FS Bancorp, Inc.
Form 10-Q
May 10, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

(Mark One)

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

For the quarterly period ended March 31, 2018 OR

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

For the transition period from to

Commission File Number: 001 35589

FS BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

6920 220th Street SW, Mountlake Terrace, Washington 98043

(Address of principal executive offices; Zip Code)

(425) 771 5299

(Registrant’s telephone number, including area code)

None

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

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

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]
Emerging growth company [ ]	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b 2 of the Exchange Act). Yes [ ] No [X]

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: As of May 4, 2018, there were 3,695,952 outstanding shares of the registrant’s common stock.

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

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Item 1. Financial Statements

FS BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

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

ASSETS	March 31, 2018	December 31, 2017
Cash and due from banks	$ 3,532	$ 3,043
Interest-bearing deposits at other financial institutions	22,108	15,872
Total cash and cash equivalents	25,640	18,915
Certificates of deposit at other financial institutions	17,611	18,108
Securities available-for-sale, at fair value	91,371	82,480
Loans held for sale, at fair value	51,315	53,463
Loans receivable, net	805,632	761,558
Accrued interest receivable	3,693	3,566
Premises and equipment, net	15,798	15,458
Federal Home Loan Bank (“FHLB”) stock, at cost	4,308	2,871
Bank owned life insurance (“BOLI”), net	13,410	10,328
Servicing rights, held at the lower of cost or fair value	7,515	6,795
Goodwill	2,312	2,312
Core deposit intangible, net	1,240	1,317
Other assets	3,767	4,612
TOTAL ASSETS	$ 1,043,612	$ 981,783
LIABILITIES		
Deposits:		
Noninterest-bearing accounts	$ 190,301	$ 186,890
Interest-bearing accounts	667,177	642,952
Total deposits	857,478	829,842
Borrowings	39,529	7,529
Subordinated note:		
Principal amount	10,000	10,000
Unamortized debt issuance costs	(150)	(155)
Total subordinated note less unamortized debt issuance costs	9,850	9,845
Deferred tax liability, net	137	607
Other liabilities	11,176	11,958
Total liabilities	918,170	859,781
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
STOCKHOLDERS’ EQUITY		
Preferred stock, $.01 par value; 5,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $.01 par value; 45,000,000 shares authorized; 3,695,552 and 3,680,152 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	37	37

Additional paid-in capital	55,823	55,135
Retained earnings	72,349	68,422
Accumulated other comprehensive loss, net of tax	(1,716)	(475)
Unearned shares – Employee Stock Ownership Plan (“ESOP”)	(1,051)	(1,117)
Total stockholders’ equity	125,442	122,002
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 1,043,612	$ 981,783

See accompanying notes to these consolidated financial statements.

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FS BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended March 31, 2018	2017
INTEREST INCOME		
Loans receivable, including fees	$ 12,256	$ 9,372
Interest and dividends on investment securities, cash and cash equivalents, and certificates of deposit at other financial institutions	732	661
Total interest and dividend income	12,988	10,033
INTEREST EXPENSE		
Deposits	1,244	852
Borrowings	80	39
Subordinated note	167	167
Total interest expense	1,491	1,058
NET INTEREST INCOME	11,497	8,975
PROVISION FOR LOAN LOSSES	350	—
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,147	8,975
NONINTEREST INCOME		
Service charges and fee income	659	861
Gain on sale of loans	3,978	4,355
Gain on sale of investment securities	113	—
Earnings on cash surrender value of BOLI	82	69
Other noninterest income	192	135
Total noninterest income	5,024	5,420
NONINTEREST EXPENSE		
Salaries and benefits	7,048	6,118
Operations	1,359	1,486
Occupancy	648	643
Data processing	641	568
Loan costs	629	709
Professional and board fees	444	480
Federal Deposit Insurance Corporation (“FDIC”) insurance	41	134
Marketing and advertising	149	138
Amortization of core deposit intangible	77	100
Impairment on servicing rights	—	1
Total noninterest expense	11,036	10,377
INCOME BEFORE PROVISION FOR INCOME TAXES	5,135	4,018
PROVISION FOR INCOME TAXES	813	1,425
NET INCOME	$ 4,322	$ 2,593
Basic earnings per share	$ 1.22	$ 0.90
Diluted earnings per share	$ 1.15	$ 0.85

See accompanying notes to these consolidated financial statements.

