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First Financial Northwest, Inc.

Form DEF 14A

April 26, 2018

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

Preliminary proxy statement

Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))

Definitive proxy statement

Definitive additional materials

Soliciting material under § 240.14a-12

FIRST FINANCIAL NORTHWEST, INC.

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of filing fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

N/A

(2) Aggregate number of securities to which transactions applies:

N/A

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

N/A

(4) Proposed maximum aggregate value of transaction:

N/A

(5) Total fee paid:

N/A

Fee paid previously with preliminary materials:

N/A

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

N/A

(2) Form, schedule or registration statement no.:

N/A

(3) Filing party:

N/A

(4) Date filed:

N/A

April 26, 2018

Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders of First Financial Northwest, Inc. ("First Financial") to be held at the Renton Community Center, located at 1715 SE Maple Valley Highway, Renton, Washington, on Wednesday, June 13, 2018, at 9:00 a.m., local time.

The Notice of Annual Meeting of Shareholders and Proxy Statement appearing on the following pages describe the formal business to be transacted at the meeting. During the meeting, we will also report on our operations. Directors and officers of First Financial, as well as a representative of Moss Adams LLP, our independent auditor, will be present to respond to shareholder questions.

It is important that your shares are represented at the meeting, whether or not you attend in person and regardless of the number of shares you own. To make sure your shares are represented, we urge you to complete and mail the enclosed proxy card as promptly as possible or to vote by telephone or the Internet, following the instructions on the proxy card. If you attend the meeting, you may vote in person even if you have previously voted.

We look forward to seeing you at the meeting.

Sincerely,

/s/ Roger H. Molvar

Roger H. Molvar
Chairman

FIRST FINANCIAL NORTHWEST, INC.
201 WELLS AVENUE SOUTH
RENTON, WASHINGTON 98057
(425) 255-4400

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON JUNE 13, 2018

Notice is hereby given that the annual meeting of shareholders of First Financial Northwest, Inc. will be held at the Renton Community Center, located at 1715 SE Maple Valley Highway, Renton, Washington, on Wednesday, June 13, 2018, at 9:00 a.m., local time, for the following purposes:

Proposal 1. Election of two directors to each serve for a three-year term;

Proposal 2. Advisory (non-binding) approval of the compensation paid to our named executive officers as disclosed in this Proxy Statement;

Proposal 3. Ratification of the appointment of Moss Adams LLP as our independent auditor for 2018.

We will also consider and act upon such other business as may properly come before the meeting, or any adjournments or postponements thereof. As of the date of this notice, we are not aware of any other business to come before the annual meeting.

The Board of Directors has fixed the close of business on April 17, 2018, as the record date for the annual meeting. This means that shareholders of record at the close of business on that date are entitled to receive notice of, and to vote at the meeting and any adjournment thereof. To ensure that your shares are represented at the meeting, please take the time to vote by signing, dating and mailing the enclosed proxy card, which is solicited on behalf of the Board of Directors, and mail it promptly in the enclosed envelope. Alternatively, you may vote by telephone or the Internet by following the instructions on the proxy card. The proxy will not be used if you attend and vote at the annual meeting in person. Regardless of the number of shares you own, your vote is very important. Please act today.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ JOANN E. LEE

JOANN E. LEE
SECRETARY

Renton, Washington
April 26, 2018

IMPORTANT: The prompt return of proxies will save us the expense of further requests for proxies in order to ensure a quorum. A proxy card and pre-addressed envelope are enclosed for your convenience. No postage is required if mailed in the United States. You may also vote by telephone or the Internet by following the instructions on the proxy card.

PROXY STATEMENT
OF
FIRST FINANCIAL NORTHWEST, INC.
201 WELLS AVENUE SOUTH
RENTON, WASHINGTON 98057
(425) 255-4400

ANNUAL MEETING OF SHAREHOLDERS
JUNE 13, 2018

The Board of Directors of First Financial Northwest, Inc. is using this Proxy Statement to solicit proxies from our shareholders for use at the 2018 annual meeting of shareholders. We are first mailing this Proxy Statement and proxy card to our shareholders on or about April 26, 2018.

The information provided in this Proxy Statement relates to First Financial Northwest, Inc. and its wholly-owned subsidiary, First Financial Northwest Bank. First Financial Northwest, Inc. may also be referred to as "First Financial" and First Financial Northwest Bank may also be referred to as the "Bank." References to "we," "us" and "our" refer to First Financial and, as the context requires, First Financial Northwest Bank.

INFORMATION ABOUT THE ANNUAL MEETING

Time and Place of the Annual Meeting

Our annual meeting will be held as follows:

Date: Wednesday, June 13, 2018

Time: 9:00 a.m., local time

Place: Renton Community Center, 1715 SE Maple Valley Highway, Renton, Washington

Matters to Be Considered at the Annual Meeting

At the meeting, you will be asked to consider and vote upon the following proposals:

Proposal 1. Election of two directors to each serve for a three-year term;

Proposal 2. Advisory (non-binding) approval of the compensation paid to our named executive officers as disclosed in this Proxy Statement;

Proposal 3. Ratification of the appointment of Moss Adams LLP as our independent auditor for 2018.

We also will transact any other business that may properly come before the annual meeting. As of the date of this Proxy Statement, we are not aware of any other business to be presented for consideration at the annual meeting other than the matters described in this Proxy Statement.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to Be Held on June 13, 2018

Our Proxy Statement and 2017 Annual Report to Shareholders are available at www.ffnwb.com/investor/proxy. The following materials are available for review:

- Proxy Statement;
 - Proxy card;
 - 2017 Annual Report to Shareholders; and
 - Directions to attend the annual meeting, where you may vote in person.
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Who is Entitled to Vote?

We have fixed the close of business on April 17, 2018, as the record date for shareholders entitled to receive notice of and to vote at our annual meeting. Only holders of record of First Financial's common stock on that date are entitled to receive notice of and to vote at the annual meeting. You are entitled to one vote for each share of First Financial common stock you own, unless you own more than 10 percent of First Financial's outstanding shares. As provided in our Articles of Incorporation, record holders of common stock who beneficially own in excess of 10 percent of First Financial's outstanding shares are not entitled to any vote in respect of the shares held in excess of the 10 percent limit unless our Board of Directors has granted permission in advance. On April 17, 2018, there were 10,779,424 shares of First Financial common stock outstanding and entitled to vote at the annual meeting.

How Do I Vote at the Annual Meeting?

Proxies are solicited to provide all shareholders on the voting record date an opportunity to vote on matters scheduled for the annual meeting and described in these materials. This question provides voting instructions for shareholders of record. You are a shareholder of record if your shares of First Financial common stock are held in your name. If you are a beneficial owner of First Financial common stock held by a broker, bank or other nominee (i.e., in "street name"), please see the instructions in the following question.

