nonaccrual and 90 days or more past due loans as a percentage of total loans |                    |                   |                     |          |
|                                                                              | 1.75%              | 1.12%             | 0.63%               | 56.3     |

In the second quarter of 2024, the Bank completed the sale and leaseback of six branch properties to Mountainseed, reducing premises and equipment by \$6.8 million. The Bank received the full sales price of \$14.7 million. The proceeds of the sale transaction were used to pay down borrowings. First Fed is leasing back the six properties sold to Mountainseed under agreements with initial terms of 15 years with one 15-year renewal option each. The leases, recorded in the second quarter of 2024, resulted in an increase of \$12.2 million to both other assets and other liabilities for the related right-of-use assets and lease liabilities created by the contracts, respectively.

In the second quarter of 2024, a redemption of First Northwest's limited partnership investment in Meriwether Group Hero Fund LP was offset by a subsequent limited partnership investment in the same entity by First Fed. First Northwest utilized the cash received to pay down the NexBank line of credit.

**Liabilities.** Total liabilities increased to \$2.09 billion at September 30, 2024, from \$2.04 billion at December 31, 2023, due to increases in deposits of \$34.8 million, lease liabilities of \$11.4 million and borrowings of \$14.0 million.

Deposit balances increased \$34.8 million, or 2.1%, to \$1.71 billion at September 30, 2024 from \$1.68 billion at December 31, 2023. During the first nine months of 2024, total retail deposit balances increased \$38.7 million and brokered deposit balances decreased \$3.9 million. Within retail deposit balances, an increase in money market accounts of \$71.1 million was partially offset by a decrease in savings accounts of \$29.4 million, retail term certificates of \$1.8 million and demand deposit accounts of \$1.3 million. Increases in money market accounts were driven by customer behavior as they sought out higher rates offered as term certificate specials matured and savings specials ended. We utilize brokered CDs as an additional funding source to provide liquidity, manage cost of funds, reduce reliance on FHLB advances, and manage interest rate risk. Overall, the current rate environment contributes to continued competition for deposits with additional deposit rate specials offered to retain existing balances and attract new funds.

Advances increased \$15.0 million, or 5.5% to \$290.0 million at September 30, 2024, from \$275.0 million at December 31, 2023. We reduced short-term FHLB advances and the NexBank line of credit to improve the cost of funds while long-term advances increased to provide additional balance sheet liquidity.

**Equity.** Total shareholders' equity decreased \$2.6 million to \$160.8 million for the nine months ended September 30, 2024. The Company recorded a net loss during that period of \$3.8 million, \$4.0 million for the cost of repurchased shares, \$2.0 million of dividends declared and a \$298,000 decrease in the post-tax fair market value of derivatives. Decreases were partially offset by an increase in the after-tax fair market values of the available-for-sale investment securities portfolio of \$6.4 million. During the first quarter of 2024, we repurchased 214,132 shares of common stock under the October 2020 stock repurchase plan at an average price of \$14.03 per share for a total of \$3.0 million, which completed the October 2020 share repurchase program. In April 2024, the Board of Directors authorized a new buyback plan of up to 10% of shares outstanding for a maximum of 944,279 shares. During the third quarter of 2024, we repurchased 98,156 shares of common stock under the April 2024 stock repurchase plan at an average price of \$10.19 per share for a total of \$1.0 million, leaving 846,123 shares remaining in the current share repurchase program.

## Comparison of Results of Operations for the Three Months Ended September 30, 2024 and 2023

**General.** The Company recorded a net loss of \$2.0 million for the three months ended September 30, 2024, compared to net income of \$2.5 million for the three months ended September 30, 2023. A \$3.7 million decrease in net interest income after provision for credit losses, a \$1.5 million increase in noninterest expense and a \$1.1 million decrease in noninterest income were partially offset by decrease in provision for income taxes of \$1.8 million.

**Net Interest Income.** Net interest income decreased \$930,000 to \$14.0 million for the three months ended September 30, 2024, from \$15.0 million for the three months ended September 30, 2023. This decrease was mainly the result of higher rates paid on interest-bearing liabilities, which increased 63 basis points to 3.23% for the three months ended September 30, 2024, compared to 2.60% for the same period in the prior year. This was due to higher rates paid on all deposits and borrowings and an increase in the average balances of CDs and borrowings. The cost of total deposits increased 71 basis points to 2.56% for the three months ended September 30, 2024, compared to 1.85% for the same period in 2023. The average yield on interest-earning assets increased 30 basis points to 5.44% for the three months ended September 30, 2024, compared to 5.14% for the same period last year, due primarily to higher yields on variable- and adjustable-rate assets and an increase in higher yielding loan volume due to originations, purchases and draws on new and existing lines of credit.

The net interest margin decreased 27 basis points to 2.70% for the three months ended September 30, 2024, from 2.97% for the same period in 2023. Total cost of funds increased 59 basis points to 2.82% for the three months ended September 30, 2024, from 2.23% for the same period in 2023. While increases in the cost of funding outpaced the growth of the yield on interest-earning assets, the Company has taken measures to control interest rate margin compression. Organic loan production was augmented with higher-yielding purchased loans through established third-party relationships. Interest income on investment securities increased as a result of the purchase of higher-yielding investment securities in the linked quarter. Income on the Bank's fair value hedging agreements on securities increased quarter-over-quarter by \$42,000. The fair value hedge on loans established in 2024 also increased interest income by \$395,000 for the third quarter of 2024.

**Interest Income.** Total interest income increased \$2.4 million, or 9.2%, to \$28.2 million for the three months ended September 30, 2024, from \$25.8 million for the comparable period in 2023, primarily due to higher yields on interest-earning assets. Interest and fees on loans receivable increased \$1.8 million, to \$23.5 million for the three months ended September 30, 2024, from \$21.7 million for the three months ended September 30, 2023, primarily due to an increase in average loan yields to 5.51% for the three months ended September 30, 2024, from 5.31% for the same period in 2023, coupled with an increase in the average balance of net loans receivable of \$74.6 million compared to the third quarter of 2023. The loan portfolio has grown through draws on new and existing business lines of credit, originations of multi-family real estate loans, and purchases of auto, manufactured home, and purchased commercial business loans. Loan interest income for the third quarter of 2024 was reduced by \$625,000 due to interest reversals for loans placed on nonaccrual during the quarter. Loan yields increased over the prior year due to higher rates on new originations as well as the repricing of variable- and adjustable-rate loans tied to the Prime Rate or other indices. The yield earned on investment securities also increased 72 basis points to 4.90% compared to the same period in 2023, as increases in floating bond rates, sales of lower-yielding bonds, purchases of new bonds at higher yields and a reduction in amortization of premium costs as prepayment speeds slow down have all positively impacted investment securities income. The yield on FHLB dividends also increased to 9.46% from 7.12% for the comparable period in 2023.

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, |       |                                |       | Increase in Interest<br>Income |
|------------------------------------|----------------------------------|-------|--------------------------------|-------|--------------------------------|
|                                    | 2024                             |       | 2023                           |       |                                |
|                                    | Average Balance<br>Outstanding   | Yield | Average Balance<br>Outstanding | Yield |                                |
|                                    | (Dollars in thousands)           |       |                                |       |                                |
| Loans receivable, net              | \$ 1,699,302                     | 5.51% | \$ 1,624,722                   | 5.31% | \$ 1,808                       |
| Investment securities              | 307,623                          | 4.90  | 319,508                        | 4.18  | 418                            |
| FHLB stock                         | 12,697                           | 9.46  | 11,922                         | 7.12  | 88                             |
| Interest-earning deposits in banks | 42,348                           | 5.47  | 38,099                         | 5.46  | 58                             |
| Total interest-earning assets      | \$ 2,061,970                     | 5.44  | \$ 1,994,251                   | 5.14  | \$ 2,372                       |



**Interest Expense.** Total interest expense increased \$3.3 million, or 30.3%, to \$14.2 million for the three months ended September 30, 2024, compared to \$10.9 million for the three months ended September 30, 2023. The increase over the third quarter of 2023 was the result of an increase in the cost of deposits to 2.56% from 1.85% in same period one year ago along with higher volumes of CDs and money market accounts. A shift in the deposit mix from no or low-cost transaction and savings accounts to a higher volume of CDs and money market accounts with higher prevailing market rates resulted in a higher cost of deposits. Interest expense on borrowings increased due to an average balance increase of \$10.5 million and an increase in the cost of advances from 4.52% to 4.41%, primarily FHLB advances, compared to the same period in 2023.

Average deposit account balances were composed of 85% in interest-bearing deposits and 15% in noninterest-bearing deposits at September 30, 2024, compared to 82% and 18%, respectively, at September 30, 2023. During the three months ended September 30, 2024, interest expense increased on CDs due to an increase in the average balances of \$58.6 million, along with an increase in the average rates paid of 63 basis points, compared to the three months ended September 30, 2023. During the same period, the average balances of money market accounts increased \$57.9 million with a 143-basis point average rate increase, resulting in an increase to interest expense. The average cost of interest-bearing deposit accounts increased to 3.00% for the three months ended September 30, 2024, from 2.22% for the three months ended September 30, 2023, due to changes to the deposit mix, driven by customer preferences and the use of higher-rate promotional products designed to retain existing deposits and generate new deposits. The mix of retail customer deposit balances shifted from non-maturity accounts towards higher cost term certificate products. Retail customer CDs represented 29.3% and 27.6% of retail customer deposits at September 30, 2024 and 2023, respectively.

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

|                                    | Three Months Ended September 30, |       |                                |       | Increase (Decrease<br>in Interest Expense |
|------------------------------------|----------------------------------|-------|--------------------------------|-------|-------------------------------------------|
|                                    | 2024                             |       | 2023                           |       |                                           |
|                                    | Average Balance<br>Outstanding   | Rate  | Average Balance<br>Outstanding | Rate  |                                           |
|                                    | (Dollars in thousands)           |       |                                |       |                                           |
| Interest-bearing demand deposits   | \$ 166,846                       | 0.45% | \$ 176,503                     | 0.46% | \$ (17)                                   |
| Money market accounts              | 431,346                          | 2.65  | 373,408                        | 1.22  | 1,729                                     |
| Savings accounts                   | 224,159                          | 1.64  | 255,956                        | 1.42  | 5                                         |
| Certificates of deposit, retail    | 415,450                          | 4.16  | 394,713                        | 3.52  | 835                                       |
| Certificates of deposit, brokered  | 215,016                          | 4.88  | 177,154                        | 4.31  | 709                                       |
| Advances                           | 255,348                          | 4.41  | 244,859                        | 4.52  | 41                                        |
| Subordinated debt                  | 39,484                           | 3.97  | 39,403                         | 3.97  | —                                         |
| Total interest-bearing liabilities | \$ 1,747,649                     | 3.23  | \$ 1,661,996                   | 2.60  | \$ 3,302                                  |

**Provision for Credit Losses.** The Company recorded a \$3.1 million provision for credit losses in the three months ended September 30, 2024. A provision for credit losses on loans of \$3.0 million was the result of reserves taken on individually evaluated loans and an increase in the estimated CECL loss factors applied to pooled commercial business loans and multi-family loans at quarter end. Increases were partially offset by a decrease in the loss factors applied to consumer, commercial real estate and one-to-four family loan balances. A provision for credit losses on unfunded commitments of \$57,000 was also recorded during the quarter ended September 30, 2024, due to higher loss factors and a moderate increase in commitment balances at quarter end. The total provision for credit losses on loans was \$880,000 for the quarter ended September 30, 2023, partially offset by a provision recovery on unfunded commitments of \$509,000. The ACLL as a percentage of nonaccrual loans at period end decreased to 72% compared to 714% for the same period in 2023. This ratio continues to decline as higher balances of real estate loans are included in the nonperforming assets with no significant corresponding increase to the ACLL as these secured loans are considered adequately reserved for based on the information currently available.



The following table details activity and information related to the allowance for credit losses on loans and reserve for unfunded commitments for the periods shown:

|                                                                                              | Three Months Ended September 30, |              |
|----------------------------------------------------------------------------------------------|----------------------------------|--------------|
|                                                                                              | 2024                             | 2023         |
|                                                                                              | (Dollars in thousands)           |              |
| Provision for credit losses on loans                                                         | \$ 3,077                         | \$ 880       |
| Net charge-offs                                                                              | (450)                            | (1,232)      |
| Allowance for credit losses on loans                                                         | 21,970                           | 16,945       |
| Allowance for credit losses on loans as a percentage of total loans receivable at period end | 1.27%                            | 1.04%        |
| Total nonaccrual loans                                                                       | 30,376                           | 2,374        |
| Allowance for credit losses on loans as a percentage of nonaccrual loans at period end       | 72%                              | 714%         |
| Nonaccrual and 90 days or more past due loans as a percentage of total loans receivable      | 1.75%                            | 0.15%        |
| Total loans receivable                                                                       | \$ 1,734,807                     | \$ 1,634,978 |
| Provision for (recapture of) credit losses on unfunded commitments                           | \$ 57                            | \$ (509)     |
| Reserve for unfunded commitments                                                             | 704                              | 828          |
| Unfunded loan commitments                                                                    | 166,446                          | 154,722      |

**Noninterest Income.** Noninterest income decreased \$1.1 million, or 38.7%, to \$1.8 million for the three months ended September 30, 2024, from \$2.9 million for the three months ended September 30, 2023. The third quarter of 2023 included \$750,000 in credit enhancements reimbursed to the Company on Splash charge-offs recorded in other noninterest income. The quarter ended September 30, 2023, also included a \$102,000 gain on sale of mortgage loans, compared to a \$6,000 gain in the third quarter of 2024.

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) |         |
|---------------------------------------------------------------|----------------------------------|----------|---------------------|---------|
|                                                               | 2024                             | 2023     | Amount              | Percent |
|                                                               | (Dollars in thousands)           |          |                     |         |
| Loan and deposit service fees                                 | \$ 1,059                         | \$ 1,068 | \$ (9)              | (0.8)%  |
| Sold loan servicing fees and servicing rights mark-to-market  | 10                               | 98       | (88)                | (89.8)  |
| Net gain on sale of loans                                     | 58                               | 171      | (113)               | (66.1)  |
| Increase in cash surrender value of bank-owned life insurance | 315                              | 252      | 63                  | 25.0    |
| Other income                                                  | 337                              | 1,315    | (978)               | (74.4)  |
| Total noninterest income                                      | \$ 1,779                         | \$ 2,904 | \$ (1,125)          | (38.7)  |

**Noninterest Expense.** Noninterest expense increased \$1.5 million, or 10.2%, to \$15.9 million for the three months ended September 30, 2024, compared to \$14.4 million for the three months ended September 30, 2023. The increase in expenses compared to the third quarter of 2023 is mainly due to one-time severance payouts of \$704,000, additional payroll tax expense of \$342,000 and additional medical benefit expense of \$162,000. Payroll tax expense in the third quarter of 2023 was offset by the accretion of the employee retention credit ("ERC"), which reduced the expense by \$293,000. In the fourth quarter of 2023, the Bank stopped the recognition of the ERC for the foreseeable future. Occupancy increased due to the additional rent of \$416,000 from the previous quarter sale-leaseback transaction. Other increases compared to the third quarter of 2023 included \$51,000 in stockholder communications, \$103,000 in state taxes, \$163,000 in FDIC insurance premiums, and \$269,000 in additional credit related expenses. These increases were partially offset by lower legal fees of \$204,000, consulting fees of \$146,000 and advertising costs of \$91,000. The Company continues to focus on controlling compensation expense and reducing advertising and other discretionary spending to improve earnings. The reduction in force, along with year-to-date headcount management through attrition, is expected to result in a decrease to prior levels of compensation expense by approximately \$820,000 per quarter starting in the fourth quarter of 2024.

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) |         |
|----------------------------------------|----------------------------------|------------------|---------------------|---------|
|                                        | 2024                             | 2023             | Amount              | Percent |
|                                        | (Dollars in thousands)           |                  |                     |         |
| Compensation and benefits              | \$ 8,582                         | \$ 7,795         | \$ 787              | 10.1%   |
| Data processing                        | 2,085                            | 1,945            | 140                 | 7.2     |
| Occupancy and equipment                | 1,553                            | 1,173            | 380                 | 32.4    |
| Supplies, postage, and telephone       | 360                              | 292              | 68                  | 23.3    |
| Regulatory assessments and state taxes | 548                              | 446              | 102                 | 22.9    |
| Advertising                            | 409                              | 501              | (92)                | (18.4)  |
| Professional fees                      | 698                              | 929              | (231)               | (24.9)  |
| FDIC insurance premium                 | 533                              | 369              | 164                 | 44.4    |
| Other expense                          | 1,080                            | 926              | 154                 | 16.6    |
| Total noninterest expense              | <u>\$ 15,848</u>                 | <u>\$ 14,376</u> | <u>\$ 1,472</u>     | 10.2    |

**Provision for Income Tax.** An income tax benefit of \$1.2 million was recorded for the three months ended September 30, 2024, compared to expense of \$603,000 for the three months ended September 30, 2023, due to a year-over-year decrease in income before taxes of \$6.3 million. The provision includes accruals for both federal and state income taxes. For additional information, see Note 9 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, 2024 and 2023

**General.** The Company recorded a net loss of \$3.8 million for the nine months ended September 30, 2024, compared to net income of \$7.8 million for the nine months ended September 30, 2023. A \$17.7 million decrease in net interest income after provision for credit losses and a \$1.3 million increase in noninterest expense were partially offset by a \$4.4 million increase in noninterest income and a decrease in provision for income tax of \$3.2 million.

**Net Interest Income.** Net interest income decreased \$5.1 million to \$42.2 million for the nine months ended September 30, 2024, from \$47.2 million for the nine months ended September 30, 2023, as higher funding costs outpaced increased loan, investment and interest-earning deposit income.

Average earning assets increased \$94.1 million year-over-year. The yield on average interest-earning assets increased 38 basis points to 5.47% for the nine months ended September 30, 2024, compared to 5.09% 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 and interest-earning deposit accounts.

The average cost of interest-bearing liabilities increased to 3.22% for the nine months ended September 30, 2024, compared to 2.26% for the same period last year, due primarily to higher rates paid on all interest-bearing deposits and advances along with increases in the average balances of CDs, money market accounts and FHLB advances. Total cost of funds increased 89 basis points to 2.81% for the nine months ended September 30, 2024, from 1.92% for the same period in 2023. The net interest margin decreased 48 basis points to 2.74% for the nine months ended September 30, 2024, from 3.22% for the same period in 2023.

**Interest Income.** Total interest income increased \$9.6 million, or 12.8%, to \$84.1 million for the nine months ended September 30, 2024, from \$74.6 million for the comparable period in 2023, primarily due to an increase in yields on interest-earning assets and an increase in average net loans receivable balances. Interest and fees on loans receivable increased \$7.5 million, to \$70.0 million for the nine months ended September 30, 2024, from \$62.5 million for the nine months ended September 30, 2023, primarily due to an increase in the average balance of net loans receivable of \$103.9 million compared to the prior year, coupled with an increase in average loan yields to 5.55% for the nine months ended September 30, 2024, from 5.28% for the same period in 2023. The loan portfolio increased as a result of participation in the Northpointe MPP and additional auto, manufactured home, and commercial business loan purchases. Loan yields increased over the prior year due to higher rates on new originations as well as the repricing of variable- and adjustable-rate loans tied to the Prime Rate or other variable-rate indices. The yield earned on investment securities also increased 82 basis points to 4.89% compared to the same period in 2023, due to the purchase of higher-yielding investments in the second quarter of 2024. An increase in rates on floating bonds and a slowdown in prepayment speeds, which reduces amortization of premium costs, also positively impacted investment securities income.

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, |       |                                |       | Increase in Interest<br>Income |
|------------------------------------|---------------------------------|-------|--------------------------------|-------|--------------------------------|
|                                    | 2024                            |       | 2023                           |       |                                |
|                                    | Average Balance<br>Outstanding  | Yield | Average Balance<br>Outstanding | Yield |                                |
|                                    | (Dollars in thousands)          |       |                                |       |                                |
| Loans receivable, net              | \$ 1,686,546                    | 5.55% | \$ 1,582,658                   | 5.28% | \$ 7,505                       |
| Investment securities              | 310,653                         | 4.89  | 324,968                        | 4.07  | 1,481                          |
| FHLB stock                         | 13,397                          | 9.39  | 11,873                         | 7.07  | 314                            |
| Interest-earning deposits in banks | 43,456                          | 5.53  | 40,447                         | 5.11  | 253                            |
| Total interest-earning assets      | \$ 2,054,052                    | 5.47  | \$ 1,959,946                   | 5.09  | \$ 9,553                       |

**Interest Expense.** Total interest expense increased \$14.6 million, or 53.4%, to \$42.0 million for the nine months ended September 30, 2024, compared to \$27.4 million for the nine months ended September 30, 2023. The increase over the first nine months of 2023 was the result of a 98-basis point increase in the cost of total deposits from 1.51% one year prior to 2.49% along with a higher volume of CD balances. A shift in the deposit mix from no or low-cost transaction and savings accounts to a higher volume of CDs and money market accounts resulted in higher costs of deposits. Interest expense on borrowings increased due to a \$27.9 million increase in the average balance and a 31-basis point increase in the cost of advances, primarily FHLB advances, compared to the same period in 2023.

During the nine months ended September 30, 2024, interest expense on CDs increased due to higher average balances of \$113.8 million, along with a 108-basis point increase in the average rates paid, compared to the nine months ended September 30, 2023. During the same period, the average balances of money market accounts increased \$7.8 million, with a 142-basis point average rate increase, resulting in an increase to interest expense. The average cost of interest-bearing deposit accounts increased to 2.92% for the nine months ended September 30, 2024, from 1.83% for the nine months ended September 30, 2023, due to the use of promotional products designed to retain existing deposits and generate new deposits. The mix of retail customer deposit balances shifted from non-maturity accounts towards higher cost CDs. Retail customer CDs represented 25.8% and 24.7% of total deposits at September 30, 2024 and 2023, respectively. Brokered CDs represented 11.9% and 10.2% of total deposits at September 30, 2024 and 2023, respectively.

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

|                                    | Nine Months Ended September 30, |       |                                |       | Increase (Decrease<br>in Interest Expense |
|------------------------------------|---------------------------------|-------|--------------------------------|-------|-------------------------------------------|
|                                    | 2024                            |       | 2023                           |       |                                           |
|                                    | Average Balance<br>Outstanding  | Rate  | Average Balance<br>Outstanding | Rate  |                                           |
|                                    | (Dollars in thousands)          |       |                                |       |                                           |
| Interest-bearing demand deposits   | \$ 165,816                      | 0.46% | \$ 180,789                     | 0.44% | \$ (32)                                   |
| Money market accounts              | 404,845                         | 2.39  | 397,023                        | 0.97  | 4,378                                     |
| Savings accounts                   | 229,180                         | 1.63  | 241,802                        | 1.14  | 735                                       |
| Certificates of deposit, retail    | 417,716                         | 4.13  | 350,864                        | 3.17  | 4,590                                     |
| Certificates of deposit, brokered  | 210,186                         | 4.92  | 163,218                        | 3.62  | 3,320                                     |
| Advances                           | 274,475                         | 4.64  | 246,683                        | 4.29  | 1,616                                     |
| Subordinated debt                  | 39,465                          | 4.00  | 39,384                         | 4.02  | —                                         |
| Total interest-bearing liabilities | \$ 1,741,683                    | 3.22  | \$ 1,619,763                   | 2.26  | \$ 14,607                                 |

**Provision for Credit Losses.** The Company recorded a \$12.8 million provision for credit losses in the nine months ended September 30, 2024. A provision for credit losses on loans of \$13.0 million was the result of the charge-off activity previously discussed; an increase in the estimated CECL loss factors applied to commercial business loans, residential real estate and multi-family loans; and growth in the purchased auto loan portfolio. Increases were partially offset by a decrease in the loss factors applied to commercial real estate loans, home equity lines of credit and other consumer loans, and declining construction loan balances. A recapture of \$113,000 was due to a lower year-over-year loss factor applied to unfunded commitment balances reducing the provision for credit losses recorded during the nine months ended September 30, 2024. This compares to a \$1.2 million loan loss provision and a \$1.0 million unfunded commitment provision recapture for the nine months ended September 30, 2023. While the ACLL as a percentage of nonaccrual loans at period end has decreased to 72% compared to 714% for the same period in 2023, the majority of the nonaccrual loan balance is comprised of well-secured real estate loans, based on the current loan-to-value ratio, which the Company believes will be sufficient to repay the loans upon sale of the underlying collateral.

The following table details activity and information related to the allowance for credit losses on loans and reserve for unfunded commitments for the periods shown:

|                                                                                              | Nine Months Ended September 30, |              |
|----------------------------------------------------------------------------------------------|---------------------------------|--------------|
|                                                                                              | 2024                            | 2023         |
|                                                                                              | (Dollars in thousands)          |              |
| Provision for credit losses on loans                                                         | \$ 12,956                       | \$ 1,195     |
| Net charge-offs                                                                              | (8,496)                         | (2,575)      |
| Allowance for credit losses on loans                                                         | 21,970                          | 16,945       |
| Allowance for credit losses on loans as a percentage of total loans receivable at period end | 1.27%                           | 1.04%        |
| Total nonaccrual loans                                                                       | 30,376                          | 2,374        |
| Allowance for credit losses on loans as a percentage of nonaccrual loans at period end       | 72%                             | 714%         |
| Nonaccrual and 90 days or more past due loans as a percentage of total loans receivable      | 1.75%                           | 0.15%        |
| Total loans receivable                                                                       | \$ 1,734,807                    | \$ 1,634,978 |
| Recapture of provision for credit losses on unfunded commitments                             | \$ (113)                        | \$ (1,024)   |
| Reserve for unfunded commitments                                                             | 704                             | 828          |
| Unfunded loan commitments                                                                    | 166,446                         | 154,722      |

**Noninterest Income.** Noninterest income increased \$4.4 million, or 62.8%, to \$11.3 million for the nine months ended September 30, 2024, from \$7.0 million for the nine months ended September 30, 2023. The increase was primarily due to the sale of the six branch properties in the sale-leaseback transaction partially offset by the sale of securities and no loan swap fee income or investment services fee income during the nine months ended September 30, 2024. The Company ended its investment services program in 2023. The third quarter of 2023 included \$750,000 in credit enhancements reimbursed to the Company on Splash charge-offs recorded in other noninterest income. Income from the gain on sale of loans during the nine months ended September 30, 2024, includes \$116,000 from SBA loans compared to \$65,000 in the same period of 2023. The conversion of lower-yielding BOLI policies initiated in the first quarter of 2024 contributed towards the \$120,000 year-over-year recorded increase.

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) |         |
|---------------------------------------------------------------|---------------------------------|----------|---------------------|---------|
|                                                               | 2024                            | 2023     | Amount              | Percent |
|                                                               | (Dollars in thousands)          |          |                     |         |
| Loan and deposit service fees                                 | \$ 3,237                        | \$ 3,273 | \$ (36)             | (1.1)%  |
| Sold loan servicing fees and servicing rights mark-to-market  | 303                             | 400      | (97)                | (24.3)  |
| Net gain on sale of loans                                     | 260                             | 405      | (145)               | (35.8)  |
| Net (loss) gain on sale of investment securities              | (2,117)                         | —        | (2,117)             | 100.0   |
| Net gain on sale of premises and equipment                    | 7,919                           | —        | 7,919               | 100.0   |
| Increase in cash surrender value of bank-owned life insurance | 851                             | 668      | 183                 | 27.4    |
| Other income                                                  | 861                             | 2,203    | (1,342)             | (60.9)  |
| Total noninterest income                                      | \$ 11,314                       | \$ 6,949 | \$ 4,365            | 62.8    |

**Noninterest Expense.** Noninterest expense increased \$1.3 million, or 2.9%, to \$45.8 million for the nine months ended September 30, 2024, compared to \$44.5 million for the nine months ended September 30, 2023. The increase in expenses compared to the same period in 2023 is mainly due to one-time severance payouts of \$704,000, higher payroll taxes of \$965,000 related to employee retention tax credits recorded in 2023, tax on the sale-leaseback transaction of \$359,000, additional rent of \$707,000 and production commissions of \$113,000. These increases were partially offset by lower advertising costs and a \$218,000 reduction in the accrual for a civil money penalty assessed by the FDIC. The civil money penalty was originally accrued in the fourth quarter of 2023. The Company continues to focus on controlling compensation expense and reducing advertising and other discretionary spending to improve earnings. A reduction-in-force impacting 9% of our workforce took place in July 2024.

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) |         |
|----------------------------------------|---------------------------------|------------------|---------------------|---------|
|                                        | 2024                            | 2023             | Amount              | Percent |
|                                        | (Dollars in thousands)          |                  |                     |         |
| Compensation and benefits              | \$ 25,298                       | \$ 23,812        | \$ 1,486            | 6.2%    |
| Data processing                        | 6,037                           | 6,063            | (26)                | (0.4)   |
| Occupancy and equipment                | 4,592                           | 3,596            | 996                 | 27.7    |
| Supplies, postage, and telephone       | 970                             | 1,082            | (112)               | (10.4)  |
| Regulatory assessments and state taxes | 1,518                           | 1,259            | 259                 | 20.6    |
| Advertising                            | 1,095                           | 2,471            | (1,376)             | (55.7)  |
| Professional fees                      | 2,292                           | 2,619            | (327)               | (12.5)  |
| FDIC insurance premium                 | 1,392                           | 939              | 453                 | 48.2    |
| Other expense                          | 2,566                           | 2,623            | (57)                | (2.2)   |
| Total noninterest expense              | <u>\$ 45,760</u>                | <u>\$ 44,464</u> | <u>\$ 1,296</u>     | 2.9     |

**Provision for Income Tax.** An income tax benefit of \$1.3 million was recorded for the nine months ended September 30, 2024, compared to expense of \$1.9 million for the nine months ended September 30, 2023, due to a year-over-year decrease in income before taxes of \$14.7 million. The provision for the nine months ended September 30, 2024, includes a tax penalty estimate for the early surrender of a BOLI contract. The provision includes accruals for both federal and state income taxes. For additional information, see Note 9 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, 2024 and 2023. 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,  |                             |                |                                   |                             |                |
|-------------------------------------------------------------------------|-----------------------------------|-----------------------------|----------------|-----------------------------------|-----------------------------|----------------|
|                                                                         | 2024                              |                             |                | 2023                              |                             |                |
|                                                                         | Average<br>Balance<br>Outstanding | Interest<br>Earned/<br>Paid | Yield/<br>Rate | Average<br>Balance<br>Outstanding | Interest<br>Earned/<br>Paid | Yield/<br>Rate |
| (Dollars in thousands)                                                  |                                   |                             |                |                                   |                             |                |
| <b>Interest-earning assets:</b>                                         |                                   |                             |                |                                   |                             |                |
| Loans receivable, net (1) (2)                                           | \$ 1,699,302                      | \$ 23,536                   | 5.51%          | \$ 1,624,722                      | \$ 21,728                   | 5.31%          |
| Investment securities                                                   | 307,623                           | 3,786                       | 4.90           | 319,508                           | 3,368                       | 4.18           |
| FHLB dividends                                                          | 12,697                            | 302                         | 9.46           | 11,922                            | 214                         | 7.12           |
| Interest-earning deposits in banks                                      | 42,348                            | 582                         | 5.47           | 38,099                            | 524                         | 5.46           |
| Total interest-earning assets (3)                                       | 2,061,970                         | 28,206                      | 5.44           | 1,994,251                         | 25,834                      | 5.14           |
| Noninterest-earning assets                                              | 147,363                           |                             |                | 145,483                           |                             |                |
| Total average assets                                                    | <u>\$ 2,209,333</u>               |                             |                | <u>\$ 2,139,734</u>               |                             |                |
| <b>Interest-bearing liabilities:</b>                                    |                                   |                             |                |                                   |                             |                |
| Interest-bearing demand deposits                                        | \$ 166,846                        | \$ 187                      | 0.45           | \$ 176,503                        | \$ 204                      | 0.46           |
| Money market accounts                                                   | 431,346                           | 2,875                       | 2.65           | 373,408                           | 1,146                       | 1.22           |
| Savings accounts                                                        | 224,159                           | 923                         | 1.64           | 255,956                           | 918                         | 1.42           |
| Certificates of deposit, retail                                         | 415,450                           | 4,340                       | 4.16           | 394,713                           | 3,505                       | 3.52           |
| Certificates of deposit, brokered                                       | 215,016                           | 2,635                       | 4.88           | 177,154                           | 1,926                       | 4.31           |
| Total interest-bearing deposits (4)                                     | 1,452,817                         | 10,960                      | 3.00           | 1,377,734                         | 7,699                       | 2.22           |
| Advances                                                                | 255,348                           | 2,832                       | 4.41           | 244,859                           | 2,791                       | 4.52           |
| Subordinated debt                                                       | 39,484                            | 394                         | 3.97           | 39,403                            | 394                         | 3.97           |
| Total interest-bearing liabilities                                      | 1,747,649                         | 14,186                      | 3.23           | 1,661,996                         | 10,884                      | 2.60           |
| Noninterest-bearing deposits (4)                                        | 252,911                           |                             |                | 276,294                           |                             |                |
| Other noninterest-bearing liabilities                                   | 48,294                            |                             |                | 40,450                            |                             |                |
| Total average liabilities                                               | 2,048,854                         |                             |                | 1,978,740                         |                             |                |
| Average equity                                                          | 160,479                           |                             |                | 160,994                           |                             |                |
| Total average liabilities and equity                                    | <u>\$ 2,209,333</u>               |                             |                | <u>\$ 2,139,734</u>               |                             |                |
| Net interest income                                                     |                                   | <u>\$ 14,020</u>            |                |                                   | <u>\$ 14,950</u>            |                |
| Net interest rate spread                                                |                                   |                             | 2.21           |                                   |                             | 2.54           |
| Net earning assets                                                      | \$ 314,321                        |                             |                | \$ 332,255                        |                             |                |
| Net interest margin (5)                                                 |                                   |                             | 2.70           |                                   |                             | 2.97           |
| Average interest-earning assets to average interest-bearing liabilities | 118.0%                            |                             |                | 120.0%                            |                             |                |

(1) The average loans receivable, net balances include nonaccrual loans.

(2) Interest earned on loans receivable includes net deferred fees (costs) of \$22,000 and (\$275,000) for the three months ended September 30, 2024 and 2023, respectively.

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

(4) Cost of all deposits, including noninterest-bearing demand deposits, was 2.56% and 1.85% for the three months ended September 30, 2024 and 2023, respectively.

(5) Net interest income divided by average interest-earning assets.

| Nine Months Ended September 30,                                         |                                   |                             |                |                                   |                             |                |
|-------------------------------------------------------------------------|-----------------------------------|-----------------------------|----------------|-----------------------------------|-----------------------------|----------------|
|                                                                         | 2024                              |                             |                | 2023                              |                             |                |
|                                                                         | Average<br>Balance<br>Outstanding | Interest<br>Earned/<br>Paid | Yield/<br>Rate | Average<br>Balance<br>Outstanding | Interest<br>Earned/<br>Paid | Yield/<br>Rate |
| (Dollars in thousands)                                                  |                                   |                             |                |                                   |                             |                |
| <b>Interest-earning assets:</b>                                         |                                   |                             |                |                                   |                             |                |
| Loans receivable, net (1) (2)                                           | \$ 1,686,546                      | \$ 70,036                   | 5.55%          | \$ 1,582,658                      | \$ 62,531                   | 5.28%          |
| Total investment securities                                             | 310,653                           | 11,367                      | 4.89           | 324,968                           | 9,886                       | 4.07           |
| FHLB dividends                                                          | 13,397                            | 942                         | 9.39           | 11,873                            | 628                         | 7.07           |
| Interest-earning deposits in banks                                      | 43,456                            | 1,798                       | 5.53           | 40,447                            | 1,545                       | 5.11           |
| Total interest-earning assets (3)                                       | 2,054,052                         | 84,143                      | 5.47           | 1,959,946                         | 74,590                      | 5.09           |
| Noninterest-earning assets                                              | 144,285                           |                             |                | 143,034                           |                             |                |
| Total average assets                                                    | \$ 2,198,337                      |                             |                | \$ 2,102,980                      |                             |                |
| <b>Interest-bearing liabilities:</b>                                    |                                   |                             |                |                                   |                             |                |
| Interest-bearing demand deposits (4)                                    | \$ 165,816                        | \$ 567                      | 0.46           | \$ 180,789                        | \$ 599                      | 0.44           |
| Money market accounts                                                   | 404,845                           | 7,244                       | 2.39           | 397,023                           | 2,866                       | 0.97           |
| Savings accounts                                                        | 229,180                           | 2,791                       | 1.63           | 241,802                           | 2,056                       | 1.14           |
| Certificates of deposit, retail                                         | 417,716                           | 12,913                      | 4.13           | 350,864                           | 8,323                       | 3.17           |
| Certificates of deposit, brokered                                       | 210,186                           | 7,737                       | 4.92           | 163,218                           | 4,417                       | 3.62           |
| Total interest-bearing deposits                                         | 1,427,743                         | 31,252                      | 2.92           | 1,333,696                         | 18,261                      | 1.83           |
| Advances                                                                | 274,475                           | 9,525                       | 4.64           | 246,683                           | 7,909                       | 4.29           |
| Subordinated debt                                                       | 39,465                            | 1,183                       | 4.00           | 39,384                            | 1,183                       | 4.02           |
| Total interest-bearing liabilities                                      | 1,741,683                         | 41,960                      | 3.22           | 1,619,763                         | 27,353                      | 2.26           |
| Noninterest-bearing deposits (4)                                        | 251,218                           |                             |                | 284,282                           |                             |                |
| Other noninterest-bearing liabilities                                   | 43,633                            |                             |                | 38,362                            |                             |                |
| Total average liabilities                                               | 2,036,534                         |                             |                | 1,942,407                         |                             |                |
| Average equity                                                          | 161,803                           |                             |                | 160,573                           |                             |                |
| Total average liabilities and equity                                    | \$ 2,198,337                      |                             |                | \$ 2,102,980                      |                             |                |
| Net interest income                                                     |                                   | \$ 42,183                   |                |                                   | \$ 47,237                   |                |
| Net interest rate spread                                                |                                   |                             | 2.25           |                                   |                             | 2.83           |
| Net earning assets                                                      | \$ 312,369                        |                             |                | \$ 340,183                        |                             |                |
| Net interest margin (5)                                                 |                                   |                             | 2.74           |                                   |                             | 3.22           |
| Average interest-earning assets to average interest-bearing liabilities | 117.9%                            |                             |                | 121.0%                            |                             |                |

(1) The average loans receivable, net balances include nonaccrual loans.

(2) Interest earned on loans receivable includes net deferred costs of (\$115,000) and (\$410,000) for the nine months ended September 30, 2024 and 2023, respectively.

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

(4) Cost of all deposits, including noninterest-bearing demand deposits, was 2.49% and 1.51% for the nine months ended September 30, 2024 and 2023, respectively.

(5) 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<br>September 30, 2024 Compared to<br>September 30, 2023 |                        |                              | Nine Months Ended<br>September 30, 2024 Compared to<br>September 30, 2023 |                  |                              |
|--------------------------------------|----------------------------------------------------------------------------|------------------------|------------------------------|---------------------------------------------------------------------------|------------------|------------------------------|
|                                      | Increase (Decrease) Due to                                                 |                        | Total Increase<br>(Decrease) | Increase (Decrease) Due to                                                |                  | Total Increase<br>(Decrease) |
|                                      | Volume                                                                     | Rate<br>(In thousands) |                              | Volume                                                                    | Rate             |                              |
| <b>Interest-earning assets:</b>      |                                                                            |                        |                              |                                                                           |                  |                              |
| Loans receivable, net                | \$ 974                                                                     | \$ 834                 | \$ 1,808                     | \$ 4,101                                                                  | \$ 3,404         | \$ 7,505                     |
| Investments                          | (132)                                                                      | 550                    | 418                          | (431)                                                                     | 1,912            | 1,481                        |
| FHLB stock                           | 14                                                                         | 74                     | 88                           | 81                                                                        | 233              | 314                          |
| Other (1)                            | 57                                                                         | 1                      | 58                           | 115                                                                       | 138              | 253                          |
| Total interest-earning assets        | <u>\$ 913</u>                                                              | <u>\$ 1,459</u>        | <u>\$ 2,372</u>              | <u>\$ 3,866</u>                                                           | <u>\$ 5,687</u>  | <u>\$ 9,553</u>              |
| <b>Interest-bearing liabilities:</b> |                                                                            |                        |                              |                                                                           |                  |                              |
| Interest-bearing demand deposits     | \$ (12)                                                                    | \$ (5)                 | \$ (17)                      | \$ (53)                                                                   | \$ 21            | \$ (32)                      |
| Money market accounts                | 178                                                                        | 1,551                  | 1,729                        | 65                                                                        | 4,313            | 4,378                        |
| Savings accounts                     | (116)                                                                      | 121                    | 5                            | (107)                                                                     | 842              | 735                          |
| Certificates of deposit, retail      | 175                                                                        | 660                    | 835                          | 1,587                                                                     | 3,003            | 4,590                        |
| Certificates of deposit, brokered    | 405                                                                        | 304                    | 709                          | 1,273                                                                     | 2,047            | 3,320                        |
| Advances                             | 115                                                                        | (74)                   | 41                           | 895                                                                       | 721              | 1,616                        |
| Total interest-bearing liabilities   | <u>\$ 745</u>                                                              | <u>\$ 2,557</u>        | <u>\$ 3,302</u>              | <u>\$ 3,660</u>                                                           | <u>\$ 10,947</u> | <u>\$ 14,607</u>             |
| Change in net interest income        | \$ 168                                                                     | \$ (1,098)             | \$ (930)                     | \$ 206                                                                    | \$ (5,260)       | \$ (5,054)                   |

(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, 2024 and the year ended December 31, 2023, 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, 2024, our scheduled maturities of contractual obligations were as follows:

|                               | Within<br>1 Year  | After 1 Year<br>Through<br>3 Years | After 3 Years<br>Through<br>5 Years | Beyond<br>5 Years | Total<br>Balance    |
|-------------------------------|-------------------|------------------------------------|-------------------------------------|-------------------|---------------------|
|                               | (In thousands)    |                                    |                                     |                   |                     |
| Certificates of deposit       | \$ 523,584        | \$ 76,975                          | \$ 44,811                           | \$ —              | \$ 645,370          |
| FHLB advances                 | 150,000           | 105,000                            | 35,000                              | —                 | 290,000             |
| Line of credit                | 5,500             | —                                  | —                                   | —                 | 5,500               |
| Subordinated debt obligation  | —                 | —                                  | —                                   | 39,494            | 39,494              |
| Operating leases              | 2,310             | 4,654                              | 4,312                               | 18,547            | 29,823              |
| Borrower taxes and insurance  | 2,485             | —                                  | —                                   | —                 | 2,485               |
| Deferred compensation         | 160               | 286                                | 237                                 | 1,142             | 1,825               |
| Total contractual obligations | <u>\$ 684,039</u> | <u>\$ 186,915</u>                  | <u>\$ 84,360</u>                    | <u>\$ 59,183</u>  | <u>\$ 1,014,497</u> |

## Commitments and Off-Balance Sheet Arrangements

The following table summarizes our commitments and contingent liabilities with off-balance sheet risks as of September 30, 2024:

|                                                        | Amount of Commitment by Expiration |                                    |                                     |                   | Total Amounts<br>Committed |
|--------------------------------------------------------|------------------------------------|------------------------------------|-------------------------------------|-------------------|----------------------------|
|                                                        | Within<br>1 Year                   | After 1 Year<br>Through<br>3 Years | After 3 Years<br>Through<br>5 Years | Beyond<br>5 Years |                            |
|                                                        | (In thousands)                     |                                    |                                     |                   |                            |
| Commitments to originate loans:                        |                                    |                                    |                                     |                   |                            |
| Fixed-rate                                             | \$ 40                              | \$ —                               | \$ —                                | \$ —              | \$ 40                      |
| Variable-rate                                          | 2,482                              | —                                  | —                                   | —                 | 2,482                      |
| Unfunded commitments under lines of credit             | 17,534                             | 16,004                             | 5,059                               | 67,674            | 106,271                    |
| Unfunded commitments under existing construction loans | 22,673                             | 9,997                              | —                                   | 25,905            | 58,575                     |
| Unfunded commitments under existing maritime loans     | —                                  | —                                  | —                                   | 1,600             | 1,600                      |
| Standby letters of credit                              | 2,335                              | —                                  | —                                   | 200               | 2,535                      |
| Unfunded commitments under partnership agreements      | 3,274                              | —                                  | —                                   | —                 | 3,274                      |
| Total commitments                                      | <u>\$ 48,338</u>                   | <u>\$ 26,001</u>                   | <u>\$ 5,059</u>                     | <u>\$ 95,379</u>  | <u>\$ 174,777</u>          |

## Liquidity Management

Liquidity is the ability to meet current and future short-term and long-term financial obligations. Our primary sources of funds consist of investment security principal and interest payments, customer and brokered deposit inflows, loan repayments and maturities, sales of securities, borrowings from the FHLB and utilization of the NexBank line of credit. 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 liquidity management, 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, 2024, cash and cash equivalents totaled \$82.7 million and unpledged securities classified as available-for-sale had a market value of \$267.3 million. The Bank pledged collateral of \$576.9 million to support borrowings from the FHLB, with a remaining borrowing capacity of \$226.1 million at September 30, 2024. The Bank also has an established discount window borrowing arrangement with the FRB, for which available-for-sale securities with a market value of \$19.3 million were pledged as of September 30, 2024, providing a borrowing capacity of \$18.7 million. 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. The remaining borrowing capacity of the NexBank line of credit was \$14.5 million at September 30, 2024.

At September 30, 2024, we had \$2.5 million in commitments to originate new loans, \$2.5 million in standby letters of credit and \$166.5 million in undisbursed loans, including \$58.6 million in undisbursed construction loan commitments and \$1.6 million in undisbursed maritime fabrication loan commitments.

CDs due within one year as of September 30, 2024, totaled \$523.6 million, or 81.1% of CDs with a weighted-average rate of 4.37%. If these maturing deposits are not renewed, we will seek other sources of funds, including other CDs, non-maturity deposits, and borrowings. We can attract and retain deposits by adjusting the interest rates offered and 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 CDs. We believe that our branch network, and the general cash flows from our existing lending and investment activities, will provide adequate short-term and long-term liquidity. For additional information, see the Consolidated Statements of Cash Flows in Item 1 of this Form 10-Q.

First Fed has a diversified deposit base with approximately 58% of deposit account balances held by consumers, 22% held by business and 8% by public fund depositors, and 12% in brokered deposits. The average deposit account balance, excluding brokered and public fund accounts, was \$28,000 at September 30, 2024. We estimate that 20-25% of our retail customer deposit balances are over the \$250,000 FDIC insurance limit, representing less than 5% of deposit customers. Management believes that maintaining a diversified deposit base is an important factor in managing and maintaining adequate levels of liquidity.

The Company is a separate legal entity from the Bank and provides for its own liquidity. At September 30, 2024, the Company, on an unconsolidated basis, had liquid assets of \$595,000. In addition to its operating expenses, the Company is responsible for paying dividends declared, if any, to its shareholders, and for Company stock repurchases, interest payments on subordinated notes held at the Company level, payments on the NexBank revolving credit facility, and commitments to limited partnership investments. The Company may receive dividends or capital distributions from the Bank, although there may be regulatory limitations on the ability of the Bank to pay dividends.

### Capital Resources

At September 30, 2024, shareholders' equity totaled \$160.8 million, or 7.1% of total assets. Our book value per share of common stock was \$17.17 at September 30, 2024, compared to \$16.99 at December 31, 2023.

At September 30, 2024, 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, 2024.

|                                                     | Actual                 |       | Minimum Capital Requirements |       | Minimum Required to be Well-Capitalized |       |
|-----------------------------------------------------|------------------------|-------|------------------------------|-------|-----------------------------------------|-------|
|                                                     | Amount                 | Ratio | Amount                       | Ratio | Amount                                  | Ratio |
|                                                     | (Dollars in thousands) |       |                              |       |                                         |       |
| Tier 1 leverage capital (to average assets)         | \$ 209,278             | 9.4%  | \$ 89,197                    | 4.0%  | \$ 111,496                              | 5.0%  |
| Common equity tier 1 (to risk-weighted assets)      | 209,278                | 12.2  | 77,166                       | 4.5   | 111,462                                 | 6.5   |
| Tier 1 risk-based capital (to risk-weighted assets) | 209,278                | 12.2  | 102,888                      | 6.0   | 137,184                                 | 8.0   |
| Total risk-based capital (to risk-weighted assets)  | 230,476                | 13.4  | 137,184                      | 8.0   | 171,479                                 | 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 GAAP, 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 the 2023 Form 10-K.

## **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, 2024, the Company's disclosure controls and procedures were not 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, as a result of the material weakness described below.

As of June 30, 2024, management concluded that a material weakness existed in the design of controls over the timely recognition of changes in value of collateral-dependent individually evaluated loans and the methodology used to evaluate loans that possess characteristics distinct from existing loan groups evaluated on a pooled basis within the portfolio and, thus, in the determination of the adequacy of its allowance for credit losses on loans. It was further determined that such material weakness does not exist in the remainder of the loan portfolio.

### **(b) Changes in Internal Controls.**

Management, with oversight from the Audit Committee, is committed to remediating the material weakness. The Company has begun implementing, and continues to implement, its remediation plan, including:

- Revising the Bank's loan-related policies,
- Strengthening an existing internal control to improve the identification and accounting for individually evaluated assets, and
- Strengthening an existing internal control to improve the evaluation of pooled loan groups utilized in the Current Expected Credit Loss model.

Except as described above, 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, 2024, 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**

Except as set forth below, there have been no material changes to the risk factors set forth in Part I. Item 1A of the Company's 2023 Form 10-K.

*The Company has identified a material weakness in its internal controls and cannot provide assurances that this weakness will be effectively remediated or that additional material weaknesses will not occur in the future.*

The Company's management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, which is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management of the Company has concluded that a material weakness in the Company's internal control over financial reporting has existed as of and since June 30, 2024. Specifically, the Company did not maintain effective controls over the timely recognition of changes in value of collateral-dependent individually evaluated loans and the methodology used to evaluate loans that possess characteristics distinct from existing loan groups evaluated on a pooled basis within the portfolio and, thus, in the determination of the adequacy of its allowance for credit losses on loans. Although the Company is taking steps to remediate the material weakness, it cannot provide assurance that such remedial measures will be effective. If the Company fails to maintain effective internal control over financial reporting, it may not be able to accurately report its financial results, which may, among other adverse consequences, cause investors to lose confidence in the Company's reported financial information.

### **Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities**

(a) Not applicable.

(b) Not applicable.

(c) The following table summarizes common stock repurchases during the three months ended September 30, 2024:

| <b>Period</b>                          | <b>Total Number of Shares Purchased (1)</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Repurchased as Part of Publicly Announced Plans (2)</b> | <b>Maximum Number of Shares that May Yet Be Repurchased Under the Plans</b> |
|----------------------------------------|---------------------------------------------|-------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| July 1, 2024 - July 31, 2024           | 14,136                                      | \$ 10.43                            | 14,085                                                                            | 930,194                                                                     |
| August 1, 2024 - August 31, 2024       | 84,675                                      | 10.19                               | 84,071                                                                            | 846,123                                                                     |
| September 1, 2024 - September 30, 2024 | 212                                         | —                                   | —                                                                                 | 846,123                                                                     |
| <b>Total</b>                           | <b>99,023</b>                               | <b>\$ 10.23</b>                     | <b>98,156</b>                                                                     |                                                                             |

(1) Shares repurchased by the Company during the quarter include shares acquired from restricted stock award participants in connection with the cancellation of restricted stock to pay withholding taxes upon vesting totaling 51 shares, 604 shares, and 212 shares, respectively, for the periods indicated.

(2) On April 25, 2024, the Company announced that its Board of Directors had authorized the repurchase of up to an additional 944,279 shares of its common stock, or approximately 10% of its shares of common stock issued and outstanding as of April 24, 2024. As of September 30, 2024, a total of 98,156 shares, or 10.4% percent of the shares authorized in the April 2024 stock repurchase plan, have been purchased at an average cost of \$10.23 per share, leaving 846,123 shares available for future purchases.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

During the fiscal quarter ended September 30, 2024, no director or officer of First Northwest adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

**Item 6. Exhibits**

| <b><u>Exhibit</u></b><br><b><u>No.</u></b> | <b><u>Exhibit Description</u></b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <b><u>Filed</u></b><br><b><u>Herewith</u></b> | <b><u>Form</u></b> | <b><u>Original</u></b><br><b><u>Exhibit No.</u></b> | <b><u>Filing Date</u></b> |
|--------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|--------------------|-----------------------------------------------------|---------------------------|
| 31.1                                       | <a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act</a>                                                                                                                                                                                                                                                                                                                                                                                            | X                                             |                    |                                                     |                           |
| 31.2                                       | <a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act</a>                                                                                                                                                                                                                                                                                                                                                                                            | X                                             |                    |                                                     |                           |
| 32                                         | <a href="#">Certification pursuant to Section 906 of the Sarbanes-Oxley Act</a>                                                                                                                                                                                                                                                                                                                                                                                                                       | X                                             |                    |                                                     |                           |
| 101                                        | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, formatted in Inline Extensible Business Reporting Language (iXBRL): (1) Consolidated Balance Sheets; (2) Consolidated Statements of Operations; (3) Consolidated Statements of Comprehensive Income (Loss); (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 12, 2024

/s/ Matthew P. Deines

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

Date: November 12, 2024

/s/ Geraldine Bullard

Geraldine Bullard  
Executive Vice President, Chief Financial Officer and Chief Operating Officer  
(Principal Financial and Accounting Officer)

**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 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 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 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 12, 2024

/s/Matthew P. Deines

Matthew P. Deines

President, Chief Executive Officer and Director  
(Principal Executive Officer)



**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 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 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 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 12, 2024

/s/Geraldine Bullard

Geraldine Bullard

Executive Vice President, Chief Financial Officer and Chief Operating Officer

(Principal Financial and Accounting Officer)

**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, 2024, 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.

/s/Matthew P. Deines

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

/s/Geraldine Bullard

Geraldine Bullard  
Executive Vice President, Chief Financial Officer and Chief Operating Officer  
(Principal Financial and Accounting Officer)

Dated: November 12, 2024