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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2024**

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to _________

Commission File Number: 001-35589

FS BANCORP, INC.
(Exact name of registrant as specified in its charter)

Washington	**45-4585178**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

6920 220th Street SW, Mountlake Terrace, Washington 98043
(Address of principal executive offices; Zip Code)

(425) 771-5299

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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 $.01 per share	FSBW	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 ☒
Non-accelerated filer ☐	Smaller reporting company ☒
Emerging growth 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 May 8, 2024, there were 7,796,048 outstanding shares of the registrant's common stock.

FS Bancorp, Inc.
Form 10-Q

Table of Contents

		Page Number
PART I	**FINANCIAL INFORMATION**	
Item 1.	Financial Statements	
	Consolidated Balance Sheets at March 31, 2024 (Unaudited) and December 31, 2023	3
	Consolidated Statements of Income for the Three Months Ended March 31, 2024 and 2023 (Unaudited)	4
	Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2024 and 2023 (Unaudited)	5
	Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2024 and 2023 (Unaudited)	6
	Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2024 and 2023 (Unaudited)	7 - 8
	Notes to Consolidated Financial Statements	9 - 45
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	46 - 59
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	59
Item 4.	Controls and Procedures	59
PART II	**OTHER INFORMATION**	60
Item 1.	Legal Proceedings	60
Item 1A.	Risk Factors	60
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	60
Item 3.	Defaults Upon Senior Securities	61
Item 4.	Mine Safety Disclosures	61
Item 5.	Other Information	61
Item 6.	Exhibits	62
SIGNATURES		63

When we refer to “FS Bancorp” in this report, we are referring to FS Bancorp, Inc. When we refer to “Bank” or “1st Security Bank” in this report, we are referring to 1st Security Bank of Washington, the wholly owned subsidiary of FS Bancorp. As used in this report, the terms “we,” “our,” “us,” and “Company” refer to FS Bancorp, Inc. and its consolidated subsidiary, 1st Security Bank of Washington, unless the context indicates otherwise.

Item 1. Financial Statements

FS BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except shares and per share amounts) (Unaudited)

ASSETS	March 31, 2024	December 31, 2023
Cash and due from banks	$ 17,149	$ 17,083
Interest-bearing deposits at other financial institutions	28,257	48,608
Total cash and cash equivalents	45,406	65,691
Certificates of deposit at other financial institutions	23,222	24,167
Securities available-for-sale, at fair value (amortized cost of $309,959 and $328,695, net of allowance for credit losses of $0 and $0, respectively)	279,643	292,933
Securities held-to-maturity, net of allowance for credit losses of $45 and $45 (fair value of $7,785 and $7,666, respectively)	8,455	8,455
Loans held for sale, at fair value	49,957	25,668
Loans receivable, net of allowance for credit losses of $31,479 and $31,534 (includes $15,003 and $15,088 of loans at fair value, respectively)	2,415,379	2,401,481
Accrued interest receivable	14,455	14,005
Premises and equipment, net	30,326	30,578
Operating lease right-of-use ("ROU") assets	6,202	6,627
Federal Home Loan Bank ("FHLB") stock, at cost	2,909	2,114
Deferred tax asset, net	4,832	6,725
Bank owned life insurance ("BOLI"), net	37,958	37,719
Mortgage servicing rights ("MSRs"), held at the lower of cost or fair value	9,009	9,090
MSRs held for sale, held at the lower of cost or fair value	—	8,086
Goodwill	3,592	3,592
Core deposit intangible, net	16,402	17,343
Other assets	21,958	18,395
TOTAL ASSETS	$ 2,969,705	$ 2,972,669
LIABILITIES		
Deposits:		
Noninterest-bearing accounts	$ 646,899	$ 670,831
Interest-bearing accounts	1,818,398	1,851,492
Total deposits	2,465,297	2,522,323
Borrowings	129,940	93,746
Subordinated notes:		
Principal amount	50,000	50,000
Unamortized debt issuance costs	(456)	(473)
Total subordinated notes less unamortized debt issuance costs	49,544	49,527
Operating lease liabilities	6,410	6,848
Other liabilities	40,582	35,737
Total liabilities	2,691,773	2,708,181
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; 5,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $.01 par value; 45,000,000 shares authorized; 7,805,795 and 7,800,545 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	78	78
Additional paid-in capital	57,552	57,362
Retained earnings	236,720	230,354
Accumulated other comprehensive loss, net of tax	(16,418)	(23,306)
Total stockholders' equity	277,932	264,488
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,969,705	$ 2,972,669

See accompanying notes to these consolidated financial statements.

FS BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except shares and per share amounts) (Unaudited)

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
INTEREST INCOME		
Loans receivable, including fees	$ 40,997	$ 35,992
Interest and dividends on investment securities, cash and cash equivalents, and certificates of deposit at other financial institutions	3,883	2,620
Total interest and dividend income	44,880	38,612
INTEREST EXPENSE		
Deposits	12,882	6,624
Borrowings	1,167	841
Subordinated notes	485	485
Total interest expense	14,534	7,950
NET INTEREST INCOME	30,346	30,662
PROVISION FOR CREDIT LOSSES	1,399	2,108
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	28,947	28,554
NONINTEREST INCOME		
Service charges and fee income	2,552	2,608
Gain on sale of loans held for sale	1,838	1,476
Gain on sale of MSRs	8,215	—
Loss on sale of investment securities	(7,998)	—
Earnings on cash surrender value of BOLI	240	221
Other noninterest income	264	914
Total noninterest income	5,111	5,219
NONINTEREST EXPENSE		
Salaries and benefits	13,557	13,864
Operations	3,008	2,692
Occupancy	1,705	1,520
Data processing	1,958	1,568
Loan costs	585	470
Professional and board fees	923	678
Federal Deposit Insurance Corporation (“FDIC”) insurance	532	580
Marketing and advertising	227	190
Acquisition costs	—	1,501
Amortization of core deposit intangible	941	459
Impairment of MSRs	93	2
Total noninterest expense	23,529	23,524
INCOME BEFORE PROVISION FOR INCOME TAXES	10,529	10,249
PROVISION FOR INCOME TAXES	2,132	2,037
NET INCOME	$ 8,397	$ 8,212
Basic earnings per share	$ 1.07	$ 1.06
Diluted earnings per share	$ 1.06	$ 1.04

See accompanying notes to these consolidated financial statements.

FS BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands) (Unaudited)

	Three Months Ended March 31,	
	2024	2023
Net income	$ 8,397	$ 8,212
Other comprehensive income:		
Securities available-for-sale:		
Unrealized holding (loss) gain during period	(2,552)	6,136
Income tax benefit (provision) related to unrealized holding (loss) gain	549	(1,320)
Reclassification adjustment for realized loss, net included in net income	7,998	—
Income tax provision related to reclassification for realized loss, net	(1,719)	—
Derivative financial instruments:		
Unrealized derivative gain (loss) during period	5,050	(1,517)
Income tax (provision) benefit related to unrealized derivative gain (loss)	(1,086)	322
Reclassification adjustment for realized gain, net included in net income	(1,722)	(907)
Income tax provision related to reclassification, net	370	195
Other comprehensive income, net of tax	6,888	2,909
COMPREHENSIVE INCOME	$ 15,285	$ 11,121

See accompanying notes to these consolidated financial statements.

FS BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands, except per share amounts) (Unaudited)

Three Months Ended March 31, 2024 and 2023

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax	Total Stockholders' Equity
	Shares	Amount				
BALANCE, January 1, 2023	7,736,185	$ 77	$ 55,187	$ 202,065	$ (25,632)	$ 231,697
Net income	—	$ —	—	8,212	—	$ 8,212
Dividends paid ($0.25 per share)	—	$ —	—	(1,935)	—	$ (1,935)
Share-based compensation	—	$ —	654	—	—	$ 654
Issuance of common stock-employee stock purchase plan	7,350	$ —	271	—	—	$ 271
Restricted stock awards forfeited	(4,812)	$ —	—	—	—	$ —
Common stock repurchased for employee/director taxes paid on restricted stock awards	(440)	$ —	(16)	—	—	$ (16)
Stock options exercised, net	5,000	$ —	42	—	—	$ 42
Other comprehensive income, net of tax	—	$ —	—	—	2,909	$ 2,909
BALANCE, March 31, 2023	7,743,283	$ 77	$ 56,138	$ 208,342	$ (22,723)	$ 241,834
BALANCE, January 1, 2024	7,800,545	$ 78	$ 57,362	$ 230,354	$ (23,306)	$ 264,488
Net income	—	$ —	—	8,397	—	$ 8,397
Dividends paid ($0.26 per share)	—	$ —	—	(2,031)	—	$ (2,031)
Share-based compensation	—	$ —	395	—	—	$ 395
Issuance of common stock- employee stock purchase plan	9,250	$ —	302	—	—	$ 302
Common stock repurchased - repurchase plan	(17,612)	$ —	—	—	—	$ —
Restricted stock awards forfeited	(4,000)	$ —	—	—	—	$ —
Stock options exercised, net	17,612	$ —	(507)	—	—	$ (507)
Other comprehensive income, net of tax	—	$ —	—	—	6,888	$ 6,888
BALANCE, March 31, 2024	7,805,795	$ 78	$ 57,552	$ 236,720	$ (16,418)	$ 277,932

See accompanying notes to these consolidated financial statements.

FS BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	Three Months Ended March 31,	
CASH FLOWS FROM OPERATING ACTIVITIES	2024	2023
Net income	$ 8,397	$ 8,212
Adjustments to reconcile net income to net cash from operating activities		
Provision for credit losses	1,399	2,108
Depreciation, amortization and accretion	2,835	3,358
Compensation expense related to stock options and restricted stock awards	395	654
Change in cash surrender value of BOLI	(240)	(221)
Gain on sale of loans held for sale	(1,838)	(1,476)
Gain on sale of MSRs	(8,215)	—
Loss on sale of investment securities	7,998	—
Origination of loans held for sale	(109,554)	(73,050)
Proceeds from sale of loans held for sale	94,874	78,316
Impairment of MSRs	93	2
Changes in operating assets and liabilities		
Accrued interest receivable	(450)	(662)
Other assets	(496)	(470)
Other liabilities	5,079	1,700
Net cash from operating activities	277	18,471
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities available-for-sale:		
Proceeds from sale of investment securities	44,036	—
Maturities, prepayments, and calls	4,293	2,497
Purchases	(38,009)	—
Maturities of certificates of deposit at other financial institutions	1,925	—
Purchase of certificates of deposit at other financial institutions	(980)	—
Portfolio loan originations and principal collections, net	(8,226)	(55,269)
Net cash from acquisitions	—	336,157
Proceeds from sale of mortgage servicing rights	16,168	—
Purchase of portfolio loans	(15,492)	(829)
Purchase of premises and equipment	(357)	(954)
Change in FHLB stock, net	(795)	6,748
Net cash from investing activities	2,563	288,350
CASH FLOWS USED BY FINANCING ACTIVITIES		
Net decrease in deposits	(57,083)	(109,439)
Proceeds from borrowings	175,000	382,500
Repayments of borrowings	(138,806)	(561,500)
Dividends paid on common stock	(2,031)	(1,935)
(Disbursements) proceeds from stock options exercised, net	(507)	42
Common stock repurchased for employee/director taxes paid on restricted stock awards	—	(16)
Issuance of common stock - employee stock purchase plan	302	271
Net cash used by financing activities	(23,125)	(290,077)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(20,285)	16,744
CASH AND CASH EQUIVALENTS, beginning of period	65,691	41,437
CASH AND CASH EQUIVALENTS, end of period	$ 45,406	$ 58,181

FS BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In thousands) (Unaudited)

SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period for:				
Interest on deposits and borrowings	$	12,087	$	7,064
Income taxes		—		—
SUPPLEMENTARY DISCLOSURES OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES				
Change in fair value on available-for-sale investment securities	$	5,446	$	6,136
Change in fair value on fair value and cash flow hedges		3,324		(2,424)
Change in fair value on portfolio loans measured under the fair value option		2		577
Retention in gross MSRs from loan sales		576		405
ROU assets in exchange for lease liabilities		—		1,574
Acquisitions:				
Assets acquired		—		87,512
Liabilities assumed		—		424,949

See accompanying notes to these consolidated financial statements.

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Table Dollar Amounts in Thousands, Except Per Share Amounts)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – FS Bancorp, Inc. (the "Company") was incorporated in September 2011 as the holding company for 1st Security Bank of Washington (the "Bank" or "1st Security Bank") in connection with the Bank's conversion from the mutual to stock form of ownership which was completed on July 9, 2012. The Bank is a community-based savings bank with 27 full-service bank branches, a headquarters that also originates loans and accepts deposits, and loan production offices in suburban communities in the greater Puget Sound area, the Kennewick-Pasco-Richland metropolitan area of Washington, also known as the Tri-Cities, Goldendale, Vancouver, and White Salmon, Washington and Manzanita, Newport, Ontario, Tillamook, and Waldport, Oregon. The Bank's branches located in the communities of Goldendale and White Salmon, Washington and Manzanita, Newport, Ontario, Tillamook, and Waldport, Oregon were acquired from Columbia State Bank on February 24, 2023, and opened as 1st Security Bank branches on February 27, 2023. The Bank provides loan and deposit services to customers who are predominantly small- and middle-market businesses and individuals. The Company and its subsidiary are subject to regulation by certain federal and state agencies and undergo periodic examination by these regulatory agencies.

Financial Statement Presentation – The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission ("SEC"). These unaudited interim consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K which includes all the audited financial statements and footnotes required by U.S. GAAP for complete financial statements for the year ended December 31, 2023, as filed with the SEC on March 15, 2024. In the opinion of management, all normal adjustments and recurring accruals considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included.

The results for the three months ended March 31, 2024, are not necessarily indicative of the results that may be expected for the year ending December 31, 2024, or any other future period. The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses ("ACL") and business combinations.

Amounts presented in the consolidated financial statements and footnote tables are rounded and presented to the nearest thousands of dollars except per share amounts. If the amounts are above $1.0 million, they are rounded one decimal point, and if they are above $1.0 billion, they are rounded two decimal points.

Principles of Consolidation – The consolidated financial statements include the accounts of FS Bancorp and its wholly owned subsidiary, 1st Security Bank. All material intercompany accounts have been eliminated in consolidation.

Segment Reporting – The Company operates in two business segments through the Bank: commercial and consumer banking and home lending. The Company's business segments are determined based on the products and services provided, as well as the nature of the related business activities, and they reflect the way financial information is regularly reviewed for the purpose of allocating resources and evaluating performance of the Company's businesses. The results for these business segments are based on management's accounting process, which assigns income statement items and assets to each responsible operating segment. This process is dynamic and is based on management's view of the Company's operations. See "Note 15 – Business Segments."

Subsequent Events – The Company has evaluated events and transactions after March 31, 2024, for potential recognition or disclosure.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2020-04, "*Reference Rate Reform*" *(*"*Topic 848*"*)*. This ASU provides optional guidance for a limited period to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in this ASU apply to modifications to agreements (e.g., loans, debt securities, derivatives, borrowings) that replace a reference rate affected by reference rate reform (including rates referenced in fallback provisions) and contemporaneous modifications of other contract terms related to the replacement of the reference rate (including contract modifications to add or change fallback provisions). The following optional expedients for applying the requirements of certain Topics or Industry Subtopics in the Codification are permitted for contracts that are modified because of reference rate reform and that meet certain scope guidance: 1) Modifications of contracts within the scope of Topics 310, Receivables, and 470, Debt, should be accounted for by prospectively adjusting the effective interest rate; 2) Modifications of contracts within the scope of Topics 840, Leases, and 842, Leases, should be accounted for as a continuation of the existing contracts with no reassessments of the lease classification and the discount rate (for example, the incremental borrowing rate) or remeasurements of lease payments that otherwise would be required under those Topics for modifications not accounted for as separate contracts; and 3) Modifications of contracts do not require an entity to reassess its original conclusion about whether that contract contains an embedded derivative that is clearly and closely related to the economic characteristics and risks of the host contract under Subtopic 815-15, Derivatives and Hedging – Embedded Derivatives. In January 2021, ASU 2021-01 updated amendments in the new ASU to clarify that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. Amendments in this ASU and the expedients and exceptions in Topic 848 capture the incremental consequences of the scope clarification and tailor the existing guidance to derivative instruments affected by the discounting transition. An entity may elect to apply the amendments in this ASU on a full retrospective basis as of any date from the effective dates. The amendments in this ASU have differing effective dates, beginning with an interim period including and subsequent to March 12, 2020 through December 31, 2022, deferred now until December 31, 2024. The Company does not expect the adoption of ASU 2020-04 to have a material impact on its consolidated financial statements and related disclosures.

In November 2023, the FASB issued guidance within ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures.* This ASU requires that a public entity that has a single reportable segment provide all the disclosures required by the amendments in this ASU and all existing disclosures in Topic 280. The amendments in this ASU are intended to improve segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The key amendments included in this ASU:

- Require disclosure on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") and are included within each reported measure of segment profit and loss.
- Require disclosure on an annual and interim basis, an amount for other segment items (defined in the ASU) and a description of its composition.
- Clarify that if the CODM uses more than one measure of the segment's profit or loss in assessing performance, one or more of those additional measures may be reported.
- Require disclosure of the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing performance.

This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The amendments should be applied retrospectively to all prior periods presented in the financial statements. The Company is currently evaluating the effect that ASU 2023-07 will have on the Company's consolidated financial statements and related disclosures.

In December 2023, the FASB issued guidance within ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures.* The amendments in the ASU are intended to provide more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The ASU requires disclosure in the rate reconciliation of specific categories as well as provide additional information for reconciling items that meet a quantitative threshold.

Those amendments require disclosure of the following information about income taxes paid on an annual basis:

- Income taxes paid (net of refunds received), disaggregated by federal and state taxes and by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than five percent of total income taxes paid (net refunds received).
- Income tax expense (or benefit) from continuing operations disaggregated by federal and state jurisdictions.

The ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The amendments should be applied on a prospective basis. The Company is evaluating the effect that ASU 2023-09 will have on its consolidated financial statements and related disclosures.

Application of New Accounting Guidance Adopted in 2024

On January 1, 2024, the Company adopted 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 restrictions(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. The adoption of ASU 2022-03 did not have a material impact on the Company’s consolidated financial statements and related disclosures.

On January 1, 2024, the Company adopted 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 the 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. The adoption of ASU 2023-02 did not have a material impact on the Company's consolidated financial statements and related disclosures.

NOTE 2 – BUSINESS COMBINATION

On February 24, 2023, the Company’s wholly-owned subsidiary, 1st Security Bank, completed the purchase of seven branches (“Branch Purchase”) from Columbia State Bank to expand its franchise in Washington and Oregon. The Branch Purchase included seven retail bank branches located in the communities of Goldendale and White Salmon, Washington and Manzanita, Newport, Ontario, Tillamook, and Waldport, Oregon. In accordance with the Purchase and Assumption Agreement, dated as of November 7, 2022, between Columbia State Bank and 1st Security Bank, the Bank acquired $425.5 million of deposits, a portfolio of performing loans, six owned bank branches, one lease associated with the bank branches and certain other assets of the branches. In consideration of the purchased assets and transferred liabilities, 1st Security Bank paid (a) the unpaid principal balance and accrued interest of $66.6 million for the loans acquired, (b) the fair value, or approximately $6.3 million, for the bank facilities and certain other assets associated with the acquired branches, and (c) a deposit premium of 4.15% for core deposits and 2.5% for public funds on substantially all of the deposits assumed, which equated to approximately $16.4 million. The transaction was settled with Columbia State Bank paying cash of $334.7 million to 1st Security Bank for the difference between the total assets purchased and the total liabilities assumed.