Shares of First Financial common stock can only be voted if the shareholder is present in person or by proxy at the annual meeting. To ensure your representation at the annual meeting, we recommend you vote by sending in the proxy card even if you plan to attend the annual meeting. You can also vote by telephone or the Internet by following the instructions on the proxy card. You can always change your vote at the meeting if you are a shareholder of record.

Voting instructions are included on your proxy card. Shares of First Financial common stock represented by properly executed proxies will be voted by the Proxy Committee of the Board of Directors in accordance with the shareholder's instructions. Where properly executed proxies are returned to us with no specific instruction as how to vote at the annual meeting, the persons named in the proxy will vote the shares FOR the election of each of our director nominees, FOR advisory approval of the compensation paid to our executive compensation as disclosed in this Proxy Statement and FOR the ratification of the appointment of Moss Adams LLP as our independent auditor for 2018. If any other matters are properly presented at the annual meeting for action, the Proxy Committee will have the discretion to vote on these matters in accordance with their best judgment. We do not currently expect that any other matters will be properly presented for action at the annual meeting.

You may receive more than one proxy card depending on how your shares are held. For example, you may hold some of your shares individually, some jointly with your spouse and some in trust for your children. In this case, you will receive three separate proxy cards to vote.

What if My Shares Are Held in Street Name?

If you are the beneficial owner of shares held in "street name" by a broker, your broker, as the record holder of the shares, is required to vote the shares in accordance with your instructions. If you do not give instructions to your broker, your broker may nevertheless vote the shares with respect to discretionary items, but will not be permitted to vote your shares with respect to non-discretionary items, pursuant to current industry practice. In the case of non-discretionary items, the shares not voted will be treated as "broker non-votes." The proposal to elect directors and the advisory vote on executive compensation are considered non-discretionary items; therefore, you must provide instructions to your broker in order to have your shares voted on these proposals.

If your shares are held in street name, you will need proof of ownership to be admitted to the annual meeting. A recent brokerage statement or letter from the record holder of your shares are examples of proof of ownership. If you want to vote your shares of common stock held in street name in person at the annual meeting, you will have to get a

written proxy in your name from the broker, bank or other nominee who holds your shares.

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How Will My Shares of Common Stock Held in the Employee Stock Ownership Plan Be Voted?

We maintain the First Financial Northwest, Inc. Employee Stock Ownership Plan ("ESOP") for the benefit of our employees. Each participant may instruct the trustee how to vote the shares of First Financial common stock allocated to his or her account under the ESOP by completing the voting instruction sheet distributed by the administrator. If a participant properly executes the voting instruction sheet, the administrator will instruct the trustee to vote the participant's shares in accordance with the participant's instructions. Unallocated shares of First Financial common stock held in the ESOP will be voted by the trustee in the same proportion as shares for which the trustee has received voting instructions. Allocated shares for which proper voting instructions are not received shall be voted by the trustee in the manner directed by the administrator. The administrator of the ESOP is Crowe Horwath.

How Many Shares Must Be Present to Hold the Meeting?

A quorum must be present at the meeting for any business to be conducted. The presence at the meeting, in person or by proxy, of at least a majority of the shares of First Financial common stock entitled to vote at the annual meeting as of the record date will constitute a quorum. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting.

What if a Quorum Is Not Present at the Meeting?

If a quorum is not present at the scheduled time of the meeting, a majority of the shareholders present or represented by proxy may adjourn the meeting until a quorum is present. The time and place of the adjourned meeting will be announced at the time the adjournment is taken, and no other notice will be given unless the adjourned meeting is set to be held 120 days or more after the original meeting. An adjournment will have no effect on the business that may be conducted at the meeting.

Vote Required to Approve Proposal 1: Election of Directors

Directors are elected by a plurality of the votes cast, in person or by proxy, at the annual meeting by holders of First Financial common stock. Our Nominating and Corporate Governance Committee has nominated, and our Board of Directors has ratified, the nomination of two candidates for election as directors. Pursuant to our Articles of Incorporation, shareholders are not permitted to cumulate their votes for the election of directors. Votes may be cast for or withheld from each nominee. Votes that are withheld and broker non-votes will have no effect on the outcome of the election because the two nominees receiving the greatest number of votes will be elected. Our Board of Directors unanimously recommends that you vote FOR the election of each of its director nominees.

Vote Required to Approve Proposal 2: Advisory Approval of Executive Compensation

Approval of the advisory (non-binding) vote on executive compensation requires the affirmative vote of a majority of the votes cast, in person or by proxy, at the annual meeting. Abstentions and broker non-votes will have no effect on the outcome of the proposal. Our Board of Directors unanimously recommends that you vote FOR approval of the compensation of our named executive officers.

Vote Required to Approve Proposal 3: Ratification of the Appointment of the Independent Auditor

Ratification of the appointment of Moss Adams LLP as our independent auditor for the fiscal year ending December 31, 2018, requires the affirmative vote of a majority of the votes cast, in person or by proxy, at the annual meeting. Abstentions will have no effect on the outcome of the proposal. Our Board of Directors unanimously recommends that you vote FOR the ratification of the appointment of the independent auditor.

May I Revoke My Proxy?

You may revoke your proxy before it is voted by:

- submitting a new proxy with a later date;
- notifying the Secretary of First Financial in writing (or if you hold your shares in street name, your broker, bank or other nominee) before the annual meeting that you have revoked your proxy; or
- voting in person at the annual meeting.

If you plan to attend the annual meeting and wish to vote in person, we will give you a ballot at the annual meeting. However, if your shares are held in street name, you must bring a validly executed proxy from the nominee indicating that you have the right to vote your shares.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of April 17, 2018, the voting record date, information regarding share ownership of:

- those persons or entities (or groups of affiliated persons or entities) known by management to beneficially own more than five percent of First Financial's common stock other than directors and executive officers;
- each director and director nominee of First Financial;
- each executive officer of First Financial or any of its subsidiaries named in the Summary Compensation Table appearing under "Executive Compensation" below (known as "named executive officers"); and
- all current directors and executive officers of First Financial and its subsidiaries as a group.

Persons and groups who beneficially own in excess of five percent of First Financial's common stock are required to file with the Securities and Exchange Commission ("SEC"), and provide us a copy of the report disclosing their ownership pursuant to the Securities Exchange Act of 1934, as amended ("Securities Exchange Act"). To our knowledge, no other person or entity, other than the ones set forth below, beneficially owned more than five percent of the outstanding shares of First Financial's common stock as of the close of business on the voting record date.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In accordance with Rule 13d-3 of the Securities Exchange Act, a person is deemed to be the beneficial owner of any shares of common stock if he or she has voting and/or investment power with respect to those shares. Therefore, the table below includes shares owned by spouses, other immediate family members in trust, shares held in retirement accounts or funds for the benefit of the named individuals, shares held in the ESOP, and other forms of ownership, over which shares the persons named in the table may possess voting and/or investment power. In addition, in computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to outstanding options that are currently exercisable or exercisable within 60 days after April 17, 2018, are included in the number of shares beneficially owned by the person and are deemed outstanding for the purpose of calculating the person's percentage ownership. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

As of April 17, 2018, the voting record date, there were 10,779,424 shares of First Financial common stock outstanding.

