First Financial Northwest, Inc.
Form 10-K
March 11, 2010

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

FORM 10-K

[X]	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the Fiscal Year Ended December 31, 2009 OR
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 000-33652

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

Washington (State or other jurisdiction of incorporation or organization)	26-0610707 (I.R.S. Employer Identification Number)
201 Wells Avenue South, Renton, Washington (Address of principal executive offices)	98057 (Zip Code)

Registrant's telephone number, including area code: (425) 255-4400

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

Common Stock, $.01 par value per share (Title of Each Class)	The Nasdaq Stock Market LLC (Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO X

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES NO X

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES

X NO ____

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).
YES NO X

The aggregate market value of the Common Stock outstanding held by nonaffiliates of the Registrant based on the closing sales price of the Registrant=s Common Stock as quoted on The Nasdaq Stock Market LLC on June 30, 2009 was $155,876,615 (19,933,071) shares at $7.82 per share). For purposes of this calculation, common stock held only by executive officers and directors of the Registrant is considered to be held by affiliates. As of March 5, 2010, the Registrant had outstanding 18,805,168 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of Registrant's Definitive Proxy Statement for the 2010 Annual Meeting of Shareholders (Part III).

FIRST FINANCIAL NORTHWEST, INC.
2009 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS Page

Forward-Looking Statements (iii)
Internet Website (iv)

PART I.

Item 1. Business

General 1
Market Area 1
Lending Activities 2
Asset Quality 14
Investment Activities 23
Deposit Activities and Other Sources of Funds 27
Subsidiaries and Other Activities 30
Competition 30
Employees 31
How We Are Regulated 31
Taxation 40
Executive Officers of First Financial Northwest, Inc. 41

Item 1A. Risk Factors 42
Item 1B. Unresolved Staff Comments 52
Item 2. Properties 52
Item 3. Legal Proceedings 52
Item 4. [Reserved] 52

PART II.

Item 5. Market for Registrants Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities 52
Item 6. Selected Financial Data 56
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations 58

Overview 58
Business Strategy 59
Critical Accounting Policies 59
Comparison of Financial Condition at December 31, 2009 and December 31, 2008 61
Comparison of Operating Results for the Years Ended December 31, 2009 and December 31, 2008 63
Comparison of Financial Condition at December 31, 2008 and December 31, 2007 67
Comparison of Operating Results for the Years Ended December 31, 2008 and December 31, 2007 69

	Average Balances, Interest and Average Yields/Costs	73
	Yields Earned and Rates Paid	75
	Rate/Volume Analysis	76
	Asset and Liability Management and Market Risk	76
	Liquidity	79
	Capital	80
	Commitments and Off-Balance Sheet Arrangements	80
	Impact of Inflation	81
	Recent Accounting Pronouncements	82
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	82
Item 8.	Financial Statements and Supplementary Data	82

(Table of Contents continued on following page)

Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	127
Item 9A.	Controls and Procedures	127
Item 9B.	Other Information	128
PART III.		
Item 10.	Directors, Executive Officers and Corporate Governance	128
Item 11.	Executive Compensation	129
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	129
Item 13.	Certain Relationships and Related Transactions, and Director Independence	130
Item 14.	Principal Accountant Fees and Services	130
PART IV.		
Item 15.	Exhibits and Financial Statement Schedules	130
	Signatures	131

Forward-Looking Statements

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: This Form 10-K contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by the use of words such as "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential." These forward-looking statements relate to, among other things, expectations of the business environment in which we operate, projections of future performance, perceived opportunities in the market, potential future credit experience, and statements regarding our strategies. These forward-looking statements are based upon current management expectations and may, therefore, involve risks and uncertainties. Our actual results, performance, or achievements may differ materially from those suggested, expressed, or implied by forward-looking statements as a result of a wide variety or range of factors including, but not limited to: the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and other real estate owned that may be impacted by continued deterioration in the housing and commercial real estate markets and may lead to increased losses and nonperforming assets in our loan portfolio, and may result in our allowance for loan losses not being adequate to cover actual losses, and require us to materially increase our reserves; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes and other properties and fluctuations in real estate values in our market areas; results of examinations of us by the Office of Thrift Supervision and our bank subsidiary by the Federal Deposit Insurance Corporation, the Washington State Department of Financial Institutions, Division of Banks or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our reserve for loan losses, write-down assets, change our regulatory capital position or affect our ability to pay dividends, add officers or directors, borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; our ability to attract and retain deposits; further increases in premiums for deposit insurance; our ability to control operating costs and expenses; 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; difficulties in reducing risk associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges; computer systems on which we depend could fail or experience a security breach; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgements; 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 manage loan delinquency rates; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, including the interpretation of regulatory capital or other rules; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; the economic impact of war or any terrorist activities; other economic, competitive, governmental, regulatory, and technological factors affecting our operations; pricing, products and services; and other risks detailed in our reports filed with the U.S. Securities and Exchange Commission. Any of the forward-looking statements that we make in this Form 10-K and in the other public statements we make may turn out to be wrong because of the inaccurate assumptions we might make, because of the factors illustrated above or because of other factors that we cannot foresee. Because of these and other uncertainties, our actual future results may be materially different from those expressed in any forward-looking statements made by or on our behalf. Therefore, these factors should be considered in evaluating the forward-looking

statements, and undue reliance should not be placed on such statements. We undertake no responsibility to update or revise any forward-looking statements.

As used throughout this report, the terms "we", "our", or "us" refer to First Financial Northwest, Inc. and our consolidated subsidiaries.

Internet Website

We maintain a website with the address www.fsbnw.com. The information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor's own Internet access charges, we make available free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports, on our investor information page. These reports are posted as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission ("SEC"). All of our SEC filings are also available free of charge at the SEC's website at www.sec.gov or by calling the SEC at 1-800-SEC-0330.

PART I

Item 1. Business

General

First Financial Northwest, Inc. ("First Financial Northwest"), a Washington corporation, was formed on June 1, 2007 for the purpose of becoming the holding company for First Savings Bank Northwest ("First Savings Bank") in connection with the conversion from a mutual holding company structure to a stock holding company structure. The mutual to stock conversion was completed on October 9, 2007 through the sale and issuance of 22,852,800 shares of common stock by First Financial Northwest including 1,692,800 shares contributed to our charitable foundation the First Financial Northwest Foundation, Inc. that was established in connection with the mutual to stock conversion. At December 31, 2009, we had total assets of $1.3 billion, total deposits of $939.4 million and total stockholders' equity of $228.5 million. As part of our various stock buy back programs, a significant amount of shares were repurchased leaving the outstanding shares at December 31, 2009 at 18,823,068. First Financial Northwest's business activities generally are limited to passive investment activities and oversight of its investment in First Savings Bank. Accordingly, the information set forth in this report, including consolidated financial statements and related data, relates primarily to First Savings Bank.

First Savings Bank was organized in 1923 as a Washington state chartered savings and loan association, converted to a federal mutual savings and loan association in 1935, and converted to a Washington state chartered mutual savings bank in 1992. In 2002, First Savings Bank reorganized into a two-tier mutual holding company structure, became a stock savings bank and became the wholly-owned subsidiary of First Financial of Renton. In connection with the conversion, First Savings Bank changed its name to "First Savings Bank Northwest."

First Savings Bank is examined and regulated by the Washington State Department of Financial Institutions and by the Federal Deposit Insurance Corporation ("FDIC"). First Savings Bank is required to have certain reserves set by the Board of Governors of the Federal Reserve System and is a member of the Federal Home Loan Bank of Seattle ("FHLB"), which is one of the 12 regional banks in the Federal Home Loan Bank System.

First Savings Bank is a community-based savings bank primarily serving King and, to a lesser extent, Pierce, Snohomish and Kitsap counties, Washington through our full-service banking office located in Renton, Washington. Our current business strategy includes an emphasis on one-to-four family residential mortgage, multifamily and commercial real estate lending. Until recently, we had also included construction/land development lending in our business strategy. We have deemphasized this type of lending over the past two years as a result of market conditions although these types of loans represented 14.7% of our loan portfolio at December 31, 2009. First Savings Bank=s business consists of attracting deposits from the public and utilizing these funds to originate one-to-four family, multifamily, construction/land development, commercial real estate, business and consumer loans.

At December 31, 2009, $496.7 million or 44.5% of our total loan portfolio was comprised of one-to-four family loans; commercial real estate loans were $289.0 million or 25.9%; construction/land development loans were $164.0 million or 14.7%; multifamily residential loans were $146.5 million or 13.1%; and consumer and business loans were $18.7 million and $353,000, or 1.7% and 0.03%, respectively. Included in our construction/land development and one-to-four family residential loan portfolios at December 31, 2009, were $57.1 million and $75.7 million of total loans, respectively, to our five largest borrowing relationships. In addition, $71.8 million, net of undisbursed funds, of the construction/land development portfolio were classified as nonperforming.

The principal executive offices of First Savings Bank are located at 201 Wells Avenue South, Renton, Washington, 98057 and its telephone number is (425) 255-4400.

Market Area

We consider our primary market area to be the Puget Sound Region, which consists primarily of King, Pierce, Snohomish and Kitsap counties. The economies of King, Pierce, Kitsap and Snohomish counties have continued to experience economic challenges during 2009. Home prices have continued to experience downward pressure caused by increased foreclosure activity and short sales during the year.

King County has the largest population of any county in the State of Washington, covering approximately 2,134 square miles. It has a population of approximately 1.9 million residents according to the U.S. Census Bureau 2008 estimates, and a median household income of approximately $84,000 according to the 2009 U.S. Department of Housing and Urban Development estimates. King County has a diversified economic base with many nationally recognized firms including Boeing, Microsoft, Paccar and Amazon. According to the Washington State Employment Security Department, the unemployment rate for King County increased to 8.5% at December 31, 2009 from 5.6% at December 31, 2008 compared to the national average of 10.0%. Residential housing values depreciated in the King County market by 5.6% during the year ended 2009, with a median home price of $350,000. Residential sales volumes increased by 51.4% in December 2009 as compared to December 2008 as inventory levels are projected to be 5.4 months according to the Northwest Multiple Listing Service.

Pierce County has the second largest population of any county in the State of Washington, covering approximately 1,790 square miles. It has approximately 786,000 residents according to the U.S. Census Bureau 2008 estimates, and a median household income of approximately $68,000 according to the 2009 U.S. Department of Housing and Urban Development estimates. The Pierce County economy is diversified with the presence of military related government employment (Fort Lewis Army Base and McChord Air Force Base), transportation and shipping employment (Port of Tacoma), and aerospace related employment (Boeing). According to the Washington State Employment Security Department the unemployment rate for Pierce County increased to 9.5% in December 2009 from 7.1% in December 2008. Residential housing values depreciated in the Pierce County market by 8.5% during the year ended 2009 with a median home price of $215,000 according to the Northwest Multiple Listing Service.