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FS BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands) (Unaudited)

	Three Months Ended March 31, 2018	2017
Net Income	$ 4,322	$ 2,593
Other comprehensive (loss) income, before tax:		
Securities available-for-sale:		
Unrealized holding (loss) gain during year	(1,468)	163
Income tax benefit (provision) related to unrealized holding (loss) gain	316	(57)
Reclassification adjustment for realized gain included in net income	(113)	—
Income tax provision related to reclassification for realized gain	24	—
Other comprehensive (loss) income, net of tax	(1,241)	106
COMPREHENSIVE INCOME	$ 3,081	$ 2,699

See accompanying notes to these consolidated financial statements.

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FS BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

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

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income, Net of Tax	Unearned ESOP Shares	Total Stockholders' Equity
BALANCE, January 1, 2017	3,059,503	$ 31	$ 27,334	$ 55,584	$ (536)	$ (1,380)	$ 81,033
Net income	—	$ —	—	2,593	—	—	$ 2,593
Dividends paid ($0.10 per share)	—	$ —	—	(293)	—	—	$ (293)
Share-based compensation	—	$ —	191	—	—	—	$ 191
Stock options exercised	5,763	$ —	97	—	—	—	$ 97
Other comprehensive income, net of tax	—	$ —	—	—	106	—	$ 106
ESOP shares allocated	—	$ —	171	—	—	66	$ 237
BALANCE, March 31, 2017	3,065,266	$ 31	$ 27,793	$ 57,884	$ (430)	$ (1,314)	$ 83,964
BALANCE, January 1, 2018	3,680,152	$ 37	$ 55,135	$ 68,422	$ (475)	$ (1,117)	$ 122,002
Net income	—	$ —	—	4,322	—	—	$ 4,322
Dividends paid ($0.11 per share)	—	$ —	—	(395)	—	—	$ (395)
Share-based compensation	—	$ —	135	—	—	—	$ 135
Stock options exercised	15,400	$ —	260	—	—	—	$ 260
Other comprehensive loss, net of tax	—	$ —	—	—	(1,241)	—	$ (1,241)
ESOP shares allocated	—	$ —	293	—	—	66	$ 359
BALANCE, March 31, 2018	3,695,552	$ 37	$ 55,823	$ 72,349	$ (1,716)	$ (1,051)	$ 125,442

See accompanying notes to these consolidated financial statements.

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FS BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

	Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,322	$ 2,593
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	350	—
Depreciation, amortization and accretion	1,139	1,248
Compensation expense related to stock options and restricted stock awards	135	191
ESOP compensation expense for allocated shares	359	237
Increase in cash surrender value of BOLI	(82)	(69)
Gain on sale of loans held for sale	(3,896)	(4,355)
Gain on sale of portfolio loans	(82)	—
Gain on sale of investment securities	(113)	—
Origination of loans held for sale	(147,603)	(124,234)
Proceeds from sale of loans held for sale	152,419	140,125
Impairment of servicing rights	—	1
Changes in operating assets and liabilities		
Accrued interest receivable	(107)	(232)
Other assets	845	246
Other liabilities	(912)	3,944
Net cash from operating activities	6,774	19,695
CASH FLOWS USED BY INVESTING ACTIVITIES		
Activity in securities available-for-sale:		
Proceeds from sale of investment securities	5,305	—
Maturities, prepayments, sales, and calls	2,340	2,019
Purchases	(18,145)	(27,404)
Maturities of certificates of deposit at other financial institutions	496	—
Purchase of certificates of deposit at other financial institutions	—	(2,365)
Loan originations and principal collections, net	(32,911)	(21,432)
Purchase of portfolio loans	(17,000)	(3,132)
Proceeds from sale of portfolio loans	5,551	—
Purchase of premises and equipment, net	(749)	(225)
Purchase of BOLI	(3,000)	—
FHLB stock, net	(1,437)	(382)
Net cash used by investing activities	(59,550)	(52,921)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	27,636	45,421
Proceeds from borrowings	166,505	—
Repayments of borrowings	(134,505)	(2,400)

Dividends paid	(395)	(293)
Proceeds from stock options exercised	260	97
Net cash from financing activities	59,501	42,825
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,725	9,599
CASH AND CASH EQUIVALENTS, beginning of period	18,915	36,456
CASH AND CASH EQUIVALENTS, end of period	$ 25,640	$ 46,055
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 1,416	$ 1,051

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FS BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(In thousands) (Unaudited)

SUPPLEMENTARY DISCLOSURES OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES		
Change in unrealized (loss) gain on investment securities	$ (1,581)	$ 163
Retention of gross mortgage servicing rights from loan sales	$ 1,138	$ 990

See accompanying notes to these consolidated financial statements

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

Nature of Operations - FS Bancorp, Inc. (the “Company”) was incorporated in September 2011 as the proposed holding company for 1st Security Bank of Washington (the “Bank” or “1st Security Bank”) in connection with the Bank’s conversion from the mutual to stock form of ownership which was completed on July 9, 2012. The Bank is a community-based savings bank with 12 branches, including the newly opened Silverdale, Washington branch which opened on April 12, 2018, and seven loan production offices in suburban communities in the greater Puget Sound area within Snohomish, King, Pierce, Jefferson, Kitsap, and Clallam counties, and one loan production office in the market area of the Tri-Cities, Washington. The Bank provides loan and deposit services to customers who are predominantly small- and middle-market businesses and individuals. The Company and its subsidiary are subject to regulation by certain federal and state agencies and undergo periodic examination by these regulatory agencies.

Pursuant to the Plan of Conversion (the “Plan”), the Company’s Board of Directors adopted an employee stock ownership plan (“ESOP”) which purchased 8% of the common stock in the open market or 259,210 shares. As provided for in the Plan, the Bank also established a liquidation account in the amount of retained earnings at December 31, 2011. The liquidation account is maintained for the benefit of eligible savings account holders at June 30, 2007, and supplemental eligible account holders as of March 31, 2012, who maintain deposit accounts at the Bank after the conversion. The conversion was accounted for as a change in corporate form with the historic basis of the Company’s assets, liabilities, and equity unchanged as a result.

Financial Statement Presentation - The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and in accordance with the instructions to Form 10 Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission (“SEC”). It is recommended that these unaudited interim consolidated financial statements be read in conjunction with the Company’s Annual Report on Form 10 K with all of the audited information and footnotes required by U.S. GAAP for complete financial statements for the year ended December 31, 2017, as filed with the SEC on March 16, 2018. In the opinion of management, all normal adjustments and recurring accruals considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included.

The results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018, or any other future period. The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses, fair value of financial instruments, the valuation of servicing rights, and the deferred income taxes.

Amounts presented in the consolidated financial statements and footnote tables are rounded and presented in thousands of dollars except per share amounts. In the narrative footnote discussion, amounts are rounded and presented in millions of dollars to one decimal point if the amounts are above $1.0 million. Amounts below $1.0 million are rounded and presented in dollars to the nearest thousands. Certain prior year amounts have been reclassified to conform to the 2018 presentation with no change to consolidated net income or stockholders’ equity previously reported.

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

Segment Reporting - The Company operates in two business segments through the Bank: commercial and consumer banking and home lending. The Company's business segments are determined based on the products and services provided, as well as the nature of the related business activities, and they reflect the manner in which financial information is regularly reviewed for the purpose of allocating resources and evaluating performance of the Company's businesses. The results for these business segments are based on management's accounting process, which assigns income statement items and assets to each responsible operating segment. This process is dynamic and is based on management's view of the Company's operations. See "Note 13 - Business Segments".

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Subsequent Events - The Company has entered into a five year lease with two five year option renewals for a new retail branch location in Silverdale, Washington, which opened April 12, 2018.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016 02, Leases (Topic 842). ASU No. 2016 02 requires lessees to recognize on the balance sheet the assets and liabilities arising from operating leases. A lessee should recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. A lessee should include payments to be made in an optional period only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. For a finance lease, interest payments should be recognized separately from amortization of the right-of-use asset in the statement of comprehensive income. For operating leases, the lease cost should be allocated over the lease term on a generally straight-line basis. The amendments in ASU 2016 02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in the ASU is permitted. Once adopted, we expect to report higher assets and liabilities as a result of including right-of-use assets and lease liabilities related to certain banking offices and certain equipment under noncancelable operating lease agreements. As of December 31, 2017, we would have reported an increase of approximately $4.7 million in both assets and liabilities in the Consolidated Balance Sheets based on management's estimate assuming the early adoption of this ASU.

In June 2016, the FASB issued ASU No. 2016 13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact of this ASU on the Company's consolidated financial statements. Once adopted, we anticipate our allowance for loan losses to increase through a one time adjustment to retained earnings, however, until our evaluation is complete the magnitude of the increase will be unknown.

In March 2017, the FASB issued ASU No. 2017 08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310 20): Premium Amortization on Purchased Callable Debt Securities. The ASU shortens the amortization period for certain callable debt securities held at a premium. The ASU will take effect for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of ASU No. 2017 08 is not expected to have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU amends the hedge accounting recognition and presentation requirements in ASC 815 to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity of and simplify the application of hedge accounting by preparers. The amendments in this ASU permit hedge accounting for hedging relationships involving nonfinancial risk and interest rate risk by removing certain limitations in cash flow and fair value hedging relationships. In addition, the ASU requires an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. The amendments in this ASU are effective for annual periods,

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and interim periods within those annual periods, beginning after December 15, 2018 and early adoption is permitted. The adoption of ASU No. 2017-12 is not expected to have a material impact on the Company's consolidated financial statements.

In March 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740). This ASU was issued to provide guidance on the income tax accounting implications of the Tax Cuts and Jobs Act (“Tax Act”) and allows for entities to report provisional amounts for specific income tax effects of the Act for which the accounting under Topic 740 was not yet complete but a reasonable estimate could be determined. A measurement period of one-year is allowed to complete the accounting effects under Topic 740 and revise any previous estimates reported. Any provisional amounts or subsequent adjustments included in an entity’s financial statements during the measurement period should be included in income from continuing operations as an adjustment to tax expense in the reporting period the amounts are determined. The Company adopted this ASU with the provisional adjustments as reported in the Consolidated Financial Statements on Form 10-K as of December 31, 2017. As of March 31, 2018, the Company did not incur any adjustments to the provisional recognition.

Application of New Accounting Guidance

On January 1, 2018, the Company adopted FASB issued ASU No. 2014 09, Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively “ASC 606”), which created Topic 606 and supersedes Topic 605, Revenue Recognition. In August 2015, FASB issued ASU No. 2015 14, Revenue from Contracts with Customers (Topic 606), which postponed the effective date of 2014 09. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under past guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. For financial reporting purposes, the Company utilized the modified retrospective approach, meaning the ASU is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. As a bank holding company, key revenue sources, such as interest income on loans, investment securities and deposits, as well as other sources of income including loan fees, security sales, and derivatives have been identified as out of the scope of this new guidance. Management conducted an assessment of the revenue streams that were affected by the new guidance and identified those considered material and in scope to ensure compliance with the new guidance concluding those related to credit and debit card fees, and service charges and fees on deposit accounts. No additional changes to processes or procedures were identified for the recognition of revenues in scope. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements. However, additional disclosures required by the ASU have been included in “Note 15 - Revenue from Contracts with Customers” to the Company’s consolidated financial statements.

On January 1, 2018, the FASB issued ASU No. 2016 01, Financial Instruments - Overall (Subtopic 825 10): Recognition and Measurement of Financial Assets and Financial Liabilities. The new guidance improves the recognition and measurement of financial instruments. This ASU requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. Exit price is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This ASU also eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The adoption of ASU No. 2016-01 did not have a material impact on the Company’s consolidated financial statements. The disclosures to the Company’s consolidated financial statements have been updated appropriately using the exit price notion in “Note 8 – Fair Value of Financial Instruments”.

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NOTE 2 - SECURITIES AVAILABLE-FOR-SALE

The following tables present the amortized costs, unrealized gains, unrealized losses, and estimated fair values of securities available-for-sale at March 31, 2018 and December 31, 2017:

	March 31, 2018			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Values
SECURITIES AVAILABLE-FOR-SALE				
U.S. agency securities	$ 12,071	$ 39	$ (84)	$ 12,026
Corporate securities	7,103	4	(188)	6,919
Municipal bonds	10,889	—	(353)	10,536
Mortgage-backed securities	46,911	16	(1,235)	45,692
U.S. Small Business Administration securities	16,583	8	(393)	16,198
Total securities available-for-sale	$ 93,557	$ 67	$ (2,253)	$ 91,371

	December 31, 2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Values
SECURITIES AVAILABLE-FOR-SALE				
U.S. agency securities	$ 9,077	$ 49	$ (11)	$ 9,115
Corporate securities	7,113	9	(96)	7,026
Municipal bonds	12,720	148	(82)	12,786
Mortgage-backed securities	40,161	63	(490)	39,734
U.S. Small Business Administration securities	14,014	—	(195)	13,819
Total securities available-for-sale	$ 83,085	$ 269	$ (874)	$ 82,480

At March 31, 2018, the Bank had pledged eight securities held at the FHLB of Des Moines with a carrying value of $12.2 million to secure Washington State public deposits of $9.7 million with a $4.2 million collateral requirement by the Washington Public Deposit Protection Commission. At December 31, 2017, the Bank pledged nine securities held at the FHLB of Des Moines with a carrying value of $10.7 million to secure Washington State public deposits of $7.6 million with a $3.2 million collateral requirement by the Washington Public Deposit Protection Commission.

Investment securities that were in an unrealized loss position at March 31, 2018 and December 31, 2017 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position. Management believes that these securities are only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral.

	March 31, 2018					
	Less than 12 Months		12 Months or Longer		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized

	Value	Losses	Value	Losses	Value	Losses
SECURITIES AVAILABLE-FOR-SALE						
U.S. agency securities	$ 7,958	$ (84)	$ —	$ —	$ 7,958	$ (84)
Corporate securities	4,024	(83)	1,891	(105)	5,915	(188)
Municipal bonds	10,537	(353)	—	—	10,537	(353)
Mortgage-backed securities	24,592	(445)	19,301	(790)	43,893	(1,235)
U.S. Small Business Administration securities	11,080	(273)	3,104	(120)	14,184	(393)
Total	$ 58,191	$ (1,238)	$ 24,296	$ (1,015)	$ 82,487	$ (2,253)

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	December 31, 2017					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
SECURITIES AVAILABLE-FOR-SALE						
U.S. agency securities	$ 2,987	$ (11)	$ —	$ —	$ 2,987	$ (11)
Corporate securities	4,102	(15)	1,915	(81)	6,017	(96)
Municipal bonds	5,982	(82)	—	—	5,982	(82)
Mortgage-backed securities	7,262	(61)	20,635	(429)	27,897	(490)
U.S. Small Business Administration securities	11,876	(162)	1,943	(33)	13,819	(195)
Total	$ 32,209	$ (331)	$ 24,493	$ (543)	$ 56,702	$ (874)

There were 40 investments with unrealized losses of less than one year, and 18 investments with unrealized losses of more than one year at March 31, 2018. There were 21 investments with unrealized losses of less than one year, and 17 investments with unrealized losses of more than one year at December 31, 2017. The unrealized losses associated with these investments are believed to be caused by changes in market interest rates that are considered to be temporary and the Company does not intend to sell the securities, and it is not likely to be required to sell these securities prior to maturity. No other-than-temporary impairment was recorded for the three months ended March 31, 2018, or for the year ended December 31, 2017.

The contractual maturities of securities available-for-sale at March 31, 2018 and December 31, 2017 are listed below. Expected maturities of mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations; therefore, these securities are classified separately with no specific maturity date.

	March 31, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. agency securities				
Due after five years through ten years	$ 7,073	$ 7,047	$ 4,079	$ 4,124
Due after ten years	4,998	4,979	4,998	4,991
Subtotal	12,071	12,026	9,077	9,115
Corporate securities				
Due after one year through five years	5,107	5,028	5,117	5,111
Due after five years through ten years	1,996	1,891	1,996	1,915
Subtotal	7,103	6,919	7,113	7,026
Municipal bonds				
Due after one year through five years	—	—	2,001	2,026
Due after five years through ten years	3,816	3,743	4,111	4,206
Due after ten years	7,073	6,793	6,608	6,554
Subtotal	10,889	10,536	12,720	12,786
Mortgage-backed securities				
Federal National Mortgage Association (“FNMA”)	29,407	28,696	23,310	23,091

Federal Home Loan Mortgage Corporation ("FHLMC")	11,528	11,165	10,818	10,629
Government National Mortgage Association ("GNMA")	5,976	5,831	6,033	6,014
Subtotal	46,911	45,692	40,161	39,734
U.S. Small Business Administration securities				
Due after five years through ten years	14,677	14,339	12,065	11,896
Due after ten years	1,906	1,859	1,949	1,923
Subtotal	16,583	16,198	14,014	13,819
Total	$ 93,557	$ 91,371	$ 83,085	$ 82,480

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The proceeds and resulting gains and losses, computed using specific identification from sales of securities available-for-sale for the three months ended March 31, 2018 were as follows:

	March 31, 2018		
	Proceeds	Gross Gains	Gross (Losses)
Securities available-for-sale	$ 5,305	$ 113	$ —

There were no proceeds, gains, or losses for March 31, 2017.

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio was as follows at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
REAL ESTATE LOANS		
Commercial	$ 61,956	$ 63,611
Construction and development	143,611	143,068
Home equity	23,563	25,289
One-to-four-family (excludes loans held for sale)	165,030	163,655
Multi-family	52,431	44,451
Total real estate loans	446,591	440,074
CONSUMER LOANS		
Indirect home improvement	136,946	130,176
Solar	41,581	41,049
Marine	38,451	35,397
Other consumer	1,951	2,046
Total consumer loans	218,929	208,668
COMMERCIAL BUSINESS LOANS		
Commercial and industrial	104,612	83,306
Warehouse lending	47,563	41,397
Total commercial business loans	152,175	124,703
Total loans receivable, gross	817,695	773,445
Allowance for loan losses	(11,140)	(10,756)
Deferred costs, fees, premiums, and discounts, net	(923)	(1,131)
Total loans receivable, net	$ 805,632	$ 761,558

Most of the Company's commercial and multi-family real estate, construction, residential, and/or commercial business lending activities are with customers located in the greater Puget Sound area and near our one loan production office located in the Tri-Cities, Washington. The Company originates real estate, consumer, and commercial business loans and has concentrations in these areas, however, indirect home improvement loans are originated through a network of home improvement contractors and dealers located throughout Washington, Oregon, California, Idaho, and Colorado. The Company also originates solar loans through contractors and dealers in the state of California. Loans are generally secured by collateral and rights to collateral vary and are legally documented to the extent practicable. Local economic conditions may affect borrowers' ability to meet the stated repayment terms.

The Company has defined its loan portfolio into three segments that reflect the structure of the lending function, the Company's strategic plan and the manner in which management monitors performance and credit quality. The three loan portfolio segments are: (a) Real Estate Loans, (b) Consumer Loans and (c) Commercial Business Loans. Each of these segments is disaggregated into classes based on the risk characteristics of the borrower and/or the collateral type securing the loan. The following is a summary of each of the Company's loan portfolio segments and classes:

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Real Estate Loans

Commercial Lending. Loans originated by the Company primarily secured by income producing properties, including retail centers, warehouses, and office buildings located in our market areas.

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

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

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

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

Consumer Loans

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

Solar. Fixture secured loans for solar related home improvement projects are originated by the Company through its network of contractors and dealers, and are secured by the personal property installed in, on, or at the borrower's real property, and which may be perfected with a UCC 2 financing statement filed in the county of the borrower's residence.

Marine. Loans originated by the Company secured by boats to borrowers primarily located in its market areas.

Other Consumer. Loans originated by the Company, including automobiles, recreational vehicles, direct home improvement loans, loans on deposits, and other consumer loans, primarily consisting of personal lines of credit.

Commercial Business Loans

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

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

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The following tables detail activity in the allowance for loan losses by loan categories at or for the three months ended March 31, 2018 and 2017:

	At or For the Three Months Ended March 31, 2018				
	Real Estate	Consumer	Commercial Business	Unallocated	Total
ALLOWANCE FOR LOAN LOSSES					
Beginning balance	$ 4,770	$ 2,814	$ 2,014	$ 1,158	$ 10,756
Provision for loan losses	14	84	295	(43)	350
Charge-offs	(4)	(228)	—	—	(232)
Recoveries	—	264	2	—	266
Net (charge-offs) recoveries	(4)	36	2	—	34
Ending balance	$ 4,780	$ 2,934	$ 2,311	$ 1,115	$ 11,140
Period end amount allocated to:					
Loans individually evaluated for impairment	$ 41	$ 87	$ —	$ —	$ 128