Name	Number of Shares Beneficially Owned (1)	Percent of Shares Outstanding (%)
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Beneficial Owners of More Than 5%

First Financial Northwest, Inc. Employee Stock Ownership Plan 201 Wells Avenue South Renton, Washington 98057	1,160,591 (2)	10.77
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First Financial Northwest Foundation P.O. Box 419 Renton, Washington 98057	1,050,000 (3)	9.74
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Dimensional Fund Advisors LP Building One, 6300 Bee Cave Road Austin, Texas 78746	927,552 (4)	8.60
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Renaissance Technologies LLC 800 Third Avenue New York, New York 10022	675,700 (5)	6.27
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Directors

Gary F. Faull	84,877	*
Richard P. Jacobson**	97,574	*
Joseph W. Kiley III**	156,610	1.44
Joann E. Lee	153,544 (6)	1.42
Roger H. Molvar	4,081	*
Kevin D. Padrick	4,081	*
Richard M. Riccobono	1,739	*
Daniel L. Stevens	6,581	*

Named Executive Officers

Ronnie J. Clariza	92,933	*
Dalen D. Harrison	23,370	*
Simon Soh	128,337 (7)	1.18

All Executive Officers and Directors as a Group (11 persons)	753,727	6.78
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* Less than one percent of shares outstanding.

** Also a named executive officer.

(1) For directors and executive officers, includes shares of restricted stock, as to which the holders have voting but not dispositive power. For executive officers, also includes unvested shares of stock held in the ESOP, as to which the holders have voting but not dispositive power. Also includes the following number of First Financial shares that the indicated individuals have the right to acquire within 60 days of the voting record date through the exercise of stock options: Mr. Jacobson, 64,000 shares; Mr. Kiley, 105,000 shares; Ms. Lee, 57,940 shares; Mr. Clariza,

40,000 shares; Ms. Harrison, 12,000 shares; Mr. Soh, 65,000 shares; and all executive officers and directors as a group, 343,940 shares.

- (2) The ESOP has sole voting power with respect to 536,053 shares, shared voting power with respect 624,538 shares and sole dispositive power with respect to 1,160,591 shares.

(3) We established the First Financial Northwest Foundation in connection with the mutual to stock conversion of First Financial Northwest Bank to further our commitment to the local community. Shares of common stock held by the Foundation will be voted in the same proportion as all other shares of common stock on all proposals considered by First Financial's shareholders.

- (4) Based solely on a Schedule 13G/A dated February 9, 2018, regarding shares owned as of December 31, 2017, reporting sole voting power over 897,157 shares and sole dispositive power over 927,552 shares.

(5) Based solely on a Schedule 13G dated February 14, 2018, regarding shares owned as of December 29, 2017, reporting that Renaissance Technologies LLC and Renaissance Technologies Holdings Corporation have sole voting power and sole dispositive power over 635,696 shares and shared dispositive power over 40,000 shares.

- (6) Includes 15,000 shares owned solely by her spouse.

(7) Includes 11,000 shares held in an individual retirement account.

PROPOSAL 1 – ELECTION OF DIRECTORS

Our Board of Directors consists of eight members and is divided into three classes. Approximately one-third of the directors are elected annually to serve for a three-year period or until their respective successors are elected and qualified. The table below sets forth information regarding each director of First Financial and each Board nominee for director.

The Nominating and Corporate Governance Committee of the Board of Directors selects nominees for election as directors. All of our nominees currently serve as First Financial directors. Each nominee has consented to being named in this Proxy Statement and has agreed to serve if elected. It is intended that the proxies solicited on behalf of the Board of Directors (other than proxies in which the vote is withheld as to the nominee) will be voted at the annual meeting for the election of the nominees identified in the table below. If a nominee is unable to stand for election, the Board of Directors may either reduce the number of directors to be elected or select a substitute nominee. If a substitute nominee is selected, the proxy holders will vote your shares for the substitute nominee, unless you have withheld authority. At this time, we are not aware of any reason why a nominee might be unable to serve if elected.

The Board of Directors recommends a vote FOR the election of Richard P. Jacobson and Daniel L. Stevens.

Name	Age as of December 31, 2017	Year first elected or appointed director (1)	Term to expire
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BOARD NOMINEES

Richard P. 54 Jacobson		2013	2021 (2)
Daniel L. 74 Stevens		2012	2021 (2)

DIRECTORS CONTINUING IN OFFICE

Gary F. 73 Faull		1999	2019
Joann E. 62 Lee		2005	2019
Kevin D. 62 Padrick		2013	2019
Joseph W. 62 Kiley		2012	2020
III Roger H. 62 Molvar		2015	2020
Richard M.		2016	2020

Riccobono

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- For Mr. Faull and Ms. Lee, includes service on the Board of
- (1) Directors of First Financial Northwest Bank (previously known as First Savings Bank of Renton and First Savings Bank Northwest)
 - (2) Assuming reelection.

Information Regarding Nominees for Election. Set forth below is the principal occupation and other business experience during at least the last five years of each nominee for director.

Richard P. Jacobson has served as Chief Operating Officer of First Financial Northwest Bank since July 2013, and as Chief Financial Officer of First Financial Northwest, First Financial Diversified, and the Bank since August 2013. He was appointed as a director of First Financial, First Financial Diversified and the Bank effective September 2013. Mr. Jacobson served as a consultant to First Financial from April 2010 to April 2012. Subsequently, he worked as a mortgage loan originator in Palm Desert, California from July 2012 to July 2013. Previously, he had been employed by Horizon Financial Corp. and Horizon Bank, Bellingham, Washington, for 23 years, and had served as President, Chief Executive Officer and a director of Horizon Financial Corp. and Horizon Bank from January 2008 to January 2010. Mr. Jacobson also served as Chief Financial Officer of Horizon Financial Corp. and Horizon Bank from March 2000 until October 2008. Between 1985 and 2008, Mr. Jacobson served in several other positions at Horizon Financial Corp. and Horizon Bank, and spent two years as a Washington state licensed real estate appraiser from 1992 to 1994. Mr. Jacobson received his Bachelor's degree in Business Administration (Finance) from the University of Washington. In addition, Mr. Jacobson graduated with honors from the American Banker Association's National School of Banking. Mr. Jacobson is a past president of the Whatcom

County North Rotary Club and has served on the boards of his church, the United Way, Boys and Girls Club, and Junior Achievement.