Snohomish County has the third largest population of any county in the State of Washington, covering approximately 2,090 square miles. It has approximately 684,000 residents according to the U.S. Census Bureau 2008 estimates, and a median household income of approximately $84,000 according to the 2009 U.S. Department of Housing and Urban Development estimates. The economy of Snohomish County is diversified with the presence of military related government employment (Everett Homeport Naval Base), aerospace related employment (Boeing) and retail trade. According to the Washington State Employment Security Department, the unemployment rate for Snohomish County increased to 10.3% in December 2009 from 7.0% in December 2008. Residential housing values depreciated in the Snohomish County market by 8.8% during the year ended December 31, 2009 with a median home price of $280,000. Residential sales volumes increased by 31.4% in 2009 as compared to 2008 as inventory levels are projected to be 5.7 months according to the Northwest Multiple Listing Service.

Kitsap County has the sixth largest population of any county in the state of Washington, covering approximately 566 square miles. It has approximately 240,000 residents according to the U.S. Census Bureau 2008 estimates, and a median household income of approximately $71,000 according to the 2009 U.S. Department of Housing and Urban Development estimates. The Kitsap County economy is diversified with the presence of military related government employment (Naval Base Kitsap, Puget Sound Naval Shipyard), health care, retail and education. According to the Washington State Employment Security Department, the unemployment rate for Kitsap County increased to 7.6% in December 2009 from 5.9% in December 2008. Residential housing values appreciated in the Kitsap County housing market by 8.3% in 2009 as compared to 2008 with a median home price of $240,000 according to Northwest Multiple Listing Service.

For a discussion regarding the competition in our primary market area, see "- Competition."

Lending Activities

General. We focus our lending activities primarily on loans secured by first mortgages on one-to-four family residences, commercial and multifamily real estate. In the past, our focus has also included construction/land development lending. Over the past two years we have deemphasized this type of lending as a result of market conditions. We offer a limited variety of consumer secured loans, including savings account loans and home equity

loans, which include lines of credit and second mortgage loans. As of December 31, 2009, our net loan portfolio totaled $1.0 billion and represented 79.0% of our total assets.

Our loan policy limits the maximum amount of loans we can make to one borrower to 20% of First Savings Bank's risk-based capital. As of December 31, 2009, the maximum amount which we could lend to any one borrower was $34.9 million based on our policy. Exceptions may be made to this policy with the prior approval of the Executive Committee (comprised of the Chief Executive Officer and two outside Directors) and ratification by the Board of Directors if the borrower exhibits financial strength or compensating factors to sufficiently offset any weaknesses based on the loan-to-value ratio, borrower's financial condition, net worth, credit history, earnings capacity, installment obligations, and current payment habits. The five largest borrowing relationships as of December 31, 2009 in descending order are:

Borrower (1)	Aggregate Amount of Loans at December 31, 2009 (2)	Number of Loans
Real estate builder	$47.9 million(3)	150
Real estate builder	39.5 million	144
Real estate builder	28.7 million	120
Real estate builder	19.0 million(4)	71
Real estate investor	17.6 million	3
Total	$152.7 million	488

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(1) The composition of borrowers represented in the table may change between periods.
(2) Net of undisbursed funds.
(3) Of this amount, $9.2 million are considered impaired loans and are classified as performing.
(4) Of this amount, $14.6 million are considered impaired loans and are classified as nonperforming.

The following table details the breakdown of the types of loans to our top five borrower relationships at December 31, 2009.

Borrower	One-to-Four Family Residential Loans (Rental Properties)	Multifamily Loans	Commercial Loans (Rental Properties)	Construction/Land Development (1)	Aggregate Amount of Loans (1)
Real estate builder (2)	$18.7 million	$ --	$0.3 million	$28.9 million	$47.9 million
Real estate builder	26.6 million	--	0.8 million	12.1 million	39.5 million
Real estate builder	19.2 million	1.1 million	0.1 million	8.3 million	28.7 million
		--	--	7.8 million	19.0 million

Real estate builder (3)	11.2 million				
Real estate investor	--	--	17.6 million	--	17.6 million
Total	$75.7 million	$1.1 million	$18.8 million	$57.1 million	$152.7 million

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(1) Net of undisbursed funds.

(2) Of the $9.2 million loans considered impaired, $2.0 million are one-to-four family residential loans and $7.2 million are construction/land development loans.

(3) Of the $14.6 million loans considered impaired, $6.8 million are one-to-four family residential loans and $7.8 million are construction/land development loans.

Some of the builders listed in the above tables, as part of their business strategy, retain a certain percentage of their finished homes in their own inventory of permanent investment properties, (i.e. one-to-four family rental properties). These properties are used to enhance the builders' liquidity through rental income and improve their equity position, long-term, through the appreciation in market value of the property. As part of our underwriting process we review the borrowers' business strategy to determine the feasibility of the project. In the past couple of years, these builders have taken more rental properties into their portfolio than originally planned as a result of the depressed housing market. For the four builders included in the previous table, the total one-to-four family rental properties increased $9.0 million, or 13.5% to $75.7 million at December 31, 2009 from $66.7 million at December 31, 2008. Included in the 2009 amount were 46 loans that were still in the construction phase with undisbursed funds totaling $4.1 million, which when they were originated, the intent was to turn these into rental properties. In

2009, we originated 13 one-to-four family loans with a total balance of $4.4 million to three builders with smaller borrowings not included in the table above and paid-off the construction loans that we held so that the builder could rent out the homes in order to enhance their cash flow.

Loan Portfolio Analysis. The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated.

	At December 31,						
	2009		2008		2007		2
	Amount	Percent	Amount	Percent	Amount	Percent	Amoun
	(Dollars in thousands)						
Real Estate:							
One-to-four family residential	$496,731	44.54 %	$512,446	45.05 %	$424,863	42.45 %	$373,19
Multifamily residential	146,508	13.14	100,940	8.87	76,039	7.60	79,70
Commercial	288,996	25.91	260,727	22.92	204,798	20.46	153,92
Construction/land development	163,953	14.70	250,512	22.02	288,378	28.82	153,40
Total real estate	1,096,188	98.29	1,124,625	98.86	994,078	99.33	760,2
Business	353	0.03	--	--	--	--	--
Consumer	18,678	1.68	12,927	1.14	6,672	0.67	3,537
Total loans	1,115,219	100.00%	1,137,552	100.00%	1,000,750	100.00%	763,7
Less:							
Loans in process	39,942		82,541		108,939		58,73
Deferred loan fees	2,938		2,848		3,176		2,725
Allowance for loan losses	33,039		16,982		7,971		1,971
Loans receivable, net	$1,039,300		$1,035,181		$880,664		$700,32

5

The following table shows the composition of our loan portfolio by fixed and adjustable-rate loans at the dates indicated.

	At December 31,							
	2009		2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	P
	(Dollars in thousands)							
FIXED-RATE LOANS								
Real estate:								
One-to-four family residential	$482,531	43.27 %	$506,288	44.50	$417,820	41.75 %	$365,868	4
Multifamily residential	128,561	11.53	99,510	8.75	75,748	7.57	78,331	1
Commercial	270,604	24.26	245,447	21.58	183,922	18.38	151,557	1
Construction/land development	9,701	0.87	20,689	1.82	3,928	0.39	11,892	1
Total real estate	891,397	79.93	871,934	76.65	681,418	68.09	607,648	7
Business	150	0.01	--	--	--	--	--	-
Consumer	3,561	0.32	3,488	0.31	2,394	0.24	2,354	0
Total fixed-rate loans	895,108	80.26	875,422	76.96	683,812	68.33	610,002	7
ADJUSTABLE-RATE LOANS								
Real estate:								
One-to-four family residential	14,200	1.27	6,158	0.54	7,043	0.70	7,324	0
Multifamily residential	17,947	1.61	1,430	0.13	291	0.03	1,370	0
Commercial	18,392	1.65	15,280	1.34	20,876	2.09	2,367	0
Construction/land development	154,252	13.83	229,823	20.20	284,450	28.42	141,509	1
Total real estate	204,791	18.36	252,691	22.21	312,660	31.24	152,570	1
Business	203	0.02	--	--	--	--	--	-
Consumer	15,117	1.36	9,439	0.83	4,278	0.43	1,183	0
Total adjustable-rate loans	220,111	19.74	262,130	23.04	316,938	31.67	153,753	2
Total loans	1,115,219	100.00%	1,137,552	100.00%	1,000,750	100.00%	763,755	1
Less:								
Loans in process	39,942		82,541		108,939		58,731	
Deferred loan fees	2,938		2,848		3,176		2,725	
Allowance for loan losses	33,039		16,982		7,971		1,971	
Loans receivable, net	$1,039,300		$1,035,181		$880,664		$700,328	

6

One-to-Four Family Residential Real Estate Lending. As of December 31, 2009, $496.7 million, or 44.5%, of our total loan portfolio consisted of permanent loans secured by one-to-four family residences.

First Savings Bank is a traditional fixed-rate portfolio lender when it comes to financing residential home loans. In 2009, we originated $73.7 million in one-to-four family residential loans, most of which had fixed-rates and fixed terms. Most of our residential loan originations are in connection with either the refinance of an existing loan or the conversion from a construction loan to a one-to-four family residential loan that the builder utilizes for leasing purposes as part of their operating strategy. At December 31, 2009, $265.9 million or 53.5% of our one-to-four family residential portfolio consisted of owner occupied loans with $230.8 million or 46.5% in non-owner occupied loans. In addition, at December 31, 2009 $482.5 million, or 97.1%, of our one-to-four family residential mortgage loan portfolio consisted of fixed-rate loans. Substantially all of our one-to-four family residential mortgage loans require both monthly principal and interest payments.

We also originate a limited number of jumbo fixed-rate loans that we retain in our portfolio. Loans originated with balances greater than $417,000 are generally considered jumbo except those originated in King, Pierce and Snohomish counties where the threshold for purchase by Freddie Mac and Fannie Mae was increased in 2008 to $567,500. One-to-four family residential loans classified as jumbo fixed-rate loans totaled $126.0 million consisted of 173 loans at December 31, 2009. The loans in this portfolio have been priced at rates of 0.25% to 1.00% higher than the standard rates quoted on conventional loans. As of December 31, 2009, $10.9 million of our jumbo loan portfolio was over 90 days past due and there were two loans totaling $1.9 million that were past due over 60 days but less then 90 days. The remaining loans in the jumbo loan portfolio were performing in accordance with their loan repayment terms.

Our fixed-rate, single-family residential mortgage loans are normally originated with 15 to 30 year terms, although such loans typically remain outstanding for substantially shorter periods, particularly in a declining interest rate environment. In addition, substantially all residential mortgage loans in our loan portfolio contain due-on-sale clauses providing that we may declare the unpaid amount due and payable upon the sale of the property securing the loan. Typically, we enforce these due-on-sale clauses to the extent permitted by law and as a standard course of business. The average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans.

Our lending policies generally limit the maximum loan-to-value ratio on mortgage loans secured by owner-occupied properties to 95% of the lesser of the appraised value or the purchase price. We usually obtain private mortgage insurance on the portion of the principal amount that exceeds 90% of the appraised value of the secured property. The maximum loan-to-value ratio on mortgage loans secured by non-owner occupied properties is generally 80% on purchases and refinances with exceptions requiring the loan committee approval. Properties securing our one-to-four family loans are appraised by independent fee appraisers approved by us. We require the borrowers to obtain title, hazard, and, if necessary, flood insurance. We generally do not require earthquake insurance because of competitive market factors.