The Branch Purchase was accounted for under the acquisition method of accounting and accordingly, the assets and liabilities were recorded at fair values on February 24, 2023, the date of acquisition. Determining the fair value of assets and liabilities is a complicated process involving significant judgement regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as information relative to closing date fair values become available. Due to the timing of the data conversion and the integration of operations of the branches onto the Company's existing operations, historical reporting of the acquired branches is impracticable, and therefore, disclosure of the amounts of revenue and expenses attributable to the acquired branches since the acquisition date are not available.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of acquisition:

February 24, 2023	Acquired Book Value	Fair Value Adjustments	Amount Recorded
Assets			
Cash and cash equivalents	$ 336,157	$ —	$ 336,157
Loans receivable	66,093	(2,902)(1)	63,191
Premises and equipment	6,342	—	6,342
Accrued interest receivable	530	—	530
Core deposit intangible ("CDI")	—	17,438(2)	17,438
Goodwill	—	1,280(3)	1,280
Other assets	11	—	11
Total assets acquired	$ 409,133	$ 15,816	$ 424,949
Liabilities			
Deposits:			
Noninterest-bearing accounts	$ 225,567	$ —	$ 225,567
Interest-bearing accounts	199,898	(548)(4)	199,350
Total deposits	425,465	(548)	424,917
Accrued interest payable	4	—	4
Other liabilities	28	—	28
Total liabilities assumed	$ 425,497	$ (548)	$ 424,949

(1) The fair value discount for acquired loans was determined by separate adjustments to reflect a credit risk and marketability component and a yield component reflecting the differential between portfolio and market yields. The discount on acquired loans will be accreted back into interest income using the effective yield method. None of the loans acquired are purchased financial assets with credit deterioration. The fair value of the loans was $63.2 million and the gross amount due is $66.1 million, none of which is expected to be uncollectable.

(2) The fair value adjustment represents the value of the core deposit base assumed in the Branch Purchase based on a study performed by an independent consulting firm. This amount was recorded by the Company as an identifiable intangible asset and will be amortized as an expense on an accelerated basis over the average life of the core deposit base, which is estimated to be 10 years.

(3) The fair value adjustment represents the value of the goodwill calculated from the purchase based on the purchase price, less the fair value of assets acquired net of liabilities assumed. The goodwill of $1.3 million is attributable to the workforce and customer relationships associated with the branches. All the goodwill is deductible for tax purposes and will be amortized over a 15-year period. The goodwill was assigned to the Commercial and Consumer Banking segment.

(4) The fair value of time deposits was calculated using a discounted cash flow analysis that calculated the present value of the projected cash flows from the portfolio versus the present value of a similar portfolio with a similar maturity profile at current market rates. This adjustment represents a difference in interest rates from the time deposits acquired and the estimated wholesale funding rates used in the application of fair value accounting. The discounted amount will be amortized into expense as an increase in interest expense over the maturity profile of the acquired time deposits.

The disclosures regarding pro-forma data and the results of operations after the acquisition date are omitted as this information is not practical to obtain. The branches' financial information is not reported on a stand-alone basis.

NOTE 3 – INVESTMENTS

The following tables present the amortized costs, unrealized gains, unrealized losses, estimated fair values of securities available-for-sale and held-to-maturity, and the ACL on securities available-for-sale and held-to-maturity at March 31, 2024 and December 31, 2023:

	March 31, 2024				
SECURITIES AVAILABLE-FOR-SALE	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Values	ACL
U.S. agency securities	$ 21,151	$ 45	$ (3,298)	$ 17,898	$ —
Corporate securities	16,000	90	(890)	15,200	—
Municipal bonds	86,257	18	(12,722)	73,553	—
Mortgage-backed securities	131,594	172	(11,964)	119,802	—
U.S. Small Business Administration securities	54,957	—	(1,767)	53,190	—
Total securities available-for-sale	309,959	325	(30,641)	279,643	—
SECURITIES HELD-TO-MATURITY					
Corporate securities	8,500	—	(715)	7,785	45
Total securities held-to-maturity	8,500	—	(715)	7,785	45
Total securities	$ 318,459	$ 325	$ (31,356)	$ 287,428	$ 45

	December 31, 2023				
SECURITIES AVAILABLE-FOR-SALE	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Values	ACL
U.S. agency securities	$ 21,151	$ 46	$ (3,179)	$ 18,018	$ —
Corporate securities	13,000	613	(741)	12,872	—
Municipal bonds	138,803	42	(19,398)	119,447	—
Mortgage-backed securities	112,855	238	(11,845)	101,248	—
U.S. Small Business Administration securities	42,886	—	(1,538)	41,348	—
Total securities available-for-sale	328,695	939	(36,701)	292,933	—
SECURITIES HELD-TO-MATURITY					
Corporate securities	8,500	—	(834)	7,666	45
Total securities held-to-maturity	8,500	—	(834)	7,666	45
Total securities	$ 337,195	$ 939	$ (37,535)	$ 300,599	$ 45

The following table presents the activity in the ACL on securities held-to-maturity by major security type for the three months ended March 31, 2024 and 2023:

SECURITIES HELD-TO-MATURITY	For the Three Months Ended March 31,	
Corporate Securities	2024	2023
Beginning ACL balance	$ 45	$ 31
Provision for (recapture of) credit losses	—	—
Total ending ACL balance	$ 45	$ 31

Management measures expected credit losses on held-to-maturity debt securities on an individual basis. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Accrued interest receivable on held-to-maturity debt securities totaled $117,000 and $116,000 at March 31, 2024 and December 31, 2023, and was $1.9 million and $1.5 million on available-for-sale debt securities as of March 31, 2024 and December 31, 2023, respectively. Accrued interest receivable on securities is reported in "Accrued interest receivable" on the Consolidated Balance Sheets and is excluded from the calculation of the ACL.

The Company monitors the credit quality of debt securities held-to-maturity quarterly using credit rating, material event notices, and changes in market value. The following table summarizes the amortized cost of debt securities held-to-maturity at the dates indicated, aggregated by credit quality indicator:

Corporate securities	March 31, 2024	December 31, 2023
BBB/BBB-	$ 7,000	$ 7,000
BB+	1,500	1,500
Total	$ 8,500	$ 8,500

At March 31, 2024 and December 31, 2023, there were no debt securities held-to-maturity that were classified as either nonaccrual or 90 days or more past due and still accruing interest.

The following table presents, as of March 31, 2024, investment securities which were pledged to secure borrowings, public deposits or other obligations as permitted or required by law:

	March 31, 2024		
Purpose or beneficiary	Carrying Value	Amortized Cost	Fair Value
State and local government public deposits	$ 34,703	$ 40,783	$ 34,703
Federal Reserve Bank - Bank Term Funding Program facility ("BTFP")	76,161	89,834	76,161
Total pledged securities	$ 110,864	$ 130,617	$ 110,864

Investment securities that were in an unrealized loss position at the dates indicated are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position.

	March 31, 2024					
	Less than 12 Months		12 Months or Longer		Total	
SECURITIES AVAILABLE-FOR-SALE	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. agency securities	$ —	$ —	$ 15,853	$ (3,298)	$ 15,853	$ (3,298)
Corporate securities	7,846	(154)	4,263	(736)	12,109	(890)
Municipal bonds	1,279	(7)	71,256	(12,715)	72,535	(12,722)
Mortgage-backed securities	25,189	(63)	66,593	(11,901)	91,782	(11,964)
U.S. Small Business Administration securities	45,560	(592)	7,630	(1,175)	53,190	(1,767)
Total securities available-for-sale	79,874	(816)	165,595	(29,825)	245,469	(30,641)
SECURITIES HELD-TO-MATURITY						
Corporate securities	—	—	7,785	(715)	7,785	(715)
Total securities held-to-maturity	—	—	7,785	(715)	7,785	(715)
Total securities	$ 79,874	$ (816)	$ 173,380	$ (30,540)	$ 253,254	$ (31,356)

	December 31, 2023					
	Less than 12 Months		12 Months or Longer		Total	
SECURITIES AVAILABLE-FOR-SALE	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. agency securities	$ —	$ —	$ 15,972	$ (3,179)	$ 15,972	$ (3,179)
Corporate securities	959	(41)	4,300	(700)	5,259	(741)
Municipal bonds	3,922	(23)	113,577	(19,375)	117,499	(19,398)
Mortgage-backed securities	20,662	(113)	67,376	(11,732)	88,038	(11,845)
U.S. Small Business Administration securities	33,211	(460)	8,137	(1,078)	41,348	(1,538)
Total securities available-for-sale	58,754	(637)	209,362	(36,064)	268,116	(36,701)
SECURITIES HELD-TO-MATURITY						
Corporate securities	—	—	7,666	(834)	7,666	(834)
Total securities held-to-maturity	—	—	7,666	(834)	7,666	(834)
Total securities	$ 58,754	$ (637)	$ 217,028	$ (36,898)	$ 275,782	$ (37,535)

There were no held-to-maturity debt securities in an unrealized loss position of less than one year and seven held-to-maturity debt securities in an unrealized loss position of more than one year at March 31, 2024.

There were 34 available-for-sale securities in an unrealized loss position of less than one year, and 128 available-for-sale securities in an unrealized loss position of more than one year at March 31, 2024. The unrealized losses associated with these securities are believed to be caused by changing market conditions and considered to be temporary, and the Company does not intend and is not likely to be required to sell these securities prior to maturity. Management monitors the published credit ratings of the issuers of the debt securities for material ratings or outlook changes. Substantially all the Company’s municipal bond portfolio is comprised of obligations of states and political subdivisions located within the Company’s geographic footprint that are monitored through quarterly or annual financial review utilizing published credit ratings. All the municipal bond securities are investment grade.

All the available-for-sale mortgage-backed securities and U.S. Small Business Administration securities in an unrealized loss position are issued or guaranteed by government-sponsored enterprises, and the available-for-sale corporate securities are all investment grade and monitored for rating or outlook changes. Based on the Company’s evaluation of these securities, no credit impairment was recorded for the three months ended March 31, 2024, or for the year ended December 31, 2023.

The contractual maturities of securities available-for-sale and held-to-maturity at the dates indicated are listed below. Expected maturities of mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations; therefore, these securities are classified separately with no specific maturity date.

	March 31, 2024		December 31, 2023	
SECURITIES AVAILABLE-FOR-SALE	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. agency securities				
Due within one year	$ 917	$ 914	$ 922	$ 914
Due after one year through five years	3,951	3,537	3,947	3,544
Due after five years through ten years	11,973	10,067	11,972	10,139
Due after ten years	4,310	3,380	4,310	3,421
Subtotal	21,151	17,898	21,151	18,018
Corporate securities				
Due within one year	—	—	1,000	1,004
Due after one year through five years	10,000	9,985	6,000	6,609
Due after five years through ten years	4,000	3,822	4,000	3,839
Due after ten years	2,000	1,393	2,000	1,420
Subtotal	16,000	15,200	13,000	12,872
Municipal bonds				
Due within one year	1,006	1,000	1,013	1,003
Due after one year through five years	82	81	757	751
Due after five years through ten years	4,037	3,836	7,603	7,101
Due after ten years	81,132	68,636	129,430	110,592
Subtotal	86,257	73,553	138,803	119,447
Mortgage-backed securities				
Federal National Mortgage Association (“FNMA”)	83,863	73,301	76,369	66,275
Federal Home Loan Mortgage Corporation (“FHLMC”)	36,178	35,532	32,311	31,376
Government National Mortgage Association (“GNMA”)	11,553	10,969	4,175	3,597
Subtotal	131,594	119,802	112,855	101,248
U.S. Small Business Administration securities				
Due within one year	42	41	198	196
Due after one year through five years	1,656	1,584	1,860	1,824
Due after five years through ten years	27,916	27,317	21,420	20,929
Due after ten years	25,343	24,248	19,408	18,399
Subtotal	54,957	53,190	42,886	41,348
Total securities available-for-sale	309,959	279,643	328,695	292,933
SECURITIES HELD-TO-MATURITY				
Corporate securities				
Due after five years through ten years	8,500	7,785	8,500	7,666
Total securities held-to-maturity	8,500	7,785	8,500	7,666
Total securities	$ 318,459	$ 287,428	$ 337,195	$ 300,599

The proceeds and resulting gains and losses from sales of securities available-for-sale for the three months ended March 31, 2024:

	March 31, 2024		
	Proceeds	Gross Gains	Gross (Losses)
Securities available-for-sale	$ 44,036	$ —	$ (7,998)

There were no sales proceeds, or gains or losses for the sale of securities available-for-sale for the three months ended March 31, 2023.

NOTE 4 – LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES – LOANS

The composition of the loan portfolio was as follows at the dates indicated:

	March 31, 2024	December 31, 2023
REAL ESTATE LOANS		
Commercial ("CRE")	$ 359,055	$ 366,328
Construction and development	301,346	303,054
Home equity	73,323	69,488
One-to-four-family (excludes loans held for sale)	580,050	567,742
Multi-family	222,410	223,769
Total real estate loans	1,536,184	1,530,381
CONSUMER LOANS		
Indirect home improvement	568,802	569,903
Marine	73,921	73,310
Other consumer	3,409	3,540
Total consumer loans	646,132	646,753
COMMERCIAL BUSINESS LOANS		
Commercial and industrial	256,429	238,301
Warehouse lending	8,113	17,580
Total commercial business loans	264,542	255,881
Total loans receivable, gross	2,446,858	2,433,015
ACL on loans	(31,479)	(31,534)
Total loans receivable, net	$ 2,415,379	$ 2,401,481

Loan amounts are net of unearned loan fees in excess of unamortized costs and premiums of $7.5 million as of March 31, 2024 and $8.4 million as of December 31, 2023. Net loans include unamortized net discounts on acquired loans of $2.4 million and $2.6 million as of March 31, 2024 and December 31, 2023, respectively. Net loans do not include accrued interest receivable. Accrued interest receivable on loans was $11.6 million and $11.5 million as of March 31, 2024 and December 31, 2023, respectively, and was reported in "Accrued interest receivable" on the Consolidated Balance Sheets.

Most of the Company's CRE and multi-family real estate, construction, residential, and/or commercial business lending activities are with customers located in Western Washington, the Oregon Coast, and near our loan production offices in Vancouver and the Tri-Cities, Washington. The Company originates real estate, consumer, and commercial business loans and has concentrations in these areas, however, indirect home improvement loans, including solar-related home improvement loans, are originated through a network of home improvement contractors and dealers located throughout Washington, Oregon, California, Idaho, Colorado, Arizona, Minnesota, Nevada, Texas, Utah, Massachusetts, Montana, and New Hampshire. Loans are generally secured by collateral and rights to collateral vary and are legally documented to the extent practicable. Local economic conditions may affect borrowers' ability to meet the stated repayment terms.

At March 31, 2024, the Bank held approximately $1.09 billion in loans that are pledged as collateral for FHLB advances, compared to approximately $1.07 billion at December 31, 2023. The Bank held approximately $632.8 million in loans that are pledged as collateral for the Federal Reserve Bank of San Francisco (the "FRB") line of credit at March 31, 2024, compared to approximately $631.1 million at December 31, 2023.

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 way management monitors performance and credit quality. The three loan portfolio segments are: (a) real estate, (b) consumer, and (c) commercial business. Each of these segments is disaggregated into classes based on the risk characteristics of the borrower and/or the collateral type securing the loan. The following is a summary of each of the Company's loan portfolio segments and classes:

Real Estate Loans

Commercial Real Estate ("CRE") Lending. Loans originated by the Company primarily secured by income-producing properties, including retail centers, warehouses, and office buildings located in our market areas.

Construction and Development Lending. Loans originated by the Company for the construction of, and secured by, commercial real estate, one-to-four-family, and multi-family residences and tracts of land for development that are not pre-sold. A portion of the one-to-four-family construction portfolio is custom construction loans to the intended occupant of the residence.

Home Equity Lending. Loans originated by the Company secured by second mortgages on one-to-four-family residences, including home equity lines of credit in our market areas.

One-to-Four-Family Real Estate Lending. One-to-four-family residential loans include owner occupied properties (including second homes), and non-owner-occupied properties with four or less units. These loans originated by the Company or periodically purchased from banks are secured by first mortgages on one-to-four-family residences in our market areas that the Company intends to hold (excludes loans held for sale).

Multi-Family Lending. Apartment term lending (five or more units) to current banking customers and community reinvestment loans for low to moderate income individuals in the Company's footprint.

Consumer Loans

Indirect Home Improvement. Fixture secured loans for home improvement are originated by the Company through its network of home improvement contractors and dealers and are secured by the personal property installed in, on, or at the borrower's real property, and may be perfected with a UCC-2 financing statement filed in the county of the borrower's residence. These indirect home improvement loans include replacement windows, siding, roofing, spas, and other home fixture installations, including solar related home improvement projects.

Marine. Loans originated by the Company, secured by boats, to borrowers primarily located in states where the Company originates consumer loans.

Other Consumer. Loans originated by the Company to consumers in our retail branch footprint, including automobiles, recreational vehicles, direct home improvement loans, loans on deposits, and other consumer loans, primarily consisting of personal lines of credit and credit cards.

Commercial Business Loans

Commercial and Industrial ("C&I") Lending. C&I loans originated by the Company to local small- and mid-sized businesses in our Puget Sound market area are secured primarily by accounts receivable, inventory, or personal property, plant and equipment. Some C&I loans purchased by the Company are outside of the greater Puget Sound market area. C&I loans are made based on the borrower's ability to make repayment from the cash flow of the borrower's business.

Warehouse Lending. Loans originated to non-depository financial institutions and secured by notes originated by the non-depository financial institution. The Company has two distinct warehouse lending divisions: commercial warehouse re-lending secured by notes on construction loans and mortgage warehouse re-lending secured by notes on one-to-four-family loans. The Company's commercial construction warehouse lines are secured by notes on construction loans and typically guaranteed by principals with experience in construction lending. Mortgage warehouse lending loans are funded through third-party residential mortgage bankers. Under this program the Company provides short-term funding to the mortgage banking companies for the purpose of originating residential mortgage loans for sale into the secondary market.

Allowance for Credit Losses

The main drivers of the provision for credit losses on loans recorded in the first three months of 2024 were net charge-offs recorded during the period.

The following tables detail activity in the ACL on loans by loan categories at or for the three months ended March 31, 2024 and 2023:

	At or For the Three Months Ended March 31, 2024				
ACL ON LOANS	Real Estate	Consumer	Commercial Business	Unallocated	Total
Beginning balance	$ 14,107	$ 13,357	$ 4,070	$ —	$ 31,534
Provision for credit losses on loans	146	644	631	—	1,421
Charge-offs	—	(1,486)	(408)	—	(1,894)
Recoveries	—	418	—	—	418
Net charge-offs	—	(1,068)	(408)	—	(1,476)
Total ending ACL balance	$ 14,253	$ 12,933	$ 4,293	$ —	$ 31,479

	At or For the Three Months Ended March 31, 2023				
ACL ON LOANS	Real Estate	Consumer	Commercial Business	Unallocated	Total
Beginning balance	$ 12,123	$ 12,109	$ 3,760	$ —	$ 27,992
Provision for credit losses on loans	459	1,691	205	—	2,355
Charge-offs	(10)	(709)	(1)	—	(720)
Recoveries	—	310	—	—	310
Net charge-offs	(10)	(399)	(1)	—	(410)
Total ending ACL balance	$ 12,572	$ 13,401	$ 3,964	$ —	$ 29,937

Nonaccrual and 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. Loans are automatically placed on nonaccrual once the loan is 90 days past due or sooner if, in management's opinion, the borrower may be unable to meet payment obligations as they become due, or as required by regulatory authorities.

Loan Modifications to Borrowers Experiencing Financial Difficulty

The Company may modify the contractual terms of a loan to a borrower experiencing financial difficulty as a part of ongoing loss mitigation strategies. These modifications may result in an interest rate reduction, term extension, an other-than-insignificant payment delay, or a combination thereof. The Company typically does not offer principal forgiveness. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. The effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses on loans because of the measurement methodologies used to estimate the allowance.

The following tables present the amortized cost basis of loans that were modified to borrowers experiencing financial difficulty at the end of the reporting period by loan class and modification type.

	Payment Deferral		
For the three months ended March 31, 2024	Amortized Cost Basis	% of Total Loan Type	Financial Effect
CRE	$ 1,102	0.3%	Deferred payments and capitalized interest for adding a weighted-average period of 1.7 years to the life of the loans.

	Combination - Term Extension and Interest Rate Reduction		
For the three months ended March 31, 2023	Amortized Cost Basis	% of Total Loan Type	Financial Effect
C&I	$ 3,709	1.7%	Reduced weighted-average contractual interest rate from 7.5% to 4.1%, and added a weighted-average period of 5.0 years to the life of the loans.

At March 31, 2024, and March 31, 2023, the loans were in compliance with their modified terms, but were classified as current and nonaccrual and individually evaluated in the determination of the associated ACL for loans. For the three months ended March 31, 2024, and March 31, 2023, no loans experienced a default subsequent to being granted a modification in the last twelve months. There were no unfunded commitments associated with loans modified for borrowers experiencing financial distress as of March 31, 2024.

Nonaccrual and Past Due Loans

The following tables provide information pertaining to the aging analysis of contractually past due loans and nonaccrual loans at March 31, 2024 and December 31, 2023:

	March 31, 2024						
REAL ESTATE LOANS	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Non-Accrual (1)
CRE	$ —	$ —	$ —	$ —	$ 359,055	$ 359,055	$ 1,102
Construction and development	4,737	—	—	4,737	296,609	301,346	4,737
Home equity	16	26	137	179	73,144	73,323	170
One-to-four-family	—	—	80	80	579,970	580,050	173
Multi-family	—	—	—	—	222,410	222,410	—
Total real estate loans	4,753	26	217	4,996	1,531,188	1,536,184	6,182
CONSUMER LOANS							
Indirect home improvement	1,657	717	651	3,025	565,777	568,802	2,195
Marine	295	86	85	466	73,455	73,921	385
Other consumer	22	2	1	25	3,384	3,409	3
Total consumer loans	1,974	805	737	3,516	642,616	646,132	2,583
COMMERCIAL BUSINESS LOANS							
C&I	167	—	2,257	2,424	254,005	256,429	3,341
Warehouse lending	—	—	—	—	8,113	8,113	—
Total commercial business loans	167	—	2,257	2,424	262,118	264,542	3,341
Total loans	$ 6,894	$ 831	$ 3,211	$ 10,936	$ 2,435,922	$ 2,446,858	$ 12,106

	December 31, 2023						
REAL ESTATE LOANS	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Non-Accrual (1)
CRE	$ —	$ —	$ —	$ —	$ 366,328	$ 366,328	$ 1,088
Construction and development	—	—	—	—	303,054	303,054	4,699
Home equity	79	25	136	240	69,248	69,488	173
One-to-four-family	—	96	—	96	567,646	567,742	96
Multi-family	—	—	—	—	223,769	223,769	—
Total real estate loans	79	121	136	336	1,530,045	1,530,381	6,056
CONSUMER LOANS							
Indirect home improvement	1,759	1,248	777	3,784	566,119	569,903	1,863
Marine	373	243	137	753	72,557	73,310	342
Other consumer	57	18	6	81	3,459	3,540	8
Total consumer loans	2,189	1,509	920	4,618	642,135	646,753	2,213
COMMERCIAL BUSINESS LOANS							
C&I	—	—	2,514	2,514	235,787	238,301	2,683
Warehouse lending	—	—	—	—	17,580	17,580	—
Total commercial business loans	—	—	2,514	2,514	253,367	255,881	2,683
Total loans	$ 2,268	$ 1,630	$ 3,570	$ 7,468	$ 2,425,547	$ 2,433,015	$ 10,952

(1) Includes loans less than 90 days past due as applicable.

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

Credit Quality Indicators

As part of the Company’s on-going monitoring of credit quality of the loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk grading of loans, (ii) the level of classified loans, (iii) net charge-offs, (iv) non-performing loans, and (v) the general economic conditions in the Company’s markets.

The Company utilizes a risk grading matrix to assign a risk grade to its real estate and commercial business loans. Loans are graded on a scale of 1 to 10, with loans in risk grades 1 to 6 reported as “Pass” and loans in risk grades 7 to 10 reported as classified loans in the Company’s ACL analysis.

A description of the 10 risk grades is as follows:

- *Grades 1 and 2* - These grades include loans to very high-quality borrowers with excellent or desirable business credit.
- *Grade 3* - This grade includes loans to borrowers of good business credit with moderate risk.
- *Grades 4 and 5* - These grades include “Pass” grade loans to borrowers of average credit quality and risk.
- *Grade 6* - This grade includes loans on management’s “Watch” list and is intended to be utilized on a temporary basis for “Pass” grade borrowers where frequent and thorough monitoring is required due to credit weaknesses and where significant risk-modifying action is anticipated in the near term.
- *Grade 7* - This grade is for “Other Assets Especially Mentioned (“OAEM”)” or “Special Mention” in accordance with regulatory guidelines and includes borrowers where performance is poor or significantly less than expected.
- *Grade 8* - This grade includes “Substandard” loans in accordance with regulatory guidelines which represent an unacceptable business credit where a loss is possible if loan weakness is not corrected.
- *Grade 9* - This grade includes “Doubtful” loans in accordance with regulatory guidelines where a loss is highly probable.
- *Grade 10* - This grade includes “Loss” loans in accordance with regulatory guidelines for which total loss is expected and when identified are charged off.

Homogeneous loans are risk rated based upon the Federal Financial Institutions Examination Council’s Uniform Retail Credit Classification and Account Management Policy. Loans classified under this policy at the Company are consumer loans which include indirect home improvement, solar, marine, other consumer, and one-to-four-family first and second liens. Under the Uniform Retail Credit Classification and Account Management Policy, loans that are current or less than 90 days past due are graded “Pass” and risk rated “4” or “5” internally. Loans that are past due more than 90 days are classified “Substandard” and risk graded “8” internally until the loan has demonstrated consistent performance, typically six months of contractual payments. Closed-end loans that are 120 days past due and open-end loans that are 180 days past due are charged off based on the value of the collateral less cost to sell. Management may choose to conservatively risk rate credits even if paying in accordance with the loan’s repayment terms.

CRE, construction and development, multi-family and commercial business loans are evaluated individually for their risk classification and may be classified as “Substandard” even if current on their loan payment obligations. We regularly review our credits for accuracy of risk grades whenever we receive new information. Borrowers are generally required to submit financial information at regular intervals. Typically, commercial borrowers with lines of credit are required to submit financial information with reporting intervals ranging from monthly to annually depending on credit size, risk, and complexity. In addition, nonowner-occupied CRE borrowers with loans exceeding a certain dollar threshold are usually required to submit rent rolls or property income statements annually. We monitor construction loans monthly. We also review loans graded “Watch” or worse, regardless of loan type, no less than quarterly.

The following tables summarize risk rated loan balances and total current period gross charge-offs by category, as of the dates indicated. Term loans that were renewed or extended for periods longer than 90 days are presented as new originations in the year of the most recent renewal or extension.

	March 31, 2024								
REAL ESTATE LOANS	Term Loans by Year of Origination							Revolving Loans Converted to Term	
CRE	2024	2023	2022	2021	2020	Prior	Revolving Loans		Total Loans
Pass	$ 3,034	$ 46,629	$ 85,321	$ 60,749	$ 45,012	$ 84,134	$ —	$ 73	$ 324,952
Watch	—	3,185	10,843	12,835	—	2,665	244	—	29,772
Special mention	—	—	—	—	—	404	—	—	404
Substandard	—	—	—	—	1,641	2,286	—	—	3,927
Total CRE	3,034	49,814	96,164	73,584	46,653	89,489	244	73	359,055
Construction and development									
Pass	21,765	133,438	74,758	40,355	15,220	526	10,547	—	296,609
Substandard	—	—	4,737	—	—	—	—	—	4,737
Total construction and development	21,765	133,438	79,495	40,355	15,220	526	10,547	—	301,346
Home equity									
Pass	4,095	4,364	381	1,573	6,397	1,971	54,372	—	73,153
Substandard	—	—	—	—	—	33	137	—	170
Total home equity	4,095	4,364	381	1,573	6,397	2,004	54,509	—	73,323
One-to-four-family									
Pass	18,276	102,210	172,463	124,529	80,342	79,296	—	—	577,116
Substandard	—	—	862	—	—	2,072	—	—	2,934
Total one-to-four-family	18,276	102,210	173,325	124,529	80,342	81,368	—	—	580,050
Multi-family									
Pass	93	7,087	20,328	90,820	42,296	61,786	—	—	222,410
Total multi-family	93	7,087	20,328	90,820	42,296	61,786	—	—	222,410
Total real estate loans	$ 47,263	$ 296,913	$ 369,693	$ 330,861	$ 190,908	$ 235,173	$ 65,300	$ 73	$ 1,536,184

	March 31, 2024								
CONSUMER LOANS	Term Loans by Year of Origination							Revolving Loans Converted to Term	
Indirect home improvement	2024	2023	2022	2021	2020	Prior	Revolving Loans		Total Loans
Pass	$ 31,369	$ 160,726	$ 201,319	$ 88,557	$ 33,947	$ 50,684	$ 5	$ —	$ 566,607
Substandard	—	385	799	469	205	337	—	—	2,195
Total indirect home improvement	31,369	161,111	202,118	89,026	34,152	51,021	5	—	568,802
Indirect home improvement gross charge-offs	—	211	499	183	45	225	—	—	1,163
Marine									
Pass	3,780	13,093	22,512	9,685	12,679	11,787	—	—	73,536
Substandard	—	—	55	—	126	204	—	—	385
Total marine	3,780	13,093	22,567	9,685	12,805	11,991	—	—	73,921
Marine gross charge-offs	—	—	75	51	—	105	—	—	231
Other consumer									
Pass	50	237	491	143	59	143	2,283	—	3,406
Substandard	—	—	—	—	—	—	3	—	3
Total other consumer	50	237	491	143	59	143	2,286	—	3,409
Other consumer gross charge-offs	—	33	6	—	—	16	37	—	92
Total consumer loans	$ 35,199	$ 174,441	$ 225,176	$ 98,854	$ 47,016	$ 63,155	$ 2,291	$ —	$ 646,132

	March 31, 2024								
COMMERCIAL BUSINESS LOANS	Term Loans by Year of Origination							Revolving Loans Converted	
C&I	2024	2023	2022	2021	2020	Prior	Revolving Loans	to Term	Total Loans
Pass	$ 9,500	$ 21,168	$ 32,498	$ 18,602	$ 10,837	$ 13,158	$ 120,156	$ 25	$ 225,944
Watch	—	4,458	—	758	2,224	931	9,305	—	17,676
Special mention	—	—	—	575	—	701	942	—	2,218
Substandard	—	2,915	—	2,302	1,342	1,933	2,099	—	10,591
Total C&I	9,500	28,541	32,498	22,237	14,403	16,723	132,502	25	256,429
C&I gross charge-offs	—	—	—	—	—	—	408	—	408
Warehouse lending									
Pass	—	—	—	—	—	—	8,111	—	8,111
Watch	—	—	—	—	—	—	2	—	2
Total warehouse lending	—	—	—	—	—	—	8,113	—	8,113
Total commercial business loans	$ 9,500	$ 28,541	$ 32,498	$ 22,237	$ 14,403	$ 16,723	$ 140,615	$ 25	$ 264,542
TOTAL LOANS RECEIVABLE, GROSS									
Pass	$ 91,962	$ 488,952	$ 610,071	$ 435,013	$ 246,789	$ 303,485	$ 195,474	$ 98	$ 2,371,844
Watch	—	7,643	10,843	13,593	2,224	3,596	9,551	—	47,450
Special mention	—	—	—	575	—	1,105	942	—	2,622
Substandard	—	3,300	6,453	2,771	3,314	6,865	2,239	—	24,942
Total loans receivable, gross	$ 91,962	$ 499,895	$ 627,367	$ 451,952	$ 252,327	$ 315,051	$ 208,206	$ 98	$ 2,446,858
Total gross charge-offs	$ —	$ 244	$ 580	$ 234	$ 45	$ 346	$ 445	$ —	$ 1,894

	December 31, 2023								
REAL ESTATE LOANS	Term Loans by Year of Origination							Revolving Loans Converted	
CRE	2023	2022	2021	2020	2019	Prior	Revolving Loans	to Term	Total Loans
Pass	$ 48,551	$ 91,144	$ 61,689	$ 46,117	$ 27,957	$ 61,764	$ 499	$ —	$ 337,721
Watch	3,201	5,446	12,894	—	453	2,226	45	—	24,265
Special mention	—	—	—	—	409	—	—	—	409
Substandard	—	—	—	1,650	—	1,957	—	326	3,933
Total CRE	51,752	96,590	74,583	47,767	28,819	65,947	544	326	366,328
Construction and development									
Pass	120,155	106,168	46,989	15,219	—	540	9,284	—	298,355
Substandard	—	4,699	—	—	—	—	—	—	4,699
Total construction and development	120,155	110,867	46,989	15,219	—	540	9,284	—	303,054
Home equity									
Pass	4,583	398	1,584	6,525	11	2,137	54,077	—	69,315
Substandard	—	—	—	—	—	36	137	—	173
Total home equity	4,583	398	1,584	6,525	11	2,173	54,214	—	69,488
Home equity gross charge-offs							10		10
One-to-four-family							—		
Pass	103,165	175,412	122,406	80,815	30,595	52,008	—	472	564,873
Substandard	—	866	—	—	—	2,003	—	—	2,869
Total one-to-four-family	103,165	176,278	122,406	80,815	30,595	54,011	—	472	567,742
Multi-family									
Pass	7,106	20,404	91,047	42,511	37,990	24,711	—	—	223,769
Total multi-family	7,106	20,404	91,047	42,511	37,990	24,711	—	—	223,769
Total real estate loans	$ 286,761	$ 404,537	$ 336,609	$ 192,837	$ 97,415	$ 147,382	$ 64,042	$ 798	$ 1,530,381

Table of Contents

CONSUMER LOANS	December 31, 2023								
	Term Loans by Year of Origination								
Indirect home improvement	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Loans Converted to Term	Total Loans
Pass	$ 171,208	$ 212,661	$ 93,664	$ 36,032	$ 23,977	$ 30,492	$ 6	$ —	$ 568,040
Substandard	212	663	448	141	258	141	—	—	1,863
Total indirect home improvement	171,420	213,324	94,112	36,173	24,235	30,633	6	—	569,903
Indirect home improvement gross charge-offs	204	1,386	567	290	145	336	—	—	2,928
Marine									
Pass	13,619	23,963	9,987	13,082	5,267	7,050	—	—	72,968
Substandard	—	—	52	85	—	205	—	—	342
Total marine	13,619	23,963	10,039	13,167	5,267	7,255	—	—	73,310
Marine gross charge-offs	—	47	93	—	7	256	—	—	403
Other consumer									
Pass	309	559	175	69	3	159	2,258	—	3,532
Substandard	—	—	—	—	—	—	8	—	8
Total other consumer	309	559	175	69	3	159	2,266	—	3,540
Other consumer gross charge-offs	—	2	12	—	—	—	120	—	134
Total consumer loans	$ 185,348	$ 237,846	$ 104,326	$ 49,409	$ 29,505	$ 38,047	$ 2,272	$ —	$ 646,753

COMMERCIAL BUSINESS LOANS	December 31, 2023								
	Term Loans by Year of Origination								
C&I	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Loans Converted to Term	Total Loans
Pass	$ 13,971	$ 32,334	$ 19,634	$ 11,537	$ 5,122	$ 9,707	$ 119,844	$ 145	$ 212,294
Watch	2,322	—	1,382	2,366	—	953	5,754	—	12,777
Special mention	143	—	—	—	498	253	1,345	—	2,239
Substandard	2,940	—	2,321	1,391	1,766	169	2,005	—	10,592
Doubtful	—	—	—	—	—	—	399	—	399
Total C&I	19,376	32,334	23,337	15,294	7,386	11,082	129,347	145	238,301
C&I gross charge-offs	—	—	1	—	—	—	—	—	1
Warehouse lending									
Pass	—	—	—	—	—	—	17,003	—	17,003
Watch	—	—	—	—	—	—	577	—	577
Total warehouse lending	—	—	—	—	—	—	17,580	—	17,580
Total commercial business loans	$ 19,376	$ 32,334	$ 23,337	$ 15,294	$ 7,386	$ 11,082	$ 146,927	$ 145	$ 255,881
TOTAL LOANS RECEIVABLE, GROSS									
Pass	$ 482,667	$ 663,043	$ 447,175	$ 251,907	$ 130,922	$ 188,568	$ 202,971	$ 617	$ 2,367,870
Watch	5,523	5,446	14,276	2,366	453	3,179	6,376	—	37,619
Special mention	143	—	—	—	907	253	1,345	—	2,648
Substandard	3,152	6,228	2,821	3,267	2,024	4,511	2,150	326	24,479
Doubtful	—	—	—	—	—	—	399	—	399
Total loans receivable, gross	$ 491,485	$ 674,717	$ 464,272	$ 257,540	$ 134,306	$ 196,511	$ 213,241	$ 943	$ 2,433,015
Total gross charge-offs	$ 204	$ 1,435	$ 673	$ 290	$ 152	$ 592	$ 130	$ —	$ 3,476

The following table presents the amortized cost basis of loans on nonaccrual status as of the dates indicated:

	March 31, 2024			December 31, 2023		
REAL ESTATE LOANS	Nonaccrual with No ACL	Nonaccrual with ACL	Total Nonaccrual	Nonaccrual with No ACL	Nonaccrual with ACL	Total Nonaccrual
CRE	$ 1,102	$ —	$ 1,102	$ 1,088	$ —	$ 1,088
Construction and development	—	4,737	4,737	—	4,699	4,699
Home equity	170	—	170	173	—	173
One-to-four-family	173	—	173	96	—	96
	1,445	4,737	6,182	1,357	4,699	6,056
CONSUMER LOANS						
Indirect home improvement	—	2,195	2,195	—	1,863	1,863
Marine	—	385	385	—	342	342
Other consumer	—	3	3	—	8	8
	—	2,583	2,583	—	2,213	2,213
COMMERCIAL BUSINESS LOANS						
C&I	292	3,049	3,341	—	2,683	2,683
Total	$ 1,737	$ 10,369	$ 12,106	$ 1,357	$ 9,595	$ 10,952

The Company recognized interest income on a cash basis for nonaccrual loans of $111,000 and $62,000 during the three months ended March 31, 2024 and 2023, respectively.

The following table presents the amortized cost basis of collateral dependent loans by class of loans as of the dates indicated:

	March 31, 2024				December 31, 2023			
REAL ESTATE LOANS	Commercial Real Estate	Residential Real Estate	Other Non-Real Estate	Total	Commercial Real Estate	Residential Real Estate	Other Non-Real Estate	Total
CRE	$ 1,102	$ —	$ —	$ 1,102	$ 1,088	$ —	$ —	$ 1,088
Construction and development	4,737	—	—	4,737	4,699	—		4,699
Home equity	—	170	—	170	—	173	—	173
One-to-four-family	—	173	—	173	—	96	—	96
	5,839	343	—	6,182	5,787	269	—	6,056
CONSUMER LOANS								
Indirect home improvement	—	—	2,195	2,195	—	—	1,863	1,863
Marine	—	—	385	385	—	—	342	342
	—	—	2,580	2,580	—	—	2,205	2,205
COMMERCIAL BUSINESS LOANS								
C&I	—	—	3,341	3,341	—	—	2,683	2,683
Total	$ 5,839	$ 343	$ 5,921	$ 12,103	$ 5,787	$ 269	$ 4,888	$ 10,944

NOTE 5 – MORTGAGE SERVICING RIGHTS

Loans serviced for others are not included on the Consolidated Balance Sheets. The unpaid principal balance of permanent loans serviced for others was $1.56 billion and $2.83 billion at March 31, 2024 and December 31, 2023, respectively.

The following table summarizes MSRs activity at or for the dates indicated:

	At or For the Three Months Ended March 31,	
	2024	2023
Beginning balance, at the lower of cost or fair value	$ 17,176	$ 18,017
Additions	576	405
Sales	(7,953)	—
MSRs amortized	(697)	(821)
Impairment of MSRs	(93)	(2)
Ending balance, at the lower of cost or fair value	$ 9,009	$ 17,599

The fair value of the MSRs' assets was $20.3 million and $38.2 million at March 31, 2024 and December 31, 2023, respectively. Fair value adjustments to MSRs are mainly due to market-based assumptions associated with discounted cash flows, loan prepayment speeds, and changes in interest rates. A significant change in prepayments of the loans in the MSRs portfolio could result in significant changes in the valuation adjustments, thus creating potential volatility in the carrying amount of MSRs.

The following provides valuation assumptions used in determining the fair value of MSRs at the dates indicated:

Key assumptions:	At March 31, 2024	At December 31, 2023
Weighted average discount rate	9.9%	9.4%
Conditional prepayment rate ("CPR")	8.9%	7.2%
Weighted average life in years	7.9	8.4

Key economic assumptions of the current fair value for single family MSRs are presented in the table below. Also presented is the sensitivity to market rate changes for the par rate coupon for a conventional one-to-four-family FNMA, FHLMC, GNMA, or FHLB serviced home loan. The table below references a 50 basis point and 100 basis point adverse rate change and the impact on prepayment speeds and discount rates at the dates indicated:

	March 31, 2024	December 31, 2023
Aggregate portfolio principal balance	$ 1,562,287	$ 2,832,016
Weighted average rate of loans in MSRs portfolio	4.0%	3.6%

At March 31, 2024	Base	0.5% Adverse Rate Change	1.0% Adverse Rate Change
Conditional prepayment rate	8.9%	10.4%	12.6%
Fair value MSRs	$ 20,315	$ 19,706	$ 18,953
Percentage of MSRs	1.3%	1.3%	1.2%
Discount rate	9.9%	10.4%	10.9%
Fair value MSRs	$ 20,315	$ 19,877	$ 19,456
Percentage of MSRs	1.3%	1.3%	1.2%

At December 31, 2023	Base	0.5% Adverse Rate Change	1.0% Adverse Rate Change
Conditional prepayment rate	7.2%	8.0%	9.3%
Fair value MSRs	$ 38,163	$ 37,268	$ 35,819
Percentage of MSRs	1.3%	1.3%	1.3%
Discount rate	9.4%	9.9%	10.4%
Fair value MSRs	$ 38,163	$ 37,301	$ 36,476
Percentage of MSRs	1.3%	1.3%	1.3%

These sensitivities are hypothetical and should be used with caution as the tables above demonstrate the Company's methodology for estimating the fair value of MSRs which is extremely sensitive to changes in key assumptions. For example, actual prepayment experience may differ and any difference may have a material effect on the fair value of MSRs. Changes in fair value resulting from changes in assumptions generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, in these tables, the effects of a variation in a particular assumption on the fair value of MSRs is calculated without changing any other assumption; in reality, changes in one factor may be associated with changes in another (for example, decreases in market interest rates may provide an incentive to refinance, however, this may also indicate a slowing economy and an increase in the unemployment rate, which reduces the number of borrowers who qualify for refinancing), which may magnify or counteract the sensitivities. Thus, any measurement of the fair value of MSRs is limited by the conditions existing and assumptions made at a particular point in time. Those assumptions may not be appropriate if they are applied to a different time.

The Company recorded $1.4 million and $1.8 million of gross contractually specified servicing fees, late fees, and other ancillary fees resulting from servicing of loans for the three months ended March 31, 2024 and 2023, respectively. The income, net of amortization of MSRs, is reported in "Service charges and fee income" on the Consolidated Statements of Income.

NOTE 6 – DERIVATIVES

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.

The Company's predominant derivative and hedging activities involve interest rate swaps related to certain borrowings, brokered deposits, investment securities, forward sales contracts, and commitments to extend credit associated with mortgage banking activities. Generally, these instruments help the Company manage exposure to market risk. Market risk represents the possibility that economic value or net interest income will be adversely affected by fluctuations in external factors such as market-driven interest rates and prices or other economic factors.

Mortgage Banking Derivatives Not Designated as Hedges

The Company regularly enters into commitments to originate and sell loans held for sale. The Company has exposure to movements in interest rates associated with written interest rate lock commitments with potential borrowers to originate one-to four-family loans that are intended to be sold and for closed one-to-four-family mortgage loans held for sale for which fair value accounting has been elected, that are awaiting sale and delivery into the secondary market. The Company economically hedges the risk of changing interest rates associated with these mortgage loan commitments by entering into forward sales contracts to sell one-to-four-family mortgage loans or into contracts to sell forward To-Be-Announced ("TBA") mortgage-backed securities. These commitments and contracts are considered derivatives but have not been designated as hedging instruments for reporting purposes under U.S. GAAP. Rather, they are accounted for as free-standing derivatives, or economic hedges, with changes in the fair value of the derivatives reported in noninterest income or noninterest expense. The Bank recognizes all derivative instruments as either "Other assets" or "Other liabilities" on the Consolidated Balance Sheets and measures those instruments at fair value.

Customer Swaps Not Designated as Hedges

The Company also enters into derivative contracts, which consist of interest rate swaps, to facilitate the needs of clients desiring to manage interest rate risk. These swaps are not designated as accounting hedges under ASC 815, Derivatives and Hedging. To economically hedge the interest rate risk associated with offering this product, the Company simultaneously enters into derivative contracts with third parties to offset the customer contracts such that the Company minimizes its net risk exposure resulting from such transactions. The derivative contracts are structured such that the notional amounts reduce over time to generally match the expected amortization of the underlying loans. These derivatives are not speculative and arise from a service provided to clients.

Cash Flow Hedges

The Company has entered into interest rate swaps to reduce the exposure to variability in interest-related cash outflows attributable to changes in forecasted Secured Overnight Financing Rate ("SOFR") based brokered deposits. These derivative instruments are designated as cash flow hedges. The hedged item is the SOFR portion of the series of future adjustable-rate borrowings and deposits over the term of the interest rate swap. Accordingly, changes to the amount of interest payment cash flows for the hedged transactions attributable to a change in credit risk are excluded from management's assessment of hedge effectiveness. The Company tests for hedging effectiveness on a quarterly basis. The accumulated other comprehensive income is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company has not recorded any hedge ineffectiveness since inception.

The Company expects that approximately $3.7 million will be reclassified from accumulated other comprehensive loss as a decrease to interest expense over the next 12 months related to these cash flow hedges.

Fair Value Hedges

The Company is exposed to changes in the fair value of certain of its pools of prepayable fixed-rate assets due to changes in benchmark interest rates. The Company uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate, the SOFR. Interest rate swaps designated as fair value hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements 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.

The following amounts were recorded on the balance sheet related to cumulative-basis adjustment for fair value hedges for the dates indicated:

Line item in the statement of financial position in which the hedged Item is included	Carrying Amount of the Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets
March 31, 2024		
Investment securities (1)	$ 55,560	$ 4,440
Total	$ 55,560	$ 4,440
December 31, 2023		
Investment securities (1)	$ 56,785	$ 3,215
Total	$ 56,785	$ 3,215

(1) These amounts include the amortized cost basis of closed portfolios used in designated hedging relationships in which the hedged item is the last layer expected to be remaining at the end of the hedging relationship. At March 31, 2024, the amortized cost basis of the closed portfolios used in these hedging relationships was $184.9 million; the cumulative basis adjustments associated with these hedging relationships was $4.4 million; and the amounts of the designated hedged items was $60.0 million.

The following tables summarize the Company's derivative instruments at the dates indicated. The Company recognizes derivative assets and liabilities in "Other assets" and "Other liabilities," respectively, on the Consolidated Balance Sheets, as follows:

	March 31, 2024		
		Fair Value	
Cash flow hedges:	Notional	Asset	Liability
Interest rate swaps - brokered deposits	$ 190,000	$ 4,960	$ —
Fair value hedges:			
Interest rate swaps - securities	60,000	4,420	—
Non-hedging derivatives:			
Fallout adjusted interest rate lock commitments with customers	29,238	251	—
Mandatory and best effort forward commitments with investors	36,310	—	73
Forward TBA mortgage-backed securities	38,000	—	78
Interest rate swaps - customer swap positions	801	—	73
Interest rate swaps - dealer offsets to customer swap positions	801	73	—

	December 31, 2023		
		Fair Value	
Cash flow hedges:	Notional	Asset	Liability
Interest rate swaps - brokered deposits	$ 250,000	$ 3,233	$ 375
Fair value hedges:			
Interest rate swaps - securities	60,000	3,198	—
Non-hedging derivatives:			
Fallout adjusted interest rate lock commitments with customers	22,334	329	—
Mandatory and best effort forward commitments with investors	10,070	—	188
Forward TBA mortgage-backed securities	33,000	—	284
Interest rate swaps - customer swap positions	801	—	63
Interest rate swaps - dealer offsets to customer swap positions	801	64	—

The following table summarizes the effect of fair value and cash flow hedge accounting on the Consolidated Statements of Income for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,			
	2024		2023	
	Interest Expense Deposits	Interest Income Securities	Interest Expense Deposits	Interest Income Securities
Total amounts presented on the Consolidated Statements of Income	$ 12,882	$ 3,883	$ 6,624	$ 2,620
Net gains (losses) on fair value hedging relationships:				
Interest rate swaps - securities				
Recognized on hedged items	$ —	$ (1,225)	$ —	$ 1,495
Recognized on derivatives designated as hedging instruments	—	1,225	—	(1,495)
Net interest income recognized on cash flows of derivatives designated as hedging instruments	—	418	—	293
Net income recognized on fair value hedges	$ —	$ 418	$ —	$ 293
Net gain on cash flow hedging relationships:				
Interest rate swaps - brokered deposits and borrowings				
Realized gains (pre-tax) reclassified from AOCI into net income	$ 1,722	$ —	$ 907	$ —
Net income recognized on cash flow hedges	$ 1,722	$ —	$ 907	$ —

Changes in the fair value of the non-hedging derivatives recognized in "Noninterest income" on the Consolidated Statements of Income and included in gain on sale of loans resulted in net gains of $201,000 and $424,000 for the three months ended March 31, 2024 and 2023, respectively.

The following tables present a summary of amounts outstanding in derivative financial instruments, including those entered into in connection with the same counter-party under master netting agreements at the dates indicated. While these agreements are typically over-collateralized, GAAP requires disclosures in this table to limit the amount of such collateral to the amount of the related asset or liability for each counter-party.

				Gross Amounts Not Offset in the Statement of Financial Position		
Offsetting of derivative assets	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
At March 31, 2024						
Interest rate swaps	$ 9,628	$ 175	$ 9,453	$ —	$ (1,070)	$ 8,383
At December 31, 2023						
Interest rate swaps	$ 6,648	$ 153	$ 6,495	$ —	$ —	$ 6,495

				Gross Amounts Not Offset in the Statement of Financial Position		
Offsetting of derivative liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Posted	Net Amount
At March 31, 2024						
Interest rate swaps	$ —	$ —	$ —	$ —	$ —	$ —
At December 31, 2023						
Interest rate swaps	$ (722)	$ (347)	$ (375)	$ —	$ 270	$ (105)

Credit Risk–Related Contingent Features

The Company has derivative contracts with its derivative counterparties that contain a provision to post collateral to the counterparties when these contracts are in a net liability position. At March 31, 2024, the Company had no collateral posted due to this provision. Receivables related to cash collateral that has been paid to counterparties is included in "Cash and cash equivalents" on the Consolidated Balance Sheets. In certain cases, the Company will have posted excess collateral, compared to total exposure due to initial margin requirements or day-to-day rate volatility.

NOTE 7 – LEASES

The Company has operating leases for retail bank and home lending branches, loan production offices, and certain equipment. The Company's leases have remaining lease terms of six months to six years and nine months, some of which include options to extend the leases for up to five years.

The components of lease cost (included in occupancy expense on the Consolidated Statements of Income) for the three months ended March 31, 2024 and 2023 are as follows:

Lease cost:	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Operating lease cost	$ 474	$ 409
Short-term lease cost	3	4
Total lease cost	$ 477	$ 413

The following tables provide supplemental information related to operating leases at or for the three months ended March 31, 2024 and 2023:

Cash paid for amounts included in the measurement of lease liabilities:	At or For the Three Months Ended March 31, 2024	At or For the Three Months Ended March 31, 2023
Operating cash flows from operating leases	$ 490	$ 424
Weighted average remaining lease term- operating leases (in years)	3.8	4.6
Weighted average discount rate- operating leases	2.97%	2.83%

The Company's leases typically do not contain a discount rate implicit in the lease contract. As an alternative, the discount rate used in determining the lease liability for each individual lease was the FHLB of Des Moines' fixed-advance rate.

Maturities of operating lease liabilities at March 31, 2024 for future periods are as follows:

Remainder of 2024	$ 1,446
2025	1,628
2026	1,475
2027	1,173
2028	428
Thereafter	954
Total lease payments	7,104
Less imputed interest	(694)
Total	$ 6,410

NOTE 8 – OTHER REAL ESTATE OWNED ("OREO")

The following table presents the activity related to OREO at or for the three months ended March 31, 2024 and 2023:

	At or For the Three Months Ended March 31,	
	2024	2023
Beginning balance	$ —	$ 570
Additions	—	—
Loans transferred to OREO	—	—
Ending balance	$ —	$ 570

There were no OREO properties at March 31, 2024 and one OREO property (a closed branch in Centralia, Washington) at March 31, 2023. There were no OREO holding costs for the three months ended March 31, 2024 and 2023.

There were $80,000 and $96,000 in portfolio mortgage loans collateralized by residential real estate in the process of foreclosure at March 31, 2024 and at December 31, 2023, respectively.

NOTE 9 – DEPOSITS

Deposits are summarized as follows at the dates indicated:

	March 31, 2024	December 31, 2023
Noninterest-bearing checking	$ 618,526	$ 654,048
Interest-bearing checking (1)	188,050	244,028
Savings	153,025	151,630
Money market (2)	364,944	359,063
Certificates of deposit less than $100,000 (3)	579,153	587,858
Certificates of deposit of $100,000 through $250,000	424,463	429,373
Certificates of deposit greater than $250,000	108,763	79,540
Escrow accounts related to mortgages serviced (4)	28,373	16,783
Total	$ 2,465,297	$ 2,522,323

(1) Includes $0.0 and $70.2 million of brokered deposits at March 31, 2024 and December 31, 2023, respectively.
(2) Includes $8.0 million and $1,000 of brokered deposits at March 31, 2024 and December 31, 2023, respectively.
(3) Includes $331.3 million and $361.3 million of brokered deposits at March 31, 2024 and December 31, 2023, respectively.
(4) Noninterest-bearing accounts.

Scheduled maturities of certificates of deposits at March 31, 2024 for future periods ending are as follows:

Maturing in 2024	$ 776,564
Maturing in 2025	267,538
Maturing in 2026	44,267
Maturing in 2027	21,324
Maturing in 2028	2,258
Thereafter	428
Total	$ 1,112,379

Interest expense by deposit category for the periods indicated is as follows:

	Three Months Ended March 31,	
	2024	2023
Interest-bearing checking	$ 784	$ 98
Savings and money market	1,661	1,198
Certificates of deposit	10,437	5,328
Total	$ 12,882	$ 6,624

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Commitments – The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the Consolidated Balance Sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The following table provides a summary of the Company's commitments at the dates indicated:

COMMITMENTS TO EXTEND CREDIT	March 31,	December 31,
REAL ESTATE LOANS	2024	2023
Commercial	$ 2,637	$ 3,472
Construction and development	168,195	154,611
One-to-four-family (includes locks for saleable loans)	29,238	23,751
Home equity	94,228	94,026
Multi-family	2,881	2,945
Total real estate loans	297,179	278,805
CONSUMER LOANS	29,345	29,517
COMMERCIAL BUSINESS LOANS		
C&I	163,801	164,873
Warehouse lending	76,323	61,837
Total commercial business loans	240,124	226,710
Total commitments to extend credit	$ 566,648	$ 535,032

Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the amount of the total commitments does not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon an extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

Unfunded commitments under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Company is committed. The Company's ACL – unfunded loan commitments at both March 31, 2024 and December 31, 2023 was $1.5 million. The Company recorded a recovery from the ACL – unfunded loan commitments of $22,000 for the three months ended March 31, 2024, as compared to a recovery of $249,000 for the three months ended March 31, 2023.

The Company also sells one-to-four-family loans to the FHLB of Des Moines that require a limited level of recourse if the loans default and exceed a certain loss exposure. Specific to that recourse, the FHLB of Des Moines established a first loss account ("FLA") related to the loans and required a credit enhancement ("CE") obligation by the Bank to be utilized after the FLA is used. Based on loans sold through March 31, 2024, total loans serviced on behalf of the FHLB of Des Moines were $8.9 million with the FLA totaling $581,000 and the CE obligation at $389,000 or 4.4% of the loans outstanding. Management has established a holdback of 10% of the outstanding CE, or $39,000, which is a part of the off-balance sheet holdback for loans sold. At both March 31, 2024 and December 31, 2023, there were no loans sold and serviced on behalf of the FHLB of Des Moines that were greater than 90 days past their contractual payment due date.

Contingent liabilities for loans held for sale – In the ordinary course of business, loans are sold with limited recourse against the Company and may have to subsequently be repurchased due to defects that occurred during the origination of the loan. The defects are categorized as documentation errors, underwriting errors, early payoff, early payment defaults, breach of representation or warranty, servicing errors, and/or fraud. When a loan sold to an investor without recourse fails to perform according to its contractual terms, the investor will typically review the loan file to determine whether defects in the origination process occurred. If a defect is identified, the Company may be required to either repurchase the loan or indemnify the investor for losses sustained. If there are no such defects, the Company has no commitment to repurchase the loan. The Company has recorded a holdback reserve of $1.9 million and $2.1 million to cover loss exposure related to these guarantees for one-to-four-family loans sold into the secondary market at March 31, 2024 and December 31, 2023, respectively, which is included in "Other liabilities" on the Consolidated Balance Sheets.

The Company has entered into a severance agreement with its Chief Executive Officer ("CEO"). The severance agreement, subject to certain requirements, generally includes a lump sum payment to the CEO equal to 24 months of base compensation in the event his employment is involuntarily terminated, other than for cause or the executive terminates his employment with good reason, as defined in the severance agreement.

The Company has entered into change of control agreements with its executives and select key personnel. The change of control agreements, subject to certain requirements, generally remain in effect until canceled by either party upon at least 24 months prior written notice. Under the change of control agreements, the executive generally will be entitled to a change of control payment from the Company if the executive is involuntarily terminated within six months preceding or 12 months after a change in control (as defined in the change of control agreements). In such an event, the executives would each be entitled to receive a cash payment in an amount equal to 12 months of their then current salary, subject to certain requirements in the change of control agreements.

As a result of the nature of our activities, the Company is subject to various pending and threatened legal actions, which arise in the ordinary course of business. From time to time, subordination liens may create litigation which requires us to defend our lien rights. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on our financial position. The Company had no material pending legal actions at March 31, 2024.

NOTE 11 – FAIR VALUE MEASUREMENTS

The Company determines fair value based on the requirements established in Accounting Standards Codification ("ASC") *Topic 820*, *Fair Value Measurements,* which provides a framework for measuring fair value in accordance with U.S. GAAP and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC *Topic 820* defines fair value as the exit price, or the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date under current market conditions.

The following definitions describe the levels of inputs that may be used to measure fair value:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following methods were used to estimate the fair value of certain assets and liabilities on a recurring and nonrecurring basis:

Securities – The fair value of securities available-for-sale are recorded on a recurring basis. The fair value of investments and mortgage-backed securities are provided by a third-party pricing service. These valuations are based on market data using pricing models that vary by asset class and incorporate available current trade, bid, and other market information, and for structured securities, cash flow, and loan performance data. The pricing processes utilize benchmark curves, benchmarking of similar securities, sector groupings, and matrix pricing. Option adjusted spread models are also used to assess the impact of changes in interest rates and to develop prepayment scenarios (Level 2). Transfers between the fair value hierarchy are determined through the third-party service provider which, from time to time will transfer between levels based on market conditions per the related security. All models and processes used consider market convention.

Mortgage Loans Held for Sale – The fair value of loans held for sale reflects the value of commitments with investors and/or the relative price as delivered into a TBA mortgage-backed security (Level 2).

Loans Receivable – Certain residential mortgage loans were initially originated for sale and measured at fair value; after origination, the loans were transferred to loans held for investment. As of March 31, 2024 and December 31, 2023, there were $15.0 million and $15.1 million, respectively, in residential mortgage loans recorded at fair value as they were previously transferred from held for sale, at fair value to loans held for investment. The aggregate unpaid principal balance of these loans was $16.2 million and $16.3 million as of March 31, 2024 and December 31, 2023, respectively. Gains and losses from changes in fair value for these loans are reported in earnings as a component of “Other noninterest income” on the Consolidated Statements of Income. For the three months ended March 31, 2024, the Company recorded a net increase in fair value of $2,000, as compared to a net increase in fair value of $577,000 for the three months ended March 31, 2023. For loans originated as held for sale and transferred into loans held for investment, the fair value is determined based on quoted secondary market prices for similar loans (Level 2).

Derivative Instruments – Fair values for derivative assets and liabilities are measured on a recurring basis. The primary use of derivative instruments is related to the mortgage banking activities of the Company. The fair value of the interest rate lock commitments and forward sales commitments are estimated using quoted or published market prices for similar instruments, adjusted for factors such as pull-though rate assumptions based on historical information, where appropriate. TBA mortgage-backed securities are fair valued on similar contracts in active markets (Level 2), while locks and forwards with customers and investors are fair valued using similar contracts in the market and changes in the market interest rates (Level 2 and 3). Derivative instruments not related to mortgage banking activities include interest rate swap agreements. 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 the market inputs we use 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.

Other Real Estate Owned – Fair value adjustments to OREO are recorded at the lower of carrying amount of the loan or fair value of the collateral less selling costs. Any write-downs based on the asset’s fair value at the date of acquisition are charged to the ACL on loans. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell (Level 3).

Collateral Dependent Loans– Expected credit losses on collateral dependent loans are measured based on the fair value of collateral as of the reporting date, less estimated selling costs, as applicable. If the fair value of the collateral is less than the amortized cost basis of the loan, the Company will recognize an allowance as the difference between the fair value of the collateral, less costs to sell (if applicable) at the reporting date and the amortized cost basis of the loan. If the fair value of the collateral exceeds the amortized cost basis of the loan, any expected recovery added to the amortized cost basis will be limited to the amount previously charged-off by the subsequent changes in the expected credit losses on collateral dependent loans. Subsequent adjustments in the expected credit losses for collateral-dependent loans are included within the provision for credit losses in the same way the expected credit loss initially was recognized or as a reduction in the provision that would otherwise be reported (Level 3).

Mortgage Servicing Rights – The fair value of MSRs is estimated using net present value of expected cash flows using a third-party model that incorporates assumptions used in the industry to value such rights, adjusted for factors such as weighted average prepayments speeds based on historical information where appropriate (Level 3).

The following tables present securities available-for-sale, mortgage loans held for sale, loans receivable, at fair value, and derivative assets and liabilities measured at fair value on a recurring basis at the dates indicated:

Financial Assets	At March 31, 2024			
Securities available-for-sale:	Level 1	Level 2	Level 3	Total
U.S. agency securities	$ —	$ 17,898	$ —	$ 17,898
Corporate securities	—	15,200	—	15,200
Municipal bonds	—	73,553	—	73,553
Mortgage-backed securities	—	119,802	—	119,802
U.S. Small Business Administration securities	—	53,190	—	53,190
Mortgage loans held for sale, at fair value	—	49,957	—	49,957
Loans receivable, at fair value	—	15,003	—	15,003
Derivatives:				
Interest rate lock commitments with customers	—	—	251	251
Interest rate swaps - cash flow and fair value hedges	—	9,380	—	9,380
Interest rate swaps - dealer offsets to customer swap positions	—	73	—	73
Total assets measured at fair value	$ —	$ 354,056	$ 251	$ 354,307
Financial Liabilities				
Derivatives:				
Interest rate swaps - customer swap positions	$ —	$ (73)	$ —	$ (73)
Mandatory and best effort forward commitments with investors	—	—	(73)	(73)
Forward TBA mortgage-backed securities	—	(78)	—	(78)
Total liabilities measured at fair value	$ —	$ (151)	$ (73)	$ (224)

Financial Assets	At December 31, 2023			
Securities available-for-sale:	Level 1	Level 2	Level 3	Total
U.S. agency securities	$ —	$ 18,018	$ —	$ 18,018
Corporate securities	—	12,872	—	12,872
Municipal bonds	—	119,447	—	119,447
Mortgage-backed securities	—	101,248	—	101,248
U.S. Small Business Administration securities	—	41,348	—	41,348
Mortgage loans held for sale, at fair value	—	25,668	—	25,668
Loans receivable, at fair value	—	15,088	—	15,088
Derivatives:				
Interest rate lock commitments with customers	—	—	329	329
Interest rate swaps- cash flow and fair value hedges	—	6,431	—	6,431
Interest rate swaps - dealer offsets to customer swap positions	—	64	—	64
Total assets measured at fair value	$ —	$ 340,184	$ 329	$ 340,513
Financial Liabilities				
Derivatives:				
Mandatory and best effort forward commitments with investors	$ —	$ —	$ (188)	$ (188)
Forward TBA mortgage-backed securities	—	(284)	—	(284)
Interest rate swaps - cash flow and fair value hedges	—	(375)	—	(375)
Interest rate swaps - customer swap positions	—	(63)	—	(63)
Total liabilities measured at fair value	$ —	$ (722)	$ (188)	$ (910)

The following table presents financial assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy at March 31, 2024 and December 31, 2023.

	March 31, 2024			
	Level 1	Level 2	Level 3	Total
MSRs	$ —	$ —	$ 20,315	$ 20,315

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
MSRs	$ —	$ —	$ 38,163	$ 38,163

Quantitative Information about Level 3 Fair Value Measurements – Shown in the table below is the fair value of financial instruments measured under a Level 3 unobservable input on a recurring and nonrecurring basis at the dates indicated:

Level 3 Fair Value Instruments	Valuation Techniques	Significant Unobservable Inputs	Range	Weighted Average Rate March 31, 2024	Weighted Average Rate December 31, 2023
RECURRING					
Interest rate lock commitments with customers	Quoted market prices	Pull-through expectations	80% - 99%	89.4%	90.5%
Individual forward sale commitments with investors	Quoted market prices	Pull-through expectations	80% - 99%	89.4%	90.5%
NONRECURRING					
MSR	Industry sources	Pre-payment speeds	0% - 50%	8.9%	7.2%

The pull-through rate is based on historical loan closing rates for similar interest rate lock commitments. An increase or decrease in the pull-through rate would have a corresponding positive or negative fair value adjustment.

The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the dates indicated:

Three Months Ended March 31, 2024	Beginning Balance	Purchases and Issuances	Sales and Settlements	Ending Balance	Net change in fair value for gains/(losses) (1)	Net change in fair value for gains/(losses) (2)
Interest rate lock commitments with customers	$ 329	$ 965	$ (1,043)	$ 251	$ (78)	$ —
Individual forward sale commitments with investors	(188)	(15)	130	(73)	115	—
March 31, 2023						
Interest rate lock commitments with customers	$ 107	$ 994	$ (536)	$ 565	$ 458	$ —
Individual forward sale commitments with investors	(38)	222	(197)	(13)	25	—

(1) Relating to items held at end of period included in income.
(2) Relating to items held at end of period included in other comprehensive income (loss).

Gains on interest rate lock commitments and on forward sale commitments with investors carried at fair value are recorded in "Gain on sale of loans held for sale" on the Consolidated Statements of Income.

The following table provides estimated fair values of the Company's financial instruments at the dates indicated, whether recognized at fair value or not on the Consolidated Balance Sheets:

	March 31, 2024		December 31, 2023	
Financial Assets	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Level 1 inputs:				
Cash and cash equivalents	$ 45,406	$ 45,406	$ 65,691	$ 65,691
Certificates of deposit at other financial institutions	23,222	23,222	24,167	24,167
Level 2 inputs:				
Securities available-for-sale, at fair value	279,643	279,643	292,933	292,933
Securities held-to-maturity, gross	8,500	7,785	8,500	7,666
Loans held for sale, at fair value	49,957	49,957	25,668	25,668
FHLB stock, at cost	2,909	2,909	2,114	2,114
Loans receivable, at fair value	15,003	15,003	15,088	15,088
Interest rate swaps - cash flow and fair value hedges	9,380	9,380	6,431	6,431
Accrued interest receivable	14,455	14,455	14,005	14,005
Interest rate swaps - dealer offsets to customer swap positions	73	73	64	64
Level 3 inputs:				
Loans receivable, net	2,400,376	2,284,273	2,417,927	2,276,397
MSRs, held at lower of cost or fair value	9,009	20,315	9,090	20,552
MSRs held for sale, held at lower of cost or fair value	—	—	8,086	17,611
Fair value interest rate locks with customers	251	251	—	—
Financial Liabilities				
Level 2 inputs:				
Deposits	2,465,297	2,453,676	2,522,323	2,515,026
Borrowings	129,940	129,474	93,746	93,416
Subordinated notes, excluding unamortized debt issuance costs	50,000	43,812	50,000	43,480
Accrued interest payable	6,966	6,966	5,473	5,473
Interest rate swaps - cash flow and fair value hedges	—	—	375	375
Forward TBA mortgage-backed securities	78	78	284	284
Interest rate swaps - customer swap positions	73	73	63	63
Level 3 inputs:				
Mandatory and best effort forward commitments with investors	73	73	188	188

NOTE 12 – EARNINGS PER SHARE

The Company computes earnings per share using the two-class method, which is an earnings allocation method for computing earnings per share that treats a participating security as having rights to earnings that would otherwise have been available to common shareholders. Basic earnings per share are computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Unvested share-based awards containing non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

The following table presents a reconciliation of the components used to compute basic and diluted earnings per share at or for the dates indicated:

	At or For the Three Months Ended March 31,	
	2024	2023
Numerator		
Net income	$ 8,397	$ 8,212
Dividends and undistributed earnings allocated to participating securities	(131)	(147)
Net income available to common shareholders	$ 8,266	$ 8,065
Denominator (shown as actual):		
Basic weighted average common shares outstanding	7,703,789	7,623,580
Dilutive shares	120,671	154,838
Diluted weighted average common shares outstanding	7,824,460	7,778,418
Basic earnings per share	$ 1.07	$ 1.06
Diluted earnings per share	$ 1.06	$ 1.04
Potentially dilutive weighted average share options that were not included in the computation of diluted earnings per share because to do so would be anti-dilutive.	28,102	37,227

NOTE 13 – STOCK-BASED COMPENSATION

Stock Options and Restricted Stock

On May 17, 2018, the shareholders of FS Bancorp approved the 2018 Equity Incentive Plan (the "2018 Plan") that authorized 1.3 million shares of the Company's common stock to be awarded. The 2018 Plan provides for the grant of incentive stock options, nonqualified stock options, and up to 326,000 shares as restricted stock awards ("RSAs") to directors, emeritus directors, officers, employees or advisory directors of the Company. At March 31, 2024, there were 265,532 stock option awards and 80,622 RSAs available for future grants under the 2018 Plan.

Total share-based compensation expense was $395,000 and $654,000 for the three months ended March 31, 2024 and 2023, respectively.

Stock Options

The 2018 Plan consists of stock option awards that may be granted as incentive stock options or nonqualified stock options. Stock option awards generally vest over a one-year period for independent directors or over a five-year period for employees and officers with 20% vesting on the anniversary date of each grant date as long as the award recipient remains in service to the Company. The options are exercisable after vesting for up to the remaining term of the original grant. The maximum term of the options granted is 10 years. Any unexercised stock options will expire 10 years after the grant date or sooner in the event of the award recipient's termination of service with the Company or the Bank. The fair value of each stock option award is estimated on the grant date using a Black-Scholes Option pricing model that uses the following assumptions. The dividend yield is based on the current quarterly dividend in effect at the time of the grant. Historical employment data is used to estimate the forfeiture rate. The historical volatility of the Company's stock price over a specified period of time is used for the expected volatility. The Company bases the risk-free interest rate on the comparable U.S. Treasury rate for the discount rate associated with the stock in effect on the date of the grant. The Company elected to use Staff Accounting Bulletin 107, simplified expected term calculation for the "Share-Based Payments" method permitted by the SEC to calculate the expected term. This method uses the vesting term of an option along with the contractual term, setting the expected life at 5.5 years for one-year vesting and 6.5 years for five-year vesting.

The following table presents a summary of the Company's stock option awards during the dates indicated (shown as actual):

	Shares	Weighted- Average Exercise Price		Weighted- Average Remaining Contractual Term In Years	Aggregate Intrinsic Value	
Outstanding at January 1, 2024	662,279	$	28.12	6.69	$	5,852,975
Granted	—	$	—	—		—
Less exercised	17,612	$	8.45	—	$	507,344
Less forfeited	12,000		30.73	—		—
Outstanding at March 31, 2024	632,667	$	28.62	6.56	$	3,923,645
Expected to vest, assuming a 0.31% annual forfeiture rate at March 31, 2024 (1)	623,800	$	28.62	6.48	$	3,873,086
Exercisable at March 31, 2024	365,850	$	27.83	5.52	$	2,549,465

(1) Forfeiture rate has been calculated and estimated to assume a forfeiture of 3.1% of the options over 10 years.

At March 31, 2024, there was $1.5 million of total unrecognized forfeiture adjusted compensation cost related to nonvested stock options granted under the 2018 Plan. The cost is expected to be recognized over the remaining weighted-average vesting period of 3.2 years.

Restricted Stock Awards

The RSAs' fair value is equal to the value of the market price of FS Bancorp's common stock on the grant date and compensation expense is recognized over the vesting period of the awards based on the fair value of the restricted stock. Shares granted under the 2018 Plan generally vest over a one-year period for independent directors and a five-year period for employees and officers beginning on the grant date. Any nonvested RSAs will be forfeited in the event of the award recipient's termination of service with the Company or the Bank.

The following table presents a summary of the Company's nonvested awards during the dates indicated (shown as actual):

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value Per Share	
Nonvested at January 1, 2024	102,144	$	29.61
Granted	—		—
Less vested	—		—
Less forfeited	4,000		30.73
Nonvested at March 31, 2024	98,144	$	29.57

At March 31, 2024, there was $2.2 million of total unrecognized forfeiture adjusted compensation cost related to nonvested shares granted under the 2018 Plan as RSAs. The cost is expected to be recognized over the remaining weighted-average vesting period of 3.1 years.

NOTE 14 – REGULATORY CAPITAL

The Bank is subject to various regulatory capital requirements administered by the Federal Reserve and the FDIC. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines of the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Under the risk-based capital adequacy framework, quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier 1 total capital (as defined) and common equity Tier 1 ("CET 1") capital to risk-weighted assets (as defined).

The Bank must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 leverage, and CET 1 capital ratios as set forth in the table below to be categorized as well capitalized. At March 31, 2024, the Bank was categorized as well capitalized under applicable regulatory requirements. There are no conditions or events since that notification that management believes have changed the Bank's category. Management believes, at March 31, 2024, that the Bank met all capital adequacy requirements.

The following tables compare the Bank's actual capital amounts and ratios to their minimum regulatory capital requirements and well capitalized regulatory capital at the dates indicated:

	Actual		For Capital Adequacy Purposes		For Capital Adequacy with Capital Buffer		To be Well Capitalized Under Prompt Corrective Action Provisions	
Bank Only	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
At March 31, 2024								
Total risk-based capital								
(to risk-weighted assets)	$ 346,551	13.72%	$ 202,098	8.00%	$ 265,253	10.50%	$ 252,622	10.00%
Tier 1 risk-based capital								
(to risk-weighted assets)	$ 314,938	12.47%	$ 151,573	6.00%	$ 214,729	8.50%	$ 202,098	8.00%
Tier 1 leverage capital								
(to average assets)	$ 314,938	10.61%	$ 118,727	4.00%	$ N/A	N/A	$ 148,408	5.00%
CET 1 capital								
(to risk-weighted assets)	$ 314,938	12.47%	$ 113,680	4.50%	$ 176,835	7.00%	$ 164,204	6.50%

	Actual		For Capital Adequacy Purposes		For Capital Adequacy with Capital Buffer		To be Well Capitalized Under Prompt Corrective Action Provisions	
Bank Only	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2023								
Total risk-based capital								
(to risk-weighted assets)	$ 339,436	13.37%	$ 203,094	8.00%	$ 266,561	10.50%	$ 253,868	10.00%
Tier 1 risk-based capital								
(to risk-weighted assets)	$ 307,686	12.12%	$ 152,321	6.00%	$ 215,787	8.50%	$ 203,094	8.00%
Tier 1 leverage capital								
(to average assets)	$ 307,686	10.39%	$ 118,488	4.00%	$ N/A	N/A	$ 148,109	5.00%
CET 1 capital								
(to risk-weighted assets)	$ 307,686	12.12%	$ 114,240	4.50%	$ 177,707	7.00%	$ 165,014	6.50%

In addition to the minimum CET 1, Tier 1, total capital and leverage ratios, the Bank is required to maintain a capital conservation buffer consisting of additional CET 1 capital greater than 2.5% of risk-weighted assets above the required minimum capital levels to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. At March 31, 2024, the Bank's capital exceeded the minimum required capital with the required conservation buffer.

The Company is a bank holding company registered with the Federal Reserve. Bank holding companies are subject to capital adequacy requirements of the Federal Reserve under the Bank Holding Company Act of 1956, as amended, and the regulations of the Federal Reserve. Bank holding companies with less than $3.0 billion in assets are generally not subject to compliance with the Federal Reserve's capital regulations, which are generally the same as the capital regulations applicable to the Bank. The Federal Reserve has a policy that a bank holding company is required to serve as a source of financial and managerial strength to the holding company's subsidiary bank and expects the holding company's subsidiary bank to be well capitalized under the prompt corrective action regulations. If the Company were subject to regulatory guidelines for bank holding companies with $3.0 billion or more in assets at March 31, 2024, it would have exceeded all regulatory capital requirements. For informational purposes, the regulatory capital ratios calculated for the Company at March 31, 2024 were 9.2% for Tier 1 leverage-based capital, 10.9% for Tier 1 risk-based capital, 14.1% for total risk-based capital, and 10.9% for CET 1 capital ratio. The regulatory capital ratios calculated for the Company at December 31, 2023 were 9.0% for Tier 1 leverage-based capital, 10.5% for Tier 1 risk-based capital, 13.7% for total risk-based capital, and 10.5% for CET 1 capital ratio.

NOTE 15 – BUSINESS SEGMENTS

The Company's business segments are determined based on the products and services provided, as well as the nature of the related business activities, and they reflect the way financial information is currently evaluated by management. This process is dynamic and is based on management's current view of the Company's operations and is not necessarily comparable with similar information for other financial institutions. The Company defines its business segments by product type and customer segment which it has organized into two lines of business: commercial and consumer banking and home lending.

The Company uses various management accounting methodologies to assign certain income statement items to the responsible operating segment, including:

- a funds transfer pricing ("FTP") system, which allocates interest income credits and funding charges between the segments, assigning to each segment a funding credit for its liabilities, such as deposits, and a charge to fund its assets. The FTP methodology is based on management's estimated cost of originating funds including the cost of overhead for deposit generation;

- a cost per loan serviced allocation based on the number of loans being serviced on the balance sheet and the number of loans serviced for third parties;

- an allocation based upon the approximate square footage utilized by the home lending segment in Company owned locations;

- an allocation of charges for services rendered to the segments by centralized functions, such as corporate overhead, which are generally based on the number of full-time employees ("FTEs") in each segment; and

- an allocation of the Company's consolidated income taxes which are based on the effective tax rate applied to the segment's pretax income or loss.

A description of the Company's business segments and the products and services that they provide is as follows:

Commercial and Consumer Banking Segment

The commercial and consumer banking segment provides diversified financial products and services to our commercial and consumer customers through Bank branches, online banking platforms, mobile banking apps, and telephone banking. These products and services include deposit products; residential, consumer, business and commercial real estate lending portfolios and cash management services. The Company originates consumer loans, commercial and multi-family real estate loans, construction loans for residential and multi-family construction, and commercial business loans. At March 31, 2024, the Company's retail deposit branch network consisted of 27 branches in the Pacific Northwest. This segment is also responsible for the management of the investment portfolio and other assets of the Bank.

Home Lending Segment

The home lending segment originates one-to-four-family residential mortgage loans primarily for sale in the secondary markets as well as loans held for investment. A majority of these mortgage loans are sold to or securitized by FNMA, FHLMC, GNMA, or the FHLB of Des Moines, while the Company generally retains the right to service these loans. Loans originated under the guidelines of the Federal Housing Administration or ("FHA"), US Department of Veterans Affairs or VA, and United States Department of Agriculture or USDA are generally sold servicing released to a correspondent bank or mortgage company. The Company has the option to sell loans on a servicing-released or servicing-retained basis to correspondent lenders. A small percentage of its loans are brokered to other lenders. On occasion, the Company may sell a portion of its MSRs portfolio and may sell small pools of loans initially originated to be held in the loan portfolio. The Company manages the loan funding and the interest rate risk associated with the secondary market loan sales and the retained one-to-four-family MSRs within this business segment. One-to-four-family loans originated for investment and held in this segment are allocated to the home lending segment with a corresponding provision expense and FTP for cost of funds.

Segment Financial Results

The tables below summarize the financial results for each segment based on the factors mentioned above within each segment for the three months ended March 31, 2024 and 2023:

	At or For the Three Months Ended March 31, 2024		
Condensed income statement:	Commercial and Consumer Banking	Home Lending	Total
Net interest income (1)	$ 28,086	$ 2,260	$ 30,346
Provision for credit losses	(1,251)	(148)	(1,399)
Noninterest income (2)	2,393	2,718	5,111
Noninterest expense (3)	(19,008)	(4,521)	(23,529)
Income before provision for income taxes	10,220	309	10,529
Provision for income taxes	(2,069)	(63)	(2,132)
Net income	$ 8,151	$ 246	$ 8,397
Total average assets for period ended	$ 2,401,864	$ 556,683	$ 2,958,547
Full-time employees ("FTEs")	440	130	570

	At or For the Three Months Ended March 31, 2023		
Condensed income statement:	Commercial and Consumer Banking	Home Lending	Total
Net interest income (1)	$ 27,500	$ 3,162	$ 30,662
(Provision) recovery for credit losses	(2,122)	14	(2,108)
Noninterest income (2)	2,380	2,839	5,219
Noninterest expense (3)	(18,610)	(4,914)	(23,524)
Income before provision for income taxes	9,148	1,101	10,249
Provision for income taxes	(1,809)	(228)	(2,037)
Net income	$ 7,339	$ 873	$ 8,212
Total average assets for period ended	$ 2,250,052	$ 491,974	$ 2,742,026
FTEs	445	141	586

(1) Net interest income is the difference between interest earned on assets and the cost of liabilities to fund those assets. Interest earned includes actual interest earned on segment assets and, if the segment has excess liabilities, interest credits for providing funding to the other segment. The cost of liabilities includes interest expense on segment liabilities and, if the segment does not have enough liabilities to fund its assets, a funding charge based on the cost of assigned liabilities to fund segment assets.

(2) Noninterest income includes activity from certain residential mortgage loans that were initially originated for sale and measured at fair value, and subsequently transferred to loans held for investment. Gains and losses from changes in fair value for these loans are reported in earnings as a component of noninterest income. For the three months ended March 31, 2024, the Company recorded a net increase in fair value of $2,000, as compared to a net increase in fair value of $577,000 for the three months ended March 31, 2023, respectively. As of March 31, 2024 and 2023, there was $15.0 million and $15.1 million, respectively, in residential mortgage loans recorded at fair value as they were previously transferred from loans held for sale to loans held for investment.

(3) Noninterest expense includes allocated overhead expense from general corporate activities. Allocation is determined based on a combination of segment assets and FTEs. For the three months ended March 31, 2024 and 2023, the Home Lending segment included allocated overhead expenses of $1.5 million and $1.6 million, respectively.

NOTE 16 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and certain other intangibles generally arise from business combinations accounted for under the acquisition method of accounting. Goodwill totaled $3.6 million at both March 31, 2024, and December 31, 2023, and represents the excess of the total acquisition price paid over the fair value of the assets acquired, net of the fair values of liabilities assumed in the Branch Purchase on February 24, 2023, and the purchase of four retail bank branches from Bank of America on January 22, 2016. Goodwill is not amortized but is evaluated for impairment on an annual basis at December 31 of each year or whenever events or changes in circumstances indicate the carrying value may not be recoverable. The Company performed an impairment analysis at March 31, 2024, and determined that no impairment of goodwill existed.

Core deposit intangible ("CDI") is evaluated for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable, with any changes in estimated useful life accounted for prospectively over the revised remaining life. As of March 31, 2024, management believes that there have been no events or changes in the circumstances that would indicate a potential impairment of CDI.

The following table summarizes the changes in the Company's other intangible assets comprised solely of CDI for the year ended December 31, 2023, and the three months ended March 31, 2024.

	Other Intangible Assets		
	Gross CDI	Accumulated Amortization	Net CDI
Balance, December 31, 2022	$ 7,490	$ (4,121)	$ 3,369
Additions as a result of the Branch Purchase	17,438	—	17,438
Amortization	—	(3,464)	(3,464)
Balance, December 31, 2023	24,928	(7,585)	17,343
Amortization	—	(941)	(941)
Balance, March 31, 2024	$ 24,928	$ (8,526)	$ 16,402

The CDI represents the fair value of the intangible core deposit base acquired in business combinations. The CDI will be amortized on an accelerated basis over 10 years for the CDI related to the Branch Purchase, on a straight-line basis over 10 years for the CDI related to the Anchor Bank acquisition in November 2018 ("Anchor Acquisition") and on an accelerated basis over approximately nine years for the CDI related to the purchase of four retail bank branches from Bank of America on January 22, 2016. Total amortization expense was $941,000 for the three months ended March 31, 2024, and $459,000 for the same period in 2023.

Amortization expense for CDI is expected to be as follows at March 31, 2024:

Remainder of 2024	$	2,692
2025		3,191
2026		2,846
2027		2,500
2028		2,110
Thereafter		3,063
Total	$	16,402

NOTE 17 – REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue Recognition

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

All the Company's revenue from contracts with customers in-scope of ASC 606 is recognized in noninterest income and included in our commercial and consumer banking segment. The following table presents noninterest income, segregated by revenue streams in-scope and out-of-scope and/or immaterial to Topic 606, for the dates indicated.

	At or For the Three Months Ended March 31,			
Noninterest income	2024		2023	
In-scope of Topic 606:				
Debit card interchange fees	$	763	$	639
Deposit service and account maintenance fees		364		275
Noninterest income (in-scope of Topic 606)		1,127		914
Noninterest income (out-of-scope and/or immaterial to Topic 606)		3,984		4,305
Total noninterest income	$	5,111	$	5,219

Deposit Service and Account Maintenance Fees

The Bank earns fees from its deposit customers for account maintenance, transaction-based services, and overdraft charges. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts monthly. The performance obligation is satisfied, and the fees are recognized monthly as the service period is completed. Transaction-based fees on deposit accounts are charged to deposit customers for specific services provided to the customer, such as wire fees, as well as charges against the account, such as fees for non-sufficient funds and overdrafts. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Debit Interchange Income

Debit and ATM interchange income represent fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied, and the fees are earned when the cost of the transaction is charged to the cardholders' debit card.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward–Looking Statements

This report contains forward-looking statements, which can be 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 subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- potential adverse impacts to economic conditions in the Company's local market areas, other markets where the Company has lending relationships, or other aspects of the Company's business operations or financial markets, including, without limitation, as a result of employment levels, labor shortages, the effects of inflation, a potential recession or slowed economic growth;
- changes in the interest rate environment, including the recent past increases in the Board of Governors of the Federal Reserve System ("Federal Reserve") benchmark rate and duration at which such increased interest rate levels are maintained, which could adversely affect our revenues and expenses, the values of our assets and obligations, and the availability and cost of capital and liquidity;
- the impact of continuing high inflation and the current and future monetary policies of the Federal Reserve in response thereto;
- the effects of any federal government shutdown;
- the credit risks of lending activities, including changes in the level and trend of loan delinquencies, write offs, changes in our allowance for credit losses ("ACL") on loans, and provision for credit losses on loans that may be impacted by deterioration in the housing and commercial real estate markets;
- secondary market conditions and our ability to originate loans for sale and sell loans in the secondary market;
- fluctuations in the demand for loans, the number of unsold homes, land and other properties, and fluctuations in real estate values in our market area;
- staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges;
- the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation;
- changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- increased competitive pressures among financial services companies;
- our ability to execute our plans to grow our residential construction lending, our home lending operations, our warehouse lending, and the geographic expansion of our indirect home improvement lending;
- our ability to attract and retain deposits;
- our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- our ability to control operating costs and expenses;
- our ability to retain key members of our senior management team;
- changes in consumer spending, borrowing, and savings habits;
- our ability to successfully manage our growth;
- the impact of bank failures or adverse developments at other banks and related negative press about the banking industry in general on investor and depositor sentiment;
- legislative or regulatory changes that adversely affect our business including changes in banking, securities and tax law, and in regulatory policies and principles, or the interpretation of regulatory capital or other rules;

- our ability to pay dividends on our common stock;
- the quality and composition of our securities portfolio and the impact of any adverse changes in the securities markets;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board ("FASB");
- costs and effects of litigation, including settlements and judgments;
- 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;
- inability of key third-party vendors to perform their obligations to us;
- the economic impact of climate change, severe weather events, natural disasters, pandemics, epidemics and other public health crises, acts of war or terrorism, civil unrest, and other external events on our business;
- other economic, competitive, governmental, bank regulatory, consumer and technical factors affecting our operations, pricing, products and services, and
- other risks described elsewhere in this Form 10-Q and our other reports filed with or furnished to SEC, including our Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Form 10-K").

Any of the forward-looking statements made in this Form 10-Q and in other public statements 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 foresee. Forward-looking statements are based upon management's beliefs and assumptions at the time they are made. The Company undertakes no obligation to update or revise any forward-looking statement included in this report 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. In light of 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.

Overview

FS Bancorp and its subsidiary bank, 1st Security Bank, have been serving the Puget Sound area since 1907, including its bank acquisitions, when the predecessor to Anchor Bank was formed. On July 9, 2012, the Bank converted from mutual to stock ownership and became the wholly owned subsidiary of FS Bancorp.

The Company is relationship-driven, delivering banking and financial services to local families, local and regional businesses and industry niches in suburban communities in the greater Puget Sound area, the Kennewick-Pasco-Richland metropolitan area of Washington, also known as the Tri-Cities, Goldendale, Vancouver, and White Salmon, Washington and Manzanita, Newport, Ontario, Tillamook and Waldport, Oregon.

On February 24, 2023, the Company completed its purchase of seven retail bank branches from Columbia State Bank (the "Branch Acquisition") and acquired approximately $425.5 million in deposits and $66.1 million in loans. The seven acquired branches are in the communities of Goldendale, and White Salmon, Washington, and Manzanita, Newport, Ontario, Tillamook, and Waldport, Oregon. The Branch Acquisition expanded our Puget Sound-focused retail footprint into southeast Washington and the state of Oregon as well as providing an opportunity to extend our unique brand of community banking into those communities.

The Company also maintains its long-standing indirect consumer lending platform which operates primarily throughout the Western United States. The Company emphasizes long-term relationships with families and businesses within the communities served, working with them to meet their financial needs. The Company is also actively involved in community activities and events within these market areas, which further strengthens our relationships within those markets.

The Company's strategic focus involves diversifying revenues, expanding lending channels, and enhancing the banking franchise. Management is committed to establishing varied revenue streams considering credit, interest rate, and concentration risks. The business plan includes:

- Growing and diversifying our loan portfolio;
- Maintaining strong asset quality;
- Emphasizing lower cost core deposits to reduce the costs of funding our loan growth;
- Capturing customers' complete relationships through a broad array of products and services, leveraging community involvement, and selectively emphasizing offerings aligned with customers' banking needs; and
- Expanding into new markets.

As a diversified lender, the Company specializes in originating one-to-four-family loans, commercial real estate ("CRE") mortgages, second mortgages, consumer loans, marine lending, and commercial business loans.

At March 31, 2024, the Company's loan portfolio included real estate loans, consumer loans, and commercial business loans representing 62.8%, 26.3%, and 10.9% of the portfolio, respectively.

Fixture secured loans to finance window, gutter, siding replacement, solar panels, spas, and other improvement renovations are a large segment of the consumer loan portfolio. These fixture-secured consumer loans are dependent on the Company's contractor/dealer network of 77 active dealers located throughout Washington, Oregon, California, Idaho, Colorado, Nevada, Arizona, Minnesota, Texas, Utah, Massachusetts, Montana, and New Hampshire. Five of these contractor/dealers were responsible for 77.1% of the dollar volume of funded loans for the three months ended March 31, 2024. The Company funded $34.9 million or approximately 1,600 loans in the fixture-secured consumer loan category during the quarter ended March 31, 2024.

The following table details fixture secured loan originations by state for the periods indicated:

(Dollars in thousands)	For the Three Months Ended March 31, 2024		For the Year Ended December 31, 2023	
State	Amount	Percent	Amount	Percent
Washington	$ 12,555	35.9%	$ 72,166	35.1%
Oregon	7,723	22.1	48,831	23.8
California	3,530	10.1	34,219	16.7
Idaho	2,198	6.3	13,787	6.7
Colorado	2,069	5.9	7,442	3.6
Arizona	1,328	3.8	5,846	2.8
Nevada	1,251	3.6	4,697	2.3
Minnesota	623	1.8	8,312	4.0
Texas	514	1.5	1,685	0.8
Utah	1,661	4.8	5,062	2.5
Massachusetts	401	1.1	778	0.4
Montana	819	2.3	2,200	1.1
New Hampshire	273	0.8	322	0.2
Total fixture secured loans	$ 34,945	100.0%	$ 205,347	100.0%

The Company originates one-to-four-family residential mortgage loans through referrals from real estate agents, financial planners, builders, and from existing customers. Retail banking customers are also an important source of the Company's loan originations. The Company originated $151.4 million of one-to-four-family loans (which included loans held for sale, loans held for investment and fixed seconds) in addition to $2.6 million of loans brokered to other institutions through the home lending segment during the three months ended March 31, 2024, of which $93.9 million were sold to investors. Of the loans sold to investors, $55.5 million were sold to the FNMA, FHLMC, FHLB, and/or GNMA with servicing rights retained for the purpose of further developing these customer relationships. At March 31, 2024, one-to-four-family residential mortgage loans held for investment totaled $580.1 million, or 23.7%, of the total gross loan portfolio, while loans held for sale totaled $50.0 million and home equity loans totaled $73.3 million at that date.

For the three months ended March 31, 2024, one-to-four-family loan originations and refinancing activity increased compared to the prior quarter as a result of slightly decreased market interest rates. Residential construction and development lending, while not as common as other loan origination options like one-to-four-family loans, continues to be an important element in our total loan portfolio, and we continue to take a disciplined approach by concentrating our efforts on loans to builders and developers in our market areas known to us. These short-term loans typically have a maturity period of six to 18 months, with disbursements not fully realized at origination, leading to a short-term reduction in net loans receivable.

The Company is significantly affected by prevailing economic conditions, as well as government policies and regulations concerning, among other things, monetary and fiscal affairs. Deposit flows are influenced by a number of factors, including interest rates paid on time deposits, other investments, account maturities, and the overall level of personal income and savings. Lending activities are influenced by the demand for funds, the number and quality of lenders, and regional economic cycles. Sources of funds for lending activities include primarily deposits, including brokered deposits, borrowings, payments on loans, and income provided from operations.

The Company's earnings are primarily dependent upon net interest income, the difference between interest income and interest expense. Interest income is a function of the balances of loans and investments outstanding during a given period and the yield earned on these loans and investments. Interest expense is a function of the amount of deposits and borrowings outstanding during the same period and interest rates paid on these deposits and borrowings.

The Company's earnings are also affected by fee income from mortgage banking activities, the provision for (recapture of) credit losses, service charges and fees, gains from sales of assets, operating expenses and income taxes. Most notable of these factors, the Company recorded a provision for credit losses of $1.4 million for the three months ended March 31, 2024, compared to $2.1 million for the same period one year ago. The decreased provision for credit losses in the current period was primarily due to a decrease in net loan growth, particularly in consumer loans, partially offset by an increase in provision for credit losses due to higher net charge-offs in commercial business, indirect home improvement, and marine loans.

Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with GAAP. In doing so, we must make estimates and assumptions. Our critical accounting estimates are those estimates that involve a significant level of uncertainty at the time the estimate was made, and changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations. Accordingly, actual results could differ materially from our estimates. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. Management believes that its critical accounting policies include the following:

ACL on Held-to-Maturity Securities. Management measures expected credit losses on held-to-maturity securities by individual security. Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers credit ratings and historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

The held-to-maturity portfolio consists entirely of corporate securities. Securities are generally rated investment grade or higher. Securities are analyzed individually to establish a reserve.

ACL on Available-for-Sale Securities. For available-for-sale securities in an unrealized loss position, management first assesses whether it intends to sell, or is more likely than not to be required to sell, the security before 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 debt 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. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an ACL is recorded, limited by the amount that the fair value is less than the amortized cost basis.

Changes in the ACL are recorded as a provision for (recapture of) credit losses. Losses are charged against the ACL when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available-for-sale debt securities is not included in the estimate of credit losses.

ACL on Loans. The ACL on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the ACL when management believes the uncollectibility of a loan balance is confirmed and recaptures are credited to the ACL when received. In the case of recaptures, amounts may not exceed the aggregate of amounts previously charged off.

Management utilizes relevant available information, from internal and external sources, relating to past events, current conditions, historical loss experience, and reasonable and supportable forecasts. The lookback period in the analysis includes historical data from 2009 to present. Adjustments to historical loss information are made when management determines historical data is not likely reflective of the current portfolio such as limited data sets or lack of default or loss history. Management may selectively apply external market data to subjectively adjust the Company's own loss history including index or peer data. Accrued interest receivable is excluded from the estimate of credit losses on loans.

The ACL on loans is measured on a collective cohort basis when similar risk characteristics exist. Generally, collectively assessed loans are grouped by call report code and then risk-grade grouping. Risk grade is grouped within each call report code by pass, watch, special mention, substandard, and doubtful. Other loan types are separated into their own cohorts due to specific risk characteristics for that pool of loans.

The Company has elected a non-discounted cash flow methodology with probability of default ("PD") and loss given default ("LGD") for all call report code cohorts ("cohorts"), except for the indirect and marine portfolios which are evaluated under a vintage methodology. The vintage methodology measures the expected loss calculation for future periods based on historical performance by the origination period of loans with similar life cycles and risk characteristics. Guaranteed portions of loans are measured with zero risk due to cash collateral and full guaranty.

The PD calculation looks at the historical loan portfolio at points in time (each month during the lookback period) to determine the probability that loans in a certain cohort will default over the next 12-month period. A default is defined as a loan that has moved to past due 90 days and greater, nonaccrual status, or experienced a charge-off during the period. In cohorts where the Company's historical data is insufficient due to a minimal amount of default activity or zero defaults, management uses index PDs comprised of rates derived from the PD experience of other community banks in place of the Company's historical PDs. Additionally, management reviews all other cohorts to determine if index PDs should be used outside of these criteria.

The LGD calculation looks at actual losses (net charge-offs) experienced over the entire lookback period for each cohort of loans. The aggregate loss amount is divided by the exposure at default to determine an LGD rate. All defaults (non-accrual, charge-off, or greater than 90 days past due) occurring during the lookback period are included in the denominator, whether a loss occurred or not and exposure at default is determined by the loan balance immediately preceding the default event (i.e., nonaccrual or charge-off). Due to limited charge-off history, management uses index LGDs comprised of rates derived from the LGD experience of other community banks in place of the Company's historical LGDs.

The Company utilizes reasonable and supportable forecasts of future economic conditions when estimating the ACL on loans. The calculation includes a 12-month PD forecast based on the Company's regression model comparing peer nonperforming loan ratios to the national unemployment rate. After the forecast period, PD rates revert on a straight-line basis back to long-term historical average rates over a 12-month period. Due to limited default history, management uses index PDs comprised of rates derived from the PD experience of other community banks in place of the Company's historical PDs.

The Company recognizes that all significant factors that affect the collectability of the loan portfolio must be considered to determine the estimated credit losses as of the evaluation date. Furthermore, the methodology, in and of itself and even when selectively adjusted by comparison to market and peer data, does not provide a sufficient basis to determine the estimated credit losses. The Company adjusts the modeled historical losses by qualitative and environmental adjustments to incorporate all significant risks to form a sufficient basis to estimate the credit losses.

Loans classified as nonaccrual, are reviewed quarterly for potential individual assessment. Any loan classified as a nonaccrual that is not determined to need individual assessment is evaluated collectively within its respective cohort.

Where the primary and/or expected source of repayment of a specific loan is believed to be the future liquidation of available collateral, impairment will generally be measured based upon expected future collateral proceeds, net of disposition expenses including sales commissions as well as other costs potentially necessary to sell the asset(s) (i.e., past due taxes, liens, etc.). Estimates of future collateral proceeds will be based upon available appraisals, reference to recent valuations of comparable properties, use of consultants or other professionals with relevant market and/or property-specific knowledge, and any other sources of information believed appropriate by management under the specific circumstances. When appraisals are ordered to support the impairment analysis of an impaired loan, the appraisal is reviewed by the Company’s internal appraisal reviewer.

Where the primary and/or expected source of repayment of a specific loan is believed to be the receipt of principal and interest payments from the borrower and/or the refinancing of the loan by another creditor, impairment will generally be measured based upon the present value of expected proceeds discounted at the contractual interest rate. Expected refinancing proceeds may be estimated from review of term sheets received by the borrower from other creditors and/or from the Company’s knowledge of terms generally available from other banks.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals and modifications. Prepayment assumptions will be determined by analysis of historical behavior by loan cohort.

ACL on Unfunded Commitments. The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The ACL for unfunded commitments is adjusted through a provision for (recapture of) credit losses. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The estimate utilizes the same factors and assumptions as the ACL on loans and is applied at the same collective cohort level.

Business Combinations and Goodwill. Pursuant to applicable accounting guidance, the Company recognizes assets acquired, including identified intangible assets, and the liabilities assumed in acquisitions at their fair values as of the acquisition date. Transaction costs related to the acquisition are expensed in the period incurred. The determination of fair values involves estimates based on internal or third-party valuations, including appraisals, discounted cash flow analysis, and other techniques incorporating factors such as attrition, inflation, asset growth rates, discount rates, credit risk, and multiples of earnings. The determination of fair value may require us to make point-in-time estimates about discount rates, future expected cash flows, market conditions, and other future events that can be volatile in nature and challenging to assess. While we use the best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement.

In whole bank or bank branch acquisitions, the primary identifiable intangible asset recorded is the value of the core deposit intangibles, representing the estimated value of the long-term deposit relationships acquired. The determination involves assumptions and estimates, typically determined through discounted cash flow analysis, considering customer attrition/runoff, alternative funding costs, deposit servicing costs, and discount rates. Amortization of core deposit intangibles occurs over estimated useful lives reviewed periodically for reasonableness. These estimated useful lives, typically ranging from seven to 10 years with an accelerated rate of amortization are periodically reviewed for reasonableness. Identifiable intangible assets, including core deposit intangibles, are assessed for impairment when events or changes suggest the carrying value may not be recoverable. The Company's policy dictates recognition of an impairment loss equal to the difference between the asset's carrying amount and its fair value if the expected undiscounted future cash flows are less than the carrying amount. Estimating future cash flows involves the use of multiple estimates and assumptions, as previously mentioned.

The ACL on purchase credit deteriorated ("PCD") assets is recognized within business combination accounting with no initial impact to net income. Subsequent changes in estimates of expected credit losses on PCD loans are recognized through a provision for (recapture of) credit losses in subsequent periods as they arise. The ACL on non-PCD assets is recognized as provision expense in the same reporting period as the business combination. Estimated loan losses for acquired loans are determined using methodologies and applying estimates and assumptions that were described previously in the section above entitled, "Allowance for Credit Losses on Loans."

Non-PCD loans acquired are generally estimated at fair value using a discounted cash flow approach with differences from contractual unpaid principal balances referred to as "discounts." These discounts are accreted to interest income over the loans' estimated remaining lives.

Similar adjustments are made for premiums or discounts on acquired debt impacting interest expense over their remaining lives. Actual accretion or amortization may differ materially from our estimates impacting our operating results.

Goodwill arising from business combinations represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. Accounting for goodwill also involves a higher degree of judgment than most other significant accounting policies. ASC 350–10 establishes standards for an impairment assessment of goodwill.

The initial recognition of goodwill and other intangible assets, along with subsequent analyses, necessitates subjective judgments from management. These judgements involve estimating how acquired assets will perform in the future using valuation methods including discounted cash flow analysis. Additionally, the challenge arises as estimated cash flows may extend beyond 10 years, making them difficult to determine over an extended timeframe. Significant events and factors influencing these estimates include competitive forces, customer behaviors, attrition, changes in revenue growth trends, cost structures, technology, alterations in discount rates, and specific industry and market conditions. To validate assumptions in its estimates, the Company reviews the historical performance of underlying or similar assets, ensuring the reasonableness of cash flow estimates.

The Company's annual assessment of potential goodwill impairment was completed during the fourth quarter of 2023. Based on the results of this assessment, no goodwill impairment was recognized. Because of current economic conditions the Company continues to monitor goodwill and other intangible assets for impairment indicators throughout the year.

On an on-going basis, the Company evaluates its estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company's accounting policies are discussed in detail in "Note 1 – Basis of Presentation and Summary" of the Notes to Consolidated Financial Statements included in Item 8. "Financial Statement and Supplementary Data" of Form 10–K.

Comparison of Financial Condition at March 31, 2024 and December 31, 2023

Assets. Total assets were $2.97 billion at both March 31, 2024 and December 31, 2023. The changes in total assets at March 31, 2024, compared to December 31, 2023, included increases of $24.3 million in loans held for sale, $13.9 million in loans receivable, net, and $3.6 million in other assets, partially offset by decreases of $20.3 million in total cash and cash equivalents, $13.3 million in securities available-for-sale, $8.1 million in MSRs held for sale, and $1.9 million in deferred tax asset, net.

Loans receivable, net increased $13.9 million to $2.42 billion at March 31, 2024, from $2.40 billion at December 31, 2023, Total real estate loans increased $5.8 million to $1.54 billion at March 31, 2024, compared to December 31, 2023, reflecting increases in one-to-four-family loans (excluding loans held for sale) of $12.3 million and home equity loans of $3.8 million, partially offset by decreases in CRE loans of $7.3 million, construction and development loans of $1.7 million, and multi-family loans of $1.4 million. Undisbursed construction and development loan commitments increased $13.6 million, to $168.2 million at March 31, 2024, as compared to $154.6 million at December 31, 2023. Similarly, commercial business loans increased $8.7 million to $264.5 million at March 31, 2024, compared to December 31, 2023, as a result of an increase in commercial and industrial lending of $18.1 million, partially offset by a decrease in warehouse lending of $9.5 million. Consumer loans decreased $621,000 to $646.1 million at March 31, 2024, compared to December 31, 2023, primarily due to a decrease of $1.1 million in indirect home improvement loans and $131,000 in other consumer loans, partially offset by an increase of $611,000 in marine loans.

Loans held for sale, consisting of one-to-four-family loans, increased by $24.3 million to $50.0 million at March 31, 2024, from $25.7 million at December 31, 2023. The Company continues to invest in its home lending operations and strategically manage production capacity in the markets we serve.

One-to-four-family loan originations for the three months ended March 31, 2024, included $110.5 million of loans originated for sale, $40.9 million of portfolio loans including first and second liens, and $2.6 million of loans brokered to other institutions.

Originations of one-to-four-family loans for the periods indicated were as follows:

(Dollars in thousands)	For the Three Months Ended March 31,					
	2024		2023			
	Amount	Percent	Amount	Percent	$ Change	% Change
Purchase	$ 135,577	88.1%	$ 102,489	92.3%	$ 33,088	32.3%
Refinance	18,371	11.9	8,535	7.7	9,836	115.2%
Total	$ 153,948	100.0%	$ 111,024	100.0%	$ 42,924	38.7%

During the three months ended March 31, 2024, the Company sold $93.9 million of one-to-four-family loans compared to $77.3 million for the same period one year ago. Gross margin on home loan sales increased to 3.43% for the three months ended March 31, 2024, compared to 3.05% for the three months ended March 31, 2023. Gross margin is defined as the margin on loans sold (cash sales) without the impact of deferred costs.

The ACL on loans totaled $31.5 million or 1.29% of gross loans receivable (excluding loans held for sale), at March 31, 2024, compared to $31.5 million or 1.30% of gross loans receivable (excluding loans held for sale, at December 31, 2023. The ACL on unfunded loan commitments was $1.5 million at both March 31, 2024 and December 31, 2023.

Classified loans totaled $24.9 million at March 31, 2024, all of which were classified as substandard, compared to classified loans of $24.9 million at December 31, 2023, of which $24.5 million were classified as substandard and $399,000 were classified as doubtful. Nonperforming loans, consisting solely of nonaccrual loans, increased $1.2 million to $12.1 million at March 31, 2024, from $11.0 million at December 31, 2023, primarily due to increases in commercial business loans of $659,000 and indirect home improvement loans of $332,000. The ratio of nonperforming loans to total gross loans was 0.49% at March 31, 2024, compared to 0.45% at December 31, 2023. There were no OREO properties at both March 31, 2024 and December 31, 2023.

Liabilities. Total liabilities decreased $16.4 million to $2.69 billion at March 31, 2024, from $2.71 billion at December 31, 2023, primarily due to a decrease of $57.0 million in deposits, offset by increases of $36.2 million in borrowings and $4.8 million in other liabilities.

Total deposits decreased $57.0 million to $2.47 billion at March 31, 2024, from $2.52 billion at December 31, 2023. CDs, which include retail and non-retail CDs, increased $15.6 million to $1.11 billion at March 31, 2024, from $1.10 billion at December 31, 2023, with non-retail CDs representing 31.0% and 34.2% of total CDs at such dates, respectively. At March 31, 2024, non-retail CDs, which include brokered CDs, online CDs and public funds CDs decreased $30.0 million to $344.5 million, compared to $374.5 million at December 31, 2023, primarily due to a decrease of $30.0 million in brokered CDs.

Transactional accounts (noninterest-bearing checking, interest-bearing checking and escrow accounts) decreased $79.9 million to $834.9 million at March 31, 2024, from $914.9 million at December 31, 2023, due to decreases of $56.0 million in interest-bearing checking and $35.5 million in noninterest-bearing checking, partially offset by an increase of $11.6 million in escrow accounts related to mortgages serviced. Money market and savings accounts increased $7.3 million to $518.0 million at March 31, 2024, from $510.7 million at December 31, 2023.

Deposits are summarized as follows at the dates indicated:

(Dollars in thousands)	March 31, 2024	December 31, 2023
Noninterest-bearing checking	$ 618,526	$ 654,048
Interest-bearing checking (1)	188,050	244,028
Savings	153,025	151,630
Money market (2)	364,944	359,063
CDs less than $100,000 (3)	579,153	587,858
CDs of $100,000 through $250,000	424,463	429,373
CDs greater than $250,000 (4)	108,763	79,540
Escrow accounts related to mortgages serviced (5)	28,373	16,783
Total	$ 2,465,297	$ 2,522,323

(1) Includes $0.0 and $70.2 million of brokered deposits at March 31, 2024 and December 31, 2023, respectively.
(2) Includes $8.0 million and $1,000 of brokered deposits at March 31, 2024 and December 31, 2023, respectively.
(3) Includes $331.3 million and $361.3 million of brokered CDs at March 31, 2024 and December 31, 2023, respectively.
(4) CDs that meet or exceed the FDIC insurance limit.
(5) Noninterest-bearing checking.

The Bank had uninsured deposits of approximately $614.1 million or 24.9% of total deposits, at March 31, 2024, compared to approximately $606.5 million or 24.0% of total deposits at December 31, 2023. The uninsured amounts are estimates based on the methodologies and assumptions used for the Bank's regulatory reporting requirements.

At March 31, 2024, borrowings totaled $129.9 million and were comprised of advances from the Federal Reserve Bank's Bank Term Funding Program ("BTFP") of $89.9 million, FRB overnight borrowings of $23.0 million, and FHLB fixed-rate advances of $17.1 million. Borrowings increased $36.2 million to $129.9 million at March 31, 2024, from $93.7 million at December 31, 2023. The increased borrowings were partially attributable to a decrease in total deposits.

Stockholders' Equity. Total stockholders' equity increased $13.4 million to $277.9 million at March 31, 2024, from $264.5 million at December 31, 2023. The increase in stockholders' equity was primarily due to net income of $8.4 million, partially offset by dividends paid of $2.0 million. In addition, stockholders' equity was positively impacted by decreases in unrealized net losses in securities available-for-sale of $4.3 million, net of tax, and unrealized net gains on fair value and cash flow hedges of $2.6 million, net of tax, reflecting sales of investment securities in unrealized loss positions and changes in market interest rates benefiting hedges during the quarter, resulting in a $6.9 million improvement in accumulated other comprehensive loss.

Book value per common share was $36.06 at March 31, 2024, compared to $34.36 at December 31, 2023. The calculation of book value per share at March 31, 2024, was based on 7,707,651 common shares, after deducting the 98,144 unvested restricted stock shares from the 7,805,795 reported common shares outstanding as of that date. Similarly, the book value per share at December 31, 2023, was calculated based on 7,698,401 common shares, after deducting the 102,144 unvested restricted stock shares from the 7,800,545 reported common shares outstanding as of that date.

Comparison of Results of Operations for the Three Months Ended March 31, 2024 and 2023

General. Net income was $8.4 million for the three months ended March 31, 2024, compared to $8.2 million for the three months ended March 31, 2023. The increase in net income was primarily due to a $709,000 or 33.6% decrease in the provision for credit losses, partially offset by a $316,000 or $1.0% decrease in net interest income, a $108,000 or 2.1% decrease in noninterest income and a $95,000 or 4.7% increase in provision for income taxes. Total noninterest expense remained relatively unchanged at $23.5 million for the three months ended March 31, 2024, compared to the same period in 2023.

Average Balances, Interest and Average Yields/Cost

The following table sets 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 resultant spread at for the periods presented. Average balances are daily average balances. Nonaccrual loans have been included in the table as loans carrying a zero yield. The yields on tax-exempt municipal bonds have not been computed on a tax equivalent basis.

(Dollars in thousands)	For the Three Months Ended March 31, 2024			For the Three Months Ended March 31, 2023		
Average Balances	Average Balance Outstanding	Interest Earned/ Paid	Yield/ Rate	Average Balance Outstanding	Interest Earned/ Paid	Yield/ Rate
ASSETS						
Loans receivable, net and loans held for sale (1)	$ 2,464,602	$ 40,997	6.69%	$ 2,292,364	$ 35,992	6.37%
Taxable AFS mortgage-backed securities (2)	114,799	1,121	3.93%	81,796	345	1.71%
Taxable AFS investment securities (2)	94,731	1,162	4.93%	59,037	743	5.10%
Tax-exempt AFS investment securities (2)	121,883	754	2.49%	129,843	635	1.98%
Taxable HTM investment securities	8,500	108	5.11%	8,500	108	5.15%
FHLB stock	2,174	31	5.74%	6,335	97	6.21%
Interest-bearing deposits at other financial institutions	59,514	707	4.78%	69,664	692	4.03%
Total interest-earning assets	2,866,203	44,880	6.30%	2,647,539	38,612	5.91%
Noninterest-earning assets	92,344			94,486		
Total assets	$ 2,958,547			$ 2,742,025		
LIABILITIES						
Savings and money market	$ 506,786	1,661	1.32%	$ 692,841	1,198	0.70%
Interest-bearing checking	188,979	784	1.67%	145,434	98	0.27%
Certificates of deposit	1,137,002	10,437	3.69%	849,762	5,328	2.54%
Borrowings	101,150	1,167	4.64%	79,339	841	4.30%
Subordinated notes	49,533	485	3.94%	49,467	485	3.98%
Total interest-bearing liabilities	1,983,450	14,534	2.95%	1,816,843	7,950	1.77%
Noninterest-bearing accounts	657,083			620,071		
Other noninterest-bearing liabilities	43,246			34,434		
Total liabilities	$ 2,683,779			$ 2,471,348		
Net interest income		$ 30,346			$ 30,662	
Net interest rate spread			3.35%			4.14%
Net earning assets	$ 882,753			$ 830,696		
Net interest margin			4.26%			4.70%
Average interest-earning assets to average interest-bearing liabilities	144.51%			145.72%		

(1) Includes net deferred fee recognition of $1.3 million and $1.8 million for the three months ended March 31, 2024 and 2023, respectively.
(2) Available for sale ("AFS") and held to maturity ("HTM") securities are shown at amortized cost.

Net Interest Income. Net interest income decreased $316,000 to $30.3 million for the three months ended March 31, 2024, from $30.7 million for the three months ended March 31, 2023, due to an increase in interest expense on deposits and, to a lesser extent, borrowings, partially offset by an increase in interest and dividend income. Total interest income increased $6.3 million for the three months ended March 31, 2024, compared to the same period in 2023, primarily due to an increase of $5.0 million in interest income on loans receivable, including fees, impacted primarily as a result of new loans being originated at higher rates and variable-rate loans repricing higher following increased market interest rates during the first six months of 2023. In addition, interest income on investment securities, excluding FHLB stock, increased $1.3 million, and interest-bearing deposits at other financial institutions increased $15,000, during the three months ended March 31, 2024, compared to the same period in 2023, primarily due to recent increases in market interest rates. Total interest expense increased $6.6 million for the three months ended March 31, 2024, compared to the same period in 2023, primarily as a result of higher market interest rates, higher utilization of borrowings and a shift in deposit mix from transactional accounts to higher cost CDs.

Net interest margin ("NIM") decreased 44 basis points to 4.26% for the three months ended March 31, 2024, from 4.70% for the same quarter the prior year. The change in NIM reflects the increased costs of deposits and borrowings which outpaced the increased yields earned on interest-earning assets.

Interest Income. Interest income for the three months ended March 31, 2024, increased $6.3 million to $44.9 million, from $38.6 million for the three months ended March 31, 2023. The increase was primarily attributable to a $218.7 million increase in the average balance of total interest-earning assets and a 39-basis point increase in the average yield on total interest-earning assets.

The following table compares average interest-earning asset balances, associated yields, and resulting changes in interest income for the three months ended March 31, 2024 and 2023:

(Dollars in thousands)	Three Months Ended March 31,				
	2024		2023		
	Average Balance Outstanding	Yield	Average Balance Outstanding	Yield	$ Change in Interest Income
Loans receivable, net and loans held for sale (1) (2)	$ 2,464,602	6.69%	$ 2,292,364	6.37%	$ 5,005
Taxable AFS mortgage-backed securities (3)	114,799	3.93	81,796	1.71	776
Taxable AFS investment securities (3)	94,731	4.93	59,037	5.10	419
Tax-exempt AFS investment securities (3)	121,883	2.49	129,843	1.98	119
Taxable HTM investment securities	8,500	5.11	8,500	5.15	—
FHLB stock	2,174	5.74	6,335	6.21	(66)
Interest-bearing deposits at other financial institutions	59,514	4.78	69,664	4.03	15
Total interest-earning assets	$ 2,866,203	6.30%	$ 2,647,539	5.91%	$ 6,268

(1) The average loans receivable, net balances include nonaccrual loans.
(2) Includes net deferred fee recognition of $1.3 million and $1.8 million for the three months ended March 31, 2024 and 2023, respectively.
(3) Shown at amortized cost.

Interest Expense. Interest expense increased $6.6 million to $14.5 million for the three months ended March 31, 2024, from $8.0 million for the comparable quarter in 2023, primarily due to an increase of interest expense on deposits of $6.3 million and on borrowings of $326,000. The average cost of funds for total interest-bearing liabilities increased 118 basis points to 2.95% for the three months ended March 31, 2024, from 1.77% for the three months ended March 31, 2023. The increase in interest expense was predominantly due to an increase in cost for deposits and borrowings as well as an increase in the average balances of CDs and borrowings. The average cost of total interest-bearing deposits increased 124 basis points to 2.83%, for the three months ended March 31, 2024, compared to 1.59%, for the three months ended March 31, 2023. The average balance of total interest-bearing deposits increased $144.7 million to $1.83 billion for the three months ended March 31, 2024, compared to $1.69 billion for the three months ended March 31, 2023. The average cost of funds, including noninterest-bearing checking, increased 89 basis points to 2.21% for the three months ended March 31, 2024, from 1.32% for the three months ended March 31, 2023.

The following table details average balances of interest-bearing liabilities, associated rates, and resulting change in interest expense for the three months ended March 31, 2024 and 2023:

(Dollars in thousands)	Three Months Ended March 31,				
	2024		2023		
	Average Balance Outstanding	Rate	Average Balance Outstanding	Rate	$ Change in Interest Expense
Savings and money market	$ 506,786	1.32%	$ 692,841	0.70%	$ 463
Interest-bearing checking	188,979	1.67	145,434	0.27	686
Certificates of deposit	1,137,002	3.69	849,762	2.54	5,109
Borrowings	101,150	4.64	79,339	4.30	326
Subordinated note	49,533	3.94	49,467	3.98	—
Total interest-bearing liabilities	$ 1,983,450	2.95%	$ 1,816,843	1.77%	$ 6,584

Provision for Credit Losses. For the three months ended March 31, 2024, the provision for credit losses was $1.4 million, consisting of a $1.4 million provision for credit losses on loans, partially offset by a $22,000 recapture of the ACL on unfunded loan commitments, compared to $2.1 million provision for credit losses for the three months ended March 31, 2023, consisting of a $2.4 million provision for credit losses on loans, offset by a $249,000 recapture of the ACL on unfunded loan commitments. The provision for credit losses on loans reflects the increase in the loan portfolio, as well as an increase in nonperforming loans and higher net charge-offs.

During the three months ended March 31, 2024, net loan charge-offs totaled $1.5 million, compared to $410,000 during the three months ended March 31, 2023. The increase was primarily due to increases in net charge-offs of $441,000 in indirect home improvement loans, $408,000 in commercial business loans, and $169,000 in marine loans. A further decline in national and local economic conditions, as a result the effects of inflation, a potential recession or slowed economic growth, among other economic factors, could result in a material increase in the ACL on loans and may adversely affect the Company's financial condition and result of operations.

Noninterest Income. Noninterest income decreased $108,000 to $5.1 million for the three months ended March 31, 2024, from $5.2 million for the three months ended March 31, 2023. The decrease reflects an $8.0 million loss on sale of investment securities resulting from management's strategic decision to increase the yields earned on and reduce the duration of the securities portfolio, and a $650,000 decrease in other noninterest income, primarily due to fair value adjustments to loans in the loan portfolio, partially offset by an $8.2 million increase in gain on sale of MSRs and a $362,000 gain on sale of loans. Gross margin on home loan sales increased to 3.43% for the three months ended March 31, 2024, from 3.05% for the three months ended March 31, 2023.

Noninterest Expense. Noninterest expense was $23.5 million for both the three months ended March 31, 2024 and 2023. The variations in noninterest expense were primarily due to the absence of acquisition costs in the current period, in contrast to $1.5 million incurred in the prior year. Additionally, there was a decrease of $307,000 in salaries and benefits, partially offset by increases of $482,000 in amortization of core deposit intangible, $390,000 in data processing, $316,000 in operations, $245,000 in professional and board fees, $185,000 in occupancy expense, and $115,000 in loan costs.

The efficiency ratio, which is calculated by dividing noninterest expense by total net interest income and noninterest income, worsened to 66.36% for the three months ended March 31, 2024, compared to 65.56% for the three months ended March 31, 2023, primarily due to decreases in net interest income and noninterest income.

Provision for Income Taxes. For the three months ended March 31, 2024, the Company recorded a provision for income taxes of $2.1 million as compared to $2.0 million for the three months ended March 31, 2023. The increase in the income taxes provision was primarily due to a $280,000 increase in pre-tax income during the three months ended March 31, 2024, as compared to the same quarter last year. The effective corporate income tax rates for the three months ended March 31, 2024 and 2023 were 20.2% and 19.9%, respectively. The increase in the effective corporate income tax rate was attributable to a decrease in nontaxable income between periods, to include an increase in non-deductible interest expense attributable to the related assets.

Liquidity

Management maintains a liquidity position that it believes will adequately provide funding for loan demand and deposit runoff that may occur in the normal course of business. The Company relies on several different sources to meet potential liquidity demands. The primary sources are increases in deposit accounts, FHLB advances, purchases of federal funds, sale of securities available-for-sale, cash flows from loan payments, sales of one-to-four-family loans held for sale, and maturing securities. While the maturities and the scheduled amortization of loans are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

The Bank must maintain an adequate level of liquidity to ensure the availability of sufficient funds to fund its operations. The Bank generally maintains sufficient cash and short-term investments to meet short-term liquidity needs. At March 31, 2024, the Bank's total borrowing capacity was $698.7 million with the FHLB of Des Moines, with unused borrowing capacity of $681.2 million. The FHLB borrowing limit is based on certain categories of loans, primarily real estate loans that qualify as collateral for FHLB advances. At March 31, 2024, the Bank held approximately $1.09 billion in loans that qualify as collateral for FHLB advances.

In addition to the availability of liquidity from the FHLB of Des Moines, the Bank maintains a short-term borrowing line with the FRB with a limit of $269.3 million and a combined credit limit of $101.0 million in written federal funds lines of credit through correspondent banking relationships at March 31, 2024. The FRB borrowing limit is based on certain categories of loans, primarily consumer loans that qualify as collateral for FRB line of credit. At March 31, 2024, the Bank held approximately $632.8 million in loans that qualify as collateral for the FRB line of credit. Additionally, securities with a carrying value of $76.2 million were pledged primarily to provide contingent liquidity through the BTFP at the Federal Reserve Bank at March 31, 2024, with a current limit of $90.1 million and no unused borrowing capacity. Subject to market conditions, we expect to utilize these borrowing facilities from time to time in the future to fund loan originations and deposit withdrawals, to satisfy other financial commitments, repay maturing debt and to take advantage of investment opportunities to the extent feasible.

The Bank's Asset and Liability Management Policy permits management to utilize brokered deposits up to 20% of deposits or $494.9 million at March 31, 2024. Total brokered deposits at March 31, 2024 were $339.3 million. Management utilizes brokered deposits to mitigate interest rate risk and to enhance liquidity when appropriate.

Liquidity management is both a daily and long-term function of the Company's management. Excess liquidity is generally invested in short-term investments, such as overnight deposits and federal funds. On a longer-term basis, a strategy is maintained of investing in various lending products and investment securities, including U.S. Government obligations and U.S. agency securities. The Company uses sources of funds primarily to meet ongoing commitments, pay maturing deposits, fund withdrawals, and to fund loan commitments. At March 31, 2024, outstanding loan commitments, including unused lines of credit totaled $566.6 million. The Company purchased $38.0 million in securities during the three months ended March 31, 2024. The Company purchased no securities during the three months ended March 31, 2023. Proceeds from securities repayments, maturities and sales were $48.3 million and $2.5 million during the three months ended March 31, 2024 and 2023, respectively.

The Bank's liquidity is also affected by the volume of loans sold and loan principal payments. During the three months ended March 31, 2024 and 2023, the Bank sold $93.9 million and $77.3 million in loans, respectively.

Total deposits decreased $57.0 million during the three months ended March 31, 2024 primarily driven by a net decrease in brokered deposits of $92.2 million. CDs scheduled to mature in three months or less at March 31, 2024, totaled $336.0 million. It is management's policy to offer deposit rates that are competitive with other local financial institutions. Based on this strategy, management believes that a majority of maturing relationship deposits will remain with the Bank.

For the remainder of 2024, we project that fixed commitments will include $1.4 million of operating lease payments. For information regarding our operating leases, see "Note 7 – Leases" of the Notes to Consolidated Financial Statements included in this report. FHLB advances of $1.1 million are scheduled to mature within the next twelve months.

As a separate legal entity from the Bank, FS Bancorp, Inc. must provide for its own liquidity. In addition to its own operating expenses (many of which are paid to the Bank), FS Bancorp is responsible for paying for any stock repurchases, dividends declared to its stockholders, interest and principal on outstanding debt, and other general corporate expenses. Sources of capital and liquidity for FS Bancorp include distributions from the Bank and the issuance of debt or equity securities, although there are regulatory restrictions on the ability of the Bank to make distributions.

Dividends and other capital distributions from the Bank are subject to regulatory notice and certain restrictions. The unrestricted cash of FS Bancorp held at the Bank on an unconsolidated basis totaled $9.3 million at March 31, 2024. The Company currently expects to continue the current practice of paying quarterly cash dividends on common stock subject to the Board of Directors' discretion to modify or terminate this practice at any time and for any reason without prior notice. Our current quarterly common stock dividend rate is $0.26 per share, which we believe is a dividend rate per share which enables us to balance our multiple objectives of managing and investing in the Bank, and returning a substantial portion of our cash to our shareholders. Assuming continued payment during 2024 at this rate of $0.26 per share, our total dividends paid each quarter would be approximately $2.0 million based on the number of the current outstanding shares as of March 31, 2024.

Under FS Bancorp's existing stock repurchase program, approximately $3.0 million remained available for future repurchases as of March 31, 2024. See "Unregistered Sales of Equity Securities and Use of Proceeds" in Item 2, Part II of this Form 10-Q for additional information relating to stock repurchases.

Capital Resources

The Bank is subject to minimum capital requirements imposed by the FDIC. Based on its capital levels at March 31, 2024, the Bank exceeded these requirements as of that date. Consistent with our goals to operate a sound and profitable organization, our policy is for the Bank to maintain a well-capitalized status under the capital categories of the FDIC. Based on capital levels at March 31, 2024, the Bank was considered to be well capitalized. At March 31, 2024, the Bank exceeded all regulatory capital requirements with Tier 1 leverage-based capital, Tier 1 risk-based capital, total risk-based capital, and common equity Tier 1 capital ratios of 10.6%, 12.5%, 13.7%, and 12.5%, respectively.

As a bank holding company registered with the Federal Reserve, the Company is subject to the capital adequacy requirements of the Federal Reserve. Bank holding companies with less than $3.0 billion in assets are generally not subject to compliance with the Federal Reserve's capital regulations, which are generally the same as the capital regulations applicable to the Bank. The Federal Reserve has a policy that a bank holding company is required to serve as a source of financial and managerial strength to the holding company's subsidiary bank and the Federal Reserve expects the holding company's subsidiary bank to be well capitalized under the prompt corrective action regulations. If FS Bancorp were subject to regulatory capital guidelines for bank holding companies with $3.0 billion or more in assets at March 31, 2024, FS Bancorp would have exceeded all regulatory capital requirements. For informational purposes, the regulatory capital ratios calculated for FS Bancorp at March 31, 2024 were 9.2% for Tier 1 leverage-based capital, 10.9% for Tier 1 risk-based capital, 14.1% for total risk-based capital, and 10.9% for CET 1 capital ratio. For additional information regarding regulatory capital compliance, see the discussion included in "Note 14 – Regulatory Capital" to the Notes to Consolidated Financial Statements included in Part I. Item 1 of this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the market risk disclosures contained in FS Bancorp's 2023 Form 10-K.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

An evaluation of the disclosure controls and procedures as defined in Rule 13a-15(e) of the Exchange Act was carried out as of March 31, 2024, under the supervision and with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") and several other members of the Company's senior management. In designing and evaluating the Company's disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also 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.

Based upon the foregoing evaluation, the Company's CEO and CFO concluded that as of March 31, 2024, the Company's disclosure controls and procedures were effective in ensuring that information we are required to disclose in the reports we file or submit under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (2) accumulated and communicated to FS Bancorp management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure, specified in the SEC's rules and forms.

(b) Changes in Internal Controls

There were no changes in the Company's internal control over financial reporting that occurred during the three months ended March 31, 2024, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all error and all 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 can occur because of simple error or mistake. Additionally, controls may be circumvented by the individual acts of some persons, by collusion of two or more people, or by override of the control. The design of any control procedure is also 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 may 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

In the normal course of business, the Company occasionally becomes involved in various legal proceedings. In the opinion of management, any liability from such proceedings would not have a material adverse effect on the business or financial condition of the Company.

Item 1A. Risk Factors

There have been no material changes in the Risk Factors previously disclosed in FS Bancorp's 2023 Form 10-K.

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

(a) Not applicable

(b) Not applicable

(c) The following table summarizes common stock repurchases during the three months ended March 31, 2024:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plan or Program	Maximum Dollar Value of Shares that May Yet Be Repurchased Under the Plan or Program
January 1, 2024 - January 31, 2024 (1)	17,612	$ 37.25	17,612	$ 3,023,630
February 1, 2024 - February 29, 2024	—	—	—	—
March 1, 2024 - March 31, 2024	—	—	—	—
Total for the quarter	17,612	$ 37.25	17,612	$ 3,023,630

(1) Includes 3,653 shares internally repurchased by the Company to pay for the option exercise price for participants exercising options.

On August 15, 2023, the Company publicly announced that its Board of Directors approved a stock repurchase program, authorizing the repurchase up to $5.0 million shares of Company common stock, representing approximately 2.5% of its outstanding shares as of that date. The repurchases may be executed, from time to time, in the open market, through privately negotiated transactions, or by withholding shares upon the exercise of equity awards over a 12-month period until July 31, 2024.

The actual timing, price, and number of shares repurchased under the program will depend on a number of factors, including constraints specified pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, price, general business and market conditions, and alternative investment opportunities. The share repurchase program does not obligate the Company to acquire any specific number of shares in any period, and may be expanded, extended, modified or discontinued at any time.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(a) None.

(b) None.

(c) Trading Plans. During the three months ended March 31, 2024, no director or officer (as defined in Rule 16a-1(f) under the Exchange Act) of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

3.1	Articles of Incorporation of FS Bancorp, Inc. (1)
3.2	Bylaws of FS Bancorp, Inc. (2)
4.1	Form of Common Stock Certificate of FS Bancorp, Inc. (1)
4.2	Indenture dated February 10, 2021, by and between FS Bancorp, Inc. and U.S. Bank National Association, as trustee (3)
4.3	Forms of 3.75 Fixed-to-Floating Rate Subordinated Notes due 2031 (included as Exhibit A-1 and Exhibit A-2 to the Indenture filed as Exhibit 4.2 hereto (3)
10.1	Severance Agreement between 1st Security Bank of Washington and Joseph C. Adams (1)
10.2	Form of Change of Control Agreement between 1st Security Bank of Washington and Matthew D. Mullet (1)
10.3	FS Bancorp, Inc. 2013 Equity Incentive Plan (the "2013 Plan") (4)
10.4	Form of Incentive Stock Option Agreement under the 2013 Plan (4)
10.5	Form of Non-Qualified Stock Option Agreement under the 2013 Plan (4)
10.6	Form of Restricted Stock Agreement under the 2013 Plan (4)
10.9	Form of change of control agreement with Donn C. Costa, Dennis O'Leary, Erin Burr, Victoria Jarman, Kelli Nielsen, and May-Ling Sowell (5)
10.10	FS Bancorp, Inc. 2018 Equity Incentive Plan (6)
10.11	Form of Incentive Stock Option Award Agreement under the 2018 Equity Incentive Plan (6)
10.12	Form of Non-Qualified Stock Option Award Agreement under the 2018 Equity Incentive Plan (6)
10.13	Form of Restricted Stock Award Agreement under the 2018 Equity Incentive Plan (6)
10.14	FS Bancorp, Inc. Nonqualified 2022 Stock Purchase Plan (7)
10.15	Form of Enrollment/Change Form under the FS Bancorp, Inc. Nonqualified 2022 Stock Purchase Plan (7)
10.16	Form of Change of Control Agreement with Shana Allen, Stephanie Nicklaus, and Benjamin Crowl (8)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 formatted in Inline Extensible Business Reporting Language (IXBRL): (1) Consolidated Balance Sheets; (2) Consolidated Statements of Income; (3) Consolidated Statements of Comprehensive Income (Loss); (4) Consolidated Statements of Changes in Stockholders' Equity; (5) Consolidated Statements of Cash Flows; and (6) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)
(1)	Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (333-177125) filed on October 3, 2011, and incorporated by reference.
(2)	Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on July 10, 2013 (File No. 001-355589).
(3)	Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on February 11, 2021 (File No. 001-35589).
(4)	Filed as an exhibit to the Registrant's Registration Statement on Form S-8 (333-192990) filed on December 20, 2013 and incorporated by reference.
(5)	Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on February 1, 2016 (File No. 001-35589).
(6)	Filed as an exhibit to the Registrant's Registration Statement on Form S-8 (333-22513) filed on May 23, 2018.
(7)	Filed as an exhibit to the Registrant's Registration Statement on Form S-8 (333-265729) filed on June 21, 2022.
(8)	Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on February 2, 2024 (File No. 001-35589).

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.

		FS BANCORP, INC.
Date: May 10, 2024	By:	/s/Joseph C. Adams
		Joseph C. Adams, Chief Executive Officer *(Principal Executive Officer)*
Date: May 10, 2024	By:	/s/Matthew D. Mullet
		Matthew D. Mullet Secretary, Treasurer and Chief Financial Officer *(Principal Financial and Accounting Officer)*

EXHIBIT 31.1

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

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph C. Adams, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FS Bancorp, Inc.;

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 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 fourth fiscal 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 the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: May 10, 2024

/s/Joseph C. Adams
Joseph C. Adams
Chief Executive Officer

EXHIBIT 31.2

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

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Matthew D. Mullet, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FS Bancorp, Inc.;

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 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 fourth fiscal 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 the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: May 10, 2024

/s/Matthew D. Mullet
Matthew D. Mullet
Chief Financial Officer

EXHIBIT 32.1

Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report on Form 10-Q of FS Bancorp, Inc. (the “Company”) for the quarter ended March 31, 2024 (the “Report”), I, Joseph C. Adams, in my capacity as Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 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.

Date: May 10, 2024

/s/Joseph C. Adams
Joseph C. Adams
Chief Executive Officer

EXHIBIT 32.2

Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report on Form 10-Q of FS Bancorp, Inc. (the “Company”) for the quarter ended March 31, 2024 (the “Report”), I, Matthew D. Mullet, in my capacity as Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 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.

Date: May 10, 2024

/s/Matthew D. Mullet
Matthew D. Mullet
Chief Financial Officer