Daniel L. Stevens was appointed as a director of First Financial, First Financial Diversified, and First Financial Northwest Bank effective January 2012. Mr. Stevens is the past Chairman of the Board of Home Federal Bancorp, Inc. and Home Federal Bank, Boise, Idaho, positions he held from 2004 and 1999, respectively, until the sale of Home Federal Bank in May 2014. He served as President and Chief Executive Officer of Home Federal Bancorp, Inc. from 2004 to January 2008. He also served as Chief Executive Officer of Home Federal Bank from 1995 to January 2008, and as President of Home Federal Bank from 1995 to September 2006. Mr. Stevens worked in the financial services industry for over 35 years and served as an executive officer or chief executive officer for four other mutual and stock thrifts during his career. He is past Vice Chairman of the Board of Directors of the Federal Home Loan Bank of Seattle. He served as the Chairman of the Audit Committee and was a member of the Financial Operations Committee of the Federal Home Loan Bank of Seattle. Mr. Stevens was a director of the Federal Home Loan Bank of Seattle from 1996 until 2004. He served as a director of America's Community Bankers, served on America's Community Bankers' Federal Home Loan Bank System Committee, chaired the America's Community Bankers' Credit Union Committee, and was First Vice Chair of America's Community Bankers' COMPAC Board of Governors until the merger of America's Community Bankers and the American Bankers Association in 2007. He is a Past Chairman of the Board of the Idaho Bankers Association, a past Chairman of the Board of Directors and Executive Committee of the Boise Metro Chamber of Commerce, and a former director of the Midwest Conference of Community Bankers. He is the former director of the Boise State University Foundation, and past Chairman of the United Way of Treasure Valley and the Nampa Neighborhood Housing Services Board of Directors.

Information Regarding Incumbent Directors. The present principal occupation and other business experience during at least the last five years of each director continuing in office is set forth below.

Gary F. Faull serves as a director of First Financial, First Financial Diversified, and First Financial Northwest Bank, positions held since the companies were established in 2007 as part of the mutual to stock conversion process. Prior to the conversion, he served as a director of First Financial Holdings, MHC, First Financial of Renton, and First Savings Bank of Renton. Mr. Faull has served as a director of the Bank since 1999. He is an attorney and has been self-employed since 1974 in the law firm of Gary F. Faull Law Offices. Mr. Faull is a member of the Renton Rotary Club and Veterans of Foreign Wars, having served in Vietnam and earning a Bronze Star and a Combat Infantryman's Badge, as well as the Vietnamese Cross of Gallantry. In addition, he is a past director of the Renton Community Foundation and a past president of the South King County Bar Association. Mr. Faull is also a Trustee of the First Financial Northwest Foundation and serves as its Secretary.

Joann E. Lee serves as a director of First Financial, First Financial Diversified, and First Financial Northwest Bank, positions held since the companies were established in 2007 as part of the mutual to stock conversion process. She was appointed Secretary of First Financial in May 2011, of First Financial Northwest Bank in September 2013, and of First Financial Diversified in June 2014. Prior to the conversion, she served as a director of First Financial Holdings, MHC, First Financial of Renton, and First Savings Bank of Renton since 2005. Ms. Lee is a Certified Public Accountant, a Chartered Global Management Accountant, holds a Master's Degree in Taxation, and has been the owner of Joann Lee & Associates, CPAs since 2002. Prior to that, Ms. Lee spent 11 years as a Certified Public Accountant, including an eight-year career with the national independent public accounting firm of RSM McGladrey. She also served as the RSM Director of the Small Business Division, Puget Sound Region. Prior to becoming a CPA, Ms. Lee was employed in the banking industry and ultimately held the position of Corporate Operations Officer for a Washington community bank. Ms. Lee is a past president, current treasurer and Board member of the Rotary Club of Renton, Renton Rotary CAPER, Renton Rotary Foundation, and past president of the Renton Technical College Foundation and past member of Renton YMCA Board of Directors. She is also a member of the Renton Communities in Schools, member and past treasurer of the Renton Chamber of Commerce. In addition, Ms. Lee serves as a Trustee of the First Financial Northwest Foundation and serves as its Treasurer.

Kevin D. Padrick was appointed as a director of First Financial, First Financial Diversified, and First Financial Northwest Bank effective March 2013. Mr. Padrick is a lawyer and Senior Principal and co-founder of Obsidian Finance Group, LLC, a hybrid financial advisory and investment firm based in Lake Oswego, Oregon. Mr. Padrick also indirectly owns Sunstone Business Finance, LLC, an asset-based lender, and Symmetrical

Networks, LLC, an entity providing broadband construction and financing. Prior to founding Obsidian Finance Group, LLC, Mr. Padrick was a partner with the law firm, Miller Nash, LLP, where he chaired the insolvency department and represented debtors, secured and unsecured creditors, and creditors' committees. He received Bachelor of Science degrees in mathematics and psychology, and Master of Business Administration and Juris Doctor Degrees from the University of Santa Clara.

Joseph W. Kiley III has served as President and Chief Executive Officer of First Financial and First Financial Diversified since September 2013; a director of First Financial and First Financial Diversified since December 2012; and President, Chief Executive Officer and director of First Financial Northwest Bank since September 2012. He previously served as President, Chief Executive Officer, and director of Frontier Bank, F.S.B., Palm Desert, California, and its holding company, Western Community Bancshares, Inc. Mr. Kiley has over 25 years of executive experience at banks, thrifts and their holding companies that includes serving as president, chief executive officer, chief financial officer, and director. Mr. Kiley holds a Bachelor of Science degree in Business Administration (Accounting) from the California State University, Chico, and is a former California certified public accountant. Mr. Kiley is a member of the Renton Rotary Club, City of Renton Mayor's Business Executive Forum, Mayor's Blue Ribbon Panel, and past Chair of the Board of Directors of the Renton Chamber of Commerce. He currently serves on the Board of the Washington Bankers Association (WBA), WBA Government Relations Liaison, American Bankers Association Government Relations Council – Administrative Committee, and the Federal Home Loan Bank of Des Moines Member Advisory Panel.

Roger H. Molvar was appointed as a director of First Financial, First Financial Diversified, and First Financial Northwest Bank effective August 2015. Mr. Molvar has over 35 years of experience in the financial institutions industry, currently serving as a director of PacWest Bancorp in Los Angeles, California, a position he has held since 2014. Prior to that, Mr. Molvar served as a director of Farmers and Merchants Bank in Long Beach, California from 2005 to 2008 and served as a director of CapitalSource Bank from 2008 until 2014. From 2000 to 2004, Mr. Molvar was an Executive Vice President of IndyMac Bancorp and Chief Executive Officer of IndyMac Consumer Bank, responsible for the bank's consumer/branch banking business. Prior to joining IndyMac, Mr. Molvar was a Senior Vice President and management committee member of The Times Mirror Company, and previously served as Senior Vice President and Comptroller of First Interstate Bank of California. Mr. Molvar chairs the Executive Committee of the SEC and Financial Reporting Institute at the University of Southern California.