Our construction loans to individuals to build their personal residences typically are structured as construction/permanent loans permitting one closing for both the construction loan and the permanent financing. Prior to making a commitment to fund a construction loan, we require an appraisal of the post construction value of the project by an independent fee appraiser. During the construction phase, which typically lasts for eight months, an approved fee inspector or our designated loan officer makes periodic inspections of the construction site and loan proceeds are disbursed directly to the contractor or borrower as construction progresses. Typically, disbursements are made in seven draws during the construction period. Construction loans require payment of interest only during the construction phase and are structured to be converted to fixed-rate permanent loans at the end of the construction phase. At December 31, 2009, our total owner-occupied construction loans to individuals amounted to $4.3 million or

0.9% of the one-to-four family residential loan balance.

Loans secured by rental properties represent a unique credit risk to us and, as a result, we adhere to more stringent underwriting guidelines. Of primary concern in non-owner occupied real estate lending is the consistency of rental income of the property. Payments on loans secured by rental properties depend primarily on the tenants

continuing ability to pay rent to the property owner, who is our borrower or, if the property owner is unable to find a tenant, the property owners ability to repay the loan without the benefit of a rental income stream. In addition, successful operation and management of non-owner occupied properties, including property maintenance standards, may affect repayment. As a result, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. To monitor cash flows on rental properties, we generally require borrowers and loan guarantors, if any, to provide annual financial statements and we consider and review a rental income cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property. We generally require collateral on these loans to be a first mortgage along with an assignment of rents and leases. If the borrower has multiple loans for rental properties with us, the loans are typically not cross-collateralized.

Residential mortgage loans up to $1.5 million are approved by the Residential/Consumer Loan Committee which consists of any two of the following individuals: the Chief Executive Officer/President, the Senior Vice President, Chief Lending Administrative Officer, the Vice President of Credit Administration, Executive Vice President and Loan Officers as appointed by the Board of Directors, and one of the approvals must be at an Assistant Vice President level or higher. Loans in excess of $1.5 million and up to $5.0 million are approved by the Executive Committee which is comprised of the Chief Executive Officer and two outside directors. Individual loans in excess of $5.0 million and lending relationships to one borrower exceeding 20% of First Savings Bank's risk based capital requires the approval of the full Board of Directors. At December 31, 2009, $36.9 million of our one-to-four family residential loans were delinquent in excess of 90 days or in nonaccrual status. Charged-off one-to-four family residential loans totaled $6.0 million for the year ended December 31, 2009. No one-to-four family residential loans were charged-off during the years ended December 31, 2008 and 2007.

Multifamily and Commercial Real Estate Lending. Multifamily and commercial real estate loans up to $3.0 million are approved by the Commercial Loan Committee which consists of any two of the following individuals: the Chief Executive Officer/President, the Executive Vice President, the Senior Vice President of Credit Administration and the Vice President of Commercial Banking. Loans in excess of $3.0 million and up to $5.0 million are approved by the Executive Committee, which consists of the Chief Executive Officer and two outside directors. Loans in excess of $5.0 million require the approval of the full Board of Directors. As of December 31, 2009, $146.5 million, or 13.1% of our total loan portfolio was secured by multifamily real estate, and $289.0 million, or 25.9% of our loan portfolio was secured by commercial real estate property. Our commercial real estate loans are typically secured by office and medical buildings, retail shopping centers, mini-storage facilities, industrial use buildings, and warehouses. Substantially all of our multifamily and commercial real estate loans are secured by properties located in our market area.

Multifamily and commercial real estate loans generally are priced at a higher rate of interest than one-to-four family residential loans and generally have a maximum loan-to-value ratio of 75% of the lesser of the appraised value or purchase price. Typically, these loans have higher loan balances, are more complex to evaluate and monitor, and involve a greater degree of risk than one-to-four family residential loans. Often payments on loans secured by multifamily or commercial properties are dependent on the successful operation and management of the property; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. We generally require and obtain loan guarantees from financially capable parties based upon the review of personal financial statements. If the borrower is a corporation or partnership, we generally require and obtain personal guarantees from the principals based upon a review of their personal financial statements and individual credit reports.

The average loan size in our multifamily and commercial real estate loan portfolios was $970,000 and $1.1 million, respectively, as of December 31, 2009. We also target individual multifamily and commercial real estate loans between $1.0 million and $5.0 million; however, we can by policy originate loans to one borrower up to 20% of First Savings Bank's risk-based capital. The largest multifamily loan as of December 31, 2009 was an apartment complex with a net outstanding principal balance at December 31, 2009 of $7.4 million located in Pierce County. As of

December 31, 2009, the largest single commercial real estate loan had a net outstanding balance of $12.8 million and was secured by a medical office building located in Pierce County. These loans were performing according to their respective loan repayment terms.

We also make construction loans to owners for commercial development projects. The projects include multifamily, apartment, retail, office/warehouse and office buildings. These loans generally have an interest-only phase during construction, and generally convert to permanent financing when construction is completed.

Disbursement of funds is at our sole discretion and is based on the progress of construction. Generally the maximum loan-to-value limit applicable to these loans is 75% of the appraised post-construction value. At December 31, 2009, construction loans amounted to $49.2 million or 11.3% of the combined multifamily and commercial real estate loan portfolio.

The credit risk related to multifamily and commercial real estate loans is considered to be greater than the risk related to one-to-four family residential loans because the repayment of multifamily and commercial real estate loans typically is dependent on the income stream of the real estate securing the loan as collateral and the successful operation of the borrower's business, which can be significantly affected by adverse conditions in the real estate markets or in the economy generally. For example, if the cash flow from the borrower's project is reduced due to leases not being obtained or renewed, the borrower's ability to repay the loan may be impaired. In addition, many of our multifamily and commercial real estate loans are not fully amortizing and contain large balloon payments upon maturity. These balloon payments may require the borrower to either sell or refinance the underlying property in order to make the balloon payment.

If we foreclose on a multifamily or commercial real estate loan, our holding period for the collateral typically is longer than for one-to-four family residential mortgage loans because there are fewer potential purchasers of the collateral. Our multifamily and commercial real estate loans generally have relatively large balances to single borrowers or related groups of borrowers. Accordingly, if we make any errors in judgment in the collectibility of our commercial real estate loans, any resulting charge-offs may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. No multifamily loans were delinquent in excess of 90 days or in nonaccrual status, and 20 commercial real estate loans totaling $11.5 million were 90 days or more delinquent or in nonaccrual status at December 31, 2009. Commercial real estate loans totaling $2.8 million were charged-off during the year ended December 31, 2009 as compared to none for the years ended December 31, 2008 and 2007. No multifamily loans were charged-off during the years ended December 31, 2009, 2008 and 2007.

Construction/Land Development Loans. We have been an originator of construction/land development loans to residential builders since 1977 for the construction of single-family residences, condominiums, townhouses and residential developments located in our market area. Our land development loans are generally made to builders intending to develop lots for their own use at a later date. At December 31, 2009, our total construction/land development loans amounted to $164.0 million, or 14.7%, of our total loan portfolio. At December 31, 2009, our one-to-four family residential construction lending and land development loans to builders amounted to approximately $95.7 million, and $63.5 million, respectively. The $86.5 million decrease in this portfolio from December 31, 2008 to December 31, 2009 was the result of our concerted efforts working with our current construction loan customers, not expanding this line of business during these troubling economic times, charge-offs, the migration of problem loans to other real estate owned ("OREO"), and loan payoffs. Our construction/land development loan portfolio has experienced the highest delinquency rate as well as has the largest amount of nonperforming loans as compared to other types of loans within our loan portfolio. Construction/land development loans classified as nonperforming totaled $71.8 million, net of undisbursed funds. At December 31, 2009, the undisbursed portion of our construction/land development loans totaled $23.2 million.

At the dates indicated, the composition of our total construction/land development loan portfolio and the related nonperforming loans in this portfolio were as follows:

	At December 31,		Nonperforming loans at December 31,	
	2009	2008	2009	2008
	(In thousands)			
One-to-four family residential:				
Construction speculative	$ 95,699	$ 145,329	$ 53,100	$ 49,342
Multifamily residential:				
Construction speculative	3,624	13,322	3,624	--
Commercial:				
Construction speculative	1,129	1,324	706	900
Land development loans	63,501	90,537	23,168	8,271
Total construction/land development (1)(2)	$ 163,953	$ 250,512	$ 80,598	$ 58,513

(1) Loans in process for construction/land development at December 31, 2009 and 2008 were $23.2 million and $63.7 million, respectively. Loans in process for nonperforming construction/land development loans at December 31, 2009 and 2008 were $8.8 million and $14.5 million, respectively.

(2) We do not include construction loans that will convert to permanent loans in the construction/land development category. We consider these loans to be "rollovers" in that one loan is originated for both the construction loan and permanent financing. These loans are classified according to the underlying collateral. As a result, at December 31, 2009 we had $15.7 million, or 3.2% of our total one-to-four family loan portfolio, $31.6 million or 10.9% of our total commercial real estate portfolio and $17.6 million, or 12.0% of our total multifamily loan portfolio in these "rollover" types of loans. Loans in process for these loans at December 31, 2009 were $15.5 million.

The following table includes construction/land development loans by county at December 31, 2009:

County	Loan Balance (1)	Percent of Loan Balance (1)
	(Dollars in thousands)	
King County	$59,905	42.4%
Pierce County	23,722	16.9
Kitsap County	16,960	12.1
Snohomish County	11,525	8.2
Whatcom County	11,491	8.2
Thurston County	9,911	7.0
All other counties	7,284	5.2
Total	$140,798	100.0%

(1) Net of undisbursed funds.

We originate construction/land development loans to contractors and builders primarily to finance the construction of single-family homes and subdivisions, these homes typically have an average price ranging from $300,000 to $550,000. Loans to finance the construction of single-family homes and subdivisions are generally offered to builders in our primary market areas. The maximum loan-to-value limit applicable to these loans is generally 75% to 80% of the appraised market value upon completion of the project. We do not require any cash equity from the borrower if there is sufficient equity in the land being used as collateral. Development plans are required from builders prior to making the loan. We require that builders maintain adequate insurance coverage.

While maturity dates for residential construction loans are largely a function of the estimated construction period of the project, and generally do not exceed one year, land development loans generally are for 18 to 24 months. Substantially all of our residential construction loans have adjustable-rates of interest based on The Wall Street Journal Prime Rate. As a strategy to manage interest rate risk, during the latter part of 2008 and during 2009 we established interest rate floors on most construction/land development loans that were renewed. During the term of construction, the accumulated interest on the loan is either added to the principal of the loan through an interest reserve, or billed monthly. We have interest reserves on $10.4 million of our total construction spec loans, with undisbursed funds totaling $3.3 million. When these loans with reserves exhaust their original reserves set up at origination, no new reserves are created for the loan unless the loan is re-analyzed and it is determined that there are funds available to fund the reserve. This may include the borrower agreeing to reduce their profit margin. Construction loan proceeds are disbursed periodically in increments as construction progresses and as inspection by our approved inspectors warrant. Total loan amounts for land development loans generally range from $500,000 to $6.0 million with an average individual loan commitment at December 31, 2009 of $1.8 million. At December 31, 2009, our largest construction/land development loan had a total principal balance of $11.5 million and was secured by a first mortgage lien on a condominium project located in Whatcom County. This loan was classified as nonperforming at December 31, 2009. At December 31, 2009, our three largest borrowing relationships for construction/land development loans had aggregate net outstanding loan balances of $28.9 million (of which $7.2 million is impaired), $12.1 million and $8.3 million. These balances do not include other lending relationships we may have with these borrowers.

