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DELTA REPORT

10-Q

FNWB - FIRST NORTHWEST BANCORP

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1039
CHANGES	414
DELETIONS	293
ADDITIONS	332

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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 June 30, 2023 September 30, 2023

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 August 4, 2023 November 6, 2023, there were 9,631,682 9,618,440 shares of common stock, $0.01 par value per share, outstanding.

FIRST NORTHWEST BANCORP

FORM 10-Q

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PART 1 - FINANCIAL INFORMATION

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

FIRST NORTHWEST BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share information) (Unaudited)

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
ASSETS				
Cash and due from banks	$ 19,294	$ 17,104	$ 20,609	$ 17,104
Interest-earning deposits in banks	59,008	28,492	63,277	28,492
Investment securities available for sale, at fair value	321,963	326,569	309,324	326,569
Loans held for sale	2,049	597	689	597
Loans receivable (net of allowance for credit losses on loans of $17,297 and $16,116)	1,620,863	1,531,435		
Loans receivable (net of allowance for credit losses on loans of $16,945 and $16,116)			1,618,033	1,531,435
Federal Home Loan Bank (FHLB) stock, at cost	12,621	11,681	12,621	11,681
Accrued interest receivable	7,480	6,743	8,093	6,743
Premises and equipment, net	18,140	18,089	17,954	18,089
Servicing rights on sold loans, at fair value	3,825	3,887	3,729	3,887
Bank-owned life insurance, net	40,066	39,665	40,318	39,665
Equity and partnership investments	14,569	14,289	14,623	14,289
Goodwill and other intangible assets, net	1,087	1,089	1,087	1,089
Deferred tax asset, net	15,031	14,091	16,611	14,091
Prepaid expenses and other assets	26,882	28,339	26,577	28,339
Total assets	$ 2,162,878	$ 2,042,070	$ 2,153,545	$ 2,042,070
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits	$ 1,653,122	$ 1,564,255	$ 1,657,762	$ 1,564,255
Borrowings	303,397	285,358	300,416	285,358
Accrued interest payable	1,367	455	2,276	455
Accrued expenses and other liabilities	44,286	32,344	34,651	32,344
Advances from borrowers for taxes and insurance	1,149	1,376	2,375	1,376
Total liabilities	2,003,321	1,883,788	1,997,480	1,883,788
Shareholders' Equity				
Preferred stock, $0.01 par value, authorized 5,000,000 shares, no shares issued or outstanding	—	—	—	—
Common stock, $0.01 par value, authorized 75,000,000 shares; issued and outstanding 9,633,496 shares at June 30, 2023, and 9,703,581 shares at December 31, 2022	96	97		
Common stock, $0.01 par value, authorized 75,000,000 shares; issued and outstanding 9,630,735 shares at September 30, 2023, and 9,703,581 shares at December 31, 2022			96	97
Additional paid-in capital	95,360	95,508	95,658	95,508
Retained earnings	111,750	114,424	113,579	114,424
Accumulated other comprehensive loss, net of tax	(40,066)	(40,543)	(45,850)	(40,543)
Unearned employee stock ownership plan (ESOP) shares	(7,583)	(7,913)	(7,418)	(7,913)
Total parent's shareholders' equity	159,557	161,573	156,065	161,573
Noncontrolling interest in Quin Ventures, Inc.	—	(3,291)	—	(3,291)
Total shareholders' equity	159,557	158,282	156,065	158,282
Total liabilities and shareholders' equity	$ 2,162,878	$ 2,042,070	$ 2,153,545	$ 2,042,070

See selected notes to the consolidated financial statements.

FIRST NORTHWEST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data) (Unaudited)

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
INTEREST INCOME								
Interest and fees on loans receivable	$ 21,299	$ 16,081	$ 40,803	$ 30,617	$ 21,728	$ 17,778	$ 62,531	$ 48,395
Interest on investment securities	3,336	2,715	6,518	4,990	3,368	2,817	9,886	7,807
Interest on deposits and other	617	46	1,021	84	524	118	1,545	202
FHLB dividends	222	119	414	171	214	142	628	313
Total interest income	25,474	18,961	48,756	35,862	25,834	20,855	74,590	56,717
INTEREST EXPENSE								
Deposits	6,209	796	10,562	1,513	7,699	1,251	18,261	2,764
Borrowings	3,283	922	5,907	1,620	3,185	1,400	9,092	3,020
Total interest expense	9,492	1,718	16,469	3,133	10,884	2,651	27,353	5,784
Net interest income	15,982	17,243	32,287	32,729	14,950	18,204	47,237	50,933
Provision for (recapture of) credit losses	300	500	(200)	500				
Net interest income after provision for (recapture of) credit losses	15,682	16,743	32,487	32,229				
PROVISION FOR CREDIT LOSSES								
Provision for credit losses on loans					880	750	1,195	1,250
Recapture of provision for credit losses on unfunded commitments					(509)	—	(1,024)	—
Provision for credit losses					371	750	171	1,250
Net interest income after provision for credit losses					14,579	17,454	47,066	49,683
NONINTEREST INCOME								
Loan and deposit service fees	1,064	1,091	2,205	2,264	1,068	1,302	3,273	3,566
Sold loan servicing fees and servicing rights mark-to-market	(191)	27	302	459	98	206	400	665
Net gain on sale of loans	58	231	234	484	171	285	405	769
Net (loss) gain on sale of investment securities	—	(8)	—	118				
Net gain on sale of investment securities					—	—	—	118
Increase in cash surrender value of bank-owned life insurance	190	213	416	465	252	221	668	686
Other income	590	668	888	835	1,315	320	2,203	1,155
Total noninterest income	1,711	2,222	4,045	4,625	2,904	2,334	6,949	6,959
NONINTEREST EXPENSE								
Compensation and benefits	8,180	9,735	16,017	18,538	7,795	9,045	23,812	27,583
Data processing	2,080	1,870	4,118	3,642	1,945	1,778	6,063	5,420
Occupancy and equipment	1,214	1,432	2,423	2,599	1,173	1,499	3,596	4,098
Supplies, postage, and telephone	435	408	790	721	292	322	1,082	1,043
Regulatory assessments and state taxes	424	441	813	802	446	365	1,259	1,167
Advertising	929	1,405	1,970	2,157	501	645	2,471	2,802
Professional fees	884	629	1,690	1,188	929	695	2,619	1,883
FDIC insurance premium	313	211	570	434	369	219	939	653
Other expense	758	832	1,697	1,713	926	807	2,623	2,520
Total noninterest expense	15,217	16,963	30,088	31,794	14,376	15,375	44,464	47,169
Income before provision for income taxes	2,176	2,002	6,444	5,060	3,107	4,413	9,551	9,473
Provision for income taxes	475	467	1,300	1,021	603	818	1,903	1,839
Net income	1,701	1,535	5,144	4,039	2,504	3,595	7,648	7,634
Net loss attributable to noncontrolling interest in Quin Ventures, Inc.	75	953	160	1,255	—	696	160	1,951

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Net income attributable to parent	$ 1,776	$ 2,488	$ 5,304	$ 5,294	$ 2,504	$ 4,291	$ 7,808	$ 9,585
Basic and diluted earnings per common share	$ 0.20	$ 0.27	$ 0.59	$ 0.58	$ 0.28	$ 0.47	$ 0.87	$ 1.04

See selected notes to the consolidated financial statements.

FIRST NORTHWEST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In thousands) (Unaudited)

	Three Months Ended		Six Months Ended		Three Months Ended		Nine Months Ended	
	June 30,		June 30,		September 30,		September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Net income	$ 1,701	$ 1,535	$ 5,144	$ 4,039	$ 2,504	$ 3,595	$ 7,648	$ 7,634
Other comprehensive (loss) income:								
Unrealized holding (losses) gains on investments available for sale arising during the period	(4,152)	(16,875)	639	(36,329)				
Income tax benefit related to unrealized holding (losses) gains on investments	1,115	3,545	86	7,629				
Unrealized holding losses on investments available for sale arising during the period					(8,327)	(15,954)	(7,688)	(52,283)
Income tax benefit related to unrealized holding losses on investments					1,787	3,350	1,873	10,979
Amortization of unrecognized DB plan prior service cost	38	36	76	73	37	37	113	110
Income tax provision related to amortization of DB plan prior service cost	(8)	(7)	(16)	(15)	(8)	(9)	(24)	(24)
Unrealized holding gains (losses) on derivatives	1,336	—	(392)	—	925	—	533	—
Income tax (provision) benefit related to unrealized holding gains (losses) on derivatives	(287)	—	84	—	(198)	—	(114)	—
Reclassification adjustment for net (gains) losses on sales of securities realized in income	—	8	—	(118)	—	—	—	(118)
Income tax (provision) benefit related to reclassification adjustment on sales of securities	—	(1)	—	25				
Other comprehensive (loss) income, net of tax	(1,958)	(13,294)	477	(28,735)				
Income tax benefit related to reclassification adjustment on sales of securities					—	—	—	25
Other comprehensive loss, net of tax					(5,784)	(12,576)	(5,307)	(41,311)
Comprehensive (loss) income	(257)	(11,759)	5,621	(24,696)	(3,280)	(8,981)	2,341	(33,677)
Comprehensive loss attributable to noncontrolling interest	(75)	(953)	(160)	(1,255)				
Comprehensive (loss) income attributable to noncontrolling interest					—	(696)	(160)	(1,951)
Comprehensive (loss) income attributable to parent	$ (182)	$ (10,806)	$ 5,781	$ (23,441)	$ (3,280)	$ (8,285)	$ 2,501	$ (31,726)

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 June 30, 2023 September 30, 2023 and 2022

(Dollars in thousands, except share information) (Unaudited)

	Common Stock		Additional Paid-in	Retained	Unearned ESOP	Accumulated Other Comprehensive Loss,	Noncontrolling	Total Shareholders'	Common Stock		Additional Paid-in	Retained	Unearned ESOP	A… Co…
	Shares	Amount	Capital	Earnings	Shares	Net of Tax	Interest	Equity	Shares	Amount	Capital	Earnings	Shares	
Balance at March 31, 2022	10,003,622	$ 100	$ 96,473	$ 105,546	$ (8,407)	$ (15,153)	$ (783)	$ 177,776						
Balance at June 30, 2022									9,950,172	$ 100	$ 96,479	$ 107,000	$ (8,242)	$
Net income												4,291		
Common stock issued									115,777	1	1,868	—		
Common stock repurchased									(79,054)	—	(790)	(491)		
Restricted stock award forfeitures net of grants									(3,350)	(1)	1			
Restricted stock awards canceled									(5,504)	—	(89)			
Other comprehensive loss, net of tax														
Share-based compensation expense											404			
ESOP shares committed to be released											51		165	
Cash dividends declared ($0.07 per share)												(693)		
Balance at September 30, 2022									9,978,041	$ 100	$ 97,924	$ 110,107	$ (8,077)	$
Balance at June 30, 2023									9,633,496	$ 96	$ 95,360	$ 111,750	$ (7,583)	$
Net income				2,488			(953)	1,535				2,504		
Common stock repurchased	(52,618)	(1)	(525)	(333)				(859)	(1,073)	—	(10)	(2)		

Restricted stock award grants net of forfeitures	575	1	(1)					—	1,918	—	—		
Restricted stock awards canceled	(1,407)	—	(27)					(27)	(3,606)	—	(43)		
Other comprehensive loss, net of tax						(13,294)		(13,294)					
Share-based compensation expense			479					479			349		
ESOP shares committed to be released			80		165			245			2		165
Cash dividends declared ($0.07 per share)				(701)				(701)				(673)	
Balance at June 30, 2022	9,950,172	$ 100	$ 96,479	$ 107,000	$ (8,242)	$ (28,447)	$ (1,736)	$ 165,154					
Balance at March 31, 2023	9,674,055	$ 97	$ 95,333	$ 114,139	$ (7,749)	$ (38,108)	$ (3,376)	$ 160,336					
Net income				1,776			(75)	1,701					
Common stock repurchased	(30,176)	(1)	(301)	(39)				(341)					
Restricted stock award forfeitures net of grants	(8,911)	—	—					—					
Restricted stock awards canceled	(1,472)	—	(17)					(17)					
Other comprehensive loss, net of tax						(1,958)		(1,958)					
Close out investment in Quin Ventures				(3,451)			3,451	—					
Share-based compensation expense			358					358					
ESOP shares committed to be released			(13)		166			153					
Cash dividends declared ($0.07 per share)				(675)				(675)					
Balance at June 30, 2023	9,633,496	$ 96	$ 95,360	$ 111,750	$ (7,583)	$ (40,066)	$ —	$ 159,557					

Balance at September 30, 2023	9,630,735	$	96	$	95,658	$ 113,579	$	(7,418)	$	

See selected notes to the consolidated financial statements.

FIRST NORTHWEST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Dollars in thousands, except share information) (Unaudited)

	Common Stock		Additional Paid-in	Retained	Unearned ESOP	Accumulated Other Comprehensive Loss,	Noncontrolling	Total Shareholders'	Common Stock		Additional Paid-in	Retained	Unearned ESOP	Ac Co
	Shares	Amount	Capital	Earnings	Shares	Net of Tax	Interest	Equity	Shares	Amount	Capital	Earnings	Shares	N
Balance at December 31, 2021	9,972,698	$ 100	$ 96,131	$ 103,014	$ (8,572)	$ 288	$ (481)	$ 190,480	9,972,698	$ 100	$ 96,131	$ 103,014	$ (8,572)	$
Net income				5,294			(1,255)	4,039				9,585		
Common stock issued									115,777	1	1,868	—		
Common stock repurchased	(52,618)	(1)	(525)	(333)				(859)	(131,672)	(1)	(1,315)	(824)		
Restricted stock award grants net of forfeitures	40,418	1	(1)					—	37,068	—	—			
Restricted stock awards canceled	(10,326)	—	(222)					(222)	(15,830)	—	(311)			
Other comprehensive loss, net of tax						(28,735)		(28,735)						
Reclassification resulting from change in accounting method, net of tax				424				424				424		
Share-based compensation expense			890					890			1,294			
ESOP shares committed to be released			206		330			536			257		495	
Cash dividends declared ($0.14 per share)				(1,399)				(1,399)						

Balance at June 30, 2022	9,950,172	$ 100	$ 96,479	$ 107,000	$ (8,242)	$ (28,447)	$ (1,736)	$ 165,154						
Cash dividends declared ($0.21 per share)												(2,092)		
Balance at September 30, 2022									9,978,041	$ 100	$ 97,924	$ 110,107	$ (8,077)	$
Balance at December 31, 2022	9,703,581	$ 97	$ 95,508	$ 114,424	$ (7,913)	$ (40,543)	$ (3,291)	$ 158,282	9,703,581	$ 97	$ 95,508	$ 114,424	$ (7,913)	$
Net income				5,304			(160)	5,144				7,808		
Common stock repurchased	(74,617)	(1)	(745)	(222)				(968)	(75,690)	(1)	(755)	(224)		
Restricted stock award grants net of forfeitures	16,338	—	—					—	18,256	—	—			
Restricted stock awards canceled	(11,806)	—	(162)					(162)	(15,412)	—	(205)			
Other comprehensive income, net of tax						477		477						
Other comprehensive loss, net of tax														
Reclassification resulting from adoption of Accounting Standards Codification 326, net of tax				(2,951)				(2,951)				(2,951)		
Close out investment in Quin Ventures				(3,451)			3,451	—				(3,451)		
Share-based compensation expense			749					749			1,098			
ESOP shares committed to be released			10		330			340			12		495	
Cash dividends declared ($0.14 per share)				(1,354)				(1,354)						
Balance at June 30, 2023	9,633,496	$ 96	$ 95,360	$ 111,750	$ (7,583)	$ (40,066)	$ —	$ 159,557						
Cash dividends declared ($0.21 per share)												(2,027)		

Balance at September 30, 2023	9,630,735	$ 96	$ 95,658	$ 113,579	$ (7,418)	$

See selected notes to the consolidated financial statements.

FIRST NORTHWEST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

	Six Months Ended June 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cash flows from operating activities:				
Net income before noncontrolling interest	$ 5,144	$ 4,039	$ 7,648	$ 7,634
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation and amortization	799	983	1,201	1,547
Amortization of core deposit intangible	2	7	2	10
Amortization and accretion of premiums and discounts on investments, net	711	898	1,078	1,280
(Accretion) amortization of deferred loan fees and purchased premiums, net	(160)	571	(451)	619
Amortization of debt issuance costs	39	39	58	58
Change in fair value of sold loan servicing rights	137	53	303	91
Additions to servicing rights on sold loans, net	(75)	(98)	(145)	(143)
(Recapture of) provision for credit losses	(200)	500		
Provision for credit losses on loans			1,195	1,250
Recapture of provision for credit losses on unfunded commitments			(1,024)	—
Allocation of ESOP shares	340	404	507	546
Share-based compensation expense	749	890	1,098	1,294
Gain on sale of loans, net	(234)	(484)	(405)	(769)
Gain on sale of securities available for sale, net	—	(118)	—	(118)
Increase in cash surrender value of life insurance, net	(416)	(465)	(668)	(686)
Origination of loans held for sale	(13,294)	(16,487)	(21,351)	(22,272)
Proceeds from sale of loans held for sale	12,076	17,035	21,664	23,538
Change in assets and liabilities:				
Increase in accrued interest receivable	(737)	(513)	(1,350)	(1,366)
Decrease (increase) in prepaid expenses and other assets	1,299	(3,854)	2,151	(4,191)
Increase in accrued interest payable	912	68		
Increase (decrease) in accrued interest payable			1,821	(288)
Increase in accrued expenses and other liabilities	10,699	5,788	1,960	5,680
Net cash provided by operating activities	17,791	9,256	15,292	13,714
Cash flows from investing activities:				
Purchase of securities available for sale	—	(78,409)	—	(78,409)
Proceeds from maturities, calls, and principal repayments of securities available for sale	4,535	19,565	8,480	26,937
Proceeds from sales of securities available for sale	—	12,685	—	12,685
Purchase of FHLB stock	(940)	(5,206)	(940)	(6,765)
Early surrender of bank-owned life insurance policy	15	—	15	—
Net increase in loans receivable	(91,792)	(112,363)	(89,551)	(172,727)
Purchase of premises and equipment, net	(850)	(2,442)	(1,066)	(2,556)
Capital contributions to equity and partnership investments	(209)	(6,979)	(335)	(7,628)
Capital disbursements received from equity and partnership investments	347	—	99	—

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Capital contributions to low-income housing tax credit partnerships			—	(23)
Capital contributions to historic tax credit partnerships	—	(1,829)	—	(1,829)
Net cash used by investing activities	(88,894)	(174,978)	(83,298)	(230,315)

See selected notes to the consolidated financial statements.

FIRST NORTHWEST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

	Six Months Ended June 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cash flows from financing activities:				
Net increase in deposits	$ 88,867	$ 144	$ 93,507	$ 24,655
Proceeds from long-term FHLB advances	15,000	10,000	15,000	—
Repayment of long-term FHLB advances	(10,000)	—	(15,000)	—
Net increase in short-term FHLB advances	14,000	112,000	19,000	161,000
Net (decrease) increase in line of credit	(1,000)	8,000	(4,000)	12,000
Net decrease in advances from borrowers for taxes and insurance	(227)	(174)		
Net increase in advances from borrowers for taxes and insurance			999	1,116
Payment of dividends	(1,354)	(1,388)	(2,025)	(2,072)
Restricted stock awards canceled	(162)	(222)	(205)	(311)
Repurchase of common stock	(968)	(859)	(980)	(2,140)
Net cash provided by financing activities	104,156	127,501	106,296	194,248
Net increase (decrease) in cash and cash equivalents	33,053	(38,221)	38,290	(22,353)
Cash and cash equivalents at beginning of period	45,596	126,016	45,596	126,016
Cash and cash equivalents at end of period	$ 78,649	$ 87,795	$ 83,886	$ 103,663
Supplemental disclosures of cash flow information:				
Cash paid for interest on deposits and borrowings	$ 15,557	$ 3,065	$ 25,532	$ 6,072
Cash paid for income taxes	$ 1,811	$ 1,110	$ 1,859	$ 2,954
Supplemental disclosures of noncash investing activities:				
Change in unrealized gain (loss) on securities available for sale	$ 639	$ (36,447)		
Change in unrealized (loss) gain on cash flow hedges	$ (392)	$ —		
Change in unrealized loss on securities available for sale			$ (7,688)	$ (52,401)
Change in unrealized gain (loss) on fair value hedge			$ 533	$ —
Cumulative adjustment to servicing rights asset due to election of fair value option	$ —	$ 538	$ —	$ 538
Cumulative effect of adoption of ASU 2016-13 Financial Instruments - Credit Losses on January 1, 2023	$ (3,735)	$ —	$ (3,735)	$ —
Lease liabilities arising from obtaining right-of-use assets			$ 152	$ —
Investment in partnership acquired through issuance of shares			$ —	$ 1,869

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, POM Peace of Mind, Inc. ("POM"), and Quin Ventures, Inc. ("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., 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 Ventures Inc. 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.

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, 2022. 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 six nine months ended June September 30, 2023, 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.

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 810. The Quin Ventures net loss allocable to POM is shown on the financial statements where applicable through a noncontrolling interest adjustment.

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

Recently adopted accounting pronouncements

Credit Losses

On January 1, 2023, the Company adopted FASB ASU 2016- 13 Financial Instruments - *Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with a current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loans receivable and held-to-maturity securities. It also applies to off-balance sheet credit exposures such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments. In addition, the CECL adoption made changes to the accounting for investment securities available for sale.

The Company adopted ASU 2016-13 using the modified retrospective method for all financial assets measured at amortized cost and unfunded commitments. This method resulted in recording a cumulative-effect adjustment as of the beginning of 2023 with no change to prior periods. The Company elected not to measure an ACL on accrued interest receivable on loans receivable or accrued interest receivable on investment securities available for sale as Company policy is to reverse interest income for uncollectible accrued interest receivable balances in a timely manner.

Results for the reporting period beginning after January 1, 2023, are presented under ASU 2016-13, while prior period amounts were not restated and continue to be reported in accordance with previously applicable GAAP. The accounting policies for prior periods are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

The accounting policies for all financial instruments impacted by the CECL adoption are as follows:

Investment Securities

A debt security is placed on nonaccrual status at the time any principal or payments become more than 90 days delinquent. Interest accrued, but not received for a security placed on nonaccrual, is reversed against interest income during the period that the debt security is placed on nonaccrual status.

Allowance for Credit Losses on Investment Securities

Management evaluates the need for an ACL on investment securities ("ACLI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For investment securities available for sale in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before the recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For investment securities available for sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and adverse conditions specifically related to the security, among other factors. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an ACLI is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any decline in fair value that has not been recorded through an ACLI is recognized in other comprehensive income (loss).

Changes in the ACLI are recorded as provision, or reversal of provision, for credit losses expense. Losses are charged against the allowance when management believes the uncollectibility of an investment security available for sale is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on investment securities available for sale is excluded from the estimate of credit losses as interest accrued, but not received, is reversed timely in accordance with the policy for investment securities above.

Loans Receivable

Loans receivable include loans originated and indirect loans purchased by the Bank as well as loans acquired in business combinations.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the outstanding principal balance, net of purchased premiums and discounts, unearned discounts, and net deferred loan origination fees and costs. Accrued interest receivable for loans receivable is reported in prepaid expenses and other assets on the Consolidated Balance Sheets.

Allowance for Credit Losses on Loans

The ACL on loans ("ACLL") is a valuation account that is deducted from the amortized cost of loans receivable to present the net amount expected to be collected. Loans are charged against the allowance when management believes the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance. The Bank records the changes in the ACLL through earnings, as a provision for credit losses on the Consolidated Statements of Income.

Accrued interest receivable on loans receivable is excluded from the estimate of credit losses. Instead, interest accrued, but not received, is reversed timely in accordance with the policy for loans receivable above.

The Company has identified segments of loans with similar risk characteristics for which it then applies one of two loss methodologies. Management has adopted a discounted cash flow ("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.

For each loan segment collectively measured, the baseline loss rates are calculated using a combination of the Bank's own data and peer institution data from FFIEC Call Report filings. The Bank evaluates the historical period on a quarterly basis. The baseline loss rates are applied to each loan's estimated cash flows over the life of the loan to determine the baseline loss estimate for each loan. Estimated cash flows consider the principal and interest in accordance with the contractual term of the loan and estimated prepayments. Contractual cash flows are based on the amortized cost, as adjusted for balances guaranteed by governmental entities, such as the Small Business Administration ("SBA") or the United States Department of Agriculture ("USDA"), or the unguaranteed amortized cost. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: 1) management has a reasonable expectation at the reporting date that a modification agreement will be executed with an individual borrower or 2) the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company. Prepayments are established for each segment based on historical averages for the segments, which management believes is an accurate representation of future prepayment activity. Management reviews the adequacy of the prepayment period assumption on a quarterly basis.

The CECL methodology includes consideration of the forecasted direction of the economic and business environment and its likely impact to the estimated allowance as compared to the historical losses over the reasonable and supportable time frame. Economic forecast models for the current period are uploaded to the model, which targets two forecasted macroeconomic factors, which are national gross domestic product ("GDP") and unemployment figures. Each of the forecasted DCF segments is impacted by these macroeconomic factors. Further, each of the macroeconomic factors is utilized differently by segment, including the application of lagged factors and various transformations such as percent change year over year.

The Bank uses the Federal Open Market Committee ("FOMC") forecast via an application programming interface with our CECL software. FOMC provides various forecast scenarios used to determine the loan portfolio's expected credit loss. Based on known/knowable information at the measurement date, management has determined that the FOMC scenarios and the underlying assumptions most closely align with current and expected conditions. The Bank has elected to forecast the first four quarters of the credit loss estimate and revert on a straight-line basis as permitted in ASC 326-20-30-9. The Bank also considers other qualitative risk factors to adjust the estimated ACL calculated by the above-mentioned model. While there are many factors available to incorporate into the quantitative model, the Bank has selected to use the most critical factors. Additional metrics will be included only if internal or external factors outside those considered in its historical losses or macroeconomic forecast indicate otherwise. The Bank has established metrics to estimate the qualitative risk factor by segment based on the identified risk.

In general, management's estimate of the ACLL uses relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The allowance for loan credit losses on loans evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. While management utilizes its best judgment and information available to recognize losses on loans, future additions to the allowance may be necessary based on further declines in local and national economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's ACLL. Such agencies may require the Bank to make adjustments to the allowance based on their judgments about information available to them at the time of their examinations. The Company believes the ACLL is appropriate given the above considerations.

Allowance for Credit Losses on Unfunded Commitments

The Bank estimates expected credit losses on unfunded, off-balance sheet commitments over the contractual period in which the Bank is exposed to credit risk from a contractual obligation to extend credit, unless the obligation is unconditionally cancellable by the Company. The Bank has determined that no allowance is necessary for its home equity line of credit portfolio as it has the 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 (reversal of provision) for credit losses on the Consolidated Statements of Income.

Provision for Credit Losses

The provision for credit losses as presented in the Company's Consolidated Statements of Income includes the provision for credit losses on loans and the provision for credit losses on unfunded commitments.

Summary of CECL Impact:

Investment Securities **-** As of December 31, 2022, the Company had no historical charge-off or recovery history and did not have any investment securities available for sale outstanding at the adoption date for which an other-than-temporary impairment was previously recorded. At the adoption date of ASU 2016-13, the unrealized losses present in the portfolio of investment securities available for sale were primarily due to decreases in higher market interest rates on floating rate investment securities since the purchase of the securities and the at that time making our lower coupon investments less attractive. The fair value of these securities was expected to recover as the securities approach their maturity dates. The basis of management's conclusion was that at January 1, 2023, 23.9% of the investment securities were issued by or guaranteed by the United States government or its agencies, 30.0% were issued and guaranteed by State and local governments and the remainder of the portfolio was invested in at least investment-grade securities. As a result of the analysis, no allowance for credit losses on investment securities available for sale was recorded upon adoption. See Note 2 Investment Securities for more information.

Loan Receivable **-** ASU 2016-13 was applied prospectively and replaced the allowance for loan losses with the ACLL on the Consolidated Balance Sheet and replaced the related provision for loan losses with the provision for credit losses on loans as presented on the Consolidated Statements of Income, net of provision for credit losses on unfunded commitments.

The Bank recorded a pretax increase to the ACLL of $2.2 million to increase the reserve to the estimated credit losses at January 1, 2023 based on its CECL methodology as part of the cumulative-effect adjustment to beginning retained earnings. Upon adoption, the adjusted beginning balance of the ACLL as a percentage of loans receivable was 1.18% as compared to 1.04% at December 31, 2022 under the prior incurred loss methodology. At June September 30, 2023, the ACLL as a percentage of loans receivable was 1.06% 1.04%.

See Note 4 - Allowance for Credit Loss on Loans for more information.

Unfunded Commitments - ASU 2016-13 was applied prospectively and replaced the reserve for unfunded commitments with the ACL on unfunded commitments ("ACLU" ACLUC") as included in accrued liabilities and other expenses on the Consolidated Balance Sheet and replaced the provision for unfunded commitments with the provision for credit losses on unfunded commitments as presented on the Consolidated Statements of Income, net of provision for credit losses on loans. Upon adoption, the Bank recorded a pretax increase in the beginning ACLU ACLUC of $1.5 million.

Overall CECL Impact **-** The adoption of ASU 2016-13, included an increase to the ACLL of $2.2 million and an increase to the ACLU ACLUC of $1.5 million, which resulted in a pretax cumulative-effect adjustment of $3.7 million. The impact of this adjustment to beginning retained earnings on January 1, 2023 was $3.0 million, net of tax.

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Troubled Debt Restructurings

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. This ASU eliminates the accounting guidance for troubled debt restructured loans ("TDRs") by creditors while enhancing disclosure requirements for certain loan refinancing and restructuring activity by creditors when a borrower is experiencing financial difficulty. Additionally, the ASU requires public business entities to disclose current-period gross write offs by year of origination for financing receivables and net investments in leases. This ASU is effective upon adoption of ASU 2016-13. On January 1, 2023, the Company adopted this ASU at the same time ASU 2016-13 was adopted. The Company recorded gross charge-offs of $1.9 million $2.7 million in the first half of 2023 and recoveries for the same period were $594,000. $93,000. See table in Note 3 for additional information.

Derivative Instruments and Hedging Activities

On March 28, 2022, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2022- 01, Derivatives and Hedging (Topic 815): *Fair Value Hedging – Portfolio Layer Method*. The purpose of this updated guidance is to further align risk management objectives with hedge accounting results on the application of the last-of-layer method, which was first introduced in ASU 2017- 12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2022- 01 is effective for public business entities for fiscal years beginning after December 15, 2022, with early adoption in the interim period, permitted. For entities who have already adopted ASU 2017-12, immediate adoption is allowed. ASU 2022- 01 requires a modified retrospective transition method for basis adjustments in which the entity will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. The Company adopted this ASU on January 1, 2023 on a prospective basis; therefore, there was no impact to the consolidated financial statements.

Accounting Policy for Derivative Instruments and Hedging Activities **-** FASB ASC 815, *Derivatives and Hedging* ("ASC 815"), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply, or the Company elects not to apply hedge accounting.

In accordance with the FASB's fair value measurement guidance in ASU 2011-04, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Recently issued accounting pronouncements not yet adopted

*Other Pronouncements*LIBOR

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, which reference the London Inter-Bank Offered Rate ("LIBOR") or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. This ASU is effective for all entities as of March 12, 2020 through December 31, 2022. On December 31, 2022, FASB issued ASU 2022-06, which deferred the sunset date for Topic 848 to December 31, 2024. The Company is implementing implemented a transition plan to identify and modify its loans and other financial instruments that are were either directly or indirectly influenced by LIBOR. The Company is in the process There was no material impact as a result of evaluating ASU No.2020-04 and its impact on the Company's transition transitioning away from LIBOR for its loan and other financial instruments with effective no July 1, 2023.

Recently issued accounting pronouncements not expected material impact on the Company's financial statements. yet adopted

Other 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 Company is evaluating the effect that does not believe this ASU 2022-03will have a material impact on its 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 Company is evaluating the effect that ASU 2023-02 will have on its consolidated financial statements and related disclosures.

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

Note 2 - Securities

The amortized cost, gross unrealized gains and losses, and estimated fair value of securities classified as available-for-sale at June September 30, 2023 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)				(In thousands)			
Available for Sale								
Municipal bonds	$ 119,514	$ —	$ (19,011)	$ 100,503	$ 119,164	$ —	$ (25,169)	$ 93,995
U.S. Treasury notes	2,475	—	(111)	2,364	2,479	—	(102)	2,377
International agency issued bonds (Agency bonds)	1,960	—	(243)	1,717	1,962	—	(259)	1,703
Corporate issued debt securities (Corporate debt)	60,595	—	(6,921)	53,674	60,543	—	(6,208)	54,335
Mortgage-backed securities:								
U.S. government agency issued mortgage-backed securities (MBS agency)	85,613	—	(14,048)	71,565	83,449	—	(16,503)	66,946
Non-agency issued mortgage-backed securities (MBS non-agency)	99,781	—	(7,641)	92,140	98,029	—	(8,061)	89,968
Total securities available for sale	$ 369,938	$ —	$ (47,975)	$ 321,963	$ 365,626	$ —	$ (56,302)	$ 309,324

The amortized cost, gross unrealized gains and losses, and estimated fair value of securities classified as available-for-sale at December 31, 2022, are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Available for Sale				
Municipal bonds	$ 119,990	$ —	$ (21,940)	$ 98,050
U.S. Treasury notes	2,469	—	(105)	2,364
Agency bonds	1,955	—	(253)	1,702
Corporate debt	60,700	—	(5,201)	55,499
Mortgage-backed securities:				
MBS agency	88,930	1	(13,283)	75,648
MBS non-agency	101,139	—	(7,833)	93,306
Total securities available for sale	$ 375,183	$ 1	$ (48,615)	$ 326,569

There were no securities classified as held-to-maturity at June September 30, 2023 and December 31, 2022.

Accrued interest receivable on available-for-sale debt securities totaled $2.1 million $2.2 million and $2.0 million as of June September 30, 2023 and December 31, 2022, 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 June September 30, 2023:

	Less Than Twelve Months		Twelve Months or Longer		Total		Less Than Twelve Months		Twelve Months or Longer		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)						(In thousands)					
Available for Sale												
Municipal bonds	$ (10)	$ 435	$ (19,001)	$ 99,767	$ (19,011)	$ 100,202	$ (49)	$ 396	$ (25,120)	$ 93,299	$ (25,169)	$ 93,695
U.S. Treasury notes	—	—	(111)	2,364	(111)	2,364	—	—	(102)	2,377	(102)	2,377
Agency bonds	—	—	(243)	1,717	(243)	1,717	—	—	(259)	1,703	(259)	1,703
Corporate debt	(723)	7,777	(6,198)	45,897	(6,921)	53,674	—	—	(6,208)	54,335	(6,208)	54,335
Mortgage-backed securities:												
MBS agency	(1)	1,793	(14,047)	69,772	(14,048)	71,565	(1)	1,236	(16,502)	65,710	(16,503)	66,946
MBS non-agency	—	—	(7,641)	92,140	(7,641)	92,140	—	—	(8,061)	89,968	(8,061)	89,968
Total available for sale	$ (734)	$ 10,005	$ (47,241)	$ 311,657	$ (47,975)	$ 321,662	$ (50)	$ 1,632	$ (56,252)	$ 307,392	$ (56,302)	$ 309,024

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, 2022:

	Less Than Twelve Months		Twelve Months or Longer		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)					
Available for Sale						
Municipal bonds	$ (15,749)	$ 79,129	$ (6,191)	$ 18,621	$ (21,940)	$ 97,750
U.S. Treasury notes	(105)	2,364	—	—	(105)	2,364
Agency bonds	—	—	(253)	1,702	(253)	1,702
Corporate debt	(2,570)	30,555	(2,631)	24,944	(5,201)	55,499
Mortgage-backed securities:						
MBS agency	(5,079)	40,099	(8,204)	33,064	(13,283)	73,163
MBS non-agency	(3,956)	51,994	(3,877)	41,311	(7,833)	93,305
Total available for sale	$ (27,459)	$ 204,141	$ (21,156)	$ 119,642	$ (48,615)	$ 323,783

There were 8 2 available-for-sale securities with unrealized losses of less than one year, and 174 180 available-for-sale securities with an unrealized loss of more than one year at June September 30, 2023. There were 113 available-for-sale securities with unrealized losses of less than one year, and 69 available-for-sale securities with an unrealized loss of more than one year at December 31, 2022. 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 does not intend to sell the securities in an unrealized loss position and believes that it is unlikely that we will be required to sell these investments prior to a market price recovery or maturity. Based on the Company’s evaluation of these securities, no credit impairment was recorded at June September 30, 2023, or December 31, 2022.

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.

	June 30, 2023		September 30, 2023	
	Available-for-Sale		Available-for-Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)		(In thousands)	
Mortgage-backed securities:				
Due within one year	$ 27,322	$ 26,940	$ 27,154	$ 26,742
Due after one through five years	17,148	16,315	16,184	15,475
Due after five through ten years	11,033	10,124	10,939	9,986
Due after ten years	129,891	110,326	127,201	104,711
Total mortgage-backed securities	185,394	163,705	181,478	156,914
All other investment securities:				
Due within one year	—	—	300	300
Due after one through five years	20,711	19,151	22,418	21,066
Due after five through ten years	66,069	57,302	65,211	56,308
Due after ten years	97,764	81,805	96,219	74,736
Total all other investment securities	184,544	158,258	184,148	152,410
Total investment securities	$ 369,938	$ 321,963	$ 365,626	$ 309,324

	December 31, 2022	
	Available-for-Sale	
	Amortized Cost	Estimated Fair Val
	(In thousands)	
Mortgage-backed securities:		
Due within one year	$ 13,762	$ 13
Due after one through five years	28,890	27
Due after five through ten years	13,436	12
Due after ten years	133,981	115
Total mortgage-backed securities	190,069	168
All other investment securities:		
Due within one year	—	
Due after one through five years	20,700	18
Due after five through ten years	64,211	57
Due after ten years	100,203	81
Total all other investment securities	185,114	157
Total investment securities	$ 375,183	$ 326

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

Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
2023	2022	2023	2022	2023	2022	2023	2022
(In thousands)				(In thousands)			

Proceeds from sales	$ —	$ 2,233	$ —	$ 12,685	$ —	$ —	$ —	$ 12,685
Gross realized gains	—	—	—	128	—	—	—	128
Gross realized losses	—	(8)	—	(10)	—	—	—	(10)

Note 3 - Loans Receivable

The Company has defined its loan portfolio into three segments 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 net of unearned loan fees in excess of unamortized costs and premiums of $14.2 million $14.4 million as of June September 30, 2023 and $13.2 million as of December 31, 2022. Net loans do not include accrued interest receivable. Accrued interest receivable on loans was $5.4 million $5.8 million as of June September 30, 2023 and $4.7 million as of December 31, 2022, and was reported in accrued interest receivable on the consolidated balance sheets.

The amortized cost of loans receivable, net of ACLL, consisted of the following at the dates indicated:

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
	(In thousands)		(In thousands)	
Real Estate:				
One-to-four family	$ 365,600	$ 343,559	$ 369,950	$ 343,559
Multi-family	296,561	252,745	325,496	252,745
Commercial real estate	375,961	388,884	381,508	388,884
Construction and land	157,060	193,646	143,434	193,646
Total real estate loans	1,195,182	1,178,834	1,220,388	1,178,834
Consumer:				
Home equity	58,895	52,877	64,424	52,877
Auto and other consumer	253,950	238,913	248,786	238,913
Total consumer loans	312,845	291,790	313,210	291,790
Commercial business loans	130,133	76,927	101,380	76,927
Total loans receivable	1,638,160	1,547,551	1,634,978	1,547,551
Less:				
Allowance for credit losses on loans (1)	17,297	16,116	16,945	16,116
Total loans receivable, net	$ 1,620,863	$ 1,531,435	$ 1,618,033	$ 1,531,435

(1) Allowance for credit losses on loans in 2023 reported using the CECL method and in 2022 reported using the incurred loss method.

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 non-accrual 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:

	June 30, 2023			December 31, 2022	September 30, 2023			December 31, 2022
	Collateral Dependent Loans	Non-Collateral Dependent Loans	Total Nonaccrual Loans	Total Nonaccrual Loans (1)	Collateral Dependent Loans	Non-Collateral Dependent Loans	Total Nonaccrual Loans	Total Nonaccrual Loans (1)
	(In thousands)				(In thousands)			
One-to-four family	$ 1,475	$ 305	$ 1,780	$ 954	$ 1,430	$ 360	$ 1,790	$ 954
Commercial real estate	41	—	41	53	—	34	34	53
Construction and land	—	12	12	15	—	8	8	15
Home equity	31	214	245	196	32	134	166	196
Auto and other consumer	—	476	476	575	—	376	376	575
Total nonaccrual loans	$ 1,547	$ 1,007	$ 2,554	$ 1,793	$ 1,462	$ 912	$ 2,374	$ 1,793

(1) Presentation of December 31, 2022, balances is in accordance with pre-CECL disclosure requirements.
(1) Presentation of December 31, 2022, balances is in accordance with pre-CECL disclosure requirements.
(1) Presentation of December 31, 2022, balances is in accordance with pre-CECL disclosure requirements.

Interest income recognized on a cash basis on nonaccrual loans for the three and six nine months ended June September 30, 2023, was $18,000 $19,000 and $26,000, $52,000, respectively.

Prior to the implementation of CECL, the Bank categorized loans as performing or nonperforming based on payment activity. Loans that were more than 90 days past due and nonaccrual loans were considered nonperforming.

The following table represents the credit risk profile based on payment activity by class of loans as of December 31, 2022, in accordance with pre-CECL disclosure requirements:

	Nonperforming	Performing	Total
		(In thousands)	
Real Estate:			
One-to-four family	$ 954	$ 342,605	$ 343,5
Multi-family	—	252,745	252,7
Commercial real estate	53	388,831	388,8
Construction and land	15	193,631	193,6
Consumer:			
Home equity	196	52,681	52,8
Auto and other consumer	575	238,338	238,9
Commercial business	—	76,927	76,9
Total loans	$ 1,793	$ 1,545,758	$ 1,547,5

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 June September 30, 2023 or December 31, 2022.

The following table presents the amortized cost of past due loans by segment and class as of June September 30, 2023:

30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
(In thousands)						(In thousands)					

Real Estate:												
One-to-four family	$ —	$ —	$ 921	$ 921	$ 364,679	$ 365,600	$ —	$ 654	$ 591	$ 1,245	$ 368,705	$ 369,950
Multi-family	—	—	—	—	296,561	296,561	—	—	—	—	325,496	325,496
Commercial real estate	—	—	—	—	375,961	375,961	8,583	—	—	8,583	372,925	381,508
Construction and land	—	—	18	18	157,042	157,060	—	—	—	—	143,434	143,434
Total real estate loans	—	—	939	939	1,194,243	1,195,182	8,583	654	591	9,828	1,210,560	1,220,388
Consumer:												
Home equity	—	14	91	105	58,790	58,895	71	—	45	116	64,308	64,424
Auto and other consumer	1,359	299	479	2,137	251,813	253,950	1,462	392	381	2,235	246,551	248,786
Total consumer loans	1,359	313	570	2,242	310,603	312,845	1,533	392	426	2,351	310,859	313,210
Commercial business loans	106	—	—	106	130,027	130,133	769	—	—	769	100,611	101,380
Total loans	$ 1,465	$ 313	$ 1,509	$ 3,287	$ 1,634,873	$ 1,638,160	$10,885	$1,046	$1,017	$12,948	$1,622,030	$1,634,978

The following table presents the amortized cost of past due loans by segment and class as of December 31, 2022, in accordance with pre-CECL disclosure requirements:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
			(In thousands)			
Real Estate:						
One-to-four family	$ 1,449	$ 155	$ 652	$ 2,256	$ 341,303	$ 343,559
Multi-family	—	—	—	—	252,745	252,745
Commercial real estate	—	—	—	—	388,884	388,884
Construction and land	—	18	—	18	193,628	193,646
Total real estate loans	1,449	173	652	2,274	1,176,560	1,178,834
Consumer:						
Home equity	153	—	11	164	52,713	52,877
Auto and other consumer	1,390	698	557	2,645	236,268	238,913
Total consumer loans	1,543	698	568	2,809	288,981	291,790
Commercial business loans	—	—	—	—	76,927	76,927
Total loans	$ 2,992	$ 871	$ 1,220	$ 5,083	$ 1,542,468	$ 1,547,551

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

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

The following table presents the amortized cost of loans receivable by internally assigned risk grade and class of loans as of June September 30, 2023, as well as gross charge-off activity for the six nine months ended June September 30, 2023. 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 (1)						Revolving	Total	Term Loans by Year of Origination (1)						Revolving
	2023	2022	2021	2020	2019	Prior	Loans	Loans	2023	2022	2021	2020	2019	Prior	Loans
	(In thousands)								(In thousands)						
One-to-four family															
Pass	$ 2,990	$ 83,795	$ 118,693	$ 72,169	$ 14,247	$ 69,979	$ —	$ 361,873	$ 1,987	$ 93,396	$ 118,341	$ 70,904	$ 13,977	$ 66,929	$ —
Watch	—	—	—	592	—	723	—	1,315	—	276	—	589	—	1,156	—
Special Mention	—	—	—	303	—	106	—	409	—	—	—	302	—	105	—
Substandard	—	—	—	329	487	1,187	—	2,003	—	—	—	328	485	1,175	—
Total one-to-four family	2,990	83,795	118,693	73,393	14,734	71,995	—	365,600	1,987	93,672	118,341	72,123	14,462	69,365	—
Gross charge-offs during the period	—	—	—	—	—	—	—	—							
Gross charge-offs year-to-date									—	—	—	—	—	—	—
Multi-family															
Pass	22,960	103,162	81,072	59,041	8,637	5,422	—	280,294	47,583	103,255	86,171	58,659	8,278	5,357	—
Watch	—	—	15,268	—	—	999	—	16,267	—	—	15,198	—	—	995	—
Total multi-family	22,960	103,162	96,340	59,041	8,637	6,421	—	296,561	47,583	103,255	101,369	58,659	8,278	6,352	—
Gross charge-offs during the period	—	—	—	—	—	—	—	—							
Gross charge-offs year-to-date									—	—	—	—	—	—	—
Commercial Real Estate															
Pass	21,721	89,951	105,753	83,355	13,604	24,688	—	339,072	32,307	89,244	104,523	82,030	13,186	23,366	—
Watch	3,908	—	12,434	6,901	3,607	1,026	—	27,876	3,881	197	3,785	6,851	3,584	1,019	—
Special Mention	—	—	6,591	—	—	—	—	6,591	—	—	15,136	—	—	—	—
Substandard	—	40	—	2,382	—	—	—	2,422	—	34	—	2,365	—	—	—
Total commercial real estate	25,629	89,991	124,778	92,638	17,211	25,714	—	375,961	36,188	89,475	123,444	91,246	16,770	24,385	—
Gross charge-offs during the period	—	—	—	—	—	—	—	—							
Gross charge-offs year-to-date									—	—	—	—	—	—	—

Construction and Land															
Pass	24,924	62,714	49,563	772	570	2,740	—	141,283							
Watch	889	—	—	—	—	17	—	906							
Substandard	14,859	—	—	—	—	12	—	14,871							
Total construction and land	40,672	62,714	49,563	772	570	2,769	—	157,060							
Gross charge-offs during the period	—	—	—	—	—	—	—	—							
Home Equity															
Pass	3,663	7,566	5,014	3,249	1,655	3,928	33,191	58,266	13,763	61,166	39,308	764	354	2,398	—
Watch	—	—	—	—	—	—	200	200	7,109	3,493	—	—	—	—	—
Special Mention	—	—	—	—	—	71	113	184	—	—	—	—	—	16	—
Substandard	—	—	32	61	—	—	152	245	15,055	—	—	—	—	8	—
Total construction and land									35,927	64,659	39,308	764	354	2,422	—
Gross charge-offs year-to-date									—	—	—	—	—	—	—
Home Equity															
Pass									5,534	7,438	4,737	3,169	1,444	3,638	37,81
Watch									—	—	—	—	—	56	32
Substandard									—	—	31	61	—	14	17
Total home equity	3,663	7,566	5,046	3,310	1,655	3,999	33,656	58,895	5,534	7,438	4,768	3,230	1,444	3,708	38,30
Gross charge-offs during the period	—	—	—	—	—	11	—	11							
Gross charge-offs year-to-date									—	—	—	—	—	11	—
Other Consumer															
Pass	29,846	80,899	70,123	32,924	16,962	20,269	443	251,466	38,604	75,128	66,493	31,104	15,680	18,871	40
Watch	16	727	630	194	33	85	—	1,685	47	461	485	217	277	226	
Special Mention	—	236	20	61	4	—	—	321	64	232	33	30	—	51	—
Substandard	13	308	—	—	150	7	—	478	23	300	—	28	26	—	—
Total other consumer	29,875	82,170	70,773	33,179	17,149	20,361	443	253,950	38,738	76,121	67,011	31,379	15,983	19,148	40
Gross charge-offs during the period	—	1,760	4	1	11	91	59	1,926							
Gross charge-offs year-to-date									—	2,421	15	27	11	112	7

Commercial business															
Pass	18,543	24,350	11,783	3,024	523	28,300	33,363	119,886	18,818	23,987	11,368	2,791	506	4,947	30,51
Watch	—	10	485	1,008	—	—	—	1,503	342	66	394	—	—	—	
Special Mention	—	—	—	315	—	1,989	3,741	6,045	—	—	—	1,036	—	—	3,75
Substandard	—	—	—	29	—	185	2,485	2,699	177	52	—	144	—	—	2,48
Total commercial business	18,543	24,360	12,268	4,376	523	30,474	39,589	130,133	19,337	24,105	11,762	3,971	506	4,947	36,75
Gross charge-offs during the period	—	—	—	—	—	—	—	—							
Gross charge-offs year-to-date									—	—	—	—	—	—	—
Total loans															
Pass	124,647	452,437	442,001	254,534	56,198	155,326	66,997	1,552,140	158,596	453,614	430,941	249,421	53,425	125,506	68,72
Watch	4,813	737	28,817	8,695	3,640	2,850	200	49,752	11,379	4,493	19,862	7,657	3,861	3,452	32
Special Mention	—	236	6,611	679	4	2,166	3,854	13,550	64	232	15,169	1,368	—	172	3,75
Substandard	14,872	348	32	2,801	637	1,391	2,637	22,718	15,255	386	31	2,926	511	1,197	2,65
Total loans	$ 144,332	$ 453,758	$ 477,461	$ 266,709	$ 60,479	$ 161,733	$ 73,688	$ 1,638,160	$ 185,294	$ 458,725	$ 466,003	$ 261,372	$ 57,797	$ 130,327	$ 75,46
Total gross charge-offs during the period	$ —	$ 1,760	$ 4	$ 1	$ 11	$ 102	$ 59	$ 1,937							
Total gross charge-offs year-to-date									$ —	$ 2,421	$ 15	$ 27	$ 11	$ 123	$ 7

(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.

The following table presents the amortized cost of loans receivable by internally assigned risk grade and class of loans as of December 31, 2022, in accordance with pre-CECL disclosure requirements:

	Pass	Watch	Special Mention	Substandard	Total
			(In thousands)		
Real Estate:					
One-to-four family	$ 339,812	$ 2,234	$ 27	$ 1,486	$ 34
Multi-family	237,077	15,668	—	—	25
Commercial real estate	350,001	25,586	12,161	1,136	38
Construction and land	179,116	529	—	14,001	19
Total real estate loans	1,106,006	44,017	12,188	16,623	1,17
Consumer:					
Home equity	52,295	372	14	196	5
Auto and other consumer	238,522	222	75	94	23
Total consumer loans	290,817	594	89	290	29
Commercial business loans	66,276	2,234	8,417	—	7

Total loans	$ 1,463,099	$ 46,845	$ 20,694	$ 16,913	$ 1,547

Individually Evaluated Loans. The Company evaluates loans collectively for purposes of determining the ACLL in accordance with ASC 326. Collective evaluation is based on aggregating loans deemed to possess similar risk characteristics. In certain instances, the Company may identify 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 no longer possess unique risk characteristics similar to other loans in the portfolio 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 which requires evaluation 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 June September 30, 2023, $1.5 million $4.1 million of loans were individually evaluated with no ACLL attributed to such loans. At June September 30, 2023, alltwo individually evaluated loans totaling $2.7 million were evaluated using a discounted cash flow approach and the remaining loans totaling $1.5 million were evaluated based on the underlying value of the collateral and collateral. The none two were loans evaluated using a the discounted cash flow approach. All individually evaluated method were accruing at quarter end, while the collateral dependent loans were all on nonaccrual status at June September 30, 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 June September 30, 2023:

	Collateral Type			Collateral Type	
	Single Family Residence	Warehouse	Total	Single Family Residence	Total
	(In thousands)			(In thousands)	
One-to-four family	$ 1,475	$ —	$ 1,475	$ 1,430	$ 1,430
Commercial real estate	—	41	41		
Home equity	31	—	31	32	32
Total collateral dependent loans	$ 1,506	$ 41	$ 1,547	$ 1,462	$ 1,462

Troubled debt restructuring. Prior to the implementation of CECL on January 1, 2023, a loan was identified as a TDR when a loan to a borrower who was experiencing financial difficulty was modified from its original terms and conditions in such a way that the Bank granted the borrower a concession of some kind. First Fed had granted a variety of concessions to borrowers in the form of loan modifications. The modifications were generally related to the loan's interest rate, term and payment amount or a combination thereof.

The following table is a summary of information pertaining to TDR loans included in impaired loans at the date indicated, in accordance with pre-CECL disclosure requirements:

	December 31, 2022
	(In thousands)
Total TDR loans	$
Allowance for credit losses on loans related to TDR loans	
Total nonaccrual TDR loans	

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

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

The following table presents TDR loans by class by accrual and nonaccrual status at the date indicated, in accordance with pre-CECL disclosure requirements:

	December 31, 2022		
	Accrual	Nonaccrual	
	(In thousands)		
One-to-four family	$ 1,697	$ 29	$
Home equity	27	—	
Total TDR loans	$ 1,724	$ 29	$

Modified Loans to Troubled Borrowers. On January 1, 2023, the Company adopted ASU 2022-02, which introduces 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: (i) principal forgiveness, (ii) interest rate reduction, (iii) other-than-insignificant payment delay, (iv) 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 three and six nine months ended June September 30, 2023, there were no MLTB.

Note 4 - Allowance for Credit Losses on Loans

The Company maintains an ACLL and an ACLU 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 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 as discussed in Note 1. The incurred loss methodology presentation is used for periods prior to the adoption of ASU 2016-13.

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 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 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 (reversal of provision) for credit losses on the Consolidated Statements of Income.

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 June 30, 2023	At or For the Three Months Ended September 30, 2023

	Adjusted Beginning Balance	Charge-offs	Recoveries	Provision for (Recapture of) Credit Losses	Ending Balance	Adjusted Beginning Balance	Charge-offs	Recoveries	Provision for (Recapture of) Credit Losses	Ending Balance
			(In thousands)					(In thousands)		
One-to-four family	$ 2,903	$ —	$ 4	$ 105	$ 3,012	$ 3,012	$ —	$ —	$ 526	$ 3,538
Multi-family	1,045	—	—	(4)	1,041	1,041	—	—	230	1,271
Commercial real estate	2,979	—	—	(55)	2,924	2,924	—	—	(390)	2,534
Construction and land	2,782	—	—	(247)	2,535	2,535	—	—	(352)	2,183
Home equity	1,084	—	5	36	1,125	1,125	—	—	178	1,303
Auto and other consumer	4,689	(972)	564	514	4,795	4,795	(731)	(501)	601	4,164
Commercial business	1,914	—	—	(49)	1,865	1,865	—	—	87	1,952
Total	$ 17,396	$ (972)	$ 573	$ 300	$ 17,297	$ 17,297	$ (731)	$ (501)	$ 880	$ 16,945

	At or For the Six Months Ended June 30, 2023							At or For the Nine Months Ended September 30, 2023							
	Beginning Balance	Impact of Day 1 CECL Adoption	Adjusted Beginning Balance	Charge-offs	Recoveries	Provision for (Recapture of) Credit Losses	Ending Balance	Beginning Balance	Impact of Day 1 CECL Adoption	Adjusted Beginning Balance	Charge-offs	Recoveries	Provision for (Recapture of) Credit Losses	E B
				(In thousands)							(In thousands)			
One-to-four family	$ 3,343	$ (429)	$ 2,914	$ —	$ 4	$ 94	$ 3,012	$ 3,343	$ (429)	$ 2,914	$ —	$ 4	$ 620	$
Multi-family	2,468	(1,449)	1,019	—	—	22	1,041	2,468	(1,449)	1,019	—	—	252	
Commercial real estate	4,217	(604)	3,613	—	—	(689)	2,924	4,217	(604)	3,613	—	—	(1,079)	
Construction and land	2,344	1,555	3,899	—	—	(1,364)	2,535	2,344	1,555	3,899	—	—	(1,716)	
Home equity	549	346	895	(11)	5	236	1,125	549	346	895	(11)	5	414	
Auto and other consumer	2,024	2,381	4,405	(1,926)	585	1,731	4,795	2,024	2,381	4,405	(2,657)	84	2,332	
Commercial business	786	794	1,580	—	—	285	1,865	786	794	1,580	—	—	372	
Unallocated	385	(385)	—	—	—	—	—	385	(385)	—	—	—	—	
Total	$ 16,116	$ 2,209	$ 18,325	$ (1,937)	$ 594	$ 315	$ 17,297	$ 16,116	$ 2,209	$ 18,325	$ (2,668)	$ 93	$ 1,195	$

The increase in the ACLL decreased $352,000 during the three months ended June September 30, 2023, of $300,000 is reflective of $399,000 in net charge-offs. . Charge-offs during the second third quarter of 2023 were mainly concentrated in unsecured consumer loans purchased through the Splash program. The recovery adjustment is due to a reclassification of funds received from the Splash program which had been recorded as a recovery in the second quarter of 2023. The provision for ACLL reflects higher loss factors in one-to-four family, commercial business and multi-family loans based on our assumptions.

The $315,000 provision for post-adoption ACLL for decreased $1.4 million during the six nine months ended June September 30, 2023, is reflective of $1.3 million with $2.6 million of year-to-date net charge-offs partially offset by the provision for credit losses estimate. ACLL. The recovery of ACLL provision for credit losses expense during the six nine months ended June September 30, 2023, can be attributed was the result of higher loan balances combined with high loss factors due to an improvement the impact of changes in the U.S. gross domestic product assumption since the implementation of CECL at the beginning of 2023.and unemployment on our model assumptions.

The following table details activity in the ALLL by class for the period shown under the incurred loss methodology:

	At or For the Three Months Ended June 30, 2022									At or For the Three Months Ended September					
	One-to-four family	Multi-family	Commercial real estate	Construction and land	Home equity	Auto and other consumer	Commercial business	Unallocated	Total	One-to-four family	Multi-family	Commercial real estate	Construction and land	Home equity	Auto and other consumer
	(In thousands)									(In thousands)					
ALLL:															
Beginning balance	$ 3,039	$ 2,092	$ 4,038	$ 2,481	$ 405	$ 2,229	$ 526	$ 317	$ 15,127	$ 3,026	$ 2,168	$ 4,154	$ 2,550	$ 486	$ 2,367
(Recapture of) provision for loan losses	(13)	76	116	69	81	160	12	(1)	500						
Provision for (recapture of) loan losses										188	164	(45)	(36)	9	428
Charge-offs	—	—	—	—	—	(73)	—	—	(73)	—	—	—	—	—	(265)
Recoveries	—	—	—	—	—	51	142	—	193	—	—	—	—	12	29
Ending balance	$ 3,026	$ 2,168	$ 4,154	$ 2,550	$ 486	$ 2,367	$ 680	$ 316	$ 15,747	$ 3,214	$ 2,332	$ 4,109	$ 2,514	$ 507	$ 2,559

	At or For the Six Months Ended June 30, 2022									At or For the Nine Months Ended September 3					
	One-to-four family	Multi-family	Commercial real estate	Construction and land	Home equity	Auto and other consumer	Commercial business	Unallocated	Total	One-to-four family	Multi-family	Commercial real estate	Construction and land	Home equity	Auto and other consumer
	(In thousands)									(In thousands)					
ALLL:															
Beginning balance	$ 3,184	$ 1,816	$ 3,996	$ 2,672	$ 407	$ 2,221	$ 470	$ 358	$ 15,124	$ 3,184	$ 1,816	$ 3,996	$ 2,672	$ 407	$ 2,221
(Recapture of) provision for loan losses	(190)	352	158	(124)	62	216	68	(42)	500	(2)	516	113	(160)	71	644
Charge-offs	—	—	—	—	—	(210)	—	—	(210)	—	—	—	—	—	(475)
Recoveries	32	—	—	2	17	140	142	—	333	32	—	—	2	29	169
Ending balance	$ 3,026	$ 2,168	$ 4,154	$ 2,550	$ 486	$ 2,367	$ 680	$ 316	$ 15,747	$ 3,214	$ 2,332	$ 4,109	$ 2,514	$ 507	$ 2,559

The following table details the ALLL and loan portfolio by class and impairment method for the period shown under the incurred loss methodology:

	At December 31, 2022								
	One-to-four family	Multi-family	Commercial real estate	Construction and land	Home equity	Auto and other consumer	Commercial business	Unallocated	Total
	(In thousands)								
Total ALLL	$ 3,343	$ 2,468	$ 4,217	$ 2,344	$ 549	$ 2,024	$ 786	$ 385	$ 16,116
General reserve	3,321	2,468	4,217	2,343	545	2,019	786	385	16,084
Specific reserve	22	—	—	1	4	5	—	—	32
Gross loans	$ 343,825	$ 253,551	$ 390,246	$ 194,646	$ 52,322	$ 222,794	$ 76,996	$ —	$ 1,534,380
Loans collectively evaluated (1)	341,171	253,551	390,196	194,630	52,100	222,702	76,996	—	1,531,346

Loans individually evaluated (2)	2,654	—	50	16	222	92	—	—	3,034

(1) Loans collectively evaluated for general reserves.

(2) Loans individually evaluated for specific reserves.

Impaired loans incurred loss model. Prior to the implementation of CECL on January 1, 2023, a loan was considered impaired when the Bank has determined that it may be unable to collect payments of principal or interest when due under the contractual terms of the loan. Impairment was measured on a loan-by-loan basis for all loans in the portfolio except smaller balance homogeneous loans and certain qualifying TDR loans.

The following table provides additional information on loans individually evaluated for impairment by portfolio class at the date indicated under the incurred loss methodology. Recorded investment includes the unpaid principal balance or carrying amount of loans less charge-offs.

	December 31, 2022		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
With no allowance recorded:			
One-to-four family	$ 666	$ 705	$ —
Commercial real estate	50	149	—
Construction and land	—	14	—
Auto and other consumer	—	2	—
Total	716	870	—
With an allowance recorded:			
One-to-four family	1,988	2,129	22
Construction and land	16	19	1
Home equity	222	224	4
Auto and other consumer	92	95	5
Total	2,318	2,467	32
Total impaired loans:			
One-to-four family	2,654	2,834	22
Commercial real estate	50	149	—
Construction and land	16	33	1
Home equity	222	224	4
Auto and other consumer	92	97	5
Total	$ 3,034	$ 3,337	$ 32

The following table presents the average recorded investment in loans individually evaluated for impairment and the related interest income recognized for the period shown under the incurred loss methodology:

	Three Months Ended June 30, 2022		Six Months Ended June 30, 2022		Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized

	(In thousands)				(In thousands)			
With no allowance recorded:								
One-to-four family	$ 356	$ 6	$ 283	$ 8	$ 211	$ 1	$ 259	$ 1
Commercial real estate	63	—	65	—	56	—	63	—
Construction and land	—	1	—	1	583	1	194	1
Home equity	—	—	5	—	—	—	3	—
Auto and other consumer	247	5	249	9	239	5	246	14
Total	666	12	602	18	1,089	7	765	16
With an allowance recorded:								
One-to-four family	2,128	39	2,079	72	2,258	51	2,138	120
Commercial real estate	21	—	11	—	—	—	7	—
Construction and land	22	1	22	1	18	—	21	—
Home equity	284	4	293	7	232	3	273	8
Auto and other consumer	61	1	139	2	33	1	104	2
Total	2,516	45	2,544	82	2,541	55	2,543	130
Total impaired loans:								
One-to-four family	2,484	45	2,362	80	2,469	52	2,397	121
Commercial real estate	84	—	76	—	56	—	70	—
Construction and land	22	2	22	2	601	1	215	1
Home equity	284	4	298	7	232	3	276	8
Auto and other consumer	308	6	388	11	272	6	350	16
Total	$ 3,182	$ 57	$ 3,146	$ 100	$ 3,630	$ 62	$ 3,308	$ 146

Interest income recognized on a cash basis on impaired loans for the three and six nine months ended June September 30, 2022, was $41,000 $42,000 and $100,000, $126,000, respectively, under the incurred loss methodology.

Allowance for Credit Losses on Unfunded Loan Commitments. The Company maintains an ACL for off-balance sheet commitments related to unfunded loans and lines of credit, which is included in other liabilities on the consolidated balance sheets. The allowance for off-balance sheet unfunded commitments was $1.3 million $828,000 at June September 30, 2023, a decrease compared to $1.9 million at the adoption of CECL on January 1, 2023. Included in the year-to-date provision for credit loss expense was a provision recapture for off-balance sheet unfunded commitments of $515,000 $509,000 and $1.0 million for both the three and six nine months ended June September 30, 2023, attributable to lower unfunded commitments, respectively, primarily due attributable to construction loan disbursements. disbursements resulting in lower unfunded commitments.

Note 5 - Deposits

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

	June 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
	(Dollars in thousands)				(Dollars in thousands)			
Noninterest-bearing demand deposits	$ 280,475	—%	$ 315,083	—%	$ 269,800	—%	$ 315,083	—%
Interest-bearing demand deposits	179,029	0.50 %	193,558	0.01 %	182,361	0.52 %	193,558	0.01 %
Money market accounts	374,269	1.10 %	473,009	0.58 %	372,706	1.28 %	473,009	0.58 %
Savings accounts	260,279	1.41 %	200,920	0.26 %	253,182	1.45 %	200,920	0.26 %
Certificates of deposit	559,070	3.55 %	381,685	2.19 %	579,713	3.93 %	381,685	2.19 %
Total deposits	$ 1,653,122	1.73%	$ 1,564,255	0.74%	$1,657,762	1.94%	$1,564,255	0.74%

Brokered certificates of deposit of $179.6 million $169.6 million and $133.9 million are included in the June September 30, 2023 and December 31, 2022 certificates of deposit totals above, respectively. The aggregate amount of time deposits in excess of the Federal Deposit Insurance Corporation ("FDIC") insured limit, currently $250,000, at June September 30, 2023 and December 31, 2022, were $157.1 million $165.3 million and $96.6 million, respectively.

Maturities of certificates at the dates indicated are as follows:

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
	(In thousands)		(In thousands)	
Within one year or less	$ 422,485	$ 262,189	$ 449,211	$ 262,189
After one year through two years	104,285	69,967	105,169	69,967
After two years through three years	16,339	37,032	9,780	37,032
After three years through four years	11,195	7,409	10,863	7,409
After four years through five years	4,766	5,088	4,690	5,088
Total certificates of deposit	$ 559,070	$ 381,685	$ 579,713	$ 381,685

At June September 30, 2023 and December 31, 2022, deposits included $112.1 million $109.4 million and $93.3 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 June September 30, 2023, to secure public deposits and pledged investment securities with a carrying value of $57.1 million were pledged as collateral for these deposits at December 31, 2022. This exceeds the minimum collateral requirements established by the Washington Public Deposit Protection Commission. Also included in deposits at June September 30, 2023 and December 31, 2022, were funds held by federally recognized tribes totaling $18.9 million $19.2 million and $10.3 million, respectively. Investment securities with a carrying value of $21.9 million $21.3 million and $23.6 million were pledged as collateral for these deposits at June September 30, 2023 and December 31, 2022, 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 June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
	(In thousands)				(In thousands)			
Demand deposits	$ 201	$ 25	$ 395	$ 42	$ 204	$ 16	$ 599	$ 58
Money market accounts	944	323	1,720	621	1,146	468	2,866	1,089
Savings accounts	762	26	1,138	52	918	24	2,056	76
Certificates of deposit	4,302	422	7,309	798	5,431	743	12,740	1,541
Total interest expense on deposits	$ 6,209	$ 796	$ 10,562	$ 1,513	$ 7,699	$ 1,251	$ 18,261	$ 2,764

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Note 6 - Borrowings

First Fed is a member of the FHLB. As a member, First Fed has a committed line of credit of up to 45% of total assets, subject to the amount of FHLB stock ownership and certain collateral requirements.

First Fed maintains borrowing arrangements with the FHLB to borrow funds primarily under long-term, fixed-rate advance agreements. First Fed also has overnight borrowings through FHLB which renew daily until paid. First Fed periodically uses fixed-rate advances maturing in less than one year as an alternative source of funds. All borrowings are secured by collateral consisting of single-family, home equity, commercial real estate, and multi-family loans receivable in the amounts of $917.8 million $885.7 million and $753.7 million at June September 30, 2023 and December 31, 2022, 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, 2023.

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 $8.7 million $8.58 million and $8.6 million $8.57 million at June September 30, 2023 and December 31, 2022, respectively. No funds have been borrowed to date. Investment securities with a carrying value of $9.2 million $9.02 million and $9.0 million $8.99 million were pledged to the FRB at June September 30, 2023 and December 31, 2022, 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 18, 2024, with the option for one 364-day extension.

In June 2023, First Fed established a Bank Term Funding ("BTFP") borrowing arrangement with the FRB as an additional source of liquidity. Available borrowing capacity was $18.7 million$18.3 million at JuneSeptember 30, 2023. No funds have been borrowed to date. Investment securities with a carrying value of $17.0 million$15.0 million were pledged to secure the BTFP at JuneSeptember 30, 2023.

The following table sets forth information regarding our borrowings at the end of and during the sixnine months ended JuneSeptember 30, 2023. The table includes both long- and short-term borrowings.

	FHLB Long-Term Advances	FHLB Overnight Variable-Rate Advances	FHLB Short-Term Fixed-Rate Advances	Line of Credit	Subordinated Debt, net	FHLB Long-Term Advances	FHLB Overnight Variable-Rate Advances	FHLB Short-Term Fixed-Rate Advances	Line of Credit	Subordinated Debt, net
			(Dollars in thousands)					(Dollars in thousands)		
Balance outstanding	$ 85,000	$ 163,000	$ 5,000	$ 11,000	$ 39,397	$ 80,000	$ 168,000	$ 5,000	$ 8,000	$ 39,416
Maximum outstanding at any month-end	85,000	189,000	95,000	11,000	39,397	85,000	189,000	95,000	11,000	39,416
Average monthly outstanding during the period	82,500	133,500	45,833	10,718	39,374	82,222	141,444	32,222	10,249	39,384
Weighted-average daily interest rates										
Annual	1.90 %	4.97 %	5.07 %	8.94 %	4.04 %	1.96 %	5.15 %	5.08 %	9.06 %	4.02 %
Period End	2.08 %	5.35 %	5.27 %	8.75 %	4.04 %	2.09 %	5.53 %	5.27 %	9.00 %	4.01 %

The amounts by year of maturity and weighted-average interest rate of FHLB long-term, fixed-rate advances at JuneSeptember 30, 2023 are as follows:

	Amount	Weighted- Average Interest Rate	Amount	Weighted-Average Interest Rate
	(Dollars in thousands)		(Dollars in thousands)	
Within one year or less	$ 20,000	2.30 %	$ 25,000	2.76 %
After one year through two years	30,000	2.48	20,000	2.12
After two years through three years	15,000	1.49	15,000	1.49
After three years through four years	10,000	1.63	10,000	1.63
After four years through five years	10,000	1.76	10,000	1.76
Total FHLB long-term advances	$ 85,000	2.08%	$ 80,000	2.09%

The following table sets forth information regarding our borrowings at the end of and during the year ended December 31, 2022. The table includes both long- and short-term borrowings.

	FHLB Long-Term Advances	FHLB Overnight Variable-Rate Advances	FHLB Short-Term Fixed-Rate Advances	Line of Credit	Subordinated Debt, net
	(Dollars in thousands)				
Balance outstanding	$ 80,000	$ 144,000	$ 10,000	$ 12,000	$ 39,358
Maximum outstanding at any month-end	80,000	206,000	42,500	12,000	39,358
Average monthly outstanding during the period	80,000	90,983	15,208	5,770	39,312
Weighted-average daily interest rates					
Annual	1.52 %	2.83 %	1.82 %	6.76 %	4.01 %
Period End	1.52 %	4.30 %	2.12 %	8.00 %	4.01 %

Note 7 - 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 20.2% 19.9% and 20.2% 19.4% for the six nine months ended June September 30, 2023 and 2022, respectively. The effective tax rates differ from the statutory maximum federal tax rate for 2023 and 2022 of 21%, largely due to the nontaxable earnings on bank-owned life insurance and tax-exempt interest income earned on certain investment securities and loans. In the second quarter of 2022, the Company began accruing a provision for income tax for certain states in which we have both employees and collateral for loans, thereby creating a nexus in those states for income tax purposes.

Note 8 - Earnings per Common Share

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

The following table presents a reconciliation of the components used to compute basic and diluted earnings per share for the three and six nine months ended June September 30, 2023 and 2022.

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
	(In thousands, except share data)				(In thousands, except share data)			
Net income:								
Net income available to common shareholders	$ 1,776	$ 2,488	$ 5,304	$ 5,294	$ 2,504	$ 4,291	$ 7,808	$ 9,585
Earnings allocated to participating securities	(9)	(25)	(28)	(55)	(11)	(35)	(39)	(92)
Earnings allocated to common shareholders	$ 1,767	$ 2,463	$ 5,276	$ 5,239	$ 2,493	$ 4,256	$ 7,769	$ 9,493

Basic:								
Weighted average common shares outstanding	9,667,380	9,849,265	9,684,673	9,846,086	9,631,929	9,955,322	9,666,900	9,979,152
Weighted average unvested restricted stock awards	(139,760)	(92,626)	(152,474)	(95,390)	(125,338)	(212,930)	(143,326)	(231,253)
Weighted average unallocated ESOP shares	(613,265)	(661,745)	(619,841)	(668,323)	(600,065)	(648,571)	(613,183)	(661,670)
Total basic weighted average common shares outstanding	8,914,355	9,094,894	8,912,358	9,082,373	8,906,526	9,093,821	8,910,391	9,086,229
Diluted:								
Basic weighted average common shares outstanding	8,914,355	9,094,894	8,912,358	9,082,373	8,906,526	9,093,821	8,910,391	9,086,229
Dilutive restricted stock awards	17,031	71,237	19,759	84,942	28,356	44,302	20,013	69,584
Total diluted weighted average common shares outstanding	8,931,386	9,166,131	8,932,117	9,167,315	8,934,882	9,138,123	8,930,404	9,155,813
Basic earnings per common share	$ 0.20	$ 0.27	$ 0.59	$ 0.58	$ 0.28	$ 0.47	$ 0.87	$ 1.04
Diluted earnings per common share	$ 0.20	$ 0.27	$ 0.59	$ 0.58	$ 0.28	$ 0.47	$ 0.87	$ 1.04

Potentially dilutive shares are excluded from the computation of EPS if their effect is anti-dilutive. At June September 30, 2023 and 2022, antidilutive shares as calculated under the treasury stock method totaled 14,987 13,582 and 1,186, 2,617, respectively.

Note 9 - Employee Benefits

Employee Stock Ownership Plan

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

Pursuant to the Plan, the ESOP purchased shares in the open market with funds borrowed from First Northwest. The Bank will make contributions to the ESOP in amounts necessary to amortize the ESOP loan payable to First Northwest over a period of 20 years, bearing estimated interest at 2.46%. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Bank's discretionary contributions to the ESOP and earnings on the ESOP assets. A $835,000 principal and interest payment was made by the ESOP during the six nine months ended June September 30, 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 June September 30, 2023 and 2022, was $153,000 $167,000 and $245,000, $216,000, respectively. Compensation expense related to the ESOP for the six nine months ended June September 30, 2023 and 2022, was $340,000 $507,000 and $536,000, $752,000, respectively.

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

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
	(Dollars in thousands)		(Dollars in thousands)	
Allocated shares	439,174	386,285	439,174	386,285
Committed to be released shares	—	26,442	13,257	26,442
Unallocated shares	608,855	635,302	595,598	635,302
Total ESOP shares issued	1,048,029	1,048,029	1,048,029	1,048,029
Fair value of unallocated shares	$ 6,929	$ 9,758	$ 7,308	$ 9,758

Note 10 - 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 June September 30, 2023, there were 290,029 85,490 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 June September 30, 2023, there were no shares available for grant under the 2015 EIP. At this date, there are 42,400 34,920 shares granted under the 2015 EIP that are expected to vest subject to the 2015 EIP plan provisions.

There were 29,349 32,449 and 53,343 55,443 shares of restricted stock awarded, respectively, during the six nine months ended June September 30, 2023 and 2022. 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 June September 30, 2023 and 2022, total compensation expense for the equity incentive plans was $358,000 $349,000 and $479,000, $404,000, respectively. Included in the compensation expense for the three months ended June September 30, 2023 and 2022, was directors' equity compensation of $73,000 $59,000 and $84,000, $50,000, respectively.

For the six nine months ended June September 30, 2023 and 2022, total compensation expense for the equity incentive plans was $749,000 $1.1 million and $890,000, $1.3 million, respectively. Included in the compensation expense for the six nine months ended June September 30, 2023 and 2022, was directors' equity compensation of $131,000 $190,000 and $139,000, $189,000, respectively.

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

	For the Three Months Ended June 30, 2023	
	Shares	Weighted-Average Grant Date Fair Valu
Non-vested at April 1, 2023	149,054	$ 1
Granted	2,300	1
Vested	(5,753)	1
Canceled (1)	(1,472)	1
Forfeited	(11,211)	1
Non-vested at June 30, 2023	132,918	$ 1

(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' obligation on the vested shares. The surrendered shares are canceled and are unavailable for reissue.

	For the Three Months Ended September 30, 2023	
	Shares	Weighted-Average Grant Date Fair Valu
Non-vested at July 1, 2023	132,918	$ 1
Granted	3,100	1
Vested	(10,820)	1
Canceled (1)	(3,606)	1
Forfeited	(1,182)	2
Non-vested at September 30, 2023	120,410	$ 1

(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' obligation on the vested shares. The surrendered shares are canceled and are unavailable for reissue.

	For the Six Months Ended June 30, 2023		For the Nine Months Ended September 30, 2023	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2023	166,839	$ 17.78	166,839	$ 17.78
Granted	29,349	14.09	32,449	13.90
Vested	(38,453)	19.12	(49,273)	18.11
Canceled (1)	(11,806)	19.12	(15,412)	18.11
Forfeited	(13,011)	17.29	(14,193)	17.51
Non-vested at June 30, 2023	132,918	$ 16.50		
Non-vested at September 30, 2023			120,410	$ 16.59

(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.

(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.

(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 June September 30, 2023, there was $1.5 million $1.2 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 1.43 1.34 years.

Note 11 - Fair Value Accounting and Measurement

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

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

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

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

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

Level 3 - Unobservable inputs.

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

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

Securities available for sale: 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.

Partnership investments: Management determines fair value using quoted prices of similar investments or discounted cash flows, which are considered Level 2, when available. In certain cases, where 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.

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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 derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, 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:

	June 30, 2023				September 30, 2023			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets	(In thousands)				(In thousands)			
Securities available-for-sale								
Municipal bonds	$ 5,014	$ 95,489	$ —	$ 100,503	$ 4,637	$ 89,358	$ —	$ 93,995
U.S. Treasury notes	2,364	—	—	2,364	2,377	—	—	2,377
Agency bonds	—	1,717	—	1,717	—	1,703	—	1,703
Corporate debt	5,414	48,260	—	53,674	5,376	48,959	—	54,335
MBS agency	—	71,565	—	71,565	—	66,946	—	66,946
MBS non-agency	—	62,762	29,378	92,140	—	60,776	29,192	89,968

Sold loan servicing rights	—	—	3,825	3,825	—	—	3,729	3,729
Partnership investments	—	—	12,733	12,733	—	—	12,787	12,787
Interest rate swap derivative					—	576	—	576
Total assets measured at fair value	$ 12,792	$ 279,793	$ 45,936	$ 338,521	$ 12,390	$ 268,318	$ 45,708	$326,416
Financial Liabilities								
Interest rate swap derivative	$ —	$ 392	$ —	$ 392				

	December 31, 2022			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets	(In thousands)			
Securities available-for-sale				
Municipal bonds	$ 4,913	$ 93,137	$ —	$ 98,050
U.S. Treasury notes	2,364	—	—	2,364
Agency bonds	—	1,702	—	1,702
Corporate debt	5,326	50,173	—	55,499
MBS agency	—	75,648	—	75,648
MBS non-agency	—	63,707	29,599	93,306
Sold loan servicing rights	—	—	3,887	3,887
Partnership investments	—	—	12,563	12,563
Total assets measured at fair value	$ 12,603	$ 284,367	$ 46,049	$ 343,019

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

June September 30, 2023	Fair Value (In thousands)	Valuation Technique	Unobservable Input (1)	Range (Weighted Average)
Sold loan servicing rights	$3,825 3,729	Discounted cash flow	Constant prepayment rate	4.84%5.36% - 40.04% (8.04% 34.46% (8.39%)
			Discount rate	11.63% 11.75% - 14.35% (12.52% 14.24% (12.56%)
MBS non-agency	$29,378 29,192	Consensus pricing	Offered quotes	97.5 94.5 - 99.5 99.3
			Comparability adjustments (%)	-1.04% -3.97% - 0.95% 0.87%
Partnership investments	$12,787	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 table summarizes the changes in sold loan servicing rights, a Level 3 assets asset measured at fair value on a recurring basis, at the dates indicated:

	As of or For the Three Months Ended June 30, 2023	As of or For the Three Months Ended September 30,	As of or For the Nine Months Ended September 30,

	Balance at beginning of period	Servicing rights that result from transfers and sale of financial assets	Changes in fair value due to changes in model inputs or assumptions (1)	Balance at end of period	2023	2022	2023	2022
		(In thousands)				(In thousands)		
Sold loan servicing rights	$ 4,224	$ 7	$ (406)	$ 3,825				
Balance at beginning of period					$ 3,825	$ 3,865	$ 3,887	$ 3,820
Servicing rights that result from transfers and sale of financial assets					71	45	145	143
Changes in fair value due to changes in model inputs or assumptions (1)					(167)	(38)	(303)	(91)
Balance at end of period					$ 3,729	$ 3,872	$ 3,729	$ 3,872

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

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	As of or For the Six Months Ended June 30, 2023			
	Balance at beginning of period	Servicing rights that result from transfers and sale of financial assets	Changes in fair value due to changes in model inputs or assumptions (1)	Balance at end of period
		(In thousands)		
Sold loan servicing rights	$ 3,887	$ 75	$ (137)	$ 3,825

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

The following tables summarize the changes in Level 3 securities available for sale and partnership investments, assets which are measured at fair value on a recurring basis, at the dates indicated:

	As of or For the Three Months Ended June 30, 2022			
	Balance at beginning of period	Servicing rights that result from transfers and sale of financial assets	Changes in fair value due to changes in model inputs or assumptions (1)	Balance at end of period
		(In thousands)		
Sold loan servicing rights	$ 4,046	$ 42	$ (223)	$ 3,865

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

	As of or For the Six Months Ended June 30, 2022			
	Election of Fair Value Option for Servicing Rights at January 1, 2022	Servicing rights that result from transfers and sale of financial assets	Changes in fair value due to changes in model inputs or assumptions (1)	Balance at end of period
		(In thousands)		
Sold loan servicing rights	$ 3,820	$ 98	$ (53)	$ 3,865

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

	As of or Three Months Ended September 30, 2023				
	Balance at beginning of period	Transfers Into Level 3	Purchases, net of Distributions	Unrealized (Losses) Gains	Balance at end of period
			(In thousands)		
Securities available for sale:					
MBS non-agency	$ 29,378	$ —	$ —	$ (186)	$ 29,192

Partnership investments	12,733	—	(82)	136	12,787

	As of or For the Six Months Ended June 30, 2023					As of or For the Nine Months Ended September 30, 2023				
	Balance at beginning of period	Transfers Into Level 3	Purchases	Unrealized (Losses) Gains	Balance at end of period	Balance at beginning of period	Transfers Into Level 3	Purchases, net of Distributions	Unrealized (Losses) Gains	Balance at end of period
	(In thousands)					(In thousands)				
Securities available for sale:										
MBS non-agency	$ 29,599	$ —	$ —	$ (221)	$ 29,378	$ 29,599	$ —	$ —	$ (407)	$ 29,192
Partnership investments	12,563	—	—	170	12,733	12,563	—	(69)	293	12,787

	As of or For the Year Ended December 31, 2022					As of or For the Year Ended December 31, 2022				
	Balance at beginning of period	Transfers Into Level 3 (1)	Purchases	Unrealized Gains	Balance at end of period	Balance at beginning of period	Transfers Into Level 3 (1)	Purchases	Unrealized Gains	Balance at end of period
	(In thousands)					(In thousands)				
Securities available for sale:										
MBS non-agency	$ —	$ 29,599	$ —	$ —	$ 29,599	$ —	$ 29,599	$ —	$ —	$ 29,599
Sold loan servicing rights	—	12,490	—	73	12,563	—	12,490	—	73	12,563

(1) Transferred from Level 2 to Level 3 because of a lack of observable market data, resulting from little to no market activity for the investments.

(1) Transferred from Level 2 to Level 3 in the fourth quarter of 2022 because of a lack of observable market data, resulting from little to no market activity for the investments.

(1) Transferred from Level 2 to Level 3 in the fourth quarter of 2022 because of a lack of observable market data, resulting from little to no market activity for the investments.

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 table presents the Company's assets measured at fair value on a nonrecurring basis at the date indicated:

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Impaired loans	$ —	$ —	$ 3,034	$ 3,034

At June September 30, 2023 and December 31, 2022, there were no impaired loans with discounts to appraisal disposition value or other unobservable inputs.

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

	June 30, 2023	September 30, 2023

	Carrying Amount	Estimated Fair Value	Fair Value Measurements Using: Level 1	Level 2	Level 3	Carrying Amount	Estimated Fair Value	Fair Value Measurements Using: Level 1	Level 2	Level 3
			(In thousands)					(In thousands)		
Financial assets										
Cash and cash equivalents	$ 78,302	$ 78,302	$ 78,302	$ —	$ —	$ 83,886	$ 83,886	$ 83,886	$ —	$ —
Investment securities available for sale	321,963	321,963	12,792	279,793	29,378	309,324	309,324	12,390	267,742	29,192
Loans held for sale	2,049	2,049	—	2,049	—	689	689	—	689	—
Loans receivable, net	1,620,863	1,509,311	—	—	1,509,311	1,618,033	1,486,050	—	—	1,486,050
FHLB stock	12,621	12,621	—	12,621	—	12,621	12,621	—	12,621	—
Accrued interest receivable	7,480	7,480	—	7,480	—	8,093	8,093	—	8,093	—
Sold loan servicing rights, at fair value	3,825	3,825	—	—	3,825	3,729	3,729	—	—	3,729
Partnership investments	12,733	12,733	—	—	12,733	12,787	12,787	—	—	12,787
Interest rate swap derivative						576	576	—	576	—
Financial liabilities										
Demand deposits	$ 1,094,052	$ 1,094,052	$ 1,094,052	$ —	$ —	$ 1,078,049	$ 1,078,049	$ 1,078,049	$ —	$ —
Time deposits	559,070	551,012	—	—	551,012	579,713	572,616	—	—	572,616
FHLB Borrowings	253,000	247,846	—	—	247,846	253,000	248,031	—	—	248,031
Line of Credit	11,000	11,047	—	—	11,047	8,000	8,030	—	—	8,030
Subordinated debt, net	39,397	40,164	—	—	40,164	39,416	39,879	—	—	39,879
Accrued interest payable	1,367	1,367	—	1,367	—	2,276	2,276	—	2,276	—
Interest rate swap derivative	392	392	—	392	—					

	December 31, 2022				
	Carrying Amount	Estimated Fair Value	Fair Value Measurements Using: Level 1	Level 2	Level 3
			(In thousands)		
Financial assets					
Cash and cash equivalents	$ 45,596	$ 45,596	$ 45,596	$ —	$ —
Investment securities available for sale	326,569	326,569	12,603	284,367	29,599
Loans held for sale	597	597	—	597	—
Loans receivable, net	1,531,435	1,461,470	—	—	1,461,470
FHLB stock	11,681	11,681	—	11,681	—
Accrued interest receivable	6,743	6,743	—	6,743	—
Sold loan servicing rights, at fair value	3,887	3,887	—	—	3,887
Partnership investments	12,563	12,563	—	—	12,563
Financial liabilities					
Demand deposits	1,182,570	$ 1,182,570	$ 1,182,570	$ —	$ —
Time deposits	381,685	372,865	—	—	372,865
FHLB Borrowings	234,000	229,103	—	—	229,103
Line of Credit	12,000	12,034	—	—	12,034
Subordinated debt, net	39,358	38,841	—	—	38,841
Accrued interest payable	455	455	—	455	—

Note 12- Change in Accumulated Other Comprehensive Income ("AOCI")

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

	Unrealized Gains and Losses on Available-for-Sale Securities	Unrecognized Defined Benefit Plan Prior Service Cost, Net of Amortization	Unrealized Gains and Losses on Derivatives	Total	Unrealized Gains and Losses on Available-for-Sale Securities	Unrecognized Defined Benefit Plan Prior Service Cost, Net of Amortization	Unrealized Gains and Losses on Derivatives	Total
	(In thousands)				(In thousands)			
Balance at March 31, 2022	$ (13,330)	$ (1,823)	$ —	$ (15,153)				
Balance at June 30, 2022					$ (26,653)	$ (1,794)	$ —	$ (28,447)
Other comprehensive loss before reclassification	(13,330)	—	—	(13,330)	(12,604)	—	—	(12,604)
Amounts reclassified from accumulated other comprehensive income	7	29	—	36	—	28	—	28
Net other comprehensive (loss) income	(13,323)	29	—	(13,294)	(12,604)	28	—	(12,576)
Balance at June 30, 2022	$ (26,653)	$ (1,794)	$ —	$ (28,447)				
Balance at September 30, 2022					$ (39,257)	$ (1,766)	$ —	$ (41,023)
Balance at March 31, 2023	$ (34,642)	$ (2,109)	$ (1,357)	$ (38,108)				
Balance at June 30, 2023					$ (37,679)	$ (2,079)	$ (308)	$ (40,066)
Other comprehensive loss before reclassification	(3,037)	—	1,049	(1,988)	(6,540)	—	727	(5,813)
Amounts reclassified from accumulated other comprehensive income	—	30	—	30	—	29	—	29
Net other comprehensive (loss) income	(3,037)	30	1,049	(1,958)	(6,540)	29	727	(5,784)
Balance at June 30, 2023	$ (37,679)	$ (2,079)	$ (308)	$ (40,066)				
Balance at September 30, 2023					$ (44,219)	$ (2,050)	$ 419	$ (45,850)
Balance at December 31, 2021	$ 2,140	$ (1,852)	$ —	$ 288	$ 2,140	$ (1,852)	$ —	$ 288
Other comprehensive loss before reclassification	(28,700)	—	—	(28,700)	(41,304)	—	—	(41,304)
Amounts reclassified from accumulated other comprehensive income	(93)	58	—	(35)	(93)	86	—	(7)
Net other comprehensive (loss) income	(28,793)	58	—	(28,735)	(41,397)	86	—	(41,311)
Balance at June 30, 2022	$ (26,653)	$ (1,794)	$ —	$ (28,447)				
Balance at September 30, 2022					$ (39,257)	$ (1,766)	$ —	$ (41,023)
Balance at December 31, 2022	$ (38,404)	$ (2,139)	$ —	$ (40,543)	$ (38,404)	$ (2,139)	$ —	$ (40,543)
Other comprehensive income before reclassification	725	—	(308)	417				
Other comprehensive loss before reclassification					(5,815)	—	419	(5,396)
Amounts reclassified from accumulated other comprehensive income	—	60	—	60	—	89	—	89
Net other comprehensive income	725	60	(308)	477				
Balance at June 30, 2023	$ (37,679)	$ (2,079)	$ (308)	$ (40,066)				
Net other comprehensive (loss) income					(5,815)	89	419	(5,307)
Balance at September 30, 2023					$ (44,219)	$ (2,050)	$ 419	$ (45,850)

Note 13 - 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. 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 agreements agreement without the exchange of the underlying notional amount.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in interest income.

At June September 30, 2023, the following amounts were recorded on the balance sheet related to cumulative basis adjustment for fair value hedges. The Company had no fair value hedges at December 31, 2022.

Line item in the income statement in which the hedged item is included	Carrying Amount of the Hedged Assets (Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)	Carrying Amount of the Hedged Assets (Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)
	(In thousands)		(In thousands)	
June 30, 2023				
September 30, 2023				
Investment securities (1)	$ 50,392	$ 392	$ 49,467	$ (533)
Total	$ 50,392	$ 392	$ 49,467	$ (533)

(1) These amounts include the amortized cost basis of a closed portfolios 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 June September 30, 2023, the amortized cost basis of the closed portfolios portfolio used in these this hedging relationships relationship was $50.1 million, $59.5 million, the cumulative basis adjustments associated with these this hedging relationships relationship was $392,000, ($533,000), and the amounts amount of the designated hedged items were was $50.0 million.

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			Fair Value	
	Notional Amount	Other Assets	Other Liabilities	Notional Amount	Other Assets	Other Liabilities
		(In thousands)			(In thousands)	
June 30, 2023						
September 30, 2023						
Fair value hedges:						
Interest rate swaps - securities	$ 50,000	$ —	$ 351	$ 50,000	$ 576	$ —

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

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
	(In thousands)				(In thousands)			
Total amounts recognized in interest on investment securities	$ 3,336	$ 2,715	$ 6,518	$ 4,990	$ 3,368	$ 2,817	$ 9,886	$ 7,807
Net gains (losses) on fair value hedging relationships								
Interest rate swaps - securities								
Recognized on hedged items	$ (1,336)	$ —	$ 392	$ —	$ (925)	$ —	$ (533)	$ —
Recognized on derivatives designated as hedging instruments	1,443	—	(254)	—	1,071	—	817	—
Net income recognized on fair value	$ 107	$ —	$ 138	$ —	$ 146	$ —	$ 284	$ —

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's Company has an interest rate swap agreement with its derivative contracts contain credit risk-related contingent features designed to protect against significant deterioration in counterparties' creditworthiness and their ultimate ability to settle outstanding derivative contracts in the normal course of business. The Company's bilateral credit related contingent features generally require the owing entity, either counterparty that contains a provision 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, 2023, the Company had no derivatives in a net liability position related to this agreement. The Company has minimum collateral posting thresholds with its derivative counterparty and has posted collateral of securities with par values totaling $55.8 million and cash of $790,000 to post collateral for secure the portion of the fair value in excess of $50.0 million should the fair value of outstanding derivatives per counterparty be greater than $50.0 million interest rate swap agreement at September 30, 2023. Additionally, a In certain level of decline in credit rating of either cases, the Company will have posted excess collateral compared to total exposure due to initial margin requirements or the counterparty could also trigger collateral requirements. day-to-day rate volatility.

As of June September 30, 2023, the Company was in compliance with all credit risk-related contingent features and had derivative instruments with credit risk-related contingent features in a net liability position of $351,000. Accordingly, the Company posted collateral in the form of restricted cash of $2.2 million as a result of these contingent features. Given the considerations described above, the Company considers the impact of the risk of counterparty default to be immaterial.

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:

- the risks associated with lending and potential adverse changes in the credit quality of loans in our portfolio;
- legislative or regulatory changes, including expanded consumer protection regulation, responses to recent events in the banking industry, inflation and climate change issues, which could adversely affect the Company's business;
- a continued decrease in the depressed market demand for loans that we originate for sale;
- 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 efforts to achieve loan and revenue growth;
- our ability to successfully execute on merger and/or acquisition strategies, integrate any newly acquired assets, liabilities, customers, systems, and management personnel into our operations and realize related cost savings within expected time frames;
- 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;
- changes in monetary policy 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;
- pressures on liquidity, including as a result of withdrawals of 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;
- 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 the Washington State Department of Financial Institutions, Department of Banks, the Federal Deposit Insurance Corporation, Federal Reserve Bank of San Francisco, or other regulatory authorities, which could result in restrictions that may adversely affect our liquidity and earnings;
- 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 a rising interest rate environment, inflationary pressures, and geopolitical instability, including the war wars in Ukraine; Ukraine and the Middle East;
- any failure of key third-party vendors to perform their obligations to us;
- 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 Annual Report on Form 10-K for the year ended December 31, 2022, ("2022 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% 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 has also entered into partnerships to strategically invest in fintech-related businesses, which may result in the development of additional investment opportunities.

First Fed Bank is a community-oriented financial institution founded in 1923 in Port Angeles, Washington. We have 16 locations including 12 full-service branches and four business centers in Clallam, Jefferson, King, Kitsap, and Whatcom counties. First Fed's business and operating strategy is focused on building sustainable earnings by delivering a fully array of financial products and services for individuals, small business, and commercial customers. 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") for individuals and businesses. Deposits are our primary source of funding for our lending and investing activities.

First Northwest's limited partnership investments include Canapi Ventures Fund, 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% 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 Meriwether Group Capital Hero Fund LP ("Hero Fund"). The Hero Fund is a private commercial lender focused on lower-middle market businesses, primarily in the Pacific Northwest. MWG also holds a 20% interest in MWGC. In addition, First Northwest also has a limited partnership investment in the Hero Fund. MWG also holds a 20% general partner interest in MWGC.

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, investment services income, 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 portfolio and unfunded commitment portfolios through the ACL. A recapture of previously recognized provision for credit losses may be added to net income as the underlying assumptions driving anticipated loss rates within the CECL model improve, such as the United States unemployment and gross domestic product metrics, lower loan or unfunded commitment balances, or receipt of recoveries for amounts previously charged off.

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

Critical Accounting Policies

On January 1, 2023, the Company adopted ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, referred to as the Current Expected Credit Loss or CECL model. In conjunction with the adoption of CECL, the Company also adopted ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. For additional information on these ASUs, see "Note 1 - Basis of Presentation and Critical Accounting Policies - Recently adopted accounting pronouncements" of the Notes to the Consolidated Financial Statements included in Part I. Item 1 of this report.

Effective with the execution of a hedging agreement in the first quarter of 2023, the Company implemented an accounting policy on derivatives and hedging. For additional information on the hedging policy, see "Note 1 - Basis of Presentation and Critical Accounting Policies - Recently adopted accounting pronouncements" of the Notes to the Consolidated Financial Statements included in Part I. Item 1 of this report.

There were no other material changes to the critical accounting policies from those disclosed in the Company's 2022 Form 10-K.

Comparison of Financial Condition at June 30, 2023 September 30, 2023 and December 31, 2022

Assets. Total assets increased to $2.16 billion $2.15 billion, or 5.9% 5.5%, at June 30, 2023 September 30, 2023, from $2.04 billion at December 31, 2022.

Cash and cash equivalents increased by $32.7 million $38.3 million, or 71.7% 84.0%, to $78.3 million $83.9 million as of June 30, 2023 September 30, 2023, compared to $45.6 million as of December 31, 2022. Cash increased during the current year as the Bank increased balance sheet liquidity in response to stresses within the banking industry and related concerns with respect to liquidity uncertainty pertaining to deposit costs and uncertainty around deposit retention.

Investment securities decreased $4.6 million $17.3 million, or 1.4% 5.3%, to $322.0 million $309.3 million at June 30, 2023 September 30, 2023, from $326.6 million at December 31, 2022. Normal The decrease was due to normal payments and prepayment activity were partially offset by as well as a mark-to-market valuation increase decrease of $639,000 $7.7 million, primarily related to an improved a declining market outlook on the municipal bond portfolio. portfolio due to the current rate environment. The investment portfolio, including mortgage-backed securities, had an estimated projected average life of 7.8 7.7 years as of June 30, 2023 September 30, 2023, compared to 8.2 years as of December 31, 2022, and had an estimated average repricing term of 7.0 7.3 years as of June 30, 2023 September 30, 2023, compared to 7.1 years as of December 31, 2022, based on the interest rate environment at those times. The effective duration of the investment portfolio was 5.2 4.9 years at June 30, 2023 September 30, 2023, compared to 5.1 years at December 31, 2022. We believe prepayment activity may continue to slow if interest rates continue to rise, extending the projected duration and causing additional deterioration to the market value of our securities portfolio.

Included in MBS non-agency are $58.7 million of commercial mortgage-backed securities ("CMBS"), of which 85.6%, or $50.2 million, are in "A" tranches. The majority of the remaining 14.4%, or $8.5 million, are in "B" tranches, with one investment in a "C" tranche. Our largest exposure is to long-term care facilities, which makes up 53.9%, or $31.7 million, of our private label CMBS securities. All of the CMBS bonds have credit enhancements that further reduce risk of loss on these investments.

The investment portfolio was composed of 49.9% 49.0% in amortizing securities at June 30, 2023 September 30, 2023, compared to 50.8% at December 31, 2022. The projected average life of our securities may vary due to prepayment activity, which, particularly in the mortgage-backed securities portfolio, which is impacted by prevailing mortgage market interest rates. The Company maintains a focus on enhancing the mix of earning assets by increasing loans as a percentage of earning assets; however, we may continue to purchase investment securities as a source of additional interest income. Securities are bought and sold to provide manage liquidity, improve long-term portfolio yields and manage interest rate risk in the portfolio. For additional information, see Note 2 of the Notes to Consolidated Financial Statements contained in Item 1 of this Form 10-Q.

Net loans, excluding loans held for sale, increased $89.4 million $86.6 million to $1.62 billion at June 30, 2023 September 30, 2023, from $1.53 billion at December 31, 2022. During the six nine months ended June 30, 2023 September 30, 2023, commercial business multi-family loans increased $53.2 million, $72.8 million through new originations totaling $40.1 million, and $27.8 million of construction loans converting into permanent amortizing loans, including $17.8 million of acquisition-renovation loans. One-to-four family residential loans increased $26.4 million as a result of $3.3 million in new amortizing loan originations and $48.0 million of residential construction loans that converted to permanent amortizing loans, partially offset by loan prepayments totaling $17.5 million and $7.4 million of scheduled payments received. Commercial business loans increased $24.5 million as a $23.9 million funding to the Northpointe Mortgage Purchase Program ("Northpointe MPP"), result of $15.2 million of Bankers Healthcare Group loan purchases and $14.1 $9.2 million of organic originations and draws on existing commitments in excess of payoffs and scheduled payments. Multi-family Home equity loans increased $43.8 million through new originations totaling $19.1 million, and $32.7 million of construction loans converting into permanent amortizing loans, including $12.4 million of acquisition-renovation loans. One-to-four family residential loans increased $22.0 million during the first six months of 2023 $11.6 million primarily as a result of $3.3 $5.7 million in new amortizing loan fixed-rate originations and $38.9 $7.7 million in new home equity lines of residential construction loans that converted to permanent amortizing loans, partially credit, offset by loan payoffs totaling $13.7 million and $7.7 million of scheduled payments received. payment activity. Auto and other consumer loans increased $15.0 million $9.9 million, due to a $14.3 million purchase of a pool of manufactured home loans $1.6 million and $2.8 million in individual manufactured home loan purchases, and offset by a net increase decrease in auto loans of $1.5 million, offset by payment activity. Home equity loans increased $6.0 million as a result of $3.7 million in new fixed-rate originations $1.3 million and $3.8 million in new home equity lines of credit, offset by payment activity. Commercial real estate loans decreased $12.9 million $7.3 million, with early payoffs and scheduled payments in excess of the $4.3 million from construction loans that converted into permanent amortizing loans.

Construction and land loans decreased $36.6 million $50.2 million, or 18.9% 25.9%, to $157.1 million $143.4 million at June 30, 2023 September 30, 2023, from $193.7 million at December 31, 2022, with $76.0 $77.6 million converting into fully amortizing loans and additional decreases from loans being paid in full, partially offset by draws on new and existing loans. Construction loans in the portfolio are geographically dispersed throughout western Washington with two loans in Oregon and two loans in Idaho. We manage construction lending by utilizing a licensed third-party vendor to assist us in monitoring the progress toward completion of our construction projects. We continue to monitor the impact of supply chain challenges, inflation and consumer demand in a rising interest rate environment on completion of the projects currently in 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 June 30, 2023 September 30, 2023, no acquisition-renovation loans of $7.3 million were included in the construction loan total compared to $19.3 million at December 31, 2022. These commercial acquisition-renovation loans represent financing primarily for the acquisition of multi-family properties with a construction component used for the renovation of common areas and specific units of the building. Given the construction component of these loans, we are required to report them as construction under regulatory guidelines; however, we consider these loans to be lower risk than typical ground-up construction projects. At June 30, 2023 September 30, 2023, 40% 42% of construction commitments were for one-to-four family residential properties, which are anticipated to convert into amortizing loans upon completion.

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:

June 30, 2023	North Olympic Peninsula (1)	Puget Sound Region (2)	Other Washington	Oregon	Idaho	Total
	(In thousands)					
Construction Commitment						
One-to-four family residential	$ 21,899	$ 60,701	$ 7,774	$ 540	$ —	$ 90,914
Multi-family residential	—	85,563	9,130	415	3,592	98,700
Commercial acquisition-renovation	—	7,861	—	—	—	7,861
Commercial real estate	503	31,341	—	—	—	31,844
Total commitment	$ 22,402	$ 185,466	$ 16,904	$ 955	$ 3,592	$ 229,319
Construction Funds Disbursed						
One-to-four family residential	$ 11,788	$ 31,639	$ 3,480	$ 170	$ —	$ 47,077
Multi-family residential	—	64,795	5,436	85	3,071	73,387
Commercial acquisition-renovation	—	7,285	—	—	—	7,285
Commercial real estate	454	21,707	—	—	—	22,161
Total disbursed	$ 12,242	$ 125,426	$ 8,916	$ 255	$ 3,071	$ 149,910
Undisbursed Commitment						
One-to-four family residential	$ 10,111	$ 29,062	$ 4,294	$ 370	$ —	$ 43,837
Multi-family residential	—	20,768	3,694	330	521	25,313
Commercial acquisition-renovation	—	576	—	—	—	576
Commercial real estate	49	9,634	—	—	—	9,683
Total undisbursed	$ 10,160	$ 60,040	$ 7,988	$ 700	$ 521	$ 79,409
Land Funds Disbursed						
One-to-four family residential	$ 3,650	$ 3,201	$ 412	$ —	$ —	$ 7,263
Commercial real estate	—	355	—	—	—	355
Total disbursed for land	$ 3,650	$ 3,556	$ 412	$ —	$ —	$ 7,618

September 30, 2023	North Olympic Peninsula (1)	Puget Sound Region (2)	Other Washington	Oregon	Idaho	Total
	(In thousands)					
Construction Commitment						
One-to-four family residential	$ 14,635	$ 60,461	$ 7,577	$ 540	$ —	$ 83,213
Multi-family residential	—	76,905	9,221	415	3,592	90,133
Commercial real estate	—	24,238	—	—	—	24,238
Total commitment	$ 14,635	$ 161,604	$ 16,798	$ 955	$ 3,592	$ 197,584
Construction Funds Disbursed						
One-to-four family residential	$ 6,277	$ 36,418	$ 4,866	$ 173	$ —	$ 47,734
Multi-family residential	—	60,643	5,679	85	3,334	69,741
Commercial real estate	—	19,498	—	—	—	19,498
Total disbursed	$ 6,277	$ 116,559	$ 10,545	$ 258	$ 3,334	$ 136,973
Undisbursed Commitment						
One-to-four family residential	$ 8,358	$ 24,043	$ 2,711	$ 367	$ —	$ 35,479
Multi-family residential	—	16,262	3,542	330	258	20,392
Commercial real estate	—	4,740	—	—	—	4,740
Total undisbursed	$ 8,358	$ 45,045	$ 6,253	$ 697	$ 258	$ 60,611
Land Funds Disbursed						
One-to-four family residential	$ 3,639	$ 3,033	$ 274	$ —	$ —	$ 6,946
Total disbursed for land	$ 3,639	$ 3,033	$ 274	$ —	$ —	$ 6,946

(1) Includes Clallam and Jefferson counties.

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

December 31, 2022	North Olympic Peninsula (1)	Puget Sound Region (2)	Other Washington	Oregon	Idaho	Total
	(In thousands)					
Construction Commitment						
One-to-four family residential	$ 39,031	$ 75,745	$ 12,015	$ —	$ —	$ 126,79
Multi-family residential	—	102,429	9,296	415	3,592	115,73
Commercial acquisition-renovation	1,636	18,625	—	—	—	20,26

Commercial real estate	349	39,845	—	540	—	40,734
Total commitment	$ 41,016	$ 236,644	$ 21,311	$ 955	$ 3,592	$ 303,518
Construction Funds Disbursed						
One-to-four family residential	$ 17,557	$ 36,902	$ 4,280	$ —	$ —	$ 58,739
Multi-family residential	—	68,936	5,296	42	2,752	77,026
Commercial acquisition-renovation	1,636	17,687	—	—	—	19,323
Commercial real estate	212	27,492	—	12	—	27,716
Total disbursed	$ 19,405	$ 151,017	$ 9,576	$ 54	$ 2,752	$ 182,804
Undisbursed Commitment						
One-to-four family residential	$ 21,474	$ 38,843	$ 7,735	$ —	$ —	$ 68,052
Multi-family residential	—	33,493	4,000	373	840	38,706
Commercial acquisition-renovation	—	938	—	—	—	938
Commercial real estate	137	12,353	—	528	—	13,018
Total undisbursed	$ 21,611	$ 85,627	$ 11,735	$ 901	$ 840	$ 120,714
Land Funds Disbursed						
One-to-four family residential	$ 3,552	$ 3,370	$ 419	$ —	$ —	$ 7,341
Commercial real estate	372	4,129	—	—	—	4,501
Total disbursed for land	$ 3,924	$ 7,499	$ 419	$ —	$ —	$ 11,842

(1) Includes Clallam and Jefferson counties.

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

During the six nine months ended June 30, 2023 September 30, 2023, the Company originated $106.0 million $171.5 million of organic loans, of which $74.4 million $122.8 million, or 70.2% 71.6%, were originated in the Puget Sound region, $26.4 million $42.2 million, or 24.9% 24.5%, in the North Olympic Peninsula, $1.8 million $3.0 million, or 1.7% 1.8%, in other areas throughout Washington State, and $3.4 million $3.5 million, or 3.2% 2.1%, in other states. The Company purchased an additional $22.7 million $33.2 million in auto loans, $15.9 million $17.1 million in manufactured home loans, and $15.2 million in commercial business loans with collateral located throughout the United States during the six nine months ended June 30, 2023 September 30, 2023. 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 Mortgage Purchase Program ("Northpointe MPP") also provides a temporary source of additional interest income but is dependent on demand for funding, with repayment of advances to this program typically occurring within 30 days or less. The total loan portfolio was composed of 79.1% organic originations and 20.9% purchased loans at June 30, 2023 September 30, 2023.

The ACLL increased to $17.3 million $17.0 million at June 30, 2023 September 30, 2023, as the Company adopted CECL on January 1, 2023, recording a day-one adjusting entry of $2.2 million that was increased by . The Company made a $315,000 provision for credit loss on loans for the six-month nine-month period. Net charge-offs were $1.3 million $2.5 million for the six-month nine-month period. The ACLL as a percentage of total loans was 1.0% and 1.1% at both June 30, 2023 September 30, 2023 and December 31, 2022. , respectively.

Nonperforming loans increased $761,000, $581,000, or 42.4% 32.4%, to $2.6 million $2.4 million at June 30, 2023 September 30, 2023, from $1.8 million at December 31, 2022, reflecting the deterioration of three mortgage loans totaling $826,000, $836,000, partially offset by payments received on other nonperforming loans. Nonperforming loans to total loans was 0.2% 0.1% at June 30, 2023, up from 0.1% at both September 30, 2023 and December 31, 2022. The ACLL as a percentage of nonperforming loans decreased to 677% 714% at June 30, 2023 September 30, 2023, down from 900% at December 31, 2022.

Classified loans increased $5.8 million $6.1 million to $22.7 million $23.0 million at June 30, 2023 September 30, 2023, from $16.9 million at December 31, 2022, due to downgrades of a $2.5 million $2.9 million in commercial business loan, a loans, $1.3 million in commercial real estate loan, $873,000 loans, $1.1 million of additional funds disbursed on a substandard commercial construction loan, $816,000 $862,000 for two three single-family residential loans, along with delinquent unsecured consumer loans totaling $321,000 $323,000 and purchased manufactured home equity loans totaling $149,000. $141,000.

Loan charge-offs are concentrated mainly in purchased unsecured consumer and indirect auto loans. Efforts to minimize future losses include adjusting the The underwriting criteria for future loans purchased from the Splash unsecured consumer loan program which were adjusted in an effort to minimize future losses. The Splash portfolio had loan balances of $10.0 million $8.7 million and $9.2 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. The indirect auto loan program was discontinued in 2020, and the remaining loan balances under that program decreased to $3.2 $2.6 million at June 30, 2023 September 30, 2023 from $4.8 million at December 31, 2022. We believe the ACLL is adequate to absorb the known and inherent risks of loss in the overall loan portfolio as of June 30, 2023 September 30, 2023.

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

			Increase (Decrease)				Increase (Decrease)	
	June 30, 2023	December 31, 2022	Amount	Percent	September 30, 2023	December 31, 2022	Amount	Percent
	(In thousands)				(In thousands)			
Real Estate:								
One-to-four family	$ 365,600	$ 343,559	$ 22,041	6.4 %	$ 369,950	$ 343,559	$ 26,391	7.7 %
Multi-family	296,561	252,745	43,816	17.3	325,496	252,745	72,751	28.8
Commercial real estate	375,961	388,884	(12,923)	(3.3)	381,508	388,884	(7,376)	(1.9)
Construction and land	157,060	193,646	(36,586)	(18.9)	143,434	193,646	(50,212)	(25.9)
Total real estate loans	1,195,182	1,178,834	16,348	1.4	1,220,388	1,178,834	41,554	3.5
Consumer:								
Home equity	58,895	52,877	6,018	11.4	64,424	52,877	11,547	21.8
Auto and other consumer	253,950	238,913	15,037	6.3	248,786	238,913	9,873	4.1
Total consumer loans	312,845	291,790	21,055	7.2	313,210	291,790	21,420	7.3
Commercial business loans	130,133	76,927	53,206	69.2	101,380	76,927	24,453	31.8
Total loans	1,638,160	1,547,551	90,609	5.9	1,634,978	1,547,551	87,427	5.6
Less:								
Allowance for credit losses on loans	17,297	16,116	1,181	7.3	16,945	16,116	829	5.1
Loans receivable, net	$ 1,620,863	$ 1,531,435	$ 89,428	5.8	$ 1,618,033	$ 1,531,435	$ 86,598	5.7

The following table represents nonperforming assets at the dates indicated.

			Increase (Decrease)				Increase (Decrease)	
	June 30, 2023	December 31, 2022	Amount	Percent	September 30, 2023	December 31, 2022	Amount	Percent
	(In thousands)				(In thousands)			
Nonperforming loans:								
Real estate loans:								
One-to-four family	$ 1,780	$ 954	$ 826	86.6%	$ 1,790	$ 954	$ 836	87.6%
Commercial real estate	41	53	(12)	(22.6)	34	53	(19)	(35.8)
Construction and land	12	15	(3)	(20.0)	8	15	(7)	(46.7)
Total real estate loans	1,833	1,022	811	79.4	1,832	1,022	810	79.3
Consumer loans:								
Home equity	245	196	49	25.0	166	196	(30)	(15.3)
Auto and other consumer	476	575	(99)	(17.2)	376	575	(199)	(34.6)
Total consumer loans	721	771	(50)	(6.5)	542	771	(229)	(29.7)
Total nonperforming assets	$ 2,554	$ 1,793	$ 761	42.4	$ 2,374	$ 1,793	$ 581	32.4
Nonaccrual and 90 days or more past due loans as a percentage of total loans	0.2%	0.1%	0.1%	100.0	0.1%	0.1%	0.0%	—

Liabilities. Total liabilities increased to $2.0 billion at June 30, 2023 September 30, 2023, from $1.88 billion at December 31, 2022, due to an increase in deposits of $88.9 million $93.5 million and borrowings of $18.0 million $15.0 million.

Deposit balances increased $88.9 million $93.5 million to $1.65 billion $1.66 billion at June 30, 2023 September 30, 2023 from $1.56 billion at December 31, 2022. During the six-month nine-month period ended June 30, 2023 September 30, 2023, CDs increased $177.4 million $198.0 million and savings accounts increased $59.4 million $52.3 million, offset by money market account decreases of $98.7 million $100.3 million and demand deposit account decreases of $49.1 million $56.5 million. We believe the shift between categories was driven by customers seeking higher rates and diversification of their deposit balances. spending excess savings accumulated in 2020 and 2021. 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. Brokered CDs totaling $179.6 million $169.6 million were included in the $559.0 million $579.7 million balance of CDs at June 30, 2023 September 30, 2023. Brokered CD balances increased $45.7 million $35.7 million, business and public fund account balances increased $35.1 million, $33.7 million, and consumer account balances increased $8.0 $23.4 million during the six-month nine-month period ended June 30, 2023 September 30, 2023.

FHLB advances increased $29.0 million, or 12.9% to $253.0 million at June 30, 2023 September 30, 2023, from $224.0 million at December 31, 2022. We increased short-term advances to provide additional balance sheet liquidity, fund loan growth and to keep the duration of liabilities shorter relative to taking on longer term advances.

Equity. Total shareholders' equity increased $1.3 million decreased $2.2 million to $159.6 million $156.1 million for the six nine months ended June 30, 2023 September 30, 2023. The Company recorded year-to-date net income of $5.3 million $7.8 million and a decrease $419,000 increase in the fair market value of derivatives, net of taxes. Increases were offset by an increase in the after-tax unrealized loss on available-for-sale investments of $725,000. Increases were partially offset by $5.8 million, a $3.0 million decrease for the cumulative CECL adjustment, $1.4 million $2.0 million of dividends paid, a $308,000 decrease in the fair market value of derivatives, net of taxes declared and the cost of repurchased shares. Year-to-date, we repurchased 74,617 75,690 shares of common stock under the October 2020 stock repurchase plan at an average price of $12.94 $12.91 per share for a total of $968,000, $980,000, leaving 227,410 226,337 shares remaining in the current share repurchase program. Bond values increased modestly from the end of 2022 as the economic outlook for rising long-term rates subsided.

Comparison of Results of Operations for the Three Months Ended June 30, 2023 September 30, 2023 and 2022

General. Net income attributable to the Company was $1.8 million for the three months ended June 30, 2023, compared to $2.5 million for the three months ended June 30, 2022 September 30, 2023, compared to $4.3 million for the three months ended September 30, 2022. A $1.1 million $2.9 million decrease in net interest income after provision for credit losses and a $511,000 decrease in noninterest income was offset by a $1.8 million $570,000 increase in noninterest income and a $1.0 million decrease in noninterest expense.

Net Interest Income. Net interest income decreased $1.3 million $3.3 million to $16.0 million $15.0 million for the three months ended June 30, 2023 September 30, 2023, from $17.2 million $18.2 million for the three months ended June 30, 2022 September 30, 2022. This decrease was mainly the result of higher rates paid on interest-bearing liabilities, which increased 184 187 basis points to 2.33% 2.60% for the three months ended June 30, 2023 September 30, 2023, compared to 0.49% 0.73% for the same period in the prior year. The decrease in net interest income This was also due to an increase in the average balances of CDs and advances and higher rates paid on all deposits and advances. The average yield on interest-earning assets increased 103 69 basis points to 5.17% 5.14% for the three months ended June 30, 2023 September 30, 2023, compared to 4.14% 4.45% for the same period last year, due primarily to higher yields on variable-rate assets and new loan fundings and an increase of net loans as a percentage of earning assets. originations.

Total cost of funds increased 159 164 basis points to 1.98% 2.23% for the three months ended June 30, 2023 September 30, 2023, from 0.39% 0.59% for the same period in 2022. The net interest margin decreased 52 91 basis points to 3.25% 2.97% for the three months ended June 30, 2023 September 30, 2023, from 3.77% 3.88% for the same period in 2022. While increases in the cost of funding are currently outpacing the growth of the yield on interest-earning assets, the Company has taken measures to combat reverse interest rate margin compression. The Bank augments organic loan production with higher yielding purchased loans through relationships with loan originators. We have also increased our focus on variable-rate lending and the Bank has entered into a A fair value hedging agreement. agreement provides additional interest income and new loan originations are priced to current market rates.

Interest Income. Total interest income increased $6.5 million $5.0 million, or 34.3% 23.9%, to $25.5 million $25.8 million for the three months ended June 30, 2023 September 30, 2023, from $19.0 million $20.9 million for the comparable period in 2022, primarily due to an increase in the average balances higher yields on interest-earning assets. Interest and fees on loans receivable increased $5.2 million $4.0 million, to $21.3 million $21.7 million for the three months ended June 30, 2023 September 30, 2023, from $16.1 million $17.8 million for the three months ended June 30, 2022 September 30, 2022, primarily due to an increase in average loan yields to 5.31% for the three months ended September 30, 2023, from 4.75% for the same period in 2022, coupled with an increase in the average balance of net loans receivable of $148.2 million $140.1 million compared to the second third quarter of 2022, coupled with an increase in average loan yields to 5.38% for the three months ended June 30, 2023, from 4.48% for the same period in 2022. The loan portfolio has grown through our renewed short-term participation in the Northpointe MPP, draws on new and existing business lines of credit, originations of multi-family real estate loans, and purchases of auto, manufactured home, and purchased Bankers Healthcare Group commercial loans. Loan yields have increased over the prior year due to higher rates on new originations as well as the repricing of variable rate loans tied to the Prime Rate or other indices. The yield earned on investment securities also increased 124 116 basis points to 4.09% 4.18% compared to the same period in 2022, as increases in floating bond rates and a slowdown in prepayment speeds, which reduces amortization of premium costs, have positively impacted investment securities income. The yield on interest-earning deposits in banks also increased to 5.18% 5.46% from 0.89% 2.72% for the comparable period in 2022, given benefitting from increases in rates paid on excess balances held at the FRB rate increases. FRB.

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

	Three Months Ended June 30,					Three Months Ended September 30,				
	2023		2022			2023		2022		
	Average Balance Outstanding	Yield	Average Balance Outstanding	Yield	Increase (Decrease) in Interest Income	Average Balance Outstanding	Yield	Average Balance Outstanding	Yield	Increase in Interest Income
	(Dollars in thousands)					(Dollars in thousands)				
Loans receivable, net	$ 1,587,948	5.38 %	$ 1,439,714	4.48 %	$ 5,218	$ 1,624,722	5.31 %	$ 1,484,615	4.75 %	$ 3,950
Investment securities	327,129	4.09	367,662	2.96	621	319,508	4.18	348,281	3.21	551
FHLB stock	12,515	7.11	8,190	5.83	103	11,922	7.12	9,269	6.08	72
Interest-earning deposits in banks	47,792	5.18	20,636	0.89	571	38,099	5.46	17,231	2.72	406
Total interest-earning assets	$ 1,975,384	5.17 %	$ 1,836,202	4.14 %	$ 6,513	$ 1,994,251	5.14 %	$ 1,859,396	4.45 %	$ 4,979

Interest Expense. Total interest expense increased $7.8 million $8.2 million, or 452.5% 310.6%, to $9.5 million $10.9 million for the three months ended June 30, 2023 September 30, 2023, compared to $1.7 million $2.7 million for the three months ended June 30, 2022 September 30, 2022. The increase over the second third quarter of 2022 was the result of an increase in the cost of deposits to 1.54% 1.85% from 0.20% 0.32% in same period one year ago along with higher volumes of CDs. A shift in the deposit mix from no or low-cost transaction and money market accounts to a higher volume of CDs and promotional savings accounts resulted in higher costs of deposits. Borrowing expense increased due to an average balance increase of $113.7 million $62.3 million and an increase in the cost of advances, primarily FHLB advances, compared to the same period in 2022.

Average deposit account balances were composed of 83% in interest-bearing deposits and 17% in noninterest-bearing deposits at June 30, 2023 September 30, 2023, compared to 78% and 22%, respectively, at June 30, 2022 September 30, 2022. During the three months ended June 30, 2023 September 30, 2023, interest expense increased on CDs due to an increase in the average balances of $274.0 million $292.7 million, along with an increase in the average rates paid of 77 89 basis points, compared to the three months ended June 30, 2022 September 30, 2022. During the same period, the average balances of money market accounts decreased $199.9 million $183.0 million, offset by a 64 72 basis point average rate increase, resulting in an increase to interest expense. The average cost of interest-bearing deposit accounts increased to 1.87% 2.22% for the three months ended June 30, 2023 September 30, 2023, from 0.26% 0.41% for the three months ended June 30, 2022 September 30, 2022, 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 customer deposit balances shifted from non-maturity accounts towards higher cost term certificate and savings products. Customer CDs represented 25.8% 27.6% and 12.3% 15.2% of customer deposits at June 30, 2023 September 30, 2023 and 2022, respectively.

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

	Three Months Ended June 30,					Three Months Ended September 30,				
	2023		2022			2023		2022		
	Average Balance Outstanding	Rate	Average Balance Outstanding	Rate	Increase (Decrease) in Interest Expense	Average Balance Outstanding	Rate	Average Balance Outstanding	Rate	Increase (Decrease) in Interest Expense
	(Dollars in thousands)					(Dollars in thousands)				
Transaction accounts	$ 178,696	0.45 %	$ 197,071	0.05 %	$ 176					
Interest-bearing demand deposits						$ 176,503	0.46 %	$ 190,542	0.03 %	$ 188
Money market accounts	384,269	0.99	584,162	0.22	621	373,408	1.22	556,434	0.33	678
Savings accounts	249,681	1.22	195,345	0.05	736	255,956	1.42	198,403	0.05	894
Certificates of deposit	521,297	3.31	247,310	0.68	3,880	571,867	3.77	279,169	1.06	4,688
Advances	262,861	4.41	149,145	1.42	2,362	244,859	4.52	182,554	2.18	1,786
Subordinated debt	39,384	4.01	39,294	4.03	(1)	39,403	3.97	39,326	3.98	(1)
Total interest-bearing liabilities	$ 1,636,188	2.33 %	$ 1,412,327	0.49 %	$ 7,774	$ 1,661,996	2.60 %	$ 1,446,428	0.73 %	$ 8,233

Provision for Credit Losses. The Company recorded a $300,000 $371,000 provision for credit losses in the three months ended June 30, 2023 September 30, 2023, reflecting growth in the loan portfolio and additional charge-offs from the Splash unsecured consumer loan program. program, partially offset by a recapture due to a lower unfunded commitment balance. This compares to a $500,000 $750,000 loan loss provision for the three months ended June 30, 2022 September 30, 2022, which was estimated using the incurred loss method based on historical loss trends combined with qualitative adjustments.

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

	Three Months Ended June 30,		Three Months Ended September 30,	
	2023	2022	2023	2022
	(Dollars in thousands)		(Dollars in thousands)	
Provision for credit losses on loans	$ 300	$ 500	$ 880	$ 782
Net (charge-offs) recoveries	(399)	120		
Net charge-offs			(1,232)	(224)
Allowance for credit losses on loans	17,297	15,747	16,945	16,273
Allowance for losses as a percentage of gross loans receivable at period end	1.1%	1.1%	1.0%	1.1%
Total nonaccrual loans	2,554	1,241	2,374	3,517
Allowance for credit losses on loans as a percentage of nonaccrual loans at period end	677.3%	1268.9%	713.8%	462.7%
Nonaccrual and 90 days or more past due loans as a percentage of total loans	0.2%	0.1%	0.1%	0.2%
Total loans	$ 1,638,160	$ 1,477,299	$ 1,634,978	$ 1,537,391

Noninterest Income. Noninterest income decreased $511,000, increased $570,000, or 23.0% 24.4%, to $1.7 million $2.9 million for the three months ended June 30, 2023 September 30, 2023, from $2.2 million $2.3 million for the three months ended June 30, 2022 September 30, 2022. The decrease increase was primarily due to a decline $750,000 reclassification from interest income to noninterest income recouped on Splash loan charge-offs, referral fee income of $219,000 and a quarter-over-quarter increase of $108,00 in the valuation of servicing rights of $183,000 related to the impact of paid-off loans. swap fee income. Saleable mortgage loan production continues to be hindered by the rise increase in market rates on mortgage loans and a lack of single-family home inventory compared to the same period in the prior year, year. In addition, during the current quarter, commercial loan late charge fee income declined $159,000, the valuation of servicing rights on sold loans decreased $129,000 and no loans were sold to the SBA, resulting in a combined quarter-over-quarter decrease in the net gain on sale of loans of $173,000. An increase of $260,000 in the recorded value of our equity and partnership fintech investments recorded in other income was offset by a $334,000 reduction in swap fee income. $114,000.

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

	Three Months Ended June 30,		Increase (Decrease)		Three Months Ended September 30,		Increase (Decrease)	
	2023	2022	Amount	Percent	2023	2022	Amount	Percent
		(Dollars in thousands)				(Dollars in thousands)		
Loan and deposit service fees	$ 1,064	$ 1,091	$ (27)	(2.5)%	$ 1,068	$ 1,302	$ (234)	(18.0)%
Sold loan servicing fees and servicing rights mark-to-market	(191)	27	(218)	(807.4)	98	206	(108)	(52.4)
Net gain on sale of loans	58	231	(173)	(74.9)	171	285	(114)	(40.0)
Net (loss) gain on sale of investment securities	—	(8)	8	(100.0)				
Increase in cash surrender value of bank-owned life insurance	190	213	(23)	(10.8)	252	221	31	14.0
Other income	590	668	(78)	(11.7)	1,315	320	995	310.9
Total noninterest income	$ 1,711	$ 2,222	$ (511)	(23.0)%	$ 2,904	$ 2,334	$ 570	24.4%

Noninterest Expense. Noninterest expense decreased $1.8 million $1.0 million, or 10.3% 6.5%, to $15.2 million $14.4 million for the three months ended June 30, 2023 September 30, 2023, compared to $17.0 million $15.4 million for the three months ended June 30, 2022 September 30, 2022. The reduced decrease in expenses compared to the second third quarter of 2022 reflects a $2.0 million $1.1 million decrease related to Quin Ventures compensation, advertising and customer acquisition costs, and occupancy expenses. Additional decreases in Bank commissions incentive compensation paid and other non-recurring compensation expense expenses were partially offset by higher Bank professional fees and FDIC insurance premiums. The Company continues to manage expenses, with a focus on further controlling compensation expenses and reducing compensation, occupancy, advertising travel and other discretionary spending.

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

	Three Months Ended June 30,		Increase (Decrease)		Three Months Ended September 30,		Increase (Decrease)	
	2023	2022	Amount	Percent	2023	2022	Amount	Percent
	(Dollars in thousands)				(Dollars in thousands)			
Compensation and benefits	$ 8,180	$ 9,735	$ (1,555)	(16.0)%	$ 7,795	$ 9,045	$ (1,250)	(13.8)%
Data processing	2,080	1,870	210	11.2	1,945	1,778	167	9.4
Occupancy and equipment	1,214	1,432	(218)	(15.2)	1,173	1,499	(326)	(21.7)
Supplies, postage, and telephone	435	408	27	6.6	292	322	(30)	(9.3)
Regulatory assessments and state taxes	424	441	(17)	(3.9)	446	365	81	22.2
Advertising	929	1,405	(476)	(33.9)	501	645	(144)	(22.3)
Professional fees	884	629	255	40.5	929	695	234	33.7
FDIC insurance premium	313	211	102	48.3	369	219	150	68.5
Other expense	758	832	(74)	(8.9)	926	807	119	14.7
Total noninterest expense	$ 15,217	$ 16,963	$ (1,746)	(10.3)%	$ 14,376	$ 15,375	$ (999)	(6.5)%

Provision for Income Tax. An income tax expense of $475,000 $603,000 was recorded for the three months ended June 30, 2023 September 30, 2023, compared to $467,000 $818,000 for the three months ended June 30, 2022 September 30, 2022, due to a year-over-year increase decrease in income before taxes of $174,000. $1.3 million. The provision includes accruals for both federal and state income taxes. The provision for state income tax began in the second quarter of 2022 with respect to certain states in which we have employees and collateral for loans, thereby creating nexus in those states for income tax purposes. For additional information, see Note 7 of the Notes to Consolidated Financial Statements contained in Item 1 of this Form 10-Q.

Comparison of Results of Operations for the Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022

General. Net income attributable to the Company was $5.3 million $7.81 million for the six nine months ended June 30, 2023 September 30, 2023, compared to $5.29 million $9.59 million for the six nine months ended June 30, 2022 September 30, 2022. A $258,000 increase $2.6 million decrease in net interest income after provision for credit losses and a $1.7 million decrease in noninterest expense were offset by a $580,000 decrease in noninterest income and a $1.1 million $1.8 million decrease in the net loss attributable to the noncontrolling interest in Quin Ventures. Ventures were offset by a $2.7 million decrease in noninterest expense. Noninterest income was flat period over period.

Net Interest Income. Net interest income decreased $442,000 $3.7 million to $32.3 million $47.2 million for the six nine months ended June 30, 2023 September 30, 2023, from $32.7 million $50.9 million for the six nine months ended June 30, 2022 September 30, 2022, as higher weighted-average funding costs outpaced increased loan, investment and investment interest-earning deposit income.

Average earning assets increased $135.4 million $135.2 million year-over-year. The yield on average interest-earning assets increased 106 93 basis points to 5.06% 5.09% for the six nine months ended June 30, 2023 September 30, 2023, compared to 4.00% 4.16% 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. securities and interest-earning deposit accounts.

The average cost of interest-bearing liabilities increased to 2.08% 2.26% for the six nine months ended June 30, 2023 September 30, 2023, compared to 0.46% 0.55% 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 and FHLB advances. Total cost of funds increased 139 148 basis points to 1.76% 1.92% for the six nine months ended June 30, 2023 September 30, 2023, from 0.37% 0.44% for the same period in 2022. The net interest margin decreased 30 51 basis points to 3.35% 3.22% for the six nine months ended June 30, 2023 September 30, 2023, from 3.65% 3.73% for the same period in 2022.

Interest Income. Total interest income increased $12.9 million $17.9 million, or 36.0% 31.5%, to $48.8 million $74.6 million for the six nine months ended June 30, 2023 September 30, 2023, from $35.9 million $56.7 million for the comparable period in 2022, 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 $10.2 million $14.1 million, to $40.8 million $62.5 million for the six nine months ended

June 30, 2023 September 30, 2023, from $30.6 million $48.4 million for the six nine months ended June 30, 2022 September 30, 2022, primarily due to an increase in the average balance of net loans receivable of $176.0 million $163.9 million compared to the prior year, coupled with an increase in average loan yields to 5.27% 5.28% for the six nine months ended June 30, 2023 September 30, 2023, from 4.46% 4.56% for the same period in 2022. The loan portfolio saw increases in multi-family and commercial real estate lending, balances, renewed short-term participation in Northpointe MPP, as well as additional purchased auto, manufactured home, and Bankers Healthcare Group commercial loans. Loan yields increased over the prior year due to higher rates on new originations as well as the repricing of variable rate loans tied to the Prime Rate or other variable-rate indices. The yield earned on investment securities also increased 116 basis points to 4.01% 4.07% compared to the same period in 2022, as the purchase of higher-yielding investments occurred late in the first quarter of 2022 with the related increase only impacting income for the second quarter and third quarters of 2022. 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:

	Six Months Ended June 30, 2023 Average Balance Outstanding	Six Months Ended June 30, 2023 Yield	Six Months Ended June 30, 2022 Average Balance Outstanding	Six Months Ended June 30, 2022 Yield	Increase (Decrease) in Interest Income	Nine Months Ended September 30, 2023 Average Balance Outstanding	Nine Months Ended September 30, 2023 Yield	Nine Months Ended September 30, 2022 Average Balance Outstanding	Nine Months Ended September 30, 2022 Yield	Increase in Interest Income
	(Dollars in thousands)					(Dollars in thousands)				
Loans receivable, net	$ 1,561,278	5.27 %	$ 1,385,248	4.46 %	$ 10,186	$ 1,582,658	5.28 %	$ 1,418,734	4.56 %	$ 14,136
Investment securities	327,743	4.01	363,572	2.77	1,528	324,968	4.07	358,419	2.91	2,079
FHLB stock	11,849	7.05	6,758	5.10	243	11,873	7.07	7,605	5.50	315
Interest-earning deposits in banks	41,640	4.94	51,537	0.33	937	40,447	5.11	39,976	0.68	1,343
Total interest-earning assets	$ 1,942,510	5.06 %	$ 1,807,115	4.00 %	$ 12,894	$ 1,959,946	5.09 %	$ 1,824,734	4.16 %	$ 17,873

Interest Expense. Total interest expense increased $13.3 million $21.6 million, or 425.7% 372.9%, to $16.5 million $27.4 million for the six nine months ended June 30, 2023 September 30, 2023, compared to $3.1 million $5.8 million for the six nine months ended June 30, 2022 September 30, 2022. The increase over the first six nine months of 2022 was the result of a 113 127 basis point increase in the cost of deposits from 0.20% 0.24% one year prior along with a higher volume of CD balances. A shift in the deposit mix from no or low-cost transaction and money market accounts to a higher volume of CDs and savings accounts resulted in higher costs of funds on deposits. Interest expense on borrowings increased due to a $113.7 million $62.3 million increase in the average balance and a 299 234 basis point increase in the cost of advances, primarily FHLB advances, compared to the same period in 2022.

During the six nine months ended June 30, 2023 September 30, 2023, interest expense on CDs increased due to higher average balances of $239.7 million $257.5 million, along with a 238 251 basis point increase in the average rates paid, compared to the six nine months ended June 30, 2022 September 30, 2022. During the same period, the average balances of money market accounts decreased $176.9 million $179.0 million, with a 64 72 basis point average rate increase, resulting in an overall increase to interest expense. The average cost of interest-bearing deposit accounts increased to 1.62% 1.83% for the six nine months ended June 30, 2023 September 30, 2023, from 0.25% 0.30% for the six nine months ended June 30, 2022 September 30, 2022, due to the use of promotional products designed to retain existing deposits and generate new deposits. The mix of customer deposit balances shifted from non-maturity accounts towards higher cost CD and savings products. Brokered Customer CDs represented 10.9% 27.7% and 5.4% 14.0% of total deposits at June 30, 2023 September 30, 2023 and 2022, respectively. Brokered CDs represented 10.2% and 8.1% of total deposits at September 30, 2023 and 2022, respectively.

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

	Six Months Ended June 30, 2023 Average Balance Outstanding	Six Months Ended June 30, 2023 Rate	Six Months Ended June 30, 2022 Average Balance Outstanding	Six Months Ended June 30, 2022 Rate	Increase (Decrease) in Interest Expense	Nine Months Ended September 30, 2023 Average Balance Outstanding	Nine Months Ended September 30, 2023 Rate	Nine Months Ended September 30, 2022 Average Balance Outstanding	Nine Months Ended September 30, 2022 Rate	Increase in Interest Expense
	(Dollars in thousands)					(Dollars in thousands)				
Transaction accounts	$ 182,968	0.44 %	$ 196,615	0.04 %	$ 353					
Interest-bearing demand deposits						$ 180,789	0.44 %	$ 194,568	0.04 %	$ 541
Money market accounts	409,025	0.85	585,974	0.21	1,099	397,023	0.97	576,019	0.25	1,777

Savings accounts	234,607	0.98	195,034	0.05	1,086	241,802	1.14	196,170	0.05	1,980
Certificates of deposit	484,711	3.04	244,989	0.66	6,511	514,082	3.31	256,508	0.80	11,199
Advances	247,610	4.17	116,062	1.44	4,287	246,683	4.29	138,470	1.77	6,072
Subordinated debt	39,374	4.04	39,288	4.05	—	39,384	4.02	39,301	4.02	—
Total interest-bearing liabilities	$ 1,598,295	2.08 %	$ 1,377,962	0.46 %	$ 13,336	$ 1,619,763	2.26 %	$ 1,401,036	0.55 %	$ 21,569

Provision for Credit Losses. The Company recorded a $200,000 recapture of $171,000 provision for credit losses for the six nine months ended June 30, 2023 September 30, 2023, reflecting year-to-date increases in loan balances offset by a year-to-date decrease in unfunded commitments primarily due to construction loan disbursements, as well as improvements in the underlying assumptions driving anticipated loss rates within the CECL model adopted January 1, 2023. Specifically, the gross domestic product assumption metric improved since implementation at the beginning of 2023. disbursements. The recapture attributable to the decrease in unfunded commitments was partially offset by a provision expense related to higher outstanding loan balances from new funding and disbursements on prior commitments was partially offset by a recapture attributable to the decrease in unfunded commitments. Charged-off loan balances also contributed to the loan-related provision. This compares to a $500,000 $1.3 million loan loss provision for the six nine months ended June 30, 2022 September 30, 2022, which was estimated using the incurred loss method based on historical loss trends combined with qualitative adjustments.

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

	Six Months Ended June 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Dollars in thousands)		(Dollars in thousands)	
Provision for credit losses on loans	$ 315	$ 500	$ 1,195	$ 1,321
Net (charge-offs) recoveries	(1,343)	123		
Net charge-offs			(2,575)	(101)
Allowance for credit losses on loans	17,297	15,747	16,945	16,273
Allowance for losses as a percentage of total gross loans receivable at period end	1.1%	1.1%	1.0%	1.1%
Total nonaccrual loans	2,554	1,241	2,374	3,517
Allowance for credit losses on loans as a percentage of nonaccrual loans at period end	677.3%	1268.9%	713.8%	462.7%
Nonaccrual and 90 days or more past due loans as a percentage of total loans	0.2%	0.1%	0.1%	0.2%
Total loans	$ 1,638,160	$ 1,477,299	$ 1,634,978	$ 1,537,391

Noninterest Income. Noninterest income decreased $580,000, $10,000, or 12.5% 0.1%, to $4.1 million $6.95 million for the six nine months ended June 30, 2023 September 30, 2023, from $4.6 million $6.96 million for the six nine months ended June 30, 2022 September 30, 2022. Other income increased due to the $750,000 Splash payment reclassification and a year-over-year increase of $366,000 $271,000 in the recorded value of our equity and partnership fintech investments. Saleable mortgage loan production continues to be hindered by the rise in market rates on mortgage loans and a lack of single-family home inventory compared to the prior year resulting which, when combined with a significant decrease in SBA loan sale activity, resulted in a $250,000 $364,000 year-over-year decrease in net gain on sale of loans. A decline in the fair value of servicing rights compared to the same period in the prior year decreased that category by $212,000. No investment securities sales were recorded during the current year compared to sales in the same period of 2022 which generated $118,000 in 2022. gains.

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

	Six Months Ended June 30,		Increase (Decrease)		Nine Months Ended September 30,		Increase (Decrease)	
	2023	2022	Amount	Percent	2023	2022	Amount	Percent
	(Dollars in thousands)				(Dollars in thousands)			
Loan and deposit service fees	$ 2,205	$ 2,264	$ (59)	(2.6)%	$ 3,273	$ 3,566	$ (293)	(8.2)%
Sold loan servicing fees and servicing rights mark-to-market	302	459	(157)	(34.2)	400	665	(265)	(39.8)
Net gain on sale of loans	234	484	(250)	(51.7)	405	769	(364)	(47.3)
Net (loss) gain on sale of investment securities	—	118	(118)	(100.0)				

	Six Months 2023	Six Months 2022	Amount	Percent	Nine Months 2023	Nine Months 2022	Amount	Percent
Net gain on sale of investment securities					—	118	(118)	(100.0)
Increase in cash surrender value of bank-owned life insurance	416	465	(49)	(10.5)	668	686	(18)	(2.6)
Other income	888	835	53	6.3	2,203	1,155	1,048	90.7
Total noninterest income	$ 4,045	$ 4,625	$ (580)	(12.5)%	$ 6,949	$ 6,959	$ (10)	(0.1)%

Noninterest Expense. Noninterest expense decreased $1.7 million $2.7 million, or 5.4% 5.7%, to $30.1 million $44.5 million for the six nine months ended June 30, 2023 September 30, 2023, compared to $31.8 million $47.2 million for the six nine months ended June 30, 2022 September 30, 2022. Compensation Quin Ventures expenses decreased $3.6 million compared to the first nine months of 2022, mainly due to no Quin Ventures expense recorded for compensation, marketing and occupancy during the first nine months of 2023. Bank compensation and benefits was lower decreased due to lower commissions and incentives paid as well as a decrease in medical insurance and payroll tax expense and a reduction in workforce in the fourth quarter of 2022. expense. The Bank received a medical insurance premium refund of $436,000 in the first quarter of 2023 and transitioned to a self-insured medical plan in 2023. Payroll tax expense was reduced in 2023 by the recognition of a portion of the Employee Retention Credit received in March 2023. These decreases were partially offset by an increase increases in legal and fees, consulting fees, and FDIC insurance premiums. The increase over the six months ended June 30, 2022, also reflects increases in data processing expenses associated with building enhanced technological infrastructure. Quin Ventures expenses decreased $2.4 million compared to the same period in 2022, as a result of no Quin Ventures expense recorded for compensation, marketing, or professional fees during the first six months of 2023. infrastructure and FDIC insurance premiums.

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

	Six Months Ended June 30,		Increase (Decrease)		Nine Months Ended September 30,		Increase (Decrease)	
	2023	2022	Amount	Percent	2023	2022	Amount	Percent
	(Dollars in thousands)				(Dollars in thousands)			
Compensation and benefits	$ 16,017	$ 18,538	$ (2,521)	(13.6)%	$ 23,812	$ 27,583	$ (3,771)	(13.7)%
Data processing	4,118	3,642	476	13.1	6,063	5,420	643	11.9
Occupancy and equipment	2,423	2,599	(176)	(6.8)	3,596	4,098	(502)	(12.2)
Supplies, postage, and telephone	790	721	69	9.6	1,082	1,043	39	3.7
Regulatory assessments and state taxes	813	802	11	1.4	1,259	1,167	92	7.9
Advertising	1,970	2,157	(187)	(8.7)	2,471	2,802	(331)	(11.8)
Professional fees	1,690	1,188	502	42.3	2,619	1,883	736	39.1
FDIC insurance premium	570	434	136	31.3	939	653	286	43.8
Other expense	1,697	1,713	(16)	(0.9)	2,623	2,520	103	4.1
Total noninterest expense	$ 30,088	$ 31,794	$ (1,706)	(5.4)%	$ 44,464	$ 47,169	$ (2,705)	(5.7)%

Provision for Income Tax. An income tax expense of $1.3 million $1.9 million was recorded for the six nine months ended June 30, 2023 September 30, 2023, compared to $1.0 million $1.8 million for the six nine months ended June 30, 2022 September 30, 2022, due to a year-over-year increase in income before taxes of $1.4 million. $78,000. The year-over-year provision was also impacted by a higher tax-exempt interest exclusion in 2023 due to a larger interest expense disallowance that impacted the effective tax rate. The provision includes accruals for both federal and state income taxes. The provision for state income tax began in the second quarter of 2022 with respect to certain states in which we have employees and collateral for loans, thereby creating nexus in those states for income tax purposes. For additional information, see Note 7 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 June 30, 2023 September 30, 2023 and 2022. 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 June 30,				Three Months Ended September 30,			
2023		2022		2023		2022	
Average	Interest	Average	Interest	Average	Interest	Average	Interest

	Balance Outstanding	Earned/ Paid	Yield/ Rate	Balance Outstanding	Earned/ Paid	Yield/ Rate	Balance Outstanding	Earned/ Paid	Yield/ Rate	Balance Outstanding	Earned/ Paid	Yield/ Rate
	(Dollars in thousands)						(Dollars in thousands)					
Interest-earning assets:												
Loans receivable, net (1)	$ 1,587,948	$ 21,299	5.38 %	$ 1,439,714	$ 16,081	4.48 %	$ 1,624,722	$ 21,728	5.31 %	$ 1,484,615	$ 17,778	4.75 %
Investment securities	327,129	3,336	4.09	367,662	2,715	2.96	319,508	3,368	4.18	348,281	2,817	3.21
FHLB dividends	12,515	222	7.11	8,190	119	5.83	11,922	214	7.12	9,269	142	6.08
Interest-earning deposits in banks	47,792	617	5.18	20,636	46	0.89	38,099	524	5.46	17,231	118	2.72
Total interest-earning assets (2)	1,975,384	25,474	5.17	1,836,202	18,961	4.14	1,994,251	25,834	5.14	1,859,396	20,855	4.45
Noninterest-earning assets	142,630			127,463			145,483			137,369		
Total average assets	$ 2,118,014			$ 1,963,665			$ 2,139,734			$ 1,996,765		
Interest-bearing liabilities:												
Interest-bearing demand deposits	$ 178,696	$ 201	0.45	$ 197,071	$ 25	0.05	$ 176,503	$ 204	0.46	$ 190,542	$ 16	0.03
Money market accounts	384,269	944	0.99	584,162	323	0.22	373,408	1,146	1.22	556,434	468	0.33
Savings accounts	249,681	762	1.22	195,345	26	0.05	255,956	918	1.42	198,403	24	0.05
Certificates of deposit	521,297	4,302	3.31	247,310	422	0.68	571,867	5,431	3.77	279,169	743	1.06
Total interest-bearing deposits (3)	1,333,943	6,209	1.87	1,223,888	796	0.26	1,377,734	7,699	2.22	1,224,548	1,251	0.41
Advances	262,861	2,889	4.41	149,145	527	1.42	244,859	2,791	4.52	182,554	1,005	2.18
Subordinated debt	39,384	394	4.01	39,294	395	4.03	39,403	394	3.97	39,326	395	3.98
Total interest-bearing liabilities	1,636,188	9,492	2.33	1,412,327	1,718	0.49	1,661,996	10,884	2.60	1,446,428	2,651	0.73
Noninterest-bearing deposits (3)	282,514			344,827			276,294			342,944		
Other noninterest-bearing liabilities	37,925			32,927			40,450			39,129		
Total average liabilities	1,956,627			1,790,081			1,978,740			1,828,501		
Average equity	161,387			173,584			160,994			168,264		
Total average liabilities and equity	$ 2,118,014			$ 1,963,665			$ 2,139,734			$ 1,996,765		
Net interest income		$ 15,982			$ 17,243			$ 14,950			$ 18,204	
Net interest rate spread			2.84			3.65			2.54			3.72
Net earning assets	$ 339,196			$ 423,875			$ 332,255			$ 412,968		

Net interest margin (4)	3.25	3.77	2.97	3.88
Average interest-earning assets to average interest-bearing liabilities	120.7 %	130.0 %	120.0 %	128.6 %

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

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

(3) Cost of all deposits, including noninterest-bearing demand deposits, was 1.54% 1.85% and 0.20% 0.32% for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively.

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

	Six Months Ended June 30,						Nine Months Ended September 30,					
	2023			2022			2023			2022		
	Average Balance Outstanding	Interest Earned/ Paid	Yield/ Rate	Average Balance Outstanding	Interest Earned/ Paid	Yield/ Rate	Average Balance Outstanding	Interest Earned/ Paid	Yield/ Rate	Average Balance Outstanding	Interest Earned/ Paid	Yield/ Rate
	(Dollars in thousands)						(Dollars in thousands)					
Interest-earning assets:												
Loans receivable, net (1)	$ 1,561,278	$ 40,803	5.27 %	$ 1,385,248	$ 30,617	4.46 %	$ 1,582,658	$ 62,531	5.28 %	$ 1,418,734	$ 48,395	4.56 %
Total investment securities	327,743	6,518	4.01	363,572	4,990	2.77	324,968	9,886	4.07	358,419	7,807	2.91
FHLB dividends	11,849	414	7.05	6,758	171	5.10	11,873	628	7.07	7,605	313	5.50
Interest-earning deposits in banks	41,640	1,021	4.94	51,537	84	0.33	40,447	1,545	5.11	39,976	202	0.68
Total interest-earning assets (2)	1,942,510	48,756	5.06	1,807,115	35,862	4.00	1,959,946	74,590	5.09	1,824,734	56,717	4.16
Noninterest-earning assets	141,789			124,753			143,034			129,004		
Total average assets	$ 2,084,299			$ 1,931,868			$ 2,102,980			$ 1,953,738		
Interest-bearing liabilities:												
Interest-bearing demand deposits (3)	$ 182,968	$ 395	0.44	$ 196,615	$ 42	0.04	$ 180,789	$ 599	0.44	$ 194,568	$ 58	0.04
Money market accounts	409,025	1,720	0.85	585,974	621	0.21	397,023	2,866	0.97	576,019	1,089	0.25
Savings accounts	234,607	1,138	0.98	195,034	52	0.05	241,802	2,056	1.14	196,170	76	0.05
Certificates of deposit	484,711	7,309	3.04	244,989	798	0.66	514,082	12,740	3.31	256,508	1,541	0.80
Total interest-bearing deposits	1,311,311	10,562	1.62	1,222,612	1,513	0.25	1,333,696	18,261	1.83	1,223,265	2,764	0.30
Advances	247,610	5,118	4.17	116,062	831	1.44	246,683	7,909	4.29	138,470	1,837	1.77
Subordinated debt	39,374	789	4.04	39,288	789	4.05	39,384	1,183	4.02	39,301	1,183	4.02

Total interest-bearing liabilities	1,598,295	16,469	2.08	1,377,962	3,133	0.46	1,619,763	27,353	2.26	1,401,036	5,784	0.55
Noninterest-bearing deposits (3)	288,343			336,611			284,282			338,745		
Other noninterest-bearing liabilities	37,302			35,820			38,362			36,934		
Total average liabilities	1,923,940			1,750,393			1,942,407			1,776,715		
Average equity	160,359			181,475			160,573			177,023		
Total average liabilities and equity	$ 2,084,299			$ 1,931,868			$ 2,102,980			$ 1,953,738		
Net interest income		$ 32,287			$ 32,729			$ 47,237			$ 50,933	
Net interest rate spread			2.98			3.54			2.83			3.61
Net earning assets	$ 344,215			$ 429,153			$ 340,183			$ 423,698		
Net interest margin (4)			3.35			3.65			3.22			3.73
Average interest-earning assets to average interest-bearing liabilities	121.5 %			131.1 %			121.0 %			130.2 %		

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

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

(3) Cost of all deposits, including noninterest-bearing demand deposits, was 1.33% 1.51% and 0.20% 0.24% for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

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

Rate/Volume Analysis

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

	Three Months Ended June 30, 2023 vs. 2022			Six Months Ended June 30, 2023 vs. 2022			Three Months Ended September 30, 2023 vs. 2022			Nine Months Ended September 30, 2023 vs. 2022		
	Increase (Decrease) Due to			Increase (Decrease) Due to			Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
	(In thousands)			(In thousands)			(In thousands)			(In thousands)		
Interest-earning assets:												
Loans receivable, net	$ 1,656	$ 3,562	$ 5,218	$ 3,904	$ 6,282	$ 10,186	$ 1,667	$ 2,283	$ 3,950	$ 5,602	$ 8,534	$ 14,136

Investments	(300)	921	621	(490)	2,018	1,528	(232)	783	551	(734)	2,813	2,079
FHLB stock	63	40	103	129	114	243	41	31	72	176	139	315
Other (1)	60	511	571	(16)	953	937	143	263	406	2	1,341	1,343
Total interest-earning assets	$ 1,479	$ 5,034	$ 6,513	$ 3,527	$ 9,367	$ 12,894	$ 1,619	$ 3,360	$ 4,979	$ 5,046	$ 12,827	$ 17,873
Interest-bearing liabilities:												
Interest-bearing demand deposits	$ (2)	$ 178	$ 176	$ (6)	$ 359	$ 353	$ (2)	$ 190	$ 188	$ (2)	$ 543	$ 541
Money market accounts	(113)	734	621	(191)	1,290	1,099	(156)	834	678	(348)	2,125	1,777
Savings accounts	7	729	736	7	1,079	1,086	10	884	894	13	1,967	1,980
Certificates of deposit	464	3,416	3,880	787	5,724	6,511	782	3,906	4,688	1,544	9,655	11,199
Advances	403	1,959	2,362	937	3,350	4,287	342	1,444	1,786	1,428	4,644	6,072
Subordinated debt	1	(2)	(1)	2	(2)	—	—	(1)	(1)	—	—	—
Total interest-bearing liabilities	$ 760	$ 7,014	$ 7,774	$ 1,536	$ 11,800	$ 13,336	$ 976	$ 7,257	$ 8,233	$ 2,635	$ 18,934	$ 21,569
Net change in interest income	$ 719	$ (1,980)	$ (1,261)	$ 1,991	$ (2,433)	$ (442)						
Change in net interest income							$ 643	$ (3,897)	$ (3,254)	$ 2,411	$ (6,107)	$ (3,696)

(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 six nine months ended June 30, 2023 September 30, 2023 and the year ended December 31, 2022, 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 June 30, 2023 September 30, 2023, our scheduled maturities of contractual obligations were as follows:

	Within 1 Year	After 1 Year Through 3 Years	After 3 Years Through 5 Years	Beyond 5 Years	Total Balance	Within 1 Year	After 1 Year Through 3 Years	After 3 Years Through 5 Years	Beyond 5 Years	Total Balance
			(In thousands)					(In thousands)		
Certificates of deposit	$ 422,485	$ 120,624	$ 15,961	$ —	$ 559,070	$ 449,211	$ 114,949	$ 15,553	$ —	$579,713
FHLB advances	188,000	45,000	20,000	—	253,000	198,000	35,000	20,000	—	253,000
Line of credit	11,000	—	—	—	11,000	8,000	—	—	—	8,000
Subordinated debt obligation	—	—	—	39,397	39,397	—	—	—	39,416	39,416

Operating leases	834	1,761	1,708	3,561	7,864	892	1,880	1,652	3,396	7,820
Borrower taxes and insurance	1,149	—	—	—	1,149	2,375	—	—	—	2,375
Deferred compensation	119	264	194	677	1,254	113	243	186	667	1,209
Total contractual obligations	$ 623,587	$ 167,649	$ 37,863	$ 43,635	$ 872,734	$ 658,591	$ 152,072	$ 37,391	$ 43,479	$ 891,533

Commitments and Off-Balance Sheet Arrangements

The following table summarizes our commitments and contingent liabilities with off-balance sheet risks as of June 30, 2023 September 30, 2023:

	Amount of Commitment by Expiration					Amount of Commitment by Expiration				
	Within 1 Year	After 1 Year Through 3 Years	After 3 Years Through 5 Years	Beyond 5 Years	Total Amounts Committed	Within 1 Year	After 1 Year Through 3 Years	After 3 Years Through 5 Years	Beyond 5 Years	Total Amounts Committed
	(In thousands)					(In thousands)				
Commitments to originate loans:										
Fixed-rate						$ 183	$ —	$ —	$ —	$ 183
Variable-rate	16,450	—	—	—	16,450	497	—	—	—	497
Unfunded commitments under lines of credit or existing loans	67,663	8,442	3,719	88,844	168,668	54,347	7,373	3,628	89,374	154,722
Standby letters of credit	558	—	—	200	758	58	—	—	200	258
Total commitments	$ 84,671	$ 8,442	$ 3,719	$ 89,044	$ 185,876	$ 55,085	$ 7,373	$ 3,628	$ 89,574	$ 155,660

Liquidity Management

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

Management regularly adjusts our investments in liquid assets based upon an assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and securities, and the objectives of our liquidity management, interest-rate risk and investment policies. In the first quarter, we We increased liquid assets available liquidity during 2023 in response to the recent stresses within the banking industry and related concerns regarding liquidity.

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 June 30, 2023 September 30, 2023, cash and cash equivalents totaled $78.3 million $83.9 million and unpledged securities classified as available-for-sale had a market value of $290.9 million $279.1 million. The Bank pledged collateral of $625.0 million $582.8 million to support borrowings from the FHLB, with a remaining borrowing capacity of $311.3 million $269.0 million at June 30, 2023 September 30, 2023. The Bank also has an established discount window borrowing arrangement with the FRB, for which available-for-sale securities with a market value of $9.1 million $9.0 million were pledged as of June 30, 2023 September 30, 2023, with a remaining borrowing capacity of $8.7 million $8.5 million. The Bank has established an additional arrangement with the FRB through the BTFP, for which available-for-sale securities with a market value of $17.1 million $15.1 million were pledged as of June 30, 2023 September 30, 2023, with a remaining borrowing capacity of $18.7 million $18.3 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 $9.0 million $12.0 million at June 30, 2023 September 30, 2023.

At June 30, 2023 September 30, 2023, we had $16.5 million $680,000 in loan commitments outstanding and $169.4 million $155.0 million in undisbursed loans and standby letters of credit, including $79.4 million $60.6 million in undisbursed construction loan commitments.

CDs due within one year as of June 30, 2023 September 30, 2023, totaled $422.5 million $449.2 million, or 75.6% 77.5% of CDs with a weighted-average rate of 3.75% 4.21%. If these maturing deposits are not renewed, we will seek other sources of funds, including other CDs, non-maturity deposits, and borrowings. We have the ability to attract and retain deposits by adjusting the interest rates offered as well as through sales and marketing efforts in the markets we serve. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on CDs. In addition, we believe that our branch network, and the general cash flows from our existing lending and investment activities, will provide adequate 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 60% 61% of deposit account balances held by consumers, 29% held by business and public fund depositors, and 11% 10% in brokered deposits. The average deposit account balance, excluding brokered and public fund accounts, was $28,000 at June 30, 2023 September 30, 2023. We estimate that 80-85% of our customer deposit balances are below the $250,000 FDIC insurance limit or fully collateralized. The remaining uninsured deposits represent less than 5% of depositors. 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 June 30, 2023 September 30, 2023, the Company, on an unconsolidated basis, had liquid assets of $2.5 million. $507,000. In addition to its operating expenses, the Company is responsible for paying dividends declared, if any, to its shareholders, funds paid for Company stock repurchases, 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. First Northwest previously contributed $8.0 million to Quin Ventures pursuant to the terms of a capital financing agreement and related promissory note. Quil Ventures Inc. agreed to repay the amount owed by Quin Ventures under the terms and conditions specified in a repayment and security agreement with First Northwest dated December 20, 2022.

Capital Resources

At June 30, 2023 September 30, 2023, shareholders' equity totaled $159.6 million $156.1 million, or 7.4% 7.2% of total assets. Our book value per share of common stock was $16.56 $16.20 at June 30, 2023 September 30, 2023, compared to $16.31 at December 31, 2022.

At June 30, 2023 September 30, 2023, 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 June 30, 2023 September 30, 2023.

	Actual		Minimum Capital Requirements		Minimum Required to be Well-Capitalized		Actual		Minimum Capital Requirements		Minimum Required to be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)						(Dollars in thousands)			
Tier 1 leverage capital (to average assets)	$ 217,444	10.2 %	$ 85,578	4.0 %	$ 106,972	5.0 %	$ 219,326	10.1 %	$ 86,654	4.0 %	$ 108,318	5.0 %
Common equity tier 1 (to risk-weighted assets)	$ 217,444	13.1	74,694	4.5	107,891	6.5	$ 219,326	13.4	73,482	4.5	106,141	6.5
Tier 1 risk-based capital (to risk-weighted assets)	$ 217,444	13.1	99,592	6.0	132,789	8.0	$ 219,326	13.4	97,976	6.0	130,635	8.0
Total risk-based capital (to risk-weighted assets)	$ 233,751	14.1	132,789	8.0	165,986	10.0	$ 234,841	14.4	130,635	8.0	163,294	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 2022 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 June 30, 2023 September 30, 2023, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in Internal Controls.

There have been no changes in the Company's internal control over financial reporting (as defined in 13a-15(f) of the Exchange Act) that occurred during the quarter ended June 30, 2023 September 30, 2023, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes to the risk factors set forth in Part I. Item 1A of the Company's 2022 Form 10-K.

Item 2. Unregistered Sales of Equity Securities, and 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 June 30, 2023 September 30, 2023:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans (2)	Maximum Number of Shares that May Yet Be Repurchased Under the Plans
April 1, 2023 - April 30, 2023	—	$ —	—	257,586
May 1, 2023 - May 31, 2023	3,321	11.25	1,849	255,737
June 1, 2023 - June 30, 2023	28,327	11.27	28,327	227,410
Total	31,648	$ 11.27	30,176	

(1) Shares repurchased by the Company during the quarter include shares acquired from participants in connection with cancellation of restricted stock to pay withholding taxes totaling 0 shares, 1,472 shares, and 0 shares, respectively, for the periods indicated.

(2) On October 28, 2020, the Company announced that its Board of Directors had authorized the repurchase of up to an additional 1,023,420 shares of its common stock, or approximately 10% of its shares of common stock issued and outstanding as of October 27, 2020. As of June 30, 2023, a total of 796,010 shares, or 77.8% percent of the shares authorized in the October 2020 stock repurchase plan, have been purchased at an average cost of $15.82 per share, leaving 227,410 shares available for future purchases.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans (2)	Maximum Number of Shares that May Yet Be Repurchased Under the Plans
July 1, 2023 - July 31, 2023	2,814	$ 11.10	1,073	226,337
August 1, 2023 - August 31, 2023	604	—	—	226,337
September 1, 2023 - September 30, 2023	1,261	—	—	226,337
Total	4,679	$ 11.10	1,073	

(1) Shares repurchased by the Company during the quarter include shares acquired from participants in connection with cancellation of restricted stock to pay withholding taxes totaling 1,741 shares, 604 shares, and 1,261 shares, respectively, for the periods indicated.

(2) On October 28, 2020, the Company announced that its Board of Directors had authorized the repurchase of up to an additional 1,023,420 shares of its common stock, or approximately 10% of its shares of common stock issued and outstanding as of October 27, 2020. As of September 30, 2023, a total of 797,083 shares, or 77.9% percent of the shares authorized in the October 2020 stock repurchase plan, have been purchased at an average cost of $15.86 per share, leaving 226,337 shares available for future purchases.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit No.	Exhibit Description	Filed Herewith	Form	Original Exhibit No.	Filing Date
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act	X			
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act	X			
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act	X			
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 September 30, 2023, formatted in Inline Extensible Business Reporting Language (iXBRL): (1) Consolidated Balance Sheets; (2) Consolidated Statements of Income; (3) Consolidated Statements of Comprehensive (Loss) Income; (4) Consolidated Statements of Changes in Shareholders' Equity; (5) Consolidated Statements of Cash Flows; and (6) Selected Notes to Consolidated Financial Statements				
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				

SIGNATURES

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

FIRST NORTHWEST BANCORP

Date: August 11, 2023 November 13, 2023

/s/ Matthew P. Deines

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

Date: August 11, 2023 November 13, 2023

/s/ Geraldine Bullard

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

EXHIBIT 31.1

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: August 11, November 13, 2023	/s/Matthew P. Deines
	Matthew P. Deines President, Chief Executive Officer and Director (Principal Executive Officer)

EXHIBIT 31.2

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: August 11, November 13, 2023

/s/Geraldine Bullard

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

EXHIBIT 32

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

Each of the undersigned hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with this Quarterly Report on Form 10-Q, for the quarter ended June September 30, 2023, that:

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

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

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

Dated: August 11, November 13, 2023

DISCLAIMER

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