Richard M. Riccobono was appointed as a director of First Financial, First Financial Diversified, and First Financial Northwest Bank in November 2016. Mr. Riccobono has over 32 years of experience in the financial services industry and brings a solid understanding of banking, regulatory, legislative, accounting, and legal expertise to the Board. Mr. Riccobono served as the Director of Banks for the Washington State Department of Financial Institutions from July 2011 to November 4, 2016. Prior to that, Mr. Riccobono served as the President and Chief Executive Officer of the Federal Home Loan Bank of Seattle from 2007 to 2010, and its Chief Operating Officer from 2005 to 2007. Mr. Riccobono also served as the Deputy Director of the Office of Thrift Supervision, U.S. Department of the Treasury from 1998 to 2005. Mr. Riccobono began his career in public accounting with Touche, Ross and Company (now Deloitte Touche Tohmatsu Limited). Mr. Riccobono holds a Juris Doctor degree from the Western New England School of Law in Springfield, Massachusetts, and a Bachelor of Science degree from the State University of New York at Albany. He is a member of the Georgia Bar Association and the Texas Bar Association, and is a Certified Public Accountant. He currently serves as a director of the Pacific Coast Banking School and previously served on the boards of the Pentegra Defined Benefit Plan for Financial Institutions and the Albers School of Business and Economics at Seattle University.

Director Qualifications and Experience

The following table identifies the experience, qualifications, attributes and skills that the Nominating Committee considered in making its decision to nominate directors to our Board. The fact that a particular attribute was not considered does not mean that the director lacks such an attribute.

Faull Jacobson Kiley Lee Molvar Padrick Riccobono Stevens

Experience, Qualification, Skill or Attribute
Professional standing in chosen field
Expertise in financial services or related industry
Certified public accountant or financial expert
Attorney
Civic and community involvement
Leadership and team building skills
Diversity by race, gender or culture
Specific skills/knowledge:
 Finance
 Technology
 Marketing
 Public affairs
 Human resources
 Governance
 Compensation

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE MATTERS

Board of Directors

The Boards of Directors of First Financial and First Financial Northwest Bank conduct their business through board and committee meetings. During the fiscal year ended December 31, 2017, the Board of Directors of First Financial held nine meetings and the Board of Directors of the Bank held eight meetings. No director of First Financial or the Bank attended fewer than 75 percent of the total meetings of the boards and committees on which that person served during this period.

Committees and Committee Charters

The Board of Directors of First Financial has standing Audit/Compliance/Risk, Compensation and Awards, Nominating and Corporate Governance, and Executive committees. The Board has adopted written charters for the Audit/Compliance/Risk, Compensation and Awards, and Nominating and Corporate Governance committees, copies of which are available on our website at www.ffnwb.com.

Audit/Compliance/Risk Committee. The Audit/Compliance/Risk Committee currently consists of Directors Molvar (Chair), Lee and Riccobono. The Committee meets at least quarterly to oversee the integrity of the financial reporting process and associated risks, external and internal audits, operational and compliance risk, and the system of internal control. The Committee also appoints the independent auditor and retains service providers for internal audit, and reviews the various reports prepared by management, auditors and other service providers it appoints. The Audit/Compliance/Risk Committee met four times during the year ended December 31, 2017.

Each member of the Audit/Compliance/Risk Committee is "independent" in accordance with the requirements for companies listed on NASDAQ. In addition, the Board of Directors has determined that Ms. Lee

and Messrs. Molvar and Riccobono meet the definition of "audit committee financial expert," as defined by the SEC.

Compensation and Awards Committee. The Compensation and Awards Committee consists of Directors Stevens (Chair), Molvar and Riccobono. The Committee meets at least twice a year to provide oversight regarding personnel, compensation and benefits related matters. The Committee is also responsible for evaluating First Financial's Chief Executive Officer and making recommendations to the full Board regarding director compensation. Each member of the Committee is "independent," in accordance with the requirements for companies listed on NASDAQ. The Committee met six times during the year ended December 31, 2017.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee, which currently consists of Directors Lee (Chair), Faull and Padrick, assures that we maintain the highest standards and best practices in all critical areas relating to the management of the business of First Financial. The Committee also selects nominees for the election of directors and assesses Board and committee membership needs. The Committee meets at least twice a year. Each member of the Committee is "independent," in accordance with the requirements for companies listed on NASDAQ. This Committee met three times during the year ended December 31, 2017.

Only those nominations made by the Nominating and Corporate Governance Committee or properly presented by shareholders will be voted upon at the annual meeting. In its deliberations for selecting candidates for nominees as director, the Committee considers the candidate's knowledge of the banking business, including regulatory and compliance matters, strategic planning, finance, accounting and overall industry best-practices. Any nominee for director made by the Committee must be highly qualified with regard to some or all these attributes. The Committee strives to have a Board with diverse experience in areas relevant to First Financial's business. In searching for qualified director candidates to fill vacancies on the Board, the Committee solicits its current Board of Directors for names of potentially qualified candidates. Additionally, the Committee may use the services of a professional search firm to solicit qualified candidates. The Committee would then consider the potential pool of director candidates, select the candidate it believes best meets the then-current needs of the Board, and conduct a thorough investigation of the proposed candidate's background to ensure there is no past history that would cause the candidate not to be qualified to serve as one of our directors. Although the Nominating and Corporate Governance Committee charter does not specifically provide for the consideration of shareholder nominees for directors, the Committee will consider director candidates recommended by a shareholder that are submitted in accordance with our Articles of Incorporation and Bylaws. Because our Articles of Incorporation provide a process for shareholder nominations, the Committee did not believe it was necessary to provide for shareholder nominations of directors in its charter. If a shareholder submits a proposed nominee, the Committee would consider the proposed nominee, along with any other proposed nominees recommended by members of our Board of Directors, in the same manner in which the Committee would evaluate its nominees for director. For a description of the proper procedure for shareholder nominations, see "Shareholder Proposals" in this Proxy Statement.

As noted above, the Nominating and Corporate Governance Committee considers a number of criteria when selecting new members of the Board. Those criteria as well as having strong personal attributes, including a record of achievement and an understanding of diverse backgrounds and experience, are considered to provide for diversity on our Board of Directors. These diversity factors are considered when the Nominating and Corporate Governance Committee and Board are seeking to fill a vacancy or new seat on the Board.

Executive Committee. The Executive Committee, consisting of Director Kiley (Chair) and any two non-employee directors, acts for the Board of Directors when formal Board action is required between regular meetings. The Committee has the authority to exercise all powers of the full Board of Directors, except that it does not have the power to act in place of the Audit/Compliance/Risk, Compensation, or Nominating and Corporate Governance committees. The Executive Committee did not meet during the year ended December 31, 2017.

Leadership Structure

In an effort to promote more dynamic strategic development, independent oversight and effective governance, in 2013 the Board separated the roles of Chairman and Chief Executive Officer, with the role of Chairman being filled by an independent director. To supplement information flow, the entire Management

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Committee, which represents all business lines, attends each Board Meeting. The Board recognizes that independent directors and management have different perspectives and roles in developing and executing our strategy. Our independent directors bring experience, oversight and expertise from outside First Financial and the financial services industry, while the Chief Executive Officer and the management team bring a wealth of banking expertise.