Our construction/land development loans are based upon estimates of costs and values associated with the completed project. Construction/land development lending involves additional risks when compared with permanent residential lending because funds are advanced upon the security on the project, which is of uncertain value prior to its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation on real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. These loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. At December 31, 2009, we had $71.8 million of net construction/land development loans that were classified as nonperforming and $63.2 million of those loans were in excess of 90 days delinquent. In addition, a total of $74.7 million construction/land development relationships to 16 builders were considered impaired as of December 31, 2009. Construction/land development loans of $26.3 million were charged-off during the year ended December 31, 2009. Charge-offs for this loan category were $432,000 and $0 for 2008 and 2007. Further, as a result of the slowdown in the housing market during 2009, we have extended some of the construction loans to permit completion of the project or to allow the borrower additional time to market the underlying collateral. Most of these loans mature within 12 months. To the extent these loans are not further extended or the borrower cannot otherwise refinance with a third party lender our nonperforming construction loans may increase. For more information regarding loan delinquencies and impaired loans see "Asset Quality" under Item 1.

Consumer Lending. We offer a limited variety of consumer loans to our customers, consisting primarily of home equity loans, personal lines of credit and savings account loans. Generally, consumer loans have shorter terms to maturity and higher interest rates than mortgage loans. Consumer loans are made with both fixed and variable interest rates and with varying terms. At December 31, 2009, consumer loans amounted to $18.7 million, or 1.7%, of the total loan portfolio.

At December 31, 2009, the largest component of the consumer loan portfolio consisted of home equity loans, primarily home equity lines of credit, which totaled $14.1 million, or 75.4%, of the total consumer loan

portfolio. Home equity loans are made for purposes such as the improvement of residential properties, debt consolidation and education expenses. The majority of these loans are secured by a first or second mortgage on residential property. The loan-to-value ratio is primarily 90% or less, when taking into account both the balance of

the home equity loans and the first mortgage loan. Home equity lines of credit allow for a ten-year draw period. As of December 31, 2009 the undisbursed portion of the lines of credit totaled $9.3 million. The interest rate is tied to the prime rate as published in The Wall Street Journal, and may include a margin.

Consumer loans entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciating assets. In these cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans. Home equity lines of credit have greater credit risk than one-to-four family residential mortgage loans because they are secured by mortgages subordinated to the existing first mortgage on the property, which we may or may not hold in our portfolio. We do not have private mortgage insurance coverage on these loans. Adjustable-rate loans may experience a higher rate of default in a rising interest rate environment due to the increase in payment amounts caused by the increase in interest rates as loan rates reset. If current economic conditions deteriorate for our borrowers and their home prices continue to fall, we may also experience higher credit losses from this loan portfolio. Since our home equity loans primarily consist of second mortgage loans, it is unlikely that we will be successful in recovering all, if any, portion of our loan principal amount outstanding in the event of a default. At December 31, 2009, two consumer loans totaling $143,000 were delinquent in excess of 90 days or in nonaccrual status. Consumer loans totaling $164,000 were charged-off during the year ended December 31, 2009. No consumer loans were charged-off during the years ended December 31, 2008 or 2007.

Loan Maturity and Repricing. The following table sets forth certain information at December 31, 2009 regarding the amount of loans repricing or maturing in our portfolio based on their contractual terms to maturity, but does not include prepayments. Loan balances do not include undisbursed loan funds, deferred loan fees and costs and allowance for loan losses.

	Within One Year	After One Year Through Three Years	After Three Years Through Five Years	After Five Years Through Ten Years	Beyond Ten Years	Total
			(In thousands)			
Real Estate:						
One-to-four family residential	$ 21,464	$ 33,140	$ 76,251	$ 170,778	$ 195,098	$ 496,731
Multifamily residential	22,919	20,547	42,971	59,483	588	146,508
Commercial	21,041	27,354	71,323	154,731	14,547	288,996
Construction/land development	154,592	9,361	--	--	--	163,953
Total real estate	220,016	90,402	190,545	384,992	210,233	1,096,188
Business	203	--	150	--	--	353
Consumer	16,276	19	251	2,112	20	18,678

Total	$ 236,495	$ 90,421	$ 190,946	$ 387,104	$ 210,253	$ 1,115,219

12

The following table sets forth the amount of all loans due after December 31, 2010, with fixed or adjustable interest rates.

	Fixed Rate	Adjustable-rate	Total
		(In thousands)	
Real Estate:			
One-to-four family residential	$ 475,267	$ --	$ 475,267
Multifamily residential	123,320	269	123,589
Commercial	266,036	1,919	267,955
Construction/land development	9,361	--	9,361
Total real estate	873,984	2,188	876,172
Business	150	--	150
Consumer	2,397	5	2,402
Total	$ 876,531	$ 2,193	$ 878,724

Loan Solicitation and Processing. The majority of our consumer and residential mortgage loan originations are generated through First Savings Bank and from time to time through outside brokers. We originate multifamily, commercial real estate and construction/land development loans primarily using First Savings Bank loan officers, with referrals coming from builders and existing customers.

Upon receipt of a loan application from a prospective borrower, we obtain a credit report and other data to verify specific information relating to the loan applicant's employment, income, and credit standing. All real estate loans requiring an appraisal are done by an independent third-party appraiser. All appraisers are approved by us, and their credentials are reviewed annually, as is the quality of their appraisals.

We use a multi-tier lending matrix depending on the type and size of the consumer credit to be approved. We also allow for individual lending authorities, joint lending authorities, a management loan committee approval, and an executive committee (which includes directors) approval.

We require title insurance on all real estate loans, and fire and casualty insurance on all secured loans and on home equity loans where the property serves as collateral.

Loan Originations, Servicing, Purchases, Sales and Repayments. For the years ended December 31, 2009 and 2008, our total loan originations were $206.5 million and $296.3 million, respectively. Total loan originations declined as a result of the decrease in construction/land development loan originations reflecting the current housing market.

One-to-four family home loans are generally originated in accordance with the guidelines established by Freddie Mac and Fannie Mae, with the exception of our special community development loans under the Community Reinvestment Act. We originate residential first mortgages and service them using an in-house mortgage system. Our loans are underwritten by designated real estate loan underwriters internally in accordance with standards as provided by our Board-approved loan policy.

We may sell loans from time to time consistent with our asset and liability management objectives. Fixed-rate residential mortgage loans with terms of 30 years or less and adjustable-rate mortgage loans are generally held in our portfolio. There were no loan sales for the years ended December 31, 2009 and 2008. Loans are generally sold on a non-recourse basis. As of December 31, 2009, our loan servicing portfolio for outside investors was $44.4 million.

The following table shows total loans originated, purchased, sold and repaid during the periods indicated.

	Years Ended December 31,		
	2009	2008	2007
	(In thousands)		
Loans Originated:			
Real estate:			
One-to-four family residential	$ 73,681	$144,128	$118,554
Multifamily residential	50,712	33,183	10,005
Commercial	50,745	74,780	66,313
Construction/land development	17,728	33,331	233,656
Total real estate	192,866	285,422	428,528
Business	501	--	--
Consumer	13,173	10,878	5,899
Total loans originated	206,540	296,300	434,427
Loans purchased	37	30	25
Total whole loans sold	--	--	5,796
Principal repayments	205,321	159,021	191,690
OREO	11,835	--	--
Change in other items, net	14,698	17,208	(56,630)
Net increase in loans	$ 4,119	$154,517	$180,336

Loan Origination and Other Fees. In some instances, we receive loan origination fees on real estate related products. Loan fees generally represent a percentage of the principal amount of the loan that is paid by the borrower. The amount of fees charged to the borrower on one-to-four family residential loans and on multifamily and commercial real estate loans can range up to 1.5%. Generally accepted accounting principles require that certain fees received, net of certain origination costs, be deferred and amortized over the contractual life of the loan. Net deferred fees or costs associated with loans that are prepaid or sold are recognized in income at the time of prepayment. We had $2.9 million and $2.8 million of net deferred loan fees as of December 31, 2009 and 2008, respectively.

One-to-four family loans are generally originated without a prepayment penalty. The majority of multifamily and commercial real estate loans, however, have prepayment penalties associated with the loans. The majority of the recent multifamily and commercial real estate loan originations have a prepayment penalty of 3% in year one, 2% in year two, 1% in year three, and no fees after year three.

Asset Quality

As of December 31, 2009, we had an aggregate of $111.7 million, or 10.0%, of total loans past due over 60 days consisting of 117 one-to-four family residential loans, 20 commercial real estate loans, 137 construction/land development loans, one multifamily loan and three consumer loans. We generally assess late fees or penalty charges on delinquent loans of up to 5.00% of the monthly payment. The borrower is given up to a 15 day grace period from the due date to make the loan payment.

We generally send delinquent borrowers three consecutive written notices when the loan becomes 10, 15 and 45 days past due. Late charges are incurred when the loan becomes 10 to 15 days past due depending upon the loan product. We actively attempt to collect on delinquent loans when they are past due in excess of 60 days. If the loan is not brought current, we continually try to contact the borrower in writing until the account is brought current.

When the loan is 90 days past due, we attempt to interview the borrower to determine the cause of the delinquency, and to obtain a mutually satisfactory arrangement to bring the loan current.

If the borrower is chronically delinquent and all reasonable means of obtaining payments have been exhausted, we will seek to recover the collateral securing the loan according to the terms of the security instrument and applicable law. The following table shows our delinquent loans by the type of loan, net of undisbursed funds, and number of days delinquent as of December 31, 2009:

	Loans Delinquent For:				Total	
	61-90 Days		Over 90 Days		Total Delinquent Loans	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
			(Dollars in thousands)			
Real estate:						
One-to-four family residential	9	$2,807	108	$ 31,278	117	$ 34,085
Multifamily residential	1	360	--	--	1	360
Commercial	--	--	20	11,535	20	11,535
Construction/land development	10	2,320	127	63,208	137	65,528
Total real estate	20	5,487	255	106,021	275	111,508
Consumer	1	10	2	143	3	153
Total	21	$5,497	257	$106,164	278	$111,661

Nonperforming Assets. The following table sets forth information with respect to our nonperforming assets and troubled debt restructured loans for the periods indicated.

	At December 31,				
	2009	2008	2007	2006	2005
	(Dollars in thousands)				
Loans accounted for on a nonaccrual basis:					
Real estate:					
One-to-four family residential	$36,874	$9,630	$526	$154	$300
Commercial	11,535	2,865	--	--	--
Construction/land development (1)	71,780	44,043	24,516	--	--
Consumer	514	--	--	--	--
Total loans accounted for on a nonaccrual basis	$120,703	$56,538	$25,042	$154	$300
Accruing loans which are contractually due 90 days or more:					
One-to-four family residential	$--	$1,207	$--	$--	$--
Commercial real estate	--	897	--	--	--
Total accrual loans which are contractually due 90 days or more	$--	$2,104	$--	$--	$--
Total nonperforming loans	$120,703	$58,642	$25,042	$154	$300
Other real estate owned	$11,835	$--	$--	$--	$--
Total nonperforming assets	$132,538	$58,642	$25,042	$154	$300
Nonaccrual troubled debt restructured loans (2)	$26,021	$20,818	$--	$--	$--
Performing troubled debt restructured loans	35,458	2,226	--	--	--
Troubled debt restructured loans	$61,479	$23,044	$--	$--	$--
Nonaccrual loans and loans 90 days or more past due as a percentage of total loans net of undisbursed funds	11.23 %	5.56 %	2.81 %	0.02 %	0.05 %
Nonaccrual loans and loans 90 days or more past due net of undisbursed funds as a percentage of total assets	9.18 %	4.71 %	2.19 %	0.02 %	0.03 %

Nonperforming assets net of undisbursed funds as a percentage of total assets	10.08 %	4.71 %	2.19 %	0.02 %	0.03 %
Total loans net of undisbursed funds	$1,075,277	$1,055,011	$891,811	$705,024	$544,703
Nonaccrued interest (3)	$7,299	$2,090	$391	$4	$4
Total assets	$1,315,334	$1,244,440	$1,140,888	$1,004,711	$879,650

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(1) Balances represent loans net of undisbursed funds.
(2) These loans are included in the category above "Loans accounted for on a nonaccrual basis."
(3) Represents foregone interest on nonaccrual loans.

When a loan becomes 90 days delinquent, we generally place the loan on nonaccrual status unless the credit is well secured and is in the process of collection. Loans may be placed on nonaccrual status prior to being 90 days delinquent if there is an identified problem. As of December 31, 2009, nonaccrual loans and loans 90 days or more past due were $120.7 million, net of undisbursed funds, which represents 11.2% of total loans, net of undisbursed

funds, and 9.2% of total assets. Of the $36.9 million in nonperforming one-to-four family residential loans $28.3 million were to builders. Of the $11.5 million in nonperforming commercial real estate loans, $5.0 million were related to builders and $5.5 million were related to real estate investors.

Our three largest nonperforming loans at December 31, 2009 were as follows:

A construction loan with an outstanding balance of approximately $11.5 million. The purpose of the loan was to purchase land in Whatcom County and prepare the land for construction of a 250-unit one-to-four family development with the intent that the loan would be paid-off at the time the borrower was able to secure financing for the construction of the units.

A commerical real estate loan with an outstanding balance of approximately $3.6 million. The purpose of this loan was to refinance an owner occupied building located in Pierce County that housed a retail location for the borrower's business that sold construction related materials. Subsequent to December 31, 2009, we foreclosed on this property and have included it in our real estate owned category on our balance sheet.

A construction loan with an outstanding balance of approximately $3.2 million. The purpose of the loan was to build a 57-unit condominium complex in Skagit County.

All of these borrowers are experiencing deteriorating financial conditions as a result of real estate value declining, the deterioration of the local economy and liquidity constraints.

The following table summarizes our total nonperforming assets net of undisbursed funds at December 31, 2009 by county and by type of loan/property:

	King County	Pierce County	Snohomish County	Whatcom County	All Other Counties	Total Nonperforming Loans	Number of Loans	Percent of Total Nonperforming Loans
	(Dollars in thousands)							
Nonperforming loans:								
One-to-four family residential	$ 13,311	$ 13,654	$ 3,380	$ --	$ 6,529	$ 36,874	134	30.55 %
Commercial	1,762	6,908	1,196	1,485	184	11,535	20	9.56
Construction/land development	35,181	6,729	8,558	11,491	9,821	71,780	155	59.47
Consumer	513	1	--	--	--	514	4	0.43
Total nonperforming loans	$ 50,767	$ 27,292	$ 13,134	$ 12,976	$ 16,534	$ 120,703	313	100.00 %

	King County	Pierce County	Snohomish County	Whatcom County	All Other Counties	Total Other Real Estate Owned	Number of Properties	Percent of Total Other Real Estate Owned
	(Dollars in thousands)							
Other real estate owned:								
One-to-four family residential	$ 1,903	$ 2,973	$ --	$ --	$ --	$ 4,876	18	41.20 %

Commercial	1,651	647	--	--	--	2,298	4	19.42
Construction/land development	4,661	--	--	--	--	4,661	10	39.38
Total other real estate owned	$ 8,215	$ 3,620	$ --	$ --	$ --	$ 11,835	32	100.00 %
Total nonperforming assets	$ 58,982	$ 30,912	$ 13,134	$ 12,976	$ 16,534	$ 132,538		

Construction/land development, commercial real estate and multifamily real estate loans have larger individual loan amounts, which have a greater single impact on the total portfolio quality in the event of delinquency or default. We continue to monitor our loan portfolio, and believe there is potential for additions to nonperforming loans, charge-offs, provisions for loan losses, and/or other real estate owned in the future if the housing market conditions do not improve.

Other Real Estate Owned. Real estate acquired by us as a result of foreclosure or by deed-in-lieu of foreclosure is classified as other real estate owned until it is sold. When the property is acquired, it is recorded at the lower of its cost or the fair market value of the property less selling costs. We had $11.8 million and zero of other real estate owned at December 31, 2009 and 2008, respectively. We have hired experienced professionals to form a special assets team whose primary focus is on the prompt and effective management of our troubled, nonperforming assets and to expedite their disposition and minimize any potential losses. During the fourth quarter of 2009, we shifted our strategy, related to nonperforming assets, from promoting builder-partnering solutions to a Bank-directed solutions approach. These solutions included foreclosures, short-sales and accepting deeds in lieu of foreclosure. This approach has resulted in First Savings Bank foreclosing on 32 properties totaling $11.8 million which are now classified as OREO on our balance sheet. We anticipated continued foreclosure activity while we work with our nonperforming loan customers to minimize our loss exposure.

Troubled Debt Restructured Loans. According to generally accepted accounting principles, we are required to account for certain loan modifications or restructurings as a "troubled debt restructuring." In general, the modification or restructuring of a debt is considered a troubled debt restructuring if we, for economic or legal reasons related to the borrower's financial difficulties, grant a concession to the borrowers that we would not otherwise consider. At December 31, 2009 we had $61.5 million in troubled debt restructured loans as compared to $23.0 million at the end of 2008. The largest loan relationship was $14.6 million and included both construction/land development loans as well as one-to-four family residential rental properties located in King and Pierce counties. At December 31, 2009, the amount of undisbursed funds to that builder in connection with the restructured and impaired loans totaled $1.6 million.

The following table summarizes our total troubled debt restructured loans:

	December 31,	
	2009	2008
	(In thousands)	
Nonperforming troubled debt restructured loans		
One-to-four family residential	$ 14,758	$ 9,128
Commercial real estate	1,407	--
Construction/land development	9,856	11,690
Total nonperforming troubled debt restructured loans	$ 26,021	$ 20,818
Performing troubled debt restructure loans		
One-to-four family residential	$ 15,256	$ 2,226
Multifamily residential	2,530	--
Commercial real estate	10,143	--
Construction/land development	7,529	--
Total performing troubled debt restructured loans	$ 35,458	$ 2,226
Total troubled debt restructured loans	$ 61,479	$ 23,044

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

When we classify problem assets as either substandard or doubtful, we may establish a specific allowance in an amount we deem prudent. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been specifically allocated to particular problem assets. When an insured institution classifies problem assets as a loss, it is required to charge-off those assets in the period in which they are deemed uncollectible. Our determination as to the classification of our assets and the amount of our valuation allowances is subject to review by the FDIC and the Washington State Department of Financial Institutions, which can order the establishment of additional loss allowances or the charge-off of specific loans against established loss reserves. Assets which do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated by us as special mention.

In connection with the filing of periodic reports with the FDIC and in accordance with our loan policy, we regularly review the problem loans in our portfolio to determine whether any loans require classification in accordance with applicable regulations. On the basis of our review of our loans, as of December 31, 2009, $11.7 million of our loans were classified as special mention, $204.0 million were classified as substandard, $6.5 million were classified as doubtful and no loans were classified as loss. The primary reason for the increase in the loans classified as substandard was a result of the challenges our borrowers are experiencing with construction/land development loans as a result of the decrease in real estate values during the year ended December 31, 2009.

The aggregate amounts of our classified assets, net of undisbursed funds, at the dates indicated were as follows:

	At December 31, 2009	2008
	(In thousands)	
Classified Assets:		
Special mention:		
One-to-four family residential	$ 4,257	$ 20,241
Commercial real estate	5,716	857
Construction/land development	1,750	16,113
Total special mention	$ 11,723	$ 37,211
Substandard:		
One-to-four family residential	$ 85,150	$ 15,430
Commercial real estate	11,963	3,762
Construction/land development	106,390	44,043
Consumer	518	--
Total substandard	$ 204,021	$ 63,235
Doubtful:		
Commercial real estate	$ 1,485	$ --
Construction/land development	5,000	--

Consumer		45		--
Total doubtful	$	6,530	$	--
Total classified assets	$	222,274	$	100,446

With the exception of these classified loans, of which $120.7 million were accounted for as nonaccrual loans at December 31, 2009, management is not aware of any loans as of December 31, 2009, where the known credit problems of the borrower would cause us to have serious doubts as to the ability of such borrowers to comply with their present loan repayment terms.

Allowance for Loan Losses. Management recognizes that loan losses may occur over the life of a loan and that the allowance for loan losses must be maintained at a level necessary to absorb specific losses on impaired loans and probable losses inherent in the loan portfolio. Our methodology for analyzing the allowance for loan losses consists of two components: formula and specific allowances. The formula allowance is determined by applying factors to our various groups of loans. Management considers factors such as charge-off history, the prevailing economy, borrower's ability to repay, the regulatory environment, competition, geographic and loan type concentrations, policy and underwriting standards, nature and volume of the loan portfolio, managements' experience level, our loan review system and the value of underlying collateral in assessing the allowance for loan losses. The specific allowance component is created when management believes that the collectibility of a specific loan, such as a real estate, multifamily or commercial real estate loan, has been impaired and a loss is probable. The specific reserves are computed using current appraisals (if available), listed sales prices and other available information less costs to complete, if any, and sell the property. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events differ from predictions.

Our Board of Directors approves the provision for loan losses on a quarterly basis. The allowance is increased by the provision for loan losses, which is charged against current period earnings and decreased by the amount of actual loan charge-offs, net of recoveries.

We believe that the accounting estimate related to the allowance for loan losses is a critical accounting estimate because it is highly susceptible to change from period to period requiring management to make assumptions about probable losses inherent in the loan portfolio. The impact of a sudden large loss could deplete the allowance and potentially require increased provisions to replenish the allowance, which would negatively affect earnings.

