First Financial Northwest, Inc.
Form 10-Q
May 07, 2015

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

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: 001-33652

FIRST FINANCIAL NORTHWEST, INC.
(Exact name of registrant as specified in its charter)

Washington (State or other jurisdiction of incorporation or organization)	26-0610707 (I.R.S. Employer Identification Number)
201 Wells Avenue South, Renton, Washington (Address of principal executive offices)	98057 (Zip Code)
Registrant's telephone number, including area code:	(425) 255-4400

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 X NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

YES X NO

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

Large accelerated filer Accelerated filer X Non-accelerated filer Smaller reporting company ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of April 30, 2015, 14,924,081 shares of the issuer's common stock, $0.01 par value per share, were outstanding.

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Consolidated Balance Sheets
(Dollars in thousands, except share data)

Part 1. Financial Information

Item 1. Financial Statements

Assets	March 31, 2015 (Unaudited)	December 31, 2014
Cash on hand and in banks	$5,313	$5,920
Interest-earning deposits	114,973	98,129
Investments available-for-sale, at fair value	118,110	120,374
Loans receivable, net of allowance of $10,508 and $10,491, respectively	668,714	663,938
Federal Home Loan Bank ("FHLB") stock, at cost	6,672	6,745
Accrued interest receivable	3,106	3,265
Deferred tax assets, net	7,049	8,338
Other real estate owned ("OREO")	5,575	9,283
Premises and equipment, net	16,841	16,734
Other receivable	4,038	128
Prepaid expenses and other assets	4,613	4,143
Total assets	$955,004	$936,997
Liabilities and Stockholders' Equity		
Deposits:		
Interest-bearing deposits	$611,266	$599,773
Noninterest-bearing deposits	19,738	14,354
Total deposits	631,004	614,127
Advances from the FHLB	135,500	135,500
Advance payments from borrowers for taxes and insurance	3,075	1,707
Accrued interest payable	151	142
Other liabilities	4,452	4,109
Total liabilities	774,182	755,585
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value; authorized 10,000,000 shares; no shares issued or outstanding	—	—
Common stock, $0.01 par value; authorized 90,000,000 shares; issued and outstanding 14,949,081 at March 31, 2015, and 15,167,381 shares at December 31, 2014	150	151
Additional paid-in capital	150,826	153,395
Retained earnings, substantially restricted	38,355	36,969
Accumulated other comprehensive loss, net of tax	(45)	(357)
Unearned Employee Stock Ownership Plan ("ESOP") shares	(8,464)	(8,746)
Total stockholders' equity	180,822	181,412
Total liabilities and stockholders' equity	$955,004	$936,997

See accompanying selected notes to consolidated financial statements.

FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES
Consolidated Income Statements
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Interest income		
Loans, including fees	$8,576	$9,026
Investments available-for-sale	512	604
Interest-earning deposits	64	20
Dividends on FHLB stock	2	2
Total interest income	$9,154	$9,652
Interest expense		
Deposits	1,314	1,347
FHLB advances	318	251
Total interest expense	$1,632	$1,598
Net interest income	7,522	8,054
Recapture of provision for loan losses	(100)	(500)
Net interest income after recapture of provision for loan losses	$7,622	$8,554
Noninterest income		
Other	91	68
Total noninterest income	$91	$68
Noninterest expense		
Salaries and employee benefits	3,414	2,885
Occupancy and equipment	338	351
Professional fees	354	357
Data processing	160	173
(Gain) loss on sale of OREO property, net	(529)	71
OREO market value adjustments	50	196
OREO related expenses (reimbursements), net	(48)	61
Regulatory assessments	116	78
Insurance and bond premiums	92	103
Marketing	33	25
Other general and administrative	310	224
Total noninterest expense	$4,290	$4,524
Income before federal income tax provision	3,423	4,098
Federal income tax provision	1,194	1,453
Net income	$2,229	$2,645
Basic earnings per share	$0.16	$0.17
Diluted earnings per share	$0.16	$0.17
Weighted average number of common shares outstanding	14,036,959	15,252,445
Weighted average number of diluted shares outstanding	14,199,715	15,357,120

See accompanying selected notes to consolidated financial statements.

FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net income	$2,229	$2,645
Other comprehensive income, before tax:		
Unrealized holding gains on investments available-for-sale (net of tax provision of $169 and $329 for the first quarter of 2015 and 2014, respectively)	312	610
Other comprehensive income, net of tax	$312	$610
Total comprehensive income	$2,541	$3,255

See accompanying selected notes to consolidated financial statements.

FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
(Dollars in thousands)
(Unaudited)

	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net of tax	Unearned ESOP Shares	Total Stockholders' Equity
Balances at December 31, 2013	16,392,139	$164	$166,866	$29,220	$ (2,020)	$(9,875)	$ 184,355
Other comprehensive income	—	—	—	2,645	610	—	3,255
Cash dividend declared and paid ($0.05 per share)	—	—	—	(767)	—	—	(767)
Exercise of stock options	62,000	1	605	—	—	—	606
Compensation related to stock options and restricted stock awards	—	—	85	—	—	—	85
Allocation of 28,213 ESOP shares	—	—	12	—	—	282	294
Balances at March 31, 2014	16,454,139	$165	$167,568	$31,098	$ (1,410)	$(9,593)	$ 187,828

	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net of tax	Unearned ESOP Shares	Total Stockholders' Equity
Balances at December 31, 2014	15,167,381	$151	$153,395	$36,969	$ (357)	$(8,746)	$ 181,412
Other comprehensive income	—	—	—	2,229	312	—	2,541
Cash dividend declared and paid ($0.06 per share)	—	—	—	(843)	—	—	(843)
Exercise of stock options	50,000	1	488	—	—	—	489
Repurchase and retirement of common stock	(268,300)	(2)	(3,227)	—	—	—	(3,229)
Compensation related to stock options and restricted stock awards	—	—	109	—	—	—	109
Allocation of 28,213 ESOP shares	—	—	61	—	—	282	343
Balances at March 31, 2015	14,949,081	$150	$150,826	$38,355	$ (45)	$(8,464)	$ 180,822

See accompanying selected notes to consolidated financial statements.

FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	$2,229	$2,645
Adjustments to reconcile net income to net cash provided by operating activities:		
Recapture of provision for loan losses	(100)	(500)
OREO market value adjustments	50	196
(Gain) loss on sale of OREO property, net	(529)	71
Depreciation of premises and equipment	182	191
Amortization of premiums and discounts on investments, net	299	394
Deferred federal income taxes	1,120	1,382
Allocation of ESOP shares	343	294
Stock compensation expense	109	85
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(4,380)	(336)
Net increase in advance payments from borrowers for taxes and insurance	1,368	1,876
Accrued interest receivable	159	189
Accrued interest payable	9	3
Other liabilities	343	166
Net cash provided by operating activities	$1,202	$6,656
Cash flows from investing activities:		
Proceeds from sales of OREO properties	4,328	780
Proceeds from calls of investments	50	—
Principal repayments on investments	4,292	5,041
Purchases of investments	(1,897)	—
Net increase in loans receivable	(4,817)	(9,386)
FHLB stock redemption	73	65
Purchases of premises and equipment	(289)	(50)
Proceeds from sale or disposal of premises and equipment, net	—	11
Net cash provided (used) by investing activities	$1,740	$(3,539)
Cash flows from financing activities:		
Net increase (decrease) in deposits	16,877	(25,018)
Proceeds from stock options exercises	489	606
Repurchase and retirement of common stock	(3,229)	—
Dividends paid	(843)	(767)
Net cash provided (used) by financing activities	$13,294	$(25,179)

Continued

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FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net increase (decrease) in cash and cash equivalents	$16,236	$(22,062)
Cash and cash equivalents at beginning of quarter	104,050	55,575
Cash and cash equivalents at end of quarter	$120,286	$33,513
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest paid	$1,623	$1,595
Federal income taxes paid	76	112
Noncash items:		
Loans transferred to OREO, net of deferred loan fees and allowance for loan losses	$141	$1,191
Change in unrealized loss on investments available for sale	481	939

See accompanying selected notes to consolidated financial statements.

FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Description of Business

First Financial Northwest, Inc. (“First Financial Northwest”), a Washington corporation, was formed on June 1, 2007 for the purpose of becoming the holding company for First Savings Bank Northwest (“First Savings Bank” or “the Bank”) in connection with the conversion from a mutual holding company structure to a stock holding company structure completed on October 9, 2007. First Financial Northwest's business activities generally are limited to passive investment activities and oversight of its investment in First Savings Bank. Accordingly, the information presented in the consolidated financial statements and accompanying data, relates primarily to First Savings Bank. First Financial Northwest is a bank holding company, having converted from a savings and loan holding company as of March 31, 2015, subject to regulation by the Federal Reserve Bank of San Francisco. First Savings Bank is regulated by the Federal Deposit Insurance Corporation (“FDIC”) and the Washington State Department of Financial Institutions (“DFI”).

First Savings Bank is a community-based savings bank primarily serving King, and to a lesser extent, Pierce, Snohomish and Kitsap counties, Washington, through one full-service banking office located in Renton, Washington. The Bank has received regulatory approvals to open a branch office in Mill Creek, Washington, which we expect to contribute to growth in our market presence in Snohomish County. This new branch office will be smaller than traditional bank offices, utilizing technology alternatives in an effort to manage expenses with this expansion. The Bank is a portfolio lender with a current business strategy emphasizing commercial real estate, construction, one-to-four family residential, and multifamily lending, funded primarily by deposits from its local communities, supplemented by borrowings from the Federal Home Loan Bank and deposits raised in the national brokered deposit market.

As used throughout this report, the terms "we," "our," "us," or the "Company" refer to First Financial Northwest, Inc. and its consolidated subsidiary First Savings Bank Northwest, unless the context otherwise requires.

Note 2 - 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 of 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC. 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. All significant intercompany balances and transactions between the Company and its subsidiaries have been eliminated in consolidation. Operating results for the three months ended March 31, 2015, are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. In preparing the unaudited 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 relate to the allowance for loan and lease losses ("ALLL"), the valuation of other real estate owned ("OREO") and the underlying collateral of impaired loans, deferred tax assets, and the fair value of financial instruments.

The Company's activities are considered to be a single industry segment for financial reporting purposes. The Company is engaged in the business of attracting deposits from the general public and originating loans for our portfolio in our primary market area. Substantially all income is derived from a diverse base of commercial and residential real estate loans, consumer lending activities, and investments.

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

Note 3 - Recently Issued Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-14, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. ASU 2014-14 addresses certain government-sponsored loan guarantee programs,

FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

such as those offered by the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA), where qualifying creditors can extend mortgage loans to borrowers with a guarantee that entitles the creditor to recover all or a portion of the unpaid principal balance from the government if the borrower defaults. The objective of this ASU is to reduce variations in practice by addressing the classification of foreclosed mortgage loans that are fully or partially guaranteed under government programs. Currently, some creditors reclassify those loans to real estate as with other foreclosed loans that do not have guarantees; others reclassify the loans to other receivables. The amendments affect creditors that hold government-guaranteed mortgage loans, including those guaranteed by the FHA and the VA. The ASU is effective for annual and interim periods beginning after December 15, 2014. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.
In January 2015, the FASB issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20). The ASU eliminated from GAAP the concept of extraordinary items. Under subtopic 225-20, entities were required to separately classify, present, and disclose extraordinary events and transactions that were both unusual in nature and infrequent in occurrence. This amendment will save time and reduce costs for preparers, as well as alleviate uncertainty for auditors and regulators in evaluating potentially extraordinary items. The amendment is effective for fiscal years and interim reporting periods after December 15, 2015. It may be applied prospectively, and retrospectively to all reporting periods presented in the financial statements. The adoption of ASU No. 2015-01 is not expected to have a material impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis. The amendments in this ASU affect limited partnerships and similar legal entities, evaluation of fees paid as a variable interest, the effect of fee arrangements and related parties on the primary beneficiary determination, and evaluation of certain investment funds. Under the revised consolidation model, all legal entities are subject to reevaluation. The amendments are effective for public business entities for fiscal years and interim reporting periods beginning after December 15, 2015. They may be applied retrospectively and early adoption is permitted. The adoption of ASU No. 2015-02 is not expected to have a material impact on the Company's consolidated financial statements.

Note 4 - Investments

Investments available-for-sale are summarized as follows at the dates indicated:

	March 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Mortgage-backed investments:				
Fannie Mae	$38,487	$1,061	$(17)	$39,531
Freddie Mac	22,186	621	(16)	22,791
Ginnie Mae	24,370	90	(141)	24,319
Municipal bonds	894	4	—	898
U.S. Government agencies	16,402	113	(12)	16,503
Corporate bonds	14,056	54	(42)	14,068
Total	$116,395	$1,943	$(228)	$118,110

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FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Mortgage-backed investments:				
Fannie Mae	$40,083	$863	$(30)	$40,916
Freddie Mac	21,442	526	(22)	21,946
Ginnie Mae	26,049	87	(122)	26,014
Municipal bonds	642	2	—	644
U.S. Government agencies	16,863	104	(151)	16,816
Corporate bonds	14,061	39	(62)	14,038
Total	$119,140	$1,621	$(387)	$120,374

The following table summarizes the aggregate fair value and gross unrealized loss by length of time those investments have been continuously in an unrealized loss position at the dates indicated:

	March 31, 2015					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In thousands)					
Mortgage-backed investments:						
Fannie Mae	$—	$—	$1,398	$(17)	$1,398	$(17)
Freddie Mac	1,800	(16)	—	—	1,800	(16)
Ginnie Mae	7,386	(21)	8,139	(120)	15,525	(141)
U.S. Government agencies	1,868	(1)	1,989	(11)	3,857	(12)
Corporate bonds	—	—	5,958	(42)	5,958	(42)
Total	$11,054	$(38)	$17,484	$(190)	$28,538	$(228)

	December 31, 2014					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In thousands)					
Mortgage-backed investments:						
Fannie Mae	$—	$—	$1,456	$(30)	$1,456	$(30)
Freddie Mac	—	—	1,832	(22)	1,832	(22)
Ginnie Mae	1,883	(6)	9,952	(116)	11,835	(122)
U.S. Government agencies	545	—	8,096	(151)	8,641	(151)
Corporate bonds	1,496	(4)	5,942	(58)	7,438	(62)
Total	$3,924	$(10)	$27,278	$(377)	$31,202	$(387)

At March 31, 2015, the Company had 23 securities with a gross unrealized loss of $228,000 with a fair value of $28.5 million. At December 31, 2014, there were 24 securities that had a gross unrealized loss of $387,000 with a fair value of $31.2 million.

On a quarterly basis, management makes an assessment to determine whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. The Company considers many factors including the severity and duration of the impairment, recent events specific to the issuer or industry, and for debt securities, external credit ratings and recent downgrades. Securities on which there is an unrealized loss that is deemed to be an other-than-temporary impairment ("OTTI") are written down to fair value. The Company did not have any equity securities during the quarter ended March 31, 2015. For debt securities, if the Company intends to sell the security or it is likely that the Company will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If the Company does not intend to sell the security and it is not likely that it will be required to sell the security but does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (“OCI”). Impairment losses related to all other factors are presented as separate categories within OCI. Management reviewed the financial condition of the entities issuing municipal or corporate bonds at March 31, 2015 and December 31, 2014, and determined that an OTTI charge was not warranted.

The amortized cost and estimated fair value of investments available-for-sale at March 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Investments not due at a single maturity date, primarily mortgage-backed investments, are shown separately.

	March 31, 2015	
	Amortized Cost	Fair Value
	(In thousands)	
Due within one year	$—	$—
Due after one year through five years	13,587	13,594
Due after five years through ten years	14,784	14,827
Due after ten years	2,981	3,048
	31,352	31,469
Mortgage-backed investments	85,043	86,641
Total	$116,395	$118,110

Under Washington state law, in order to participate in the public funds program the Company is required to pledge eligible securities as collateral in an amount equal to 100% of the public deposits held. Investments with market values of $15.5 million and $16.3 million were pledged as collateral for public deposits at March 31, 2015 and December 31, 2014, respectively, both of which exceeded the collateral requirements established by the Washington Public Deposit Protection Commission.

For the three months ended March 31, 2015, we had three partial calls on securities for $50,000, and no sales resulting in gain or loss. We had no calls or sales of securities for the three months ended March 31, 2014.

FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 5 - Loans Receivable

Loans receivable are summarized as follows at the dates indicated:

	March 31, 2015	December 31, 2014
	(In thousands)	
One-to-four family residential:		
Permanent owner occupied	$158,541	$161,013
Permanent non-owner occupied	106,809	112,180
Construction non-owner occupied [(1)]	500	500
	265,850	273,693
Multifamily:		
Permanent	117,359	116,014
Construction [(1)]	4,450	4,450
	121,809	120,464
Commercial real estate:		
Permanent	238,227	239,211
Construction [(1)]	6,100	6,100
Land [(2)]	5,370	2,956
	249,697	248,267
Construction/land development:		
One-to-four family residential [(1)]	28,810	19,860
Multifamily [(1)]	19,452	17,902
Commercial [(1)]	4,300	4,300
Land development [(2)]	8,673	8,993
	61,235	51,055
Business	5,313	3,783
Consumer	6,716	7,130
Total loans	710,620	704,392
Less:		
Loans in process ("LIP")	28,788	27,359
Deferred loan fees, net	2,610	2,604
ALLL	10,508	10,491
Loans receivable, net	$668,714	$663,938

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[(1)] Construction/land development excludes construction loans that will convert to permanent loans. The Company considers these loans to be "rollovers" in that one loan is originated for both the construction loan and permanent financing. These loans are classified according to the underlying collateral. At March 31, 2015, the Company had $6.1 million, or 2.4% of the total commercial real estate portfolio, $4.5 million, or 3.7% of its total multifamily portfolio, and $500,000 or 0.2% of the total one-to-four family residential portfolio in these rollover loans. At December 31, 2014, the Company had $6.1 million, or 2.5% of the total commercial real estate portfolio and $4.5 million, or 3.7% of the total multifamily portfolio, and $500,000 or 0.2% of the total one-to-four family residential portfolio in these rollover loans.

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FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

[(2)]At March 31, 2015, and December 31, 2014, $5.4 million and $3.0 million, respectively, of commercial real estate loans were not included in the construction/land development category because the Company classifies raw land or buildable lots (where we do not intend to finance the construction) as commercial real estate land loans.
At both March 31, 2015 and December 31, 2014, there were no loans classified as held for sale.

ALLL. The Company maintains an ALLL as a reserve against probable and inherent risk of losses in its loan portfolios. The ALLL is comprised of a general reserve component for loans evaluated collectively for loss and a specific reserve component for loans evaluated individually. We continually monitor our loan portfolio for delinquent loans and changes in our borrower's financial condition. When an issue is identified and it is determined that the loan needs to be classified as nonperforming and/or impaired, an evaluation of the collateral is performed and, if necessary, an appraisal is ordered in accordance with our appraisal policy guidelines. Based on this evaluation, any additional provision for loan loss or charge-offs is recorded prior to the end of the financial reporting period.

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

	At or For the Three Months Ended March 31, 2015						
	One-to-Four Family Residential	Multifamily	Commercial Real Estate	Construction/ Land Development	Business	Consumer	Total
	(In thousands)						
ALLL:							
Beginning balance	$3,694	$1,646	$4,597	$355	$47	$152	$10,491
Charge-offs	(25)	(281)	—	—	—	(34)	(340)
Recoveries	173	—	—	—	3	281	457
Provision (recapture)	(154)	(342)	38	386	4	(32)	(100)
Ending balance	$3,688	$1,023	$4,635	$741	$54	$367	$10,508
Allowance by category:							
General reserve	$3,027	$1,002	$4,242	$741	$54	$323	$9,389
Specific reserve	661	21	393	—	—	44	1,119
Loans: [(1)]							
Total loans	$265,822	$121,715	$249,398	$32,868	$5,313	$6,716	$681,832
Loans with general valuation allowance [(2)]	224,385	117,869	240,732	32,868	5,313	6,520	627,687
Loans with specific reserves [(3)]	41,437	3,846	8,666	—	—	196	54,145

(1) Net of LIP.
(2) Loans collectively evaluated for general reserves.
(3) Loans individually evaluated for specific reserves.

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FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	At or For the Three Months Ended March 31, 2014						
	One-to-Four Family Residential (In thousands)	Multifamily	Commercial Real Estate	Construction/ Land Development	Business	Consumer	Total
ALLL:							
Beginning balance	$5,141	$1,377	$5,881	$399	$14	$182	$12,994
Charge-offs	(18)	—	(311)	(223)	—	(1)	(553)
Recoveries	—	—	151	—	—	1	152
Provision (recapture)	(548)	29	(185)	212	(7)	(1)	(500)
Ending balance	$4,575	$1,406	$5,536	$388	$7	$181	$12,093
Allowance by category:							
General reserve	$3,056	$1,326	$4,970	$388	$7	$181	$9,928
Specific reserve	1,519	80	566	—	—	—	2,165
Loans: [1]							
Total loans	$279,244	$121,639	$253,420	$23,065	$614	$8,583	$686,565
Loans with general valuation allowance [2]	231,882	119,210	240,648	23,065	614	8,540	623,959
Loans with specific reserves [3]	47,362	2,429	12,772	—	—	43	62,606

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(1) Net of LIP.
(2) Loans collectively evaluated for general reserves.
(3) Loans individually evaluated for specific reserves.

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FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Past Due Loans. Loans are considered past due if a scheduled principal or interest payment is due and unpaid for 30 days or more. At March 31, 2015, total past due loans comprised 0.52% of total loans receivable as compared to 0.66% at December 31, 2014. The following tables represent a summary of the aging of loans by type at the dates indicated:

	Loans Past Due as of March 31, 2015					
	30-59 Days	60-89 Days	90 Days and Greater	Total Past Due	Current	Total (1) (2)
	(In thousands)					
Real estate:						
One-to-four family residential:						
Owner occupied	$256	$345	$475	$1,076	$157,465	$158,541
Non-owner occupied	—	—	—	—	107,281	107,281
Multifamily	—	—	1,683	1,683	120,032	121,715
Commercial real estate	306	324	105	735	248,663	249,398
Construction/land development	—	—	—	—	32,868	32,868
Total real estate	562	669	2,263	3,494	666,309	669,803
Business	—	—	—	—	5,313	5,313
Consumer	—	74	—	74	6,642	6,716
Total loans	$562	$743	$2,263	$3,568	$678,264	$681,832

(1) There were no loans 90 days and greater past due and still accruing interest at March 31, 2015.
(2) Net of LIP.

	Loans Past Due as of December 31, 2014					
	30-59 Days	60-89 Days	90 Days and Greater	Total Past Due	Current	Total (1) (2)
	(In thousands)					
Real estate:						
One-to-four family residential:						
Owner occupied	$666	$575	$666	$1,907	$159,106	$161,013
Non-owner occupied	—	—	164	164	112,388	112,552
Multifamily	1,965	—	—	1,965	118,306	120,271
Commercial real estate	—	325	11	336	247,632	247,968
Construction/land development	—	—	—	—	24,316	24,316
Total real estate	2,631	900	841	4,372	661,748	666,120
Business	—	—	—	—	3,783	3,783
Consumer	—	75	—	75	7,055	7,130
Total loans	$2,631	$975	$841	$4,447	$	