One of the key responsibilities of the Board is to develop strategic direction and hold management accountable for the execution of that strategy once it is developed. To provide oversight and balance to management, the Board has established a practice of holding executive sessions consisting of non-management directors as needed. The non-management directors also meet with independent service providers, such as the independent auditor, credit reviewer and internal auditor, as needed. The Chairman, or in his absence, a lead independent director, facilitates each executive session and is responsible for consulting with the Chief Executive Officer, acting as a liaison between management and the non-management directors.

Board Involvement in Risk Management Process

The Board of Directors and committees take an active role in overseeing management of First Financial's risks. The Board regularly reviews information regarding our asset quality, liquidity, operations, audit/exam findings, compliance performance and regulatory relations, as well as the risks associated with each. The Compensation and Awards Committee is responsible for overseeing the management of risks relating to our executive compensation plans and arrangements, as well as overall employee compensation practices. To mitigate excessive risk-taking by management, all incentive compensation plans remain subject to Board approval after review and recommendation by the Compensation and Awards Committee. The Audit/Compliance/Risk Committee oversees management of operational and financial risks, including reviewing audited financial statements, engaging independent external auditors and internal auditors, reviewing compliance performance reports and risk assessments, and conducting discussions with management regarding quarterly and annual public filings. Our Nominating and Corporate Governance Committee manages risks associated with the independence of the Board of Directors and potential conflicts of interest. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board of Directors is regularly informed through committee reports about these risks.

The Board's committee structure is intended to increase oversight of risks typically associated with the growth of the Bank, including, but not limited to: (1) lending oversight through the Directors' Loan Committee; (2) asset/liability management through the Investments and Asset/Liability Committee; and (3) asset classification, portfolio monitoring, and loan loss estimates through the Internal Asset Review Committee. These Bank Board committees are intended to provide greater subject-matter focus, independent oversight and reduce the scope and frequency of meetings of First Financial's Audit/Compliance/Risk Committee.

Corporate Governance

We are committed to establishing and maintaining high standards of corporate governance. Our executive officers and Board of Directors have worked together to establish a comprehensive set of corporate governance initiatives that they believe will serve the long-term interests of our shareholders and employees. These initiatives are intended to comply with the provisions contained in the Sarbanes-Oxley Act of 2002, the rules and regulations of the SEC adopted thereunder, and the NASDAQ rules governing corporate governance. Our Board of Directors will continue to evaluate and improve our corporate governance principles and policies as necessary and as required.

Director Independence. Our common stock is listed on the Nasdaq Global Select Market. In accordance with NASDAQ requirements, at least a majority of our directors must be independent directors. The Board has determined that six of our eight directors are independent, as defined by NASDAQ. Directors Faull, Lee, Molvar, Padrick, Riccobono and Stevens are all independent. Former director Kohlwes was also independent.

Code of Business Conduct and Ethics. On September 12, 2017, the Board of Directors amended its Code of Business Conduct and Ethics Policy. The Code is applicable to each of our directors, officers, including the principal executive officer and senior financial officers, and employees and requires individuals to maintain the highest standards of professional conduct. A copy of the amended Code of Business Conduct and Ethics Policy is available on our website at www.ffnwb.com.

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Shareholder Communication with the Board of Directors. The Board of Directors welcomes communication from shareholders. Shareholders may send communications to the Board of Directors, First Financial Northwest, Inc., 201 Wells Avenue South, P.O. Box 360, Renton, Washington 98057. Shareholders should indicate clearly the director or director(s) to whom the communication is being sent so that each communication may be forwarded appropriately.

Annual Meeting Attendance by Directors. First Financial encourages, but does not require, its directors to attend the annual meeting of shareholders. All directors attended last year's annual meeting of shareholders.

Transactions with Related Persons. First Financial Northwest Bank has followed a policy of granting loans to officers and directors that fully complies with all applicable federal regulations. Loans to directors and executive officers are made in the ordinary course of business and on the same terms and conditions as those of comparable transactions with all customers prevailing at the time, in accordance with our underwriting guidelines, and do not involve more than the normal risk of collectability or present other unfavorable features.

All loans made to our directors and executive officers are subject to federal regulations restricting loans and other transactions with affiliated persons of First Financial Northwest Bank. Loans and available lines of credit to all directors and executive officers and their associates totaled approximately \$9,000 at December 31, 2017, which was less than one percent of our equity at that date. All loans to directors and executive officers were performing in accordance with their terms at December 31, 2017. Total deposits of directors and executive officers were approximately \$8.6 million at December 31, 2017.

We recognize that transactions between First Financial, First Financial Diversified or First Financial Northwest Bank and any of its directors or executive officers can present potential or actual conflicts of interest and create the appearance that these decisions are based on considerations other than our best interests. Therefore, as a general matter, and in accordance with the First Financial Code of Business Conduct and Ethics Policy, it is our preference to avoid such transactions. Nevertheless, we recognize that there are situations where such transactions may be in, or may not be inconsistent with, our best interests. Accordingly, in those cases where personal interests exist or may appear to exist, our Code of Business Conduct and Ethics Policy requires the Board or a Board designated committee to approve or ratify any such transaction or business arrangement in which First Financial is or will be a participant and where any director, officer or employee had, has or will have a direct or indirect financial interest. In the event that a member of the Board or Board designated committee is a participant in the transaction, then that member is required to abstain from the discussion, approval or ratification process. Approval or ratification will be made only for those transactions that are in, or not inconsistent with, the best interests of First Financial, as the Board or Board designated committee determines in good faith.

Stock Ownership Guidelines

In December 2016, the Board of Directors adopted a non-employee director stock ownership policy because it believes that it is in First Financial's best interest to align the financial interests of non-employee directors with those of First Financial shareholders. The policy requires non-employee directors to own shares of First Financial's common stock equal in value to three times the respective director's annual cash retainer. Directors must meet these ownership guidelines within three years following the initial receipt of a stock grant for director fees and are restricted from divesting shares until the policy requirement is met. Three of six non-employee directors met the policy requirement at December 31, 2017 and the remaining three non-employee directors were on track to meet the requirement.

Hedging Policy; Pledging of Stock

Under First Financial's Trading in Securities and Confidentiality of Inside Information for Officers and Directors Policy, its directors and executive officers are prohibited from engaging in any hedging transaction involving First Financial's securities. In addition, executive officers and directors are advised that holding First Financial securities in a margin account or otherwise pledging First Financial securities as collateral for a loan carries the risk of insider trading liability should they fail to meet a margin call or if they default on the loan. Currently, no director or executive officer has pledged First Financial securities.

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DIRECTORS' COMPENSATION

The following table shows the compensation paid to our directors for the year ended December 31, 2017, other than Joseph W. Kiley III, who is our President and Chief Executive Officer, and Richard P. Jacobson, who is our Chief Operating Officer and Chief Financial Officer, as their compensation is included in the section entitled "Executive Compensation." The directors did not receive any non-equity incentive compensation during this period, nor did they participate in a pension plan or receive above-market earnings on deferred compensation; therefore, these columns have been omitted from the table.