The provision for loan losses was $51.3 million, $9.4 million and $6.0 million for the years ended December 31, 2009, 2008 and 2007, respectively. The additional increase in the loss provision during 2009 was the result of our increased nonperforming loans, the continued depressed real estate values, the uncertain economic environment in our market area, the anticipated increase in FDIC liquidations in the Pacific Northwest and the effect it will have on our market area, the level of charge-offs during 2009 and the increase in the number of requests for loan modifications. The allowance for loan losses was $33.0 million or 3.1% of total loans at December 31, 2009 as compared to $17.0 million, or 1.6% of total loans outstanding at December 31, 2008. The level of the allowance is based on estimates, and the ultimate losses may vary from the estimates. Management will continue to review the adequacy of the allowance for loan losses on a quarterly basis.

A loan is considered impaired when, based on current information and events, it is probable we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loans and the borrowers, including length of the delay, the reasons for the delay, the borrower=s prior payment record and the amounts of the shortfall in relation to the principal and interest owed. Smaller homogeneous loans are collectively evaluated for impairment while impairment is measured on a loan-by-loan basis for commercial and construction/land development loans.

As of December 31, 2009, 2008 and 2007, we had $166.7 million, $66.3 million and $30.7 million, respectively, of total loans considered as impaired. Impaired loans, net of loans in process, were $156.2 million, $52.5 million, $23.5 million, respectively, for the same periods.

20

The following table summarizes the distribution of the allowance for loan losses by loan category.

	At December 31,								
	2009			2008			2007		
	Loan Balance	Allowance by Loan Category	Percent of Loans to Total Loans	Loan Balance	Allowance by Loan Category	Percent of Loans to Total Loans	Loan Balance	Allowance by Loan Category	Perce of Loar to Tota Loar
Real estate:									(Dollars i
One-to-four family residential	$496,731	$11,130	44.54 %	$512,446	$3,924	45.05 %	$424,863	$1,508	42.4
Multifamily residential	146,508	1,896	13.14	100,940	243	8.87	76,039	151	7.60
Commercial	288,996	6,422	25.91	260,727	2,140	22.92	204,798	1,066	20.4
Construction/land development	163,953	13,255	14.70	250,512	10,634	22.02	288,378	5,128	28.8
Total real estate	1,096,188	32,703	98.29	1,124,625	16,941	98.86	994,078	7,853	99.3
Business	353	6	0.03	--	--	--	--	--	--
Consumer	18,678	330	1.68	12,927	41	1.14	6,672	118	0.67
Total loans	$1,115,219	$33,039	100.00%	$1,137,552	$16,982	100.00%	$1,000,750	$7,971	100.

21

Management believes that it uses the best information available to determine the allowance for loan losses. However, unforeseen market conditions could result in adjustments to the allowance for loan losses and net income could be significantly affected, if circumstances differ substantially from the assumptions used in determining the allowance.

We believe that the allowance for loan losses as of December 31, 2009 was adequate to absorb the probable and inherent risks of loss in the loan portfolio at that date. While we believe the estimates and assumptions used in our determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provisions that may be required will not adversely impact our financial condition and results of operations. Future additions to the allowance may become necessary based upon changing economic conditions, the level of problem loans, business conditions, credit concentrations, increased loan balances, or changes in the underlying collateral of the loan portfolio. In addition, the determination of the amount of First Savings Bank's allowance for loan losses is subject to review by bank regulators as part of the routine examination process, which may result in the establishment of additional loss reserves or the charge-off of specific loans against established loss reserves based upon their judgment of information available to them at the time of their examination.

The following table sets forth an analysis of our allowance for loan losses at the dates and for the periods indicated.

	Years Ended December 31,				
	2009	2008	2007	2006	2005
	(Dollars in thousands)				
Allowance at beginning of period	$16,982	$7,971	$1,971	$1,651	$995
Provision for loan losses	51,300	9,443	6,000	320	137
Charge-offs:					
One-to-four family	6,043	--	--	--	--
Commercial real estate	2,812	--	--	--	--
Construction/land development	26,283	432	--	--	--
Consumer	164	--	--	--	27
Total charge-offs	35,302	432	--	--	27
Total recoveries	59	--	--	--	--
Net charge-offs	35,243	432	--	--	27
Acquisition of Executive House	--	--	--	--	546
Balance at end of period	$33,039	$16,982	$7,971	$1,971	$1,651
Allowance for loan losses as a percentage of total loans outstanding at the end of					

the period, net of undisbursed funds	3.07	%	1.61	%	0.89	%	0.28	%	0.30	%
Net charge-offs to average loans receivable, net	3.38	%	0.04	%	--		--		0.01	%
Allowance for loan losses as a percentage of nonperforming loans at end of period, net of undisbursed funds	27.37	%	28.96	%	31.83	%	1,279.87	%	550.33	%

22

Investment Activities

General. Under Washington law, savings banks are permitted to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies, certain certificates of deposit of insured banks and savings institutions, banker's acceptances, repurchase agreements, federal funds, commercial paper, investment grade corporate debt securities, and obligations of states and their political sub-divisions.

The investment committee, consisting of the Chief Executive Officer, Chief Financial Officer and Controller of First Savings Bank, has the authority and responsibility to administer our investment policy, monitor portfolio strategies, and recommend appropriate changes to policy and strategies to the Board of Directors. On a monthly basis, our management reports to the Board a summary of investment holdings with respective market values, and all purchases and sales of investment securities. The Chief Financial Officer has the primary responsibility for the management of the investment portfolio. The Chief Financial Officer considers various factors when making decisions, including the marketability, maturity and tax consequences of proposed investments. The maturity structure of investments will be affected by various market conditions, including the current and anticipated slope of the yield curve, the level of interest rates, the trend of new deposit inflows and the anticipated demand for funds via deposit withdrawals and loan originations and purchases.

The general objectives of the investment portfolio are to provide liquidity when loan demand is high, to assist in maintaining earnings when loan demand is low and to maximize earnings while satisfactorily managing risk, including credit risk, reinvestment risk, liquidity risk and interest rate risk.

At December 31, 2009, our investment portfolio consisted principally of mortgage-backed securities, U.S. Government Agency obligations, municipal bonds and a mutual fund consisting primarily of mortgage-backed securities. From time to time, investment levels may increase or decrease depending upon yields available on investment opportunities and management's projected demand for funds for loan originations, deposits and other activities.

In January 2008, we elected to transfer our entire investments held to maturity portfolio to our investments available for sale portfolio. At December 31, 2009 there were no investments held to maturity.

Mortgage-Backed Securities. The mortgage-backed securities in our portfolio were comprised of Freddie Mac, Fannie Mae, and Ginnie Mae mortgage-backed securities. The principal on these securities is backed by the U.S. agency issuing the security. The mortgage-backed securities held in the available for sale category had a weighted-average yield of 4.35% at December 31, 2009.

U.S. Government Agency Obligations. At December 31, 2009, the portfolio had a weighted-average yield of 5.34% in the available for sale category.

Municipal Bonds. The tax exempt and taxable municipal bond portfolios were comprised of general obligation bonds (i.e., backed by the general credit of the issuer) and revenue bonds (i.e., backed by revenues from the specific project being financed) issued by various municipal corporations. All bonds are from issuers located within the State of Washington. The weighted-average yield on the tax exempt bonds (on a tax equivalent basis) was 6.65% at December 31, 2009, while the weighted-average yield on the taxable municipal bonds was 5.63% for the same period.

Federal Home Loan Bank Stock. As a member of the Federal Home Loan Bank system, we are required to own capital stock in the Federal Home Loan Bank of Seattle. The amount of stock we hold is based on guidelines specified by the Federal Home Loan Bank of Seattle. The redemption of any excess stock we hold is at the discretion of the Federal Home Loan Bank of Seattle. The carrying value of the stock totaled $7.4 million at December 31,

2009. We did not receive a dividend during the year ended December 31, 2009.

Management evaluates FHLB stock for impairment. The determination of whether this investment is impaired is based on our assessment of the ultimate recoverability of cost rather than by recognizing temporary

declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as: (1) the significance of any decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of legislative and regulatory changes on institutions and, accordingly, the customer base of the FHLB and (4) the liquidity position of the FHLB.

Under Federal Housing Finance Agency regulations, a Federal Home Loan Bank that fails to meet any regulatory capital requirement may not declare a dividend or redeem or repurchase capital stock in excess of what is required for members' current loans. The FHLB recently announced that it had a risk-based capital deficiency under the regulations of the Federal Housing Finance Agency (the "FHFA"), its primary regulator, as of December 31, 2008, and that it would suspend future dividends and the repurchase and redemption of outstanding common stock. As a result, the FHLB has not paid a dividend since the fourth quarter of 2008. The FHLB has communicated that it believes the calculation of risk-based capital under the current rules of the FHFA significantly overstates the market risk of the FHLB's private-label mortgage-backed securities in the current market environment and that it has enough capital to cover the risks reflected in its balance sheet. Based upon an analysis by Standard and Poor's regarding the Federal Home Loan Banks, they stated that the FHLB System has a special public status (organized under the Federal Home Loan Bank Act of 1932) and because of the extraordinary support offered to it by the U.S. Treasury in a crisis, (though not used), it can be considered an extension of the government. They believe that the U.S. Government would almost certainly support the credit obligations of the FHLB System. Based on the above, we have determined there is not an other-than-temporary impairment on the FHLB stock investment as of December 31, 2009.

The following table sets forth the composition of our investment portfolio at the dates indicated. The amortized cost of the available for sale investments is their net book value.

	At December 31,					
	2009		2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Available for sale:						
Mortgage-backed securities:						
Fannie Mae	$ 50,025	$ 51,271	$ 65,991	$ 66,743	$ 66,594	$ 65,638
Freddie Mac	28,924	29,941	59,296	60,112	36,794	36,190
Ginnie Mae	5,099	5,183	7,858	7,692	10,116	10,057
Tax exempt municipal bonds	4,207	3,772	4,206	3,699	--	--
Taxable municipal bonds	650	602	652	611	--	--
U.S. Government agencies	1,946	2,003	5,344	5,855	2,001	2,004
Mutual fund (1)	4,460	4,611	4,611	4,611	6,120	5,948
Total available for sale	$ 95,311	$ 97,383	$ 147,958	$ 149,323	$ 121,625	$ 119,837
Held to maturity:						
Mortgage-backed securities:						
Fannie Mae	$ --	$ --	$ --	$ --	$ 907	$ 893

Tax exempt municipal bonds	--	--	--	--	73,912	75,019
Taxable municipal bonds	--	--	--	--	1,659	1,656
U.S. Government agencies	--	--	--	--	3,931	3,976
Other securities	--	--	--	--	1	1
Total held to maturity	$ --	$ --	$ --	$ --	$ 80,410	$ 81,545

(1) The fund invests primarily in private label securities backed by or representing an interest in mortgages or domestic residential housing or manufactured housing with additional investments in U.S. Government or agency securities.

During the year ended December 31, 2009, gross proceeds from sales of investments were $71.1 million with gross gains of $2.0 million and gross losses of $2,000.

In May 2008 the Board of Trustees of the AMF Ultra Short Mortgage Fund ("Fund") (a mutual fund) decided to activate the Fund's redemption-in-kind provision because of the uncertainty in the mortgage-backed securities market. The activation of this provision has limited the options available to the shareholders of the Fund with respect to liquidating their investments. Only the Fund may repurchase the shares in accordance with the terms of the mutual fund. The Fund is currently closed to any new investors, which means no new investors may buy shares in the Fund. Existing participants are allowed to redeem and receive up to $250,000 in cash per quarter or may receive 100% of their investment in "like kind" securities equal to their proportional ownership in the Fund (i.e., ownership percentage in the fund times the market value of each of the approximately 150 securities). For the year ended December 31, 2009, we recognized a $152,000 pre-tax charge for the other-than-temporary decline in fair value.

Management reviews investment securities on an ongoing basis for the presence of other-than-temporary impairment ("OTTI") or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost; extent and nature of the change in fair value; issuer rating changes and trends; whether management intends to sell a security or if it is likely that we will be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity; and other factors. For debt securities, if management intends to sell the security or it is likely that we will be required to sell the security before recovering our cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If management does not intend to sell the security and it is not likely that we will be required to sell the security, but management does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, i.e., the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge or other comprehensive income (loss). Impairment losses related to all other factors are presented as separate categories within other comprehensive income (loss).

The table below sets forth information regarding the carrying value, weighted average yields and maturities or call dates of our investment portfolio at December 31, 2009. Mortgage-backed securities, the mutual fund and the Federal Home Loan Bank stock investments have no stated maturity date and are included in the totals column only.

	At December 31, 2009 Amount Due or Repricing within:									
	Within One Year		After One Year to Five Years		After Five Years to Ten Years		Thereafter		Totals	
	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield
	(Dollars in thousands)									
Available for sale:										
Mortgage-backed securities	$ --	-- %	$ --	-- %	$ --	-- %	$ --	-- %	$ 86,395	4.35 %
Tax exempt municipal bonds (1)	--	--	703	5.93	683	5.51	2,386	7.09	3,772	6.65
Taxable municipal bonds	--	--	--	--	--	--	602	5.63	602	5.63
U.S. Government agencies	--	--	677	5.52	10	6.49	1,316	5.25	2,003	5.34
Mutual fund	--	--	--	--	--	--	--	--	4,611	3.74
Total available for sale	$ --	-- %	$ 1,380	4.45 %	$ 693	4.30 %	$ 4,304	4.46 %	$ 97,383	4.45 %
Federal Home Loan Bank stock	$ --	-- %	$ --	-- %	$ --	-- %	$ --	-- %	$ 7,413	-- %

(1) Yields on tax exempt obligations are computed on a tax equivalent basis.

Deposit Activities and Other Sources of Funds

General. Deposits and loan repayments are the major sources of our funds for lending and other investment purposes. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are influenced significantly by general interest rates and market conditions. Borrowings from the Federal Home Loan Bank of Seattle are used to supplement the availability of funds from other sources and also as a source of term funds to assist in the management of interest rate risk.

Our deposit composition reflects a mixture of noninterest bearing accounts, NOW accounts, statement savings accounts, money market accounts and certificates of deposit. We rely on marketing activities, convenience, customer service and the availability of a broad range of deposit products and services to attract and retain customer deposits.

Deposits. Deposits are attracted from within our market area through the offering of a broad selection of deposit instruments, including checking accounts, money market deposit accounts, statement savings accounts and certificates of deposit with a variety of rates. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the development of long term profitable customer relationships, current market interest rates, current maturity structure and deposit mix, our customer preferences and the profitability of acquiring customer deposits compared to alternative sources.

At December 31, 2009, our deposits totaled $939.4 million. We had $514.9 million of jumbo ($100,000 or more) certificates of deposit of which $87.8 million were public funds, which represent 54.8% and 9.4%, respectively, of total deposits. There were no brokered deposits at December 31, 2009.

Deposit Activities. The following table sets forth our total deposit activities for the periods indicated.

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Beginning balance	$ 791,483	$ 729,494	$ 750,710
Net balance before interest credited	119,133	32,000	(54,687)
Interest credited	28,807	29,989	33,471
Net increase (decrease) in deposits	147,940	61,989	(21,216)
Ending balance	$ 939,423	$ 791,483	$ 729,494

The following table sets forth information concerning our certificates of deposit and other deposits at December 31, 2009.

Weighted - Average Interest Rate		Term	Category	Amount (Dollars in thousands)	Minimum Balance	Percentage of Total Deposits	
--	%	N/A	Noninterest bearing accounts	$3,294	N/A	0.35	%
0.47		N/A	NOW accounts	12,740	N/A	1.36	
1.25		N/A	Statement savings accounts	15,423	N/A	1.64	
1.53		N/A	Money market accounts	194,315	N/A	20.68	
			Certificates of deposit				
1.75		3 month		6,332	$1,000	0.67	
1.46		6 month		23,864	1,000	2.54	
1.94		9 month		6,415	1,000	0.68	
1.75		Variable 12 month		277	1,000	0.03	
2.17		12 month		197,270	1,000	21.00	
3.51		18 month		169,539	1,000	18.05	
3.62		24 month		30,293	1,000	3.23	
4.34		30 month		37,122	1,000	3.95	
3.48		36 month		71,272	1,000	7.59	
4.24		48 month		167,874	1,000	17.87	
4.64		60 month		3,293	1,000	0.35	
5.15		72 month		100	1,000	0.01	
			Total certificates of deposit	713,651		75.97	
			TOTAL	$939,423		100.00	%

Certificates of Deposit. The following table sets forth the amount and maturities of certificates of deposit at December 31, 2009.

	Amount Due					
	Within One Year	After One Year Through Two Years	After Two Years Through Three Years	After Three Years Through Four Years	Thereafter	Total
	(In thousands)					
0.00% - 1.00%	$6,500	$--	$--	$--	$--	$6,500
1.01% - 2.00%	132,188	16,027	--	--	--	148,215
2.01% - 3.00%	110,952	10,183	30,541	29,652	264	181,592
	59,961	14,155	24,472	34,466	156	133,210

3.01% - 4.00%						
4.01% - 5.00%	148,477	11,857	11,126	466	--	171,926
5.01% - 6.00%	25,689	31,796	14,623	--	100	72,208
Total	$483,767	$84,018	$80,762	$64,584	$520	$713,651

28

The following table indicates the amount of our jumbo certificates of deposit by time remaining until maturity as of December 31, 2009. Jumbo certificates of deposit are certificates in amounts of $100,000 or more.

Maturity Period	Certificates of Deposit (In thousands)
Three months or less	$ 54,159
Over three months through six months	126,966
Over six months through twelve months	164,703
Over twelve months	169,088
Total	$ 514,916

Deposit Flow. The following table sets forth the balances of deposits in the various types of accounts we offered at the dates indicated.

	At December 31,					
	2009		2008		2007	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)					
Noninterest-bearing accounts	$ 3,294	0.35 %	$ 2,407	0.30 %	$ 1,652	0.23 %
NOW accounts	12,740	1.36	9,859	1.25	12,428	1.70
Statement savings accounts	15,423	1.64	12,605	1.59	11,591	1.59
Money market accounts	194,315	20.68	121,164	15.31	161,433	22.13
Certificates of deposit:						
0.00 - 1.00%	6,500	0.69	--	--	--	--
1.01 - 2.00%	148,215	15.78	--	--	3	--
2.01 - 3.00%	181,592	19.33	6,598	0.83	--	--
3.01 - 4.00%	133,210	14.18	291,510	36.83	7,295	1.00
4.01 - 5.00%	171,926	18.30	255,555	32.29	175,920	24.12
5.01 - 6.00%	72,208	7.69	91,785	11.60	359,172	49.23
Total certificates of deposit	713,651	75.97	645,448	81.55	542,390	74.35
Total	$ 939,423	100.00 %	$ 791,483	100.00 %	$ 729,494	100.00 %

Borrowings. Customer deposits are the primary source of funds for our lending and investment activities. We use advances from the Federal Home Loan Bank of Seattle to supplement our supply of lendable funds to meet short-term deposit withdrawal requirements and also to provide longer term funding to better match the duration of selected loan and investment maturities.

As one of our capital management strategies, we have used advances from the Federal Home Loan Bank of Seattle to fund loan originations in order to increase our net interest income. We will continue to utilize leverage strategies within applicable regulatory requirements or restrictions. Such borrowings would be expected to primarily consist of Federal Home Loan Bank of Seattle advances.

As a member of the Federal Home Loan Bank of Seattle, we are required to own capital stock in the Federal Home Loan Bank of Seattle and are authorized to apply for advances on the security of that stock and certain of our mortgage loans and other assets provided certain creditworthiness standards have been met. Advances are individually made under various terms pursuant to several different credit programs, each with its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based on the financial condition of the member institution and the adequacy of collateral pledged to secure the credit. We

maintain a committed credit facility with the Federal Home Loan Bank of Seattle that provides for immediately available advances, which at December 31, 2009 was $456.9 million. At December 31, 2009, outstanding advances to First Savings Bank from the Federal Home Loan Bank of Seattle totaled $139.9 million.

The following table sets forth information regarding Federal Home Loan Bank of Seattle advances by us at the end of and during the periods indicated. The table includes both long and short-term borrowings.

	At or for the Years Ended December 31,		
	2009	2008	2007
	(Dollars in thousands)		
Maximum amount of borrowings outstanding at any month end	$149,900	$157,500	$224,000
Average borrowings outstanding	$147,314	$123,886	$149,365
Weighted-average rate paid	3.47 %	3.51 %	5.37 %
Balance outstanding at end of the year	$139,900	$156,150	$96,000
Weighted-average rate paid at end of the year	3.50 %	3.25 %	4.32 %

At December 31, 2009, we maintained credit facilities with the Federal Reserve Bank of San Francisco totaling $186.0 million and one line of credit totaling $10.0 million with another financial institution. There were no balances outstanding for these lines of credit at December 31, 2009.

Subsidiaries and Other Activities

First Financial Northwest, Inc. First Financial Northwest has two wholly-owned subsidiaries, First Savings Bank Northwest and First Financial Diversified. First Financial Diversified primarily provides escrow services to First Savings Bank, other area lenders and some private individuals. First Financial Diversified also offers limited consumer loans to First Savings Bank's customers, which consist of short-term unsecured loans, second mortgages and, to a lesser extent, home equity loans. At December 31, 2009, loans from First Financial Diversified represented less than one percent of our loan portfolio.

First Savings Bank Northwest. First Savings Bank Northwest is a community-based savings bank primarily serving King and to a lesser extent, Pierce, Kitsap and Snohomish counties, Washington through our full-service banking office located in Renton, Washington. We are in the business of attracting deposits from the public and utilizing those deposits to originate loans.

Competition

We face intense competition in originating loans and in attracting deposits within our targeted geographic market. We compete by consistently delivering high-quality, personal service to our customers that results in a high level of customer satisfaction.

Based on the most current Federal Deposit Insurance Corporation Deposit Market Share Report dated June 30, 2009, we rank eighth in terms of deposits with a deposit market share of 1.8%, among the 61 federally insured depository institutions in King County, our primary market area. Our key competitors are Banner Bank, Columbia State Bank, Frontier Bank, US Bank and JP Morgan Chase. These competitors control 24.5% of the King County deposit market with deposits of $12.8 billion, of the $52.2 billion total deposits in King County as of June 30, 2009. Aside from these traditional competitors, credit unions, insurance companies and brokerage firms are also competitors for consumer deposit relationships.

Our competition for loans comes principally from commercial banks, mortgage brokers, thrift institutions, credit unions and finance companies. Several other financial institutions, including those previously mentioned, have greater resources than we do and compete with us for banking business in our targeted market area. These institutions have far more resources than we do and as a result are able to offer a broader range of services such as trust departments, merchant banking and enhanced retail services. Among the advantages of some of these institutions are their ability to make larger loans, finance extensive advertising campaigns, access lower cost funding sources and allocate their investment assets to regions of highest yield and demand. The challenges posed by such large competitors may impact our ability to originate loans, secure low cost deposits and establish product pricing levels that support our net interest margin goals, which may limit our future growth and earnings prospects.

Employees

At December 31, 2009, we had 104 full-time employees. Our employees are not represented by any collective bargaining group. We consider our employee relations to be good.

How We Are Regulated

The following is a brief description of certain laws and regulations which are applicable to First Financial Northwest and First Savings Bank. Legislation is introduced from time to time in the United States Congress that may affect the operations of First Financial Northwest and First Savings Bank. In addition, the regulations governing us may be amended from time to time by the respective regulators. Any such legislation or regulatory changes in the future could adversely affect us. We cannot predict whether any such changes may occur.

As part of the conversion and reorganization, First Savings Bank elected, pursuant to Section 10(l) of the Home Owners' Loan Act, as amended, to be treated as a savings association. As a result, First Financial Northwest is a registered savings and loan holding company subject to regulation of the Office of Thrift Supervision. First Savings Bank continues to be regulated by the Washington State Department of Financial Institutions and the Federal Deposit Insurance Corporation.

Regulation and Supervision of First Savings Bank

General. As a state-chartered savings bank, First Savings Bank is subject to applicable provisions of Washington law and regulations of the Washington State Department of Financial Institutions. State law and regulations govern First Savings Bank's ability to take deposits and pay interest, to make loans on or invest in residential and other real estate, to make consumer loans, to invest in securities, to offer various banking services to its customers, and to establish branch offices. Under state law, savings banks in Washington State also generally have all of the powers that federal savings banks have under federal laws and regulations. First Savings Bank is subject to periodic examination and reporting requirements by and of the Washington State Department of Financial Institutions.

Recent Legislative and Regulatory Initiatives to Address Financial and Economic Crises. The Congress, Treasury Department and the federal banking regulators, including the Federal Deposit Insurance Corporation, have taken broad action since early September 2008 to address volatility in the U.S. banking system.

In October 2008, the Emergency Economic Stabilization Act of 2008, or EESA, was enacted. The EESA authorizes the Department of the Treasury to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program, or TARP. The purpose of TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. Under the TARP Capital Purchase Program, or CPP, the Treasury will purchase debt or equity securities from participating institutions. The TARP also

will include direct purchases or guarantees of troubled assets of financial institutions. Participants in the CPP are subject to executive compensation limits and are encouraged to expand their lending and mortgage loan modifications. We did not apply for, or receive, any funds from the TARP CPP primarily because of the additional

capital raised in our mutual to stock conversion that was completed in October 2007. EESA also included additional provisions directed at bolstering the economy, which we were able to participate in, such as the temporary increase in Federal Deposit Insurance Corporation insurance coverage of deposit accounts, which increased from $100,000 to $250,000 through December 31, 2013.

Temporary Liquidity Guaranty Program. Following a systemic risk determination, the Federal Deposit Insurance Corporation established a Temporary Liquidity Guarantee Program ("TLGP") on October 14, 2008. The TLGP includes the Transaction Account Guarantee Program, which provides unlimited deposit insurance coverage through June 30, 2010 for noninterest-bearing transaction accounts (typically business checking accounts) and certain funds swept into noninterest-bearing savings accounts ("TAGP"). Institutions participating in the TAGP paid a 10 basis point fee (annualized) on the balance of each covered account in excess of $250,000, while the extra deposit insurance is in place up to December 31, 2009. After December 31, 2009 the fee will be an annualized rate according to the institutions risk category; 15 basis points for risk category I, 20 basis points for risk category II and 25 basis points for risk categories III and IV. The TLGP also includes the Debt Guarantee Program ("DGP"), under which the Federal Deposit Insurance Corporation guarantees certain senior unsecured debt of Federal Deposit Insurance Corporation-insured institutions and their holding companies. The TAGP and DGP are in effect for all eligible entities, unless the entity opted out on or before December 5, 2008. We opted out of the DGP, although we chose to opt into the TAGP program.

Insurance of Accounts and Regulation by the Federal Deposit Insurance Corporation. As insurer, the Federal Deposit Insurance Corporation imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by Federal Deposit Insurance Corporation-insured institutions. It also may prohibit any Federal Deposit Insurance Corporation-insured institution from engaging in any activity the Federal Deposit Insurance Corporation determines by regulation or order to pose a serious risk to the insurance fund. The Federal Deposit Insurance Corporation also has the authority to initiate enforcement actions against savings institutions, after giving the Office of Thrift Supervision opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC has recently notified First Savings Bank that it may not appoint any new director or senior executive officer or change the responsibilities of any current senior executive officers without notifying the FDIC. In addition, First Savings Bank may not make indemnification and severance payments without complying with certain statutory restrictions, including prior written approval of the FDIC. See also Item 1.A. "Risk Factors-We are subject to various regulatory requirements and may be subject to future additional regulatory restrictions and enforcement actions."

First Savings Bank is a member of the Deposit Insurance Fund ("DIF"), which is administered by the Federal Deposit Insurance Corporation. Deposits are insured up to the applicable limits by the Federal Deposit Insurance Corporation, backed by the full faith and credit of the United States Government. Under new legislation, during the period from October 3, 2008 through December 31, 2013, the basic deposit insurance limit is $250,000, instead of the $100,000 limit in effect previously.

The Federal Deposit Insurance Corporation assesses deposit insurance premiums on each Federal Deposit Insurance Corporation-insured institution quarterly based on annualized rates for one of four risk categories applied to its deposits subject to certain adjustments. Each institution is assigned to one of four risk categories based on its capital, supervisory ratings and other factors. Well capitalized institutions that are financially sound with only a few minor weaknesses are assigned to Risk Category I. Risk Categories II, III and IV present progressively greater risks to the DIF. Under Federal Deposit Insurance Corporation's risk-based assessment rules, effective April 1, 2009, the initial base assessment rates prior to adjustments range from 12 to 16 basis points for Risk Category I, and are 22 basis points for Risk Category II, 32 basis points for Risk Category III, and 45 basis points for Risk Category IV. Initial base assessment rates are subject to adjustments based on an institution's unsecured debt, secured liabilities and brokered deposits, such that the total base assessment rates after adjustments range from 7 to 24 basis points for Risk

Category I, 17 to 43 basis points for Risk Category II, 27 to 58 basis points for Risk Category III, and 40 to 77.5 basis points for Risk Category IV. Rates increase uniformly by 3 basis points effective January 1, 2011.

In addition to the regular quarterly assessments, due to losses and projected losses attributed to failed institutions, the Federal Deposit Insurance Corporation imposed a special assessment of 5 basis points on the amount of each depository institution's assets reduced by the amount of its Tier 1 capital (not to exceed 10 basis points of its assessment base for regular quarterly premiums) as of June 30, 2009, which was collected on September 30, 2009.

As a result of a decline in the reserve ratio (the ratio of the Deposit Insurance Fund to estimated insured deposits) and concerns about expected failure costs and available liquid assets in the Deposit Insurance Fund, the Federal Deposit Insurance Corporation has adopted a rule requiring each insured institution to prepay on December 30, 2009 the estimated amount of its quarterly assessments for the fourth quarter of 2009 and all quarters through the end of 2012 (in addition to the regular quarterly assessment for the third quarter which is due on December 30, 2009). The prepaid amount is recorded as an asset with a zero risk weight and the institution will continue to record quarterly expenses for deposit insurance. For purposes of calculating the prepaid amount, assessments were measured at the institution=s assessment rate as of September 30, 2009, with a uniform increase of 3 basis points effective January 1, 2011, and were based on the institution=s assessment base for the third quarter of 2009, with deposit growth assumed quarterly at an annual rate of 5%. If events cause actual assessments during the prepayment period to vary from the prepaid amount, institutions will pay excess assessments in cash or receive a rebate of prepaid amounts not exhausted after collection of assessments due on June 13, 2013, as applicable. Collection of the prepayment does not preclude the Federal Deposit Insurance Corporation from changing assessment rates or revising the risk-based assessment system in the future. The rule includes a process for exemption from the prepayment for institutions whose safety and soundness would be affected adversely. We prepaid $5.9 million in FDIC assessments during the fourth quarter of 2009.

The Federal Deposit Insurance Corporation estimates that the reserve ratio (the ratio of the net worth of the DIF to estimated insured deposits) will reach the designated reserve ratio of 1.15% by 2017 as required by statute.

Federal Deposit Insurance Corporation insured institutions are required to pay a Financing Corporation assessment, in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. For the quarterly period ended December 31, 2009, the Financing Corporation assessment equaled 1.02 basis points for each $100 in domestic deposits. These assessments, which may be revised based upon the level of deposits, will continue until the bonds mature in the years 2017 through 2019.

The Federal Deposit Insurance Corporation may terminate the deposit insurance of any insured depository institution, including First Savings Bank, if it determines after a hearing that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the Federal Deposit Insurance Corporation. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the Federal Deposit Insurance Corporation. We are not aware of any practice, condition or violation that might lead to termination of First Savings Bank=s deposit insurance.

Prompt Corrective Action. Federal statutes establish a supervisory framework based on five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. An institution's category depends upon where its capital levels are in relation to relevant capital measures, which include a risk-based capital measure, a leverage ratio capital measure and certain other factors. The federal banking agencies have adopted regulations that implement this statutory framework. Under these regulations, an institution is treated as well capitalized if its ratio of total capital to risk-weighted assets is 10% or more, its ratio of core capital to risk-weighted assets is 6% or more, its ratio of core capital to adjusted total assets (leverage ratio) is 5% or more, and it is not subject to any federal supervisory order or directive to meet a specific capital level. In order to be adequately capitalized, an institution must have a total risk-based capital ratio of not less than 8%, a Tier 1 risk-based capital ratio

of not less than 4%, and a leverage ratio of not less than 4%. Any institution which is neither well capitalized nor adequately capitalized is considered undercapitalized.

Undercapitalized institutions are subject to certain prompt corrective action requirements, regulatory controls and restrictions which become more extensive as an institution becomes more severely undercapitalized. Failure by institutions to comply with applicable capital requirements would, if unremedied, result in progressively more severe restrictions on their respective activities and lead to enforcement actions, including, but not limited to, the issuance of a capital directive to ensure the maintenance of required capital levels and, ultimately, the

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appointment of the Federal Deposit Insurance Corporation as receiver or conservator. Banking regulators will take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements. Additionally, approval of any regulatory application filed for their review may be dependent on compliance with capital requirements.