Name	Fees earned or paid in cash (\$)	Stock Awards (\$)(1)	All Other Compensation (\$)(2)	Total (\$)
Gary F. Faull	30,000	29,998	1,487	61,485
Joann E. Lee	30,000	29,998	712	60,710
Roger H. Molvar	33,000	29,998	645	63,643
Kevin D. Padrick	30,000	29,998	645	60,643
Richard M. Riccobono	30,000	29,998	531	60,529
Daniel L. Stevens	30,000	29,998	1,696	61,694
Gary F. Kohlwes (3)	33,000	--	1,801	34,801

Represents the aggregate grant date fair value, computed in accordance with Financial Accounting Standards Board Accounting Standards Topic 718, "Compensation - Stock Compensation" ("FASB ASC Topic 718"). For a (1) discussion of valuation assumptions, see Note 12 of the Notes to Consolidated Financial Statements in First Financial's Annual Report on Form 10-K for the year ended December 31, 2017. Consists of an award of restricted stock on June 14, 2017, which vested immediately.

Consists of the economic value (the imputed income for tax purposes) of the split dollar life insurance benefits (2) described below to the directors plus a gross-up amount to cover the director's tax liability assuming a 40% tax rate.

(3) Dr. Kohlwes retired from the Board on June 14, 2017.

Each director of First Financial is also a director of First Financial Northwest Bank and First Financial Diversified. The directors are paid for their service by the Bank with an allocation of cost to First Financial. Non-employee directors are compensated as follows: (1) \$15,000 in cash during the first quarter, with an additional \$3,000 in cash paid to the Chairman; and (2) a stock grant in an amount of shares that represents \$30,000 in value at the time of the grant during the second quarter; and (3) \$7,500 in cash, with an additional \$1,500 in cash paid to the Chairman, during the third and fourth quarters. A non-employee director retiring immediately upon conclusion of the annual meeting of shareholders will receive \$15,000 in cash in lieu of a stock grant as compensation for service during the second quarter. In addition, directors will receive expense reimbursements for travel and attendance at conferences, training sessions, and travel expenses to Board meetings.

In 2017, First Financial Northwest Bank modified the bank-owned life insurance contracts on its directors and named executive officers to include endorsement split-dollar life insurance agreements. The named executive officers' policies are described below on page 21. Each non-employee director has insurance coverage with a death benefit payable to the director's assigned beneficiary in an amount equal to ninety percent of the net amount at risk, defined as the total proceeds of the policy less the cash value of the policy. At the time the policies were purchased, the net amount-at-risk for the non-employee directors ranged from \$160,000 to \$309,000. Total death benefits, including cash surrender values, were approximately \$560,000 per non-employee director. The Bank pays all premiums and is

entitled to the cash value of the policy and the remainder of the director's death benefit. The insurance policies also permit each director to access portions of the eligible policy death benefits if he or she is diagnosed with a chronic or terminal illness ("accelerated benefits"). Each director is eligible to receive up to \$500,000 in accelerated benefits.

COMPENSATION DISCUSSION AND ANALYSIS

General

In this section, we will give an overview of our compensation program, the material compensation decisions we have made under the program and the material factors that we considered in making those decisions. Following this discussion, in the section entitled "Executive Compensation," we provide a series of tables containing specific information about the compensation earned or paid to the following officers, who are known as our named executive officers:

Joseph W. Kiley III, President and Chief Executive Officer
Richard P. Jacobson, Executive Vice President, Chief Financial Officer, and Chief Operating Officer
Ronnie J. Clariza, Senior Vice President and Chief Risk Officer
Dalen D. Harrison, Senior Vice President and Chief Deposit Officer
Simon Soh, Senior Vice President and Chief Credit Officer

Compensation and Awards Committee. All compensation matters concerning our executive officers are made at the sole discretion of the Compensation and Awards Committee, which is comprised of independent directors. Compensation determinations are made based on the Committee's independent review of management recommendations, market salary surveys and peer group studies, for both base salary and total compensation. The Committee has the responsibility for establishing and reviewing our compensation philosophy and objectives, and in this role, they have sought to design a compensation structure that attracts and retains qualified and experienced officers, and at the same time, is reasonable and competitive.

Role of Chief Executive Officer in Determining Compensation. The Chief Executive Officer's role is limited to providing information regarding the executive officers to the Compensation and Awards Committee Chair, including salary and bonus histories, performance highlights, levels of responsibility and compensation recommendations for each officer. The Chief Executive Officer does not provide any recommendation with respect to his individual compensation. Following receipt of this information, the Committee Chair reviews the selected materials along with supplemental information independently acquired. The Chair's analysis is then incorporated into a summary packet that is provided to the Committee for their review prior to a regularly scheduled meeting. The Committee makes the final decision and may adjust the compensation levels. In its deliberations, the Committee focuses on corporate performance, retention issues, individual performance and management development.

The discussion below is intended to help understand the detailed information provided in the executive compensation tables and put that information into context within our overall compensation program.

Compensation Highlights

The Compensation and Awards Committee retained the Blanchard Consulting Group to review First Financial's total executive compensation structure, to analyze cash and equity incentive payouts and opportunity levels for executives, and to provide an updated customized peer group and a benchmarking analysis of executive compensation. As a result of their analysis, Blanchard Consulting recommended the adoption of a long-term incentive opportunity in the form of the 2017 Officers' Equity Incentive Plan, implemented pursuant to the shareholder approved 2016 Equity Incentive Plan and described below.

Compensation Advisors

In December 2016, the Committee retained the Blanchard Consulting Group for assistance with 2017 executive compensation decisions. The Committee also continued working with USI (formerly Kibble & Prentice), an employee benefits consulting firm and one of the leading full-service brokerage firms in the Pacific Northwest. USI assists with ensuring competitive rates and benefit plan options for executives. Prior to retaining each advisor, the Compensation and Awards Committee assessed the advisor's independence relative to NASDAQ factors and determined that each advisor is independent.

Compensation Philosophy and Objectives

Our overall goal in compensating executive officers is to attract, retain and motivate key executives of proven ability who are critical to our future success. We believe that short-term cash incentive compensation paid to executive officers should be directly aligned to First Financial Northwest Bank's performance and that compensation should be structured to ensure achievement of financial and operational goals, along with other factors that impact corporate and shareholder value. Our long-term incentive is in the form of an equity incentive plan.

Although First Financial Northwest Bank became a stock savings bank as a result of the mutual holding company reorganization in 2002, compensation paid to employees, officers and directors has consisted primarily of cash compensation, salary and bonuses, and retirement benefits. In 2008, shareholders approved our 2008 Equity Incentive Plan. In 2016, this plan was replaced by the shareholder-approved 2016 Equity Incentive Plan. In recent years, equity compensation has been awarded primarily to new or newly-promoted executive officers; however, in 2017 we began using equity awards in concert with cash incentives to compensate officers for actions that align our performance with shareholder interests.

Our compensation decisions with respect to executive officer salaries and incentive compensation are influenced by: (1) the executive's level of responsibility and function within the organization; (2) the overall performance and profitability of First Financial Northwest Bank; and (3) our assessment of the competitive marketplace, including peer companies. Our philosophy is to focus on total direct compensation opportunities through a mix of base salary, annual short-term cash incentive compensation and longer-term equity incentives to ensure successful ongoing performance of First Financial Northwest Bank.

Compensation Benchmarking

In general, we seek to provide competitive pay relative to a peer group for total compensation opportunities. It is our intent to achieve an effective efficiency ratio, excellent asset quality, and a satisfactory regulatory standing; therefore, we include performance-based compensation in addition to a fixed-salary pay structure.

In addition to working with compensation advisors, the Compensation and Awards Committee also has used data compiled annually by Milliman, Inc. ("Milliman"). With the assistance of Milliman, we analyzed competitive market data contained in the 2017 Northwest Financial Industry Compensation Survey. The data was independently collected by Milliman and represents 104 Northwest financial institutions located in Washington, Oregon, Idaho, and Alaska ranging in asset size from \$47 million to \$23 billion. The data is grouped by asset size, with the information adequately reflecting the complexities and compensation levels of peer group institutions. We compared compensation paid to our named executive officers with compensation paid to executive officers in comparable positions at similar size institutions. Our peer group institutions ranged in asset size from \$608 million to approximately \$1.1 billion, with an average asset size of approximately \$889 million. During 2017, our peer group consisted of the following financial institutions:

Baker Boyer Bank Kitsap Bank
Bank of the Pacific Olympia Federal Savings
Citizens Bank Riverview Community Bank
Coastal Community Bank Skagit Bank
First Federal - Port Angeles Timberland Bank

Compensation Components and 2017 Pay Decisions

The compensation program for executive officers consists of the following components:

Pay element	What it rewards	Purpose
Base salary	Core competence in the executive's role relative to skills, experience and contributions to First Financial and First Financial Northwest Bank	Provides fixed compensation based on competitive market price
Annual cash incentive compensation	Contributions toward First Financial Northwest Bank's achievement of specified performance measures	Provides annual performance-based cash incentive compensation
Long-term incentive (equity-based) compensation	Management development through retention and attracting new talent	Provides resources for implementation of corporate objectives, goals, and growth strategies, while aligning officer and shareholder interests
Retirement benefits	Executive officers are eligible to participate in employee benefit plans available to our eligible employees, including both tax-qualified and nonqualified retirement plans	Provides a long-term incentive for the retention of key officers and encourages executive officer retention
	The Chief Executive Officer has an Executive Supplemental Retirement Plan Participation Agreement that provides additional retirement benefits subject to meeting certain minimum age and service requirements	Provides a long-term incentive for the retention of the Chief Executive Officer
Split-dollar life insurance benefits	First Financial Northwest Bank pays the premiums on bank-owned life insurance which provides split-dollar life insurance benefits for the named executive officers	Provides security for the executives and their beneficiaries
Additional benefits and perquisites	Executives participate in employee benefit plans, including pay protection via disability pay, generally available to our employees, including medical insurance	These benefits are a part of our broad-based total compensation program
	The Chief Executive Officer and the Chief Financial Officer/Chief Operating Officer receive a car allowance	Assists in executive responsiveness for community and industry-related travel requirements

Base Salary. The Chief Executive Officer makes initial base salary recommendations to the Compensation and Awards Committee Chair that are based on individual salary history, individual and corporate performance, and competitive peer group data. Given the independence of the data on which these recommendations are made, historically there have been only slight modifications by the Committee. Annually, the Committee reviews the recommendations and establishes executive management salaries in accordance with its independent philosophy. The compensation paid to Mr. Kiley and all executive officers is determined by the Committee based upon, among other factors, a review of First Financial Northwest Bank's performance in comparison to its peer group. The final

compensation levels are generally based on peer group analysis, market surveys, First Financial Northwest Bank's asset size, balance sheet complexity, corporate direction and management structure, as well as company and individual performance. No particular weight is given to any of these factors by the Committee and the final compensation level is based on a subjective determination by the Committee. Mr. Kiley does not participate in Committee or Board discussions regarding his own compensation.

For 2017, Mr. Jacobson received a base salary increase of 3.5 percent and Mr. Soh received a base salary increase of 4.6 percent effective January 1, 2017, as a result of their annual performance reviews. The base salaries of Mr. Clariza and Ms. Harrison were increased to \$190,000. In lieu of an increase in base pay effective January 1, 2017, Mr. Kiley received a cash bonus payment, paid in January, in the amount of 3.5 percent of his 2016 base salary. The Compensation and Awards Committee worked with the Blanchard Consulting Group to develop an updated base salary administration plan, as well as a long-term equity incentive plan, for each of the named executive officers.

As a result of the annual performance review process, the named executive officers received adjustments to their base salaries effective January 1, 2018, as follows: Mr. Kiley, 3.0 percent increase to \$450,882; Mr. Jacobson, 3.4 percent increase to \$300,000; Mr. Clariza, 2.6 percent increase to \$195,000; and Ms. Harrison, 3.5 percent increase to \$196,650. Mr. Soh was promoted to Senior Vice President and Chief Credit Officer in August 2017 and received an increase of 8.9 percent to \$245,000 annually. He previously served as Senior Vice President and Chief Lending Officer.

Annual Incentive Compensation. The Annual Incentive Plan is intended to provide executive officers and staff with an opportunity to earn annual cash incentives based on corporate and individual performance as measured by predetermined goals. The Compensation and Awards Committee adopted criteria and rules for awarding and paying annual incentive payments to the named executive officers for 2017. The Annual Incentive Plan's plan year corresponds to our fiscal year of January 1 to December 31. Each participant is assigned a target award opportunity, which is expressed as a percentage of base salary. Awards are determined based on a weighted combination of corporate and individual performance goals, which, with the exception of incentives for the Chief Executive Officer, are established and proposed by the Chief Executive Officer, subject to the approval of the Compensation and Awards Committee. The weighted combination of corporate and individual performance goals for the Chief Executive Officer is determined by the Compensation and Awards Committee.

The annual incentive opportunities for the named executive officers, expressed as a percentage of base salary actually earned during 2017, were as follows:

Executive	Below threshold	Threshold	Target	Maximum
Joseph W. Kiley III	0%	10%	20%	30%
Richard P. Jacobson	0%	9%	18%	27%
Ronnie J. Clariza	0%	8%	16%	24%
Dalen D. Harrison	0%	8%	16%	24%
Simon Soh	0%	8%	16%	24%

For 2017, the Compensation and Awards Committee established the following weighting among corporate and individual goals and Community Reinvestment Act ("CRA") hours: