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First Financial Northwest, Inc.
Form DEF 14A
April 08, 2013

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:
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- Fee paid previously with preliminary materials:
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- (1) Amount Previously Paid:
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| (4) | Date Filed: | N/A |

April 8, 2013

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, May 15, 2013, 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/ Gary F. Kohlwes

Gary F. Kohlwes
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 MAY 15, 2013

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, May 15, 2013, at 9:00 a.m., local time, for the following purposes:

- Proposal 1. Election of three directors for a term of three years and one director for a term of one year;
- Proposal 2. An advisory (non-binding) vote to approve our executive compensation as disclosed in this Proxy Statement; and
- Proposal 3. Ratification of the appointment of Moss Adams LLP as our independent auditor for 2013.

We will also consider and act upon such other business as may properly come before the meeting, or any adjournment or postponement 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 March 28, 2013, 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 8, 2013

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

May 15, 2013

The Board of Directors of First Financial Northwest, Inc. is using this Proxy Statement to solicit proxies from our shareholders for use at the annual meeting of shareholders. We are first mailing this Proxy Statement and proxy card to our shareholders on or about April 8, 2013.

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

INFORMATION ABOUT THE ANNUAL MEETING

Time and Place of the Annual Meeting

Our annual meeting will be held as follows:

| | |
|--------|---|
| Date: | Wednesday, May 15, 2013 |
| 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 three directors for a term of three years and one director for a term of one year;
- Proposal 2. An advisory (non-binding) vote to approve our executive compensation as disclosed in this Proxy Statement; and
- Proposal 3. Ratification of the appointment of Moss Adams LLP as our independent auditor for 2013.

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 May 15, 2013

Our Proxy Statement and 2012 Annual Report to Shareholders are available at <http://www.snl.com/irweblinkx/GenPage.aspx?IID=4087275&GKP=203202>. The following materials are available for review:

- Proxy Statement;
 - proxy card; and
 - 2012 Annual Report to Shareholders.
-

Directions to attend the annual meeting, where you may vote in person, can be found online at <http://rentonwa.gov/living/default.aspx?id=2818>.

Who is Entitled to Vote?

We have fixed the close of business on March 28, 2013, 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 March 28, 2013, there were 18,805,168 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 of record on the voting record date an opportunity to vote on matters scheduled for the annual meeting and described in these materials. 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 individuals named on the proxy card 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 of our executive compensation as disclosed in this Proxy Statement and "FOR" the ratification of the appointment of Moss Adams LLP as our independent auditor. If any other matters are properly presented at the annual meeting for action, the persons named in the enclosed proxy and acting thereunder 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 to approve 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.

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 four nominees 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 four 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 shares present in person or by proxy at the annual meeting. Abstentions will have the same effect as a vote against the proposal and broker non-votes will have no effect on 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, 2013, requires the affirmative vote of a majority of the shares present in person or by proxy at the annual meeting. Abstentions will have the same effect as a vote against 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 March 28, 2013, the voting record date, information regarding share ownership of:

- those persons or entities (or groups of affiliated person 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. 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 the voting record date 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 the voting record date, there were 18,805,168 shares of First Financial common stock outstanding.

| Name | Number of Shares Beneficially Owned (1) | Percent of Shares Outstanding (%) |
|---|---|--------------------------------------|
| Beneficial Owners of More Than 5% | | |
| First Financial Northwest, Inc. Employee Stock Ownership Plan 201 Wells Avenue South Renton, Washington 98057 | 1,637,313 (2) | 8.71 % |
| First Financial Northwest Foundation P.O. Box 419 Renton, Washington 98057 | 1,454,200 (3) | 7.73 |
| Craig A. White 136 Heber Avenue, Suite 204 Park City, Utah 84060 | 1,362,500 (4) | 7.25 |
| Joseph Stilwell 111 Broadway, 12th Floor New York, New York 10006 | 1,828,716 (5) | 9.72 |
| Directors | | |
| Victor Karpiak (6) | 278,172 (7) | 1.48 |
| Joann E. Lee | 153,352 (8) | * |
| Gary F. Kohlwes | 196,352 (9) | 1.04 |
| Robert L. Anderson | 138,152 (10) | * |
| Gary F. Faull | 152,352 | * |
| Daniel L. Stevens | -- | * |
| Joseph W. Kiley III (6) | 50,000 | * |
| Kevin D. Padrick | -- | * |
| Named Executive Officers | | |
| Kari A. Stenslie | 89,864 | * |
| Roger Elmore | 114,332 | * |
| Herman L. Robinson | 65,842 (11) | * |
| Simon Soh | 45,932 | * |
| All Executive Officers and Directors as a Group (12 persons) | 1,284,350 | 6.83 |

* Less than one percent of shares outstanding.

(1) For directors and executive officers, includes shares of restricted stock, as to which the holders have voting but not dispositive power. The amounts shown also include the following number of shares which the indicated individuals have the right to acquire within 60 days of the voting record date through the exercise

of stock options granted pursuant to the 2008 Equity Incentive Plan: Mr. Karpiak, Ms. Lee, Dr. Kohlwes, Mr. Anderson and Mr. Faulk, 78,352 shares each; Ms. Stenslie, 40,000 shares; Mr. Elmore, 40,000; and Mr. Robinson, 20,000 shares; and all executive officers and directors as a group, 491,760 shares.

- (2) The ESOP has sole voting power with respect to 1,100,320 shares, shared voting power with respect to 536,993 shares and sole dispositive power with respect to 1,637,313 shares.
- (3) We established the First Financial Northwest Foundation in connection with the mutual to stock conversion of First Savings Bank (previously known as First Savings Bank of Renton) for the purpose of furthering 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 13D dated January 20, 2008, regarding shares owned as of that date.
- (5) Based solely on a Schedule 13D/A dated February 13, 2013. According to that filing, Stilwell Value Partners II, L.P., Stilwell Value Partners V, L.P., Stilwell Value Partners VI, L.P., Stilwell Value Partners VII, L.P., Stilwell Partners, L.P., Stilwell Associates, L.P., Stilwell Associates Insurance Fund of The S.A.L.I. Multi-Series Fund L.P., Stilwell Value LLC, Stilwell Advisers LLC, Stilwell Activist Fund, LP. and Joseph Stilwell have shared voting and dispositive power over the shares reported.
- (6) Also a named executive officer.
- (7) Includes 106,800 shares held jointly with his spouse
- (8) Includes 15,000 shares owned solely by her spouse.
- (9) Includes 25,000 shares owned solely by his spouse, as well as 6,600 shares owned as custodian for a minor.
- (10) Includes 25,000 shares held jointly with his spouse.
- (11) Includes 500 shares owned solely by his spouse.

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. Effective December 31, 2012, Gerald Edlund retired and Joseph W. Kiley III was appointed to fill the vacancy. Mr. Kiley was recommended as a director by a non-independent director of First Financial. Effective March 14, 2013, Kevin D. Padrick was appointed to the Board of Directors. Mr. Padrick's appointment was a required condition pursuant to the settlement agreement entered into by First Financial with Joseph Stilwell and his affiliated entities as a result of last year's contested director election. Effective March 20, 2013, M. Scott Gaspard resigned from the Board of Directors.

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 will 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 Gary F. Faull, Joann E. Lee, Kevin D. Padrick and Joseph W. Kiley III.

| Name | Age as of December 31, 2012 | Year First Elected or Appointed Director (1) | Term to Expire |
|---------------------------------------|-----------------------------------|---|-------------------|
| BOARD NOMINEES | | | |
| Gary F. Faull | 68 | 1999 | 2016 (2) |
| Joann E. Lee | 57 | 2005 | 2016 (2) |
| Kevin D. Padrick | 57 | 2013 | 2016 (2) |
| Joseph W. Kiley III | 57 | 2012 | 2014 (2) |
| DIRECTORS CONTINUING IN OFFICE | | | |
| Gary F. Kohlwes | 76 | 1977 | 2014 |
| Robert L. Anderson | 79 | 1980 | 2014 |
| Victor Karpiak | 58 | 1998 | 2015 |
| Daniel L. Stevens | 69 | 2011 | 2015 |

(1) For years prior to 2007, includes prior service on the Board of Directors of First Savings Bank

(previously known as First Savings Bank of Renton).

(2) Assuming election or reelection.

Information Regarding Nominees for Election. Set forth below is the principal occupation of each nominee for director. All nominees have held their present positions for at least five years unless otherwise indicated.

Gary F. Faull serves as a director of First Financial and First Savings 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 First Savings 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, the Greater Renton Chamber of Commerce, Veterans of Foreign Wars, having served in Vietnam and earning a Bronze Star and a Combat

Infantryman's Badge, 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 and Compensation Committee Chair of First Financial and First Savings 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 as of May 2011. Ms. Lee is also the Board's designated Financial Expert serving on the Audit Committee. 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 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 independent public accounting firm of RSM McGladrey. She also served as their Director of the Small Business Division, Puget Sound Region. Ms. Lee is a past president and current Board member of the Renton Rotary Club, and past member of Renton YMCA Board of Directors. She is also a member of the Renton Communities in Schools, Greater Renton Chamber of Commerce and a past president and director of the Renton Technical College Foundation. 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 and First Savings Bank effective as of March 14, 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. 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, Chief Executive Officer and director of First Savings Bank since September 17, 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 20 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 also a California certified public accountant (inactive status).

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

Dr. Gary F. Kohlwes serves as a director and Audit Committee Chairman of First Financial and First Savings Bank, positions held since the companies were established in 2007 as part of the mutual to stock conversion process. Prior to the conversion, he held the same positions with First Financial Holdings, MHC, First Financial of Renton and First Savings Bank of Renton. He has served as a director of First Savings Bank since 1977 and was appointed in 1982 to the board position of Secretary, a position he continues to hold. Dr. Kohlwes retired in 1997 after 40 years in education with the last 23 years as Superintendent of Public Schools for the Renton School District. He also was actively engaged as an owner/operator of a commercial fishing business in Naknek, Alaska, since 1963, an operation he continues to manage. Dr. Kohlwes is a member of the Board of Directors of Washington Pacific Insurance, SPA, a UW Medicine Board member and Valley Medical Center Trustee. He is a past president and a current member of the Renton Rotary Club, past President and founding director of the Renton Community Foundation and a past elected Commissioner of Valley Medical Center. In addition, Dr. Kohlwes is a Trustee of the First Financial Northwest Foundation and serves as its Executive Director.

Robert L. Anderson serves as a director and Chairman of the Nominating/Corporate Governance Committee of First Financial and First Savings 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. Anderson has served as a director of First Savings Bank of Renton since 1980 and as Secretary of First Financial Diversified Corporation since it was established in 1980 as Savren Service Corporation. He is a retired attorney who, prior to his retirement in 1992, served as a senior partner in

the law firm of Anderson, Jackson & Stephens. During his professional career, Mr. Anderson was elected as a director on the Renton School District's Board of Directors. He is a past president of the Kiwanis Club of Renton and the South King County Bar Association. Mr. Anderson is also a past director of the Ocean Shores Library Board and is currently a member of the Ocean Shores Kiwanis and the Associated Arts of Ocean Shores. Mr. Anderson received his Bachelor of Arts in Business Administration from the University of Washington and his Juris Doctor Degree from the University of Washington School of Law.

Victor Karpiak is President and Chief Executive Officer of First Financial, positions held since First Financial was established in 2007 as part of the mutual to stock conversion process. Mr. Karpiak also serves as Chairman of the Board of First Savings Bank. Mr. Karpiak served as President and Chief Executive Officer of First Savings Bank until September 17, 2012, when he announced his plans for retirement and a successor, Joseph W. Kiley III, was appointed President and Chief Executive Officer of First Savings Bank. Mr. Karpiak also served as Chairman of First Financial from 2007 until March 2013, and as Chief Financial Officer of First Financial and First Savings Bank from 2007 until February 2008. Prior to the conversion, he was Chairman, President and Chief Executive Officer of our predecessors, First Financial Holdings, MHC, First Financial of Renton and First Savings Bank of Renton. Before his appointment as President of First Savings Bank of Renton in 1999, he served as Executive Vice President and Chief Financial Officer. Mr. Karpiak has served as President and Chief Financial Officer of First Financial Holdings, MHC and First Financial of Renton since they were established in 2002. In January 2005, he was appointed Chairman of the Board and Chief Executive Officer of First Financial Holdings, MHC, First Financial of Renton and First Savings Bank of Renton. He has been with First Savings Bank since 1977. Mr. Karpiak is a past director of the Renton Community Foundation, a past director and Chairman of the Greater Renton Chamber of Commerce, a past director and Resource Development Chairman of Renton River Days, a director and Secretary of the Senior Housing Assistance Group, a member of the Renton Rotary Club, and a member and past President of the Kiwanis Club of Renton.

Daniel L. Stevens was appointed as a director of First Financial and First Savings Bank effective as of January 1, 2012. Mr. Stevens is Chairman of the Board of Home Federal Bancorp, Inc. and Home Federal Bank, Boise, Idaho, positions he has held since 2004 and 1999, respectively. 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 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.

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.

| | Anderson | Faull | Karpiak | Kiley | Kohlwes | Lee | Padrick | 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 Savings Bank conduct their business through board and committee meetings. During the fiscal year ended December 31, 2012, the Board of Directors of First Financial held 16 meetings and the Board of Directors of the Bank held 18 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, Compensation, Nominating and Corporate Governance, Executive and Awards committees. The Board has adopted written charters for the Audit, Compensation, and Nominating and Corporate Governance committees, copies of which are available on our website at www.fsbnw.com.

Audit Committee. The Audit Committee consists of Directors Kohlwes (Chair), Faull and Lee. The Committee meets at least quarterly to oversee the integrity of the financial reporting process, external and internal audits, third party credit reviews, determination of the adequacy of the allowance for loan and lease losses and the system of internal control. The Committee also appoints the independent auditor and retains service providers for internal audit and third party credit reviews, and reviews the various reports prepared by the independent auditor and the other service

providers it appoints. The Audit Committee met 16 times during the year ended December 31, 2012.

Each member of the Audit Committee is “independent” in accordance with the requirements for companies listed on Nasdaq. In addition, the Board of Directors has determined that Ms. Lee meets the definition of “audit committee financial expert,” as defined by the SEC.

Compensation Committee. The Compensation Committee consists of Directors Lee (Chair), Kohlwes, Anderson, Padrick and Faull. 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. This Committee met three times during the year ended December 31, 2012.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee, which consists of Directors Anderson (Chair), Padrick, Lee and Kohlwes, 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 quoted on Nasdaq. This Committee met four times during the year ended December 31, 2012.

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 best industry practices. The Committee also considers the candidate’s involvement in community, business and civic affairs, and whether the candidate would provide for adequate representation of First Savings Bank’s market area. 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. 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.

Awards Committee. The Awards Committee consists of Directors Lee (Chair), Kohlwes and Anderson, and is responsible for making awards under the 2008 Equity Incentive Plan and administering the Plan. The Committee met twice during the year ended December 31, 2012.

Executive Committee. The Executive Committee, consisting of Directors Karpiak (Chairman) 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, Compensation, or Nominating and Corporate Governance committees. The Executive Committee met seven times during the year ended December 31, 2012.

Leadership Structure

In the past, our Board of Directors believed that our Chief Executive Officer was best situated to serve as Chairman because of his familiarity with our business. However, as a result of recent management changes, the Board has decided to separate the roles of Chairman and Chief Executive Officer. To supplement information flow, the entire Management 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 our strategy. Our independent directors bring experience, oversight and expertise from outside First Financial and the financial services industry, while the Chief Executive Officer brings company-specific expertise as well as general banking experience. The Board believes that separating the roles of Chairman and Chief Executive Officer promotes strategic development and provides independent oversight, which are important to effective governance.

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 Board, through its Chairman, now has a lead independent director to facilitate each executive session and who 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 and regulatory standings, as well as the risks associated with each. The Compensation Committee and Awards Committee are responsible for overseeing the management of risks relating to our executive compensation plans and arrangements. To mitigate excessive risk taking by management, all incentive compensation plans remain strictly subjective and awards are made at the Committee's sole discretion based on overall corporate performance, peer group data, management's collective contribution and individual performance measurements. The Audit Committee oversees management of financial risks, including reviewing audited financial statements, engaging independent external auditors, internal auditors and third party credit review providers, 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.

Currently, as a result of the First Financial's improved financial condition, the Board of Directors is in the process of changing its committee structure. It is contemplated that the Board, through the revised committee structure, will increase its oversight of the risk typically associated with the growth of First Financial. Recently, the focus has been on the oversight of First Financial's asset quality and resolving regulatory matters which had required First Financial to suppress its growth. Now that the Company is positioned for growth, additional emphasis will be placed on: (1) lending oversight through the Directors' Loan Committee; (2) asset/liability management through a newly formed Asset Liability Committee; and (3) asset classification and loan loss estimates through a newly formed Internal Asset Review Committee. It is anticipated that these new committees will be created during 2013 and will provide more independent Board oversight and will reduce the scope and frequency of meetings of the Audit Committee. Once implemented, the revised committee charters and a list of the committee members and committee chairs will be available on our website.

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. 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 Kohlwes, Faull, Lee, Anderson, Stevens and Padrick are all independent.

Code of Business Conduct and Ethics. On May 24, 2012, the Board of Directors approved the Code of Business Conduct and Ethics. 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 Code of Business Conduct and Ethics is available on our website at www.fsbnw.com.

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, 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 Savings Bank has followed a policy of granting loans to officers and directors, which 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 collectibility 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 Savings Bank. Loans and available lines of credit to all directors and executive officers and their associates totaled approximately \$498,000 at December 31, 2012, which was less than 0.30 percent of our equity at that date. All loans to directors and executive officers were performing in accordance with their terms at December 31, 2012. Total deposits of directors and executive officers were approximately \$3.6 million at December 31, 2012.

We recognize that transactions between First Financial or First Savings 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 the best interest of First Savings Bank. Therefore as a general matter and in accordance with the Bank's Code of Conduct and Ethics Policy for Employees, Officers and Directors, 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, the best interests of First Savings Bank. Accordingly, the Bank has adopted an informal policy which requires its Compensation Committee to review and, if appropriate, to approve or ratify any such transaction. In the event that a member of the Committee is a participant in the transaction, then that member is required to abstain from the discussion, approval or ratification process. Pursuant to the policy, the Committee will review any transaction in which First Savings Bank is or will be a participant and the amount involved exceeds \$120,000, and in which any of the directors or executive officers had, has or will have a direct or indirect material interest. After its review, the Committee will only approve or ratify those transactions that are in, or are not inconsistent with, the best interests of First Financial and First Savings Bank, as the Committee determines in good faith.

DIRECTORS' COMPENSATION

The following table shows the compensation paid to our directors for the year ended December 31, 2012, other than Victor Karpiak, who is our President and Chief Executive Officer, and Joseph W. Kiley III, who is the President and Chief Executive Officer of First Savings Bank, and whose compensation is included in the section entitled "Executive Compensation." The directors did not receive any stock or option awards or 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 (\$) | All Other Compensation (\$)(1) | Total (\$) |
|-------------------------|---|--------------------------------------|------------|
| Robert L. Anderson | 52,800 | 4,500 | 57,300 |
| Gerald Edlund (2) | 52,900 | 32,134 (3) | 85,034 |
| Gary F. Faull | 65,400 | 9,000 | 74,400 |
| M. Scott Gaspard (4) | 43,875 | -- | 43,875 |
| Gary F. Kohlwes | 68,750 | 10,500 | 79,250 |
| Joann E. Lee | 64,350 | 10,500 | 74,850 |
| Kevin D. Padrick (5) | -- | -- | -- |
| Daniel L. Stevens | 41,350 | 12,000 | 53,350 |

(1) Unless otherwise noted, consists of a stipend for travel to and from, and attendance at conferences and training sessions. For directors who live outside of Washington, also includes a travel stipend for attendance at Board meetings.

(2) Mr. Edlund retired effective December 31, 2012.

(3) Mr. Edlund is a principal in Edlund Associates, Inc., a landscape design/construction firm; represents indirect compensation received through his firm pursuant to a landscape maintenance contract.

(4) Mr. Gaspard resigned effective March 20, 2013.

(5) Mr. Padrick was appointed to the Board effective March 14, 2013 and had no compensation during 2012.

Each director of First Financial is also a director of First Savings Bank. The directors are compensated only for their service on First Savings Bank's Board of Directors without any allocation of cost to First Financial. Non-employee directors receive a semi-annual retainer of \$10,000 (\$20,000 annually), a fee of \$1,200 for each Board meeting attended in person (\$600 for each meeting attended telephonically), with the Chairman receiving an additional \$450 per meeting. Committee members also receive a fee of \$550 per committee meeting attended in person (\$275 for each meeting attended telephonically), with the Committee Chair receiving an additional \$400 per meeting. In addition, directors receive \$1,500 per day for travel to and from, and attendance at conferences, and directors who reside outside the State of Washington are compensated for travel to regular monthly Board meetings at the rate of \$1,000 per meeting.

First Savings Bank's Compensation Committee recommends to the Board of Directors the amount of fees paid for

service on the Board. For 2013, the Committee recommended no increases in fees from the 2012 levels. As part of the process of changing its committee structure, the Board will revisit its fee structure for consistency and best industry practice during 2013. Additionally, Mr. Karpiak's transition agreement provides that he will continue to be compensated as a director and Chairman of First Savings Bank in accordance with the fee schedule for directors.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

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 in 2012, 2011 and 2010 to the following officers, who are known as our named executive officers:

Victor Karpiak, President and Chief Executive Officer
Joseph W. Kiley III, President and Chief Executive Officer of First Savings Bank
Kari A. Stenslie, Vice President and Chief Financial Officer
Roger Elmore, Senior Vice President and Chief Administrative Officer
Herman L. Robinson, Senior Vice President and Chief Credit Officer of First Savings Bank
Simon Soh, Senior Vice President and Chief Lending Officer of First Savings Bank

All compensation matters concerning our executive and non-executive officers are made at the sole discretion of the Compensation Committee which is comprised of all independent directors. Compensation determinations are made based on the Compensation Committee's independent review of management recommendations and peer group surveys, for both base salary and total compensation. The peer group data is derived from the Northwest Financial Industry Survey prepared by Milliman, Inc., a global firm of consultants and actuaries serving the full spectrum of business, governmental and financial organizations since 1947, and in association with the Washington Financial League, the Washington Bankers Association and the Oregon Bankers Association. In addition, First Saving Bank engaged a compensation consultant in 2012 to review non-officer compensation. The results of this review are discussed below.

The Chief Executive Officer's role is limited to providing information regarding the executive and non-executive officers to the Compensation Committee Chair, which includes salary and bonus histories for the past three years, performance highlights, level 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 Compensation Committee Chair reviews the selected materials along with supplemental information independently acquired. Her analysis is then incorporated into a summary packet which is provided to the Compensation Committee for their review prior to a regularly scheduled meeting. At the Committee meeting, the Chair makes salary and bonus recommendations which are considered by the Committee, however, the Compensation Committee makes the final decision and may adjust the compensation levels until a unanimous agreement is reached. In their deliberations, the Compensation Committee focuses on corporate performance, position emphasis, retention issues and management development. To further supplement their analysis, the Compensation Committee will use the services of compensation consultants on an as needed basis.

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

2012 Compensation Highlights. In light of the challenging operating environment, the cash compensation of our named executive officers has remained stable over the last several years. The Compensation Committee did not retain the services of a consulting firm in 2012 because it had determined that no bonuses or other incentive compensation would be paid and no salary increases would be made for the named executive officers for 2012. Bonuses and equity compensation have not been awarded since 2008, other than in connection with the hiring of new officers.

During 2012, the Board engaged an executive search firm for the purpose of hiring a new President and Chief Executive Officer of First Savings Bank. The search firm was used in connection with negotiating the resulting employment agreement and determining that it reflected a market competitive compensation package.

First Savings Bank engaged a third party compensation firm, Compensation Works LLC, to perform a full market, industry-specific benchmarking analysis and develop a pay range structure and recommend a consistent process for administering compensation for non-officers. This study concluded that compensation has been actively and consistently well-managed. However, further analysis by management of total employee benefits indicated that the total compensation and cost of employee benefit programs was too high given the Company's expense structure. Accordingly, the Board and management have taken steps to curtail these programs during 2013, as follows:

- we froze benefits associated with our defined benefit pension plan as of March 31, 2013;
- we reduced the accrual for paid time off (“PTO”) for illness by 50 percent and implemented a combined PTO policy for both vacation and illness;

- we increased the regular work hours per week from 38 to 40; and
- we now require all employees to contribute 10 percent towards their medical coverage premium and 50 percent toward dependent's premiums.

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 incentive compensation paid to executive officers should be directly aligned with our performance and that compensation should be structured to ensure achievement of financial and operational goals along with other factors that impact corporate value. Our long-term incentive is in the form of an employee stock option plan, which is tied to longevity.

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 Savings Bank; and (3) our assessment of the competitive marketplace, including other peer companies. Our philosophy is to focus on total direct compensation opportunities through a mix of base salary and annual incentive compensation.

Compensation Program Elements. The compensation program for executive officers consists of the elements described below.

| 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 Savings Bank | Provide fixed compensation based on competitive market price |
| Annual Incentive Compensation | Contributions toward First Savings Bank's achievement of specified pre-tax profit | 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 |
| 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 | |
| | The Chief Executive Officer has a supplemental retirement agreement, which entitles him to additional retirement benefits subject to meeting certain minimum age and service requirements | Provides a long-term incentive for the retention of key officers |
| Additional Benefits and Perquisites | Executives participate in employee benefit plans generally available to our employees, including medical insurance | These benefits are a part of our broad-based total compensation program |

| | |
|--|---|
| The Chief Executive Officer receives a car allowance | Assists in executive responsiveness for community based travel requirements |
|--|---|

The Compensation Committee of First Savings Bank has the responsibility for establishing and reviewing our compensation philosophy and objectives. In this role, the Committee has sought to design a compensation structure that attracts and retains qualified and experienced officers and, at the same time, is reasonable and competitive. Although First Savings 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 and we expected that equity-based compensation would be a more significant component of management development in the future. However, as a result of the challenging operating environment over the past several years, bonuses and equity compensation have not been awarded since 2008.

Pay Philosophy and Competitive Standing. In general, we seek to provide competitive pay by targeting the 50th percentile relative to a peer group for total compensation opportunities, including salaries and incentive compensation. It is First Financial's intent to achieve an effective efficiency ratio and excellent asset quality; therefore, in the future, we will emphasize performance-based compensation over a fixed-salary pay structure.

With the assistance of Milliman, Inc., we receive and analyze competitive market data contained in the Northwest Financial Industry Salary Survey every year. The data is independently collected by Milliman and represents approximately 101 Northwest financial institutions ranging in asset size from \$40 million to \$9.2 billion. The data is then grouped by collective asset sizes with the information adequately reflecting the complexities and compensation levels of peer group institutions. We compare compensation paid to our named executive officers with compensation paid to executive officers in comparable positions at similar size stock and mutual institutions. Our peer group consists of the following financial institutions with locations in Western Washington and Oregon:

| | |
|-------------------------------|--------------------------|
| Bank of the Cascades | Pacific Continental Bank |
| Bank of the Pacific | Peoples Bank |
| First Federal of Port Angeles | Riverview Community Bank |
| Heritage Bank | Skagit State Bank |
| Home Federal Bank | Timberland Bank |
| Kitsap Bank | Whidbey Island Bank |
| Olympia Federal | |

The peer group institutions range in asset size from \$588 million to \$1.7 billion, with an average asset size of approximately \$998 million. The peer group was selected based on asset size and geographic location.

In addition to the Milliman survey, First Savings Bank engaged Compensation Works, LLC to perform a full market, industry-specific, benchmarking analysis and develop a pay range structure in order to develop a consistent process for administering compensation for non-officer employees. The study provided the basis for us to develop pay grades for all non-officer positions along with salary ranges for each grade. The salary ranges were derived from a compilation from various salary surveys, including the Milliman Salary Survey discussed above combined with Bank peer group data similar to the banks listed above. This approach allowed the results to better reflect the job categories that are both industry and non-industry specific. The results of this study demonstrated that our Company's current base pay levels are considered on market with only three instances where an employee's existing salary fell either over or under the salary range's maximum or minimum established for 14 separate pay grades by the study.

Base Salary. First Savings Bank's Chief Executive Officer makes initial recommendations to the Compensation Committee Chair that are based on the peer group data contained in the survey prepared by Milliman. Given the independence of the data on which these recommendations are made, historically there has been only slight modifications by the Compensation Committee. For 2012, the Compensation Committee reviewed the recommendations and established executive management salaries in accordance with their independent philosophy. For 2012, the Compensation Committee determined the base salaries of Messrs. Karpiak, Elmore, Robinson and Soh and Ms. Stenslie, and submitted these determinations to the full Board of Directors for review. Mr. Kiley's base salary was determined as part of the recruiting process, using an executive search firm. Mr. Karpiak and Mr. Kiley, the only named executive officers who are also members of the Board, did not participate in discussions regarding their own compensation. In setting base salaries, the Compensation Committee used the information provided by Milliman, and also considered each executive's experience and tenure, our overall annual budget for merit

increases, the executive's individual performance and changes in responsibility. The determination of the named executive officers' base salary is a subjective determination with no specific criteria considered and, consequently, no particular weight is given to any single factor. The 2012 base salaries for Ms. Stenslie and Messrs. Elmore, Robinson and Soh are \$180,000, \$175,000, \$200,000 and \$190,000 (effective October 17, 2012), respectively, reflecting no increases from 2011 salaries, with the exception of

Mr. Soh, who received a raise in connection with his promotion to Chief Lending Officer. The remaining named executive officers did not receive salary increases because the Compensation Committee determined that their compensation levels are in line with our peer group. Mr. Karpiak's initial 2012 base salary was \$396,300 (no increase from 2011) but was reduced to \$275,000 on September 17, 2012 in connection with his transition to retirement. The 2012 base salary for Mr. Kiley (effective September 17, 2012) was \$425,000. The Compensation Committee believes that the base salaries paid to each member of the senior management team is commensurate with the individual's duties, performance and range for the industry compared to our peer group. Salary levels are reviewed annually and base salary is not targeted at any particular percentage of total compensation.

Annual Incentive Compensation. First Savings Bank's Chief Executive Officer makes initial recommendations to the Compensation Committee that are based, among other things, on the peer group data contained in the survey prepared by Milliman. The Annual Incentive Plan is intended to provide executive officers and staff with an opportunity to earn annual cash bonuses based on our corporate performance as measured by our earnings, asset quality, loan growth and financial condition. The annual cash bonuses are determined at the discretion of the Compensation Committee based on the individual's performance with percentages and dollar amounts set without guarantee or commitment. The determination of the individual's performance is a subjective determination using various measures, including but not limited to leadership, personal efforts and corporate commitment. Due to the current economic climate and the strain on asset quality impacting earnings, the Compensation Committee determined once again no bonuses would be paid to any staff or executive management for 2012.

Long-term Incentive Compensation. A key component of management stability and institutional growth is the ability of a company to provide long-term incentives for its personnel. In 2008, the Board of Directors adopted the 2008 Equity Incentive Plan, which was then approved by shareholders. Under the plan, directors, officers and employees may receive awards of stock options, stock appreciation rights, restricted stock and restricted stock units. We believe that stock ownership by our officers is a significant factor in aligning the interests of the officers with those of shareholders. The ability to offer equity-based compensation provides a means for attracting and retaining directors and employees, and also provides an incentive to directors and employees to improve the long-term performance and market value of First Financial. Equity-based compensation serves as a long-term incentive because it generally has a five-year vesting schedule.

In connection with the adoption of the 2008 Equity Incentive Plan, the Board appointed an Awards Committee which consists of the Chairs of the three independent Board committees (the Audit, Compensation, and Nominating and Corporate Governance committees). The Awards Committee makes all awards under the Equity Incentive Plan. The Committee makes its determinations on a discretionary basis, giving consideration to the following factors: corporate performance, professional tenure, contributory value, and anticipated future management role with respect to developing and implementing corporate objectives, financial goals and growth incentives. In 2012, the Awards Committee met in September and October and granted to Mr. Kiley stock options to purchase 50,000 shares of First Financial common stock and 50,000 shares of First Financial restricted stock in accordance with his employment agreement. In addition, the Awards Committee granted to Mr. Soh stock options to purchase 50,000 shares of First Financial common stock and 32,000 shares of First Financial restricted stock in connection with his promotion to Chief Lending Officer. The Awards Committee anticipates utilizing available awards primarily as part of incentive packages to attract additional senior management personnel, when appropriate.

Retirement Benefits. First Financial maintains, as part of its retirement benefit programs, the First Savings Bank Northwest Savings Plan (the "401(k) plan") for the benefit of eligible employees, including the named executive officers, of First Financial and its subsidiaries, First Savings Bank and First Financial Diversified. The 401(k) plan is intended to be a tax-qualified retirement plan under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended. Employees of First Financial and its subsidiaries who have completed one year of service and who have attained age 18 are eligible to participate in the 401(k) plan. Generally, participants direct the investment of the plan assets.

For 2012, participants could contribute up to \$17,000 of their annual compensation through a pre-tax salary reduction election. Participants 50 years of age or more could elect to make an additional \$5,500 pre-tax salary reduction election. First Financial matches the first 6 percent of a participant's pre-tax salary reduction contribution at the rate of

50 percent. To be eligible for a matching contribution, the participant must be actively employed during the pay period for which the match is allocated. Participants are at all times 100 percent vested in their salary reduction contributions; however, their related matching contributions are subject to a five-year vesting period with 20 percent vesting each year. For the fiscal year ended December 31, 2012, First Financial incurred a matching contribution-related expense of \$158,914 in connection with the 401(k) plan. For the 401(k) plan's fiscal year ended December 31, 2012, employees contributed \$470,522 to the 401(k) plan.

First Savings Bank is a participating employer in a multiple-employer defined benefit plan (the "pension plan"), which provides a benefit upon retirement to eligible employees, including employees of First Financial and First Financial Diversified Corporation. In general, all employees except those under specific agreement, who meet the minimum requirements of one year of service, attainment of age 21 and complete 1,000 hours of service in the 12 consecutive months following enrollment are eligible to participate. Upon completion of five years of employment with First Financial or its subsidiaries, the employee is 100 percent vested. There is no provision for partial vesting.

Several forms of benefit payments are available under the pension plan. Benefits are based upon two percent for those hired prior to January 1, 2010, and one percent for those hired on or after January 1, 2010, times the number of years of service with First Financial or its subsidiaries times the average of the participant's eligible salary during the five years he or she was most highly compensated. A participant's full benefit under the pension plan is payable at age 65 with at least five years of benefit service, which is considered normal retirement. Early retirement benefit payments are available under the pension plan to participants upon attainment of age 45 and completion of five years of benefit service. Annual benefits are reduced three percent for each year of payment before normal retirement based on the benefit formula described above. During 2013, the Board voted to freeze all accumulated pension plan benefits as of March 31, 2013. As of that date, employees with less than one year of service or new employees hired subsequently will not be able to participate in the plan and no new benefits will accrue to current participants under the plan after that date.

First Savings Bank also maintains an executive supplemental retirement agreement, in which Mr. Karpiak participates. The agreement is intended to provide supplemental benefits upon his normal retirement or death prior to retirement. The agreement provides for an annual pension of \$78,000 if he is employed by First Savings Bank upon attaining age 60. The benefit commences following Mr. Karpiak's separation from service, subject to a potential six-month delay to comply with federal tax laws affecting nonqualified deferred compensation plans, and is paid in monthly installments over 15 years. In the event of his death prior to retirement but while still employed by First Savings Bank, Mr. Karpiak's designated beneficiary would receive a lump sum benefit of \$200,000. If Mr. Karpiak does not become entitled to benefits under his executive supplemental retirement agreement on account of an involuntary termination, then he will receive a benefit that replaces what he would have received under the executive supplemental retirement agreement under the transition agreement described on page 23.

Additional Benefits and Perquisites. At First Financial, an important part of our total compensation plan is the employee benefits program. We offer a comprehensive and flexible benefits plan on a non-discriminatory basis to support the basic health, welfare and retirement needs of all of our employees, including our named executive officers. The elements of the benefits plan include group policies for medical/dental/vision plans, paid time off ("PTO") for vacation and illness (including PTO leave not taken), tuition reimbursement, bereavement leave and training. Previously, we provided medical coverage at no cost to employees; however, beginning in 2013, employees are required to pay 10 percent of their premiums. Additionally, employees are responsible for 50 percent of their dependent's premiums. The Chief Executive Officers of First Financial and First Savings Bank receive an automobile allowance. The Compensation Committee believes this benefit is appropriate because it assists our Chief Executive Officers in fulfilling their employment obligations.

The named executive officers, along with all eligible employees, participate in our ESOP. Each eligible participant is allocated the same proportion that the participant's compensation for the plan year bears to the total compensation of

eligible participants for that year, subject to certain limitations regarding how much compensation is taken into account and how much can be allocated to a participant for a year.

Additional Considerations. Market data, individual performance, retention needs and internal pay equity have been the primary factors considered in decisions to adjust compensation materially. The accounting and tax treatment

of compensation generally has not been a factor in determining the amounts of compensation for our executive officers. However, the Compensation Committee and management have considered the accounting and tax impact of various program designs to balance the potential cost to First Financial with the benefit/value to the employee.

Role of Executive Officers in Determining Compensation. Our Chief Executive Officer recommends to the Compensation Committee Chair base salary and actual bonus payouts for our named executive officers and all other officers (other than himself). Our Chief Executive Officer makes these recommendations to the committee based on data and analysis provided by Milliman in association with the Washington Financial League, the Washington Bankers Association and the Oregon Bankers Association, qualitative judgments regarding individual performance and job category grade and related salary range. Our Chief Executive Officer is not involved with any aspect of determining his own compensation as that function is performed by the Compensation Committee utilizing independent data contained in the Northwest Financial Industry Salary Survey prepared by Milliman in association with the Washington Financial League, the Washington Bankers Association and the Oregon Bankers Association.

The compensation paid to Mr. Karpiak and Mr. Kiley is determined by the Compensation Committee based upon, among other factors, a review of First Savings Bank's performance in comparison to the peer group included in the Northwest Financial Industry Salary Survey prepared by Milliman. The final compensation level is based on the peer group analysis contained in the survey and consideration is also given to First Savings Bank's asset size, balance sheet complexity, corporate direction and management structure. No particular weight is given to any of these factors by the Compensation Committee and the final compensation level is based on a subjective determination by the Compensation Committee. Mr. Kiley's compensation was determined as part of a competitive recruiting process that involved the advice of an executive search firm.

Shareholder Votes on Executive Compensation

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, we were required to include in our 2011 annual meeting proxy statement and present at the 2011 annual meeting two non-binding shareholder resolutions on executive compensation. The first resolution, also known as a say-on-pay vote, asked the shareholders to approve on an advisory basis the compensation of our named executive officers as disclosed in last year's proxy statement. The second resolution allowed shareholders to cast an advisory vote on how often future shareholder votes on executive compensation should be held. Approximately 57 percent of the shares present at the meeting voted in favor of holding an annual vote on executive compensation. Although the shareholder vote on the frequency of future votes on executive compensation was non-binding, the Board of Directors and Compensation Committee heeded shareholder opinion and will present an advisory vote to approve executive compensation annually. It is included in this Proxy Statement as "Proposal 2 – Advisory Vote to Approve Executive Compensation."

Nearly 87 percent of the shares present at the 2012 annual meeting voted in favor of approving the compensation of the named executive officers as disclosed in the proxy statement. The Compensation Committee considered this vote as affirming its approach to executive compensation and used a similar approach as the prior year when it met to analyze and establish appropriate levels of 2013 executive compensation.

Compensation Committee Report

The Compensation Committee of First Savings Bank's Board of Directors has submitted the following report for inclusion in this Proxy Statement:

We have reviewed and discussed the Compensation Discussion and Analysis contained in this Proxy Statement with management. Based on the Committee's review of and the discussion with management with respect to the Compensation Discussion and Analysis, we recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

The foregoing report is provided by the following directors, who were the members of the Compensation Committee at the time this report was prepared:

| | |
|----------------------|---------------------|
| Joann E. Lee (Chair) | Gary F. Faull |
| Robert L. Anderson | Dr. Gary F. Kohlwes |

This report shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, and shall not otherwise be deemed filed under such acts.

Compensation Policies and Risk

We believe that risks arising from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on First Financial. In addition, the Compensation Committee believes that the mix and design elements of the executive compensation package do not encourage management to assume excessive risks. As described in our Compensation Discussion and Analysis, compensation decisions are subjective, based on peer group compensation data, institutional profitability, management development, market measurements and overall corporate performance. The primary objective of the Compensation Committee is for management to be fairly compensated without introducing incentive clauses and their unintended consequences. We have accomplished this by maintaining base salaries in the upper tier range of published peer groups, by providing excellent employee medical benefits, by granting personal days off and by offering participation in our ESOP.

Incentive compensation remains subjective and is typically determined by the Compensation Committee after their analysis of profitability, asset quality trends, peer group performance and current market conditions. Excessive risk-taking is further mitigated in that total incentive compensation reflects a percentage of net income as a basis of the bonus pool and further limitations include using a percentage of base salary as a maximum, with other restrictions in place for highly compensated individuals. This approach ensures that every employee benefits from the performance of First Financial.

Executive Compensation

Summary Compensation Table. The following table shows information regarding compensation of our named executive officers. We do not currently offer any non-equity incentive compensation; therefore, this column has been omitted from the table.

| Name and Principal Position | Year | Salary (\$) | Stock Awards (\$)(1) | Option Awards (\$)(1) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(2) | All Other Compensation (\$)(3) | Total (\$) |
|--|------|-------------|----------------------|-----------------------|---|--------------------------------|------------|
| Victor Karpiak Chairman, President and Chief Executive Officer | 2012 | 365,975 | -- | -- | 295,548 | 50,798 | 712,321 |
| | 2011 | 396,300 | -- | -- | 578,476 | 42,211 | 1,016,987 |
| | 2010 | 396,300 | -- | -- | 267,513 | 40,792 | 704,605 |
| Joseph W. Kiley III (4) President and Chief Executive Officer of First Savings Bank | 2012 | 123,958 | 400,500 | 128,885 | -- | 13,650 | 666,993 |
| Kari A. Stenslie Vice President and Chief Financial Officer | 2012 | 180,000 | -- | -- | 39,000 | 40,607 | 259,607 |
| | 2011 | 180,000 | -- | -- | 39,000 | 30,540 | 249,540 |
| | 2010 | 175,000 | -- | -- | 20,000 | 24,713 | 219,713 |
| Roger Elmore Senior Vice President and Chief Administrative Officer | 2012 | 175,000 | -- | -- | 54,000 | 40,819 | 269,819 |
| | 2011 | 175,000 | -- | -- | 58,000 | 31,075 | 264,075 |
| | 2010 | 170,000 | -- | -- | 23,000 | 25,149 | 218,149 |
| Herman L. Robinson (5) Senior Vice President and Chief Credit Officer | 2012 | 200,000 | -- | -- | 29,000 | 44,462 | 273,462 |
| | 2011 | 200,000 | -- | -- | 16,000 | 21,559 | 237,559 |
| | 2010 | 108,637 | 128,960 | 64,000 | -- | 1,615 | 303,212 |
| Simon Soh (6) Senior Vice President and Chief Lending Officer | 2012 | 153,133 | 260,480 | 131,275 | 12,000 | 27,758 | 584,646 |

(1) Represents the aggregate grant date fair value, computed in accordance with Financial Accounting Standards Board Accounting Standards Topic 718, "Compensation - Stock Compensation." For a 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, 2012.

- (2) Reflects the increase in actuarial present values of each executive officer's accumulated benefits under our Pension Plan and with respect to Mr. Karpiak, our Supplemental Retirement Plan. These values are set according to accounting requirements and do not reflect any increases in the officer's benefit upon retirement.
- (3) Please see the table below for more information on the other compensation paid to our named executive officers in 2012.
- (4) Mr. Kiley was hired effective September 17, 2012.
- (5) Mr. Robinson was hired effective June 1, 2010.
- (6) Mr. Soh was not a named executive officer in 2011 or 2010.

Change in Pension Value and Nonqualified Deferred Compensation Earnings. This section describes the method of calculating the amounts in the "Change in Pension Value and Nonqualified Deferred Compensation Earnings" column in the table above and explains the relevance of these amounts. The values in this column represent the change in the present value from the prior year of the funds necessary to fully fund the pension and deferred compensation arrangements for the named executive officers. The calculations are dictated by accounting principles and are significantly impacted by changes in interest rates. An independent company administers the plans and calculates the actuarial present values, including the estimated interest rate used in the calculation. For 2012, even though no additional benefits have been provided to the named executive officers (other than increases associated with additional years of

service), the interest rate assumptions used to calculate the minimum required contribution declined considerably from the prior year, and therefore the amounts shown in this column increased accordingly.

In an attempt to better illustrate this topic, consider the following example: assume First Financial has an agreement in place with an executive officer that provides the officer with a retirement benefit of \$50,000 for a period of 10 years following retirement. If interest rate assumptions were not part of the equation, First Financial would need to ensure that it had \$500,000 available (\$50,000 per year times 10 years of retirement payments) to disburse to the officer over the 10 year period. In this example, First Financial would accrue for that benefit each year to ensure it will have exactly \$500,000 at the officer's retirement date. However, because interest rates are required to be part of the equation (and rates are above zero), it is assumed that there will be interest earned on the retirement funds, both during the time of the executive officer's employment and during the post-retirement payout period. Therefore, the amounts necessary to be set aside to fully fund the retirement obligation are lower (in some cases, significantly lower) when interest rates are part of the equation, because actual interest earned to partially fund the retirement payments is lower than those used to calculate the minimum required contribution. When interest rates fluctuate from year to year, the amount of minimum required contribution changes and can change dramatically. When rates decline during the year, more money needs to be set aside by First Financial since less interest will accrue to the funds, and when interest rates increase, lower amounts are necessary.

In the Summary Compensation Table, the leveling of the interest rate assumptions used for 2012 compared to 2011 resulted in a reduction in the change in accumulated pension benefits compared to 2011. In the case of Mr. Karpiak, the sustained lower level of interest rates resulted in the present value of accumulated benefits for his pension and Supplemental Retirement Agreement increasing by \$287,000 for 2012 from 2011 and by \$578,000 for 2011 from 2010. The same is true for each of the other named executive officers.

All Other Compensation. The following table sets forth details of "All other compensation," as presented above in the Summary Compensation Table. The amounts reflected constitute contributions by First Financial or First Savings Bank for 2012.

| Name | 401(k) Plan Contribution (\$) | ESOP Contribution (\$) | Company Car Allowance (\$) | Housing | Total (\$) |
|---------------------|-------------------------------------|------------------------------|----------------------------------|---------|------------|
| Victor Karpiak | 5,490 | 39,308 | 6,000 | -- | 50,798 |
| Joseph W. Kiley III | -- | -- | 3,150 | 10,500 | 13,650 |
| Kari A. Stenslie | 4,346 | 36,261 | -- | -- | 40,607 |
| Roger Elmore | 5,250 | 35,569 | -- | -- | 40,819 |
| Herman L. Robinson | 5,154 | 39,308 | -- | -- | 44,462 |
| Simon Soh | 3,681 | 24,077 | -- | -- | 27,758 |

Employment Agreements. We entered into an employment agreement with Victor Karpiak on October 17, 2007. The agreement has an initial term of three years and on each anniversary of October 17, 2007, the term of the agreement will be extended for an additional year unless notice is given by the Board to Mr. Karpiak, or vice versa, at least 90 days prior to the anniversary date. The employment agreement set Mr. Karpiak's salary, but has been modified by the transition agreement described below. Under the employment agreement, Mr. Karpiak is eligible to participate in all plans of First Financial and First Savings Bank relating to pension, retirement, thrift, profit-sharing, savings, group or other life insurance, hospitalization, medical and dental coverage, travel and accident insurance, education, cash bonuses, and other retirement or employee benefits or combinations thereof, as well as any equity-based plans in which First Financial's or the Bank's executive officers are eligible to participate. The agreement provides that compensation may be paid in connection with the termination of Mr. Karpiak's employment under a variety of scenarios, as described below under "Potential Payments Upon Termination."

First Savings Bank entered into an employment agreement with Joseph Kiley on August 14, 2012. The agreement has an initial term of three years and on each anniversary of August 14, 2012, the term of the agreement will be extended for an additional year upon review and approval by the Bank's Board of Directors or an authorized Board committee, unless notice is give by the Bank to Mr. Kiley, or vice versa, at least 90 days prior to the anniversary date.

The agreement provides for an annual base salary of \$425,000, which shall be reviewed by the Bank's Board of Directors each December during the term of the agreement. Under the agreement, Mr. Kiley is eligible to participate in all Bank plans relating to pension, retirement, thrift, profit-sharing, savings, group or other life insurance, hospitalization, medical and dental coverage, travel and accident insurance, education, cash bonuses, and other retirement or employee benefits or combinations thereof in which the Bank's executive officers are eligible to participate. The agreement also provides for temporary housing and relocation expenses during Mr. Kiley's first year of employment, as well as an automobile allowance.

Mr. Kiley's employment agreement also provides for initial grants of 50,000 shares of First Financial restricted stock and options to purchase 100,000 shares of First Financial common stock (50,000 granted on September 19, 2012 and 50,000 to be granted on September 19, 2013, provided he is still employed by the Bank on that date), vesting at a rate of 20 percent per year. The agreement requires the Bank to provide Mr. Kiley with a supplemental executive retirement plan. The agreement provides that compensation may be paid in connection with the termination of Mr. Kiley's employment under a variety of scenarios, as described below under "Potential Payments Upon Termination."

Transition Agreement. On August 10, 2012, First Financial, First Savings Bank and First Financial Diversified entered into a transition agreement with Victor Karpiak to facilitate executive succession in connection with his proposed retirement. The agreement defines Mr. Karpiak's responsibilities and compensation during the transition period. The agreement also identifies Mr. Karpiak's transition schedule effective with his resignation on September 17, 2012 as President and Chief Executive Officer of First Savings Bank and with the employment of a successor executive, Joseph W. Kiley III, and concluding with a retirement date in April 2014. Under the agreement, on September 17, 2012, Mr. Karpiak began a reduced work schedule that corresponds to his obligations under the transition agreement, in coordination with management and the Boards of Directors of First Financial and First Savings Bank.

During the transition period, Mr. Karpiak will be compensated in the same manner as he is currently compensated as an employee of First Savings Bank, including base and incentive pay and all benefits, as provided under his employment agreement with First Savings Bank until he completely ceases employment with First Savings Bank, First Financial and First Financial Diversified, as if Mr. Karpiak were a full time employee, except that his salary shall be modified as follows: (1) upon the employment of Mr. Kiley as President and Chief Executive Officer of First Savings Bank until December 31, 2012, Mr. Karpiak's salary was modified to \$275,000; and (2) during calendar year 2013 until his retirement in April 2014, his annual salary is \$125,000, of which \$40,000 is for services performed as Chief Executive Officer of First Financial, and \$85,000 is for services performed as Chief Executive Officer of First Financial Diversified. In addition, the transition agreement provides that Mr. Karpiak will continue to be compensated as a director and Chairman of First Savings Bank in compliance with the procedures for compensating directors described in "Directors' Compensation." Under the terms of the transition agreement, Mr. Karpiak's rights and obligations under the Recognition and Retention Plan and Stock Option Plan relating to his grants thereunder shall be determined by the terms and conditions of those plans and his rights and obligations will continue without interruption because Mr. Karpiak will continue employment.

The transition agreement may be terminated by the consent of Mr. Karpiak and First Financial, First Savings Bank and First Financial Diversified; upon Mr. Karpiak's death; upon Mr. Karpiak's disability that gives First Savings Bank the right to terminate his employment under his employment agreement; by First Savings Bank if it were required to comply with any law or instruction of any governmental authority; and by either party if the other party violates any provision of the agreement and the violation is not cured within 30 days of notice of such violation.

Severance Arrangements. We entered into a change in control severance agreement with Roger Elmore on October 17, 2007, Kari A. Stenslie on January 20, 2010 and Herman L. Robinson on August 10, 2012. Each agreement has a term of three years. On each anniversary date, the term of each agreement may be extended for an additional year at the discretion of the Board or an authorized committee of the Board. The severance agreements would provide for a severance payment and other benefits if the participants are involuntarily terminated because of a change in control of

First Financial Northwest or First Savings Bank, as described below under “Potential Payments Upon Termination.”

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Grants of Plan-Based Awards. The following table shows information regarding grants of plan-based awards made to our named executive officers for 2012.

| Name | Grant Date | All Other Stock Awards: Number of Shares of Stock or Units (#) | All Other Awards: Number of Securities Underlying Options (#) | Exercise or Base Price of Option Awards (\$/Sh) | Grant Date Fair Value of Stock and Option Awards (\$) |
|---------------------|------------|--|---|---|---|
| Victor Karpiak | -- | -- | -- | -- | -- |
| Joseph W. Kiley III | 09/19/12 | 50,000 | 50,000 | 8.01 | 529,385 |
| Kari A. Stenslie | -- | -- | -- | -- | -- |
| Roger Elmore | -- | -- | -- | -- | -- |
| Herman L Robinson | -- | -- | -- | -- | -- |
| Simon Soh | 10/17/12 | 32,000 | 50,000 | 8.14 | 391,755 |

Outstanding Equity Awards. The following information with respect to outstanding stock and option awards as of December 31, 2012, is presented for the named executive officers.

| Name | Grant Date | Option Awards (1) | | | Stock Awards (1) | | |
|---------------------|------------|---|---|----------------------------|------------------------|---|--|
| | | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) |
| Victor Karpiak | 07/03/08 | | 19,588 | 9.78 | 07/03/18 | -- | -- |
| | 08/21/08 | 78,352 | -- | -- | -- | 19,200 | 144,960 |
| Joseph W. Kiley III | 09/19/12 | -- | 50,000 | 8.01 | 09/19/22 | 50,000 | 377,500 |
| Kari A. Stenslie | 07/03/08 | 40,000 | 10,000 | 9.78 | 07/03/18 | -- | -- |

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| | | | | | | | |
|--------------------|----------|--------|--------|------|----------|--------|---------|
| | 09/10/08 | -- | -- | -- | -- | 6,400 | 48,320 |
| Roger Elmore | 07/03/08 | 40,000 | 10,000 | 9.78 | 07/03/18 | -- | -- |
| | 09/10/08 | -- | -- | -- | -- | 6,400 | 48,320 |
| Herman L. Robinson | 06/23/10 | 20,000 | 30,000 | 4.03 | 06/23/20 | -- | -- |
| | 06/23/10 | -- | -- | -- | -- | 19,200 | 144,960 |
| Simon Soh | 10/17/12 | -- | 50,000 | 8.14 | 10/17/22 | 32,000 | 241,600 |

(1) Awards vest pro rata over a five-year period from the grant date, with the first 20 percent vesting one year after the grant date.

Pension Benefits. The following table provides information regarding participation in plans that provide specified retirement payments and benefits to the named executive officers.

| Name | Plan Name | Number of Years Credited Service (#)(1) | Present Value of Accumulated Benefit \$(2) | Payments During Last Fiscal Year (\$) |
|------------------------|--------------------------------------|--|---|---|
| Victor Karpiak | Pension Plan | 31.833 | 1,849,000 | -- |
| | Supplemental Retirement Agreement | 15.000 | 936,340 | -- |
| Joseph W. Kiley III | N/A | -- | -- | -- |
| Kari A. Stenslie | Pension Plan | 3.833 | 109,000 | -- |
| Roger Elmore | Pension Plan | 7.167 | 176,000 | -- |
| Herman L. Robinson | Pension Plan | 1.583 | 45,000 | -- |
| Simon Soh | Pension Plan | 1.333 | 15,000 | -- |

(1) For the Pension Plan, reflects years credited, and for the supplemental retirement agreement, reflects benefit period.

(2) Pension Plan accumulated benefits are based on the present value of accumulated future payments over an anticipated post retirement life of 20 years using a 4.05 percent discount rate. Supplemental retirement agreement accumulated benefits reflect the present value of 180 future annual payments at the eligibility date using a 2.5 percent discount rate.

First Savings Bank is a participating employer in a multiple-employer defined benefit plan (the “pension plan”), which provides a benefit upon retirement to eligible employees of First Savings Bank, First Financial and First Financial Diversified. In general, all employees except those under specific agreement, who meet the minimum requirements of one year of service, attainment of age 21 and complete 1,000 hours of service in the 12 consecutive months following enrollment are eligible to participate. Upon completion of five years of employment with First Financial or its subsidiaries, the employee is 100 percent vested. There is no provision for partial vesting. The service amounts shown in the table above represent actual years of credited service; no additional years of credited service have been granted to any named executive officer under the pension plan.

Several forms of benefit payments are available under the pension plan. The pension plan offers a life annuity option, a 100 percent joint and survivor option with a ten-year certain feature, a 50 percent joint and survivor benefit option and a customized option. The benefit option must be elected by the participant before benefit payments begin. Benefits are based upon two percent for those hired prior to January 1, 2010, and one percent for those hired on or after January 1, 2010, times the number of years of service with First Financial and its subsidiaries times the average of the participant’s eligible salary during the five years he or she was most highly compensated. Salary is defined as base rate of pay and does not include overtime, bonuses and other compensation. A participant’s full benefit under the pension plan is payable at age 65 with at least five years of benefit service, which is considered normal

retirement. Early retirement benefit payments are available under the pension plan to participants upon attainment of age 45 and completion of five years of benefit service. Annual benefits are reduced three percent for each year of payment before normal retirement based on the benefit formula described above. As of December 31, 2012, Messrs. Karpiak and Elmore and Ms. Stenslie were eligible for early retirement benefits.

The executive supplemental retirement agreement provides benefits in addition to those provided by the pension plan. Mr. Karpiak's agreement provides for an annual pension of \$78,000 if he is still employed by First Savings Bank upon attaining age 60. His benefit will commence following his separation from service, subject to a potential six-month delay to comply with federal tax laws affecting nonqualified deferred compensation plans, and will be paid in monthly installments over 15 years. In the event of Mr. Karpiak's death prior to retirement but while still employed by First Savings Bank, his designated beneficiary would receive a lump sum benefit of \$200,000. As of December 31, 2012, Mr. Karpiak was not eligible for retirement benefits under the agreement. If Mr. Karpiak does not become entitled to benefits under his executive supplemental retirement agreement on account of an involuntary termination, then he will receive a benefit that replaces what he would have received under the executive supplemental retirement agreement under the transition agreement described on page 23.

Benefits earned under the agreement are paid from First Savings Bank's assets. It is management's intent to informally fund those payments with its bank-owned whole life insurance policies. The aggregate death benefit coverage from the policies is \$3.1 million. First Savings Bank is the beneficiary of these policies, and no participants will derive any personal benefits as a result of these policies.

Potential Payments Upon Termination

We have entered into agreements with the named executive officers that provide for potential payments upon disability, termination and death. These agreements are discussed in further detail following the table below. In addition, the pension plan and executive supplemental retirement agreement discussed above provide for payments upon early retirement or normal retirement. The following table shows, as of December 31, 2012, the value of potential payments and benefits following a termination of employment under a variety of scenarios.

| | Involuntary Termination (\$) | Involuntary Termination Following Change in Control (\$) | Annual Early Retirement Benefit (\$) | Annual Normal Retirement Benefit (\$) | Disability (\$) | Death (\$) |
|--|------------------------------------|--|--|--|-----------------|--------------|
| Victor Karpiak Employment Agreement | 156,250 | 373,750 | -- | -- | 62,500 | 10,417 |
| Pension Plan | -- | -- | 125,779(1) | 154,710(1) | -- | 1,534,296(2) |
| Supplemental Retirement Agreement | -- | -- | -- | 78,000 | -- | 200,000 |
| Equity Incentive Plan | -- | 144,960(3) | -- | -- | 144,960(3) | 144,960(3) |
| Joseph W. Kiley III Employment Agreement | 425,000 | 425,000 | -- | -- | 212,500 | 35,417 |
| Equity Incentive Plan | -- | 377,500(3) | -- | -- | 377,500(3) | 377,500(3) |
| Kari A. Stenslie Severance Agreement | -- | 538,200 | -- | -- | -- | -- |
| Pension Plan | -- | -- | 6,600(1) | 13,333(1) | -- | 85,908(2) |
| Equity Incentive Plan | -- | 48,320(3) | -- | -- | 48,320(3) | 48,320(3) |
| Roger Elmore Severance Agreement | -- | 523,250 | -- | -- | -- | -- |
| Pension Plan | -- | -- | 10,589(1) | 23,690(1) | -- | 134,508(2) |
| Equity Incentive Plan | -- | 48,320(3) | -- | -- | 48,320(3) | 48,320(3) |
| Herman L. Robinson | | | | | | |

| | | | | | | |
|-----------------------|----|------------|-------|-------|------------|------------|
| Severance Agreement | -- | 200,000 | -- | -- | -- | -- |
| Pension Plan | -- | -- | --(4) | 3,167 | -- | 44,004(2) |
| Equity Incentive Plan | -- | 250,560(5) | -- | -- | 250,560(5) | 250,560(5) |

Simon Soh

Employee Severance

| | | | | | | |
|-----------------------|----|------------|-------|-------|------------|------------|
| Compensation Plan | -- | 190,000 | -- | -- | -- | -- |
| Pension Plan | -- | -- | --(6) | --(6) | -- | -- |
| Equity Incentive Plan | -- | 241,600(3) | -- | -- | 241,600(3) | 241,600(3) |

(1) Under the terms of the Pension Plan, the executive may elect an early retirement benefit upon retirement prior to age 65, or may elect to have the full retirement benefit paid when the executive attains age 65.

(2) Does not include active service death benefit, which was terminated effective April 1, 2013.

(3) Represents accelerated vesting of restricted stock; the exercise price of unvested stock options exceeded the closing price of First Financial's common stock on December 31, 2012.

(Footnotes continue on following page)

- (4) Mr. Robinson has reached normal retirement age for purposes of the Pension Plan.
- (5) Represents accelerated vesting of restricted stock, as well as the difference between the exercise price of unvested options and the closing price of First Financial's common stock on December 31, 2012 multiplied by the number of unvested options.
- (6) Not yet eligible for benefits under the Pension Plan as it requires five years' employment prior to vesting.

Employment Agreements. The employment agreements with Victor Karpiak and Joseph Kiley provide for payments in the event of disability, death or termination. If either executive becomes entitled to benefits under the terms of our then-current disability plan, if any, or becomes otherwise unable to fulfill his duties under the employment agreement, he shall be entitled to receive such group and other disability benefits as are then provided for executive employees. In the event of either executive's disability, his employment agreement will not be suspended, except that the obligation to pay his salary shall be reduced in accordance with the amount of any disability income benefits he receives such that, on an after-tax basis, he realizes from the sum of disability income benefits and his salary the same amount as he would realize on an after-tax basis from his salary if he had not become disabled. Upon a resolution adopted by a majority of the disinterested members of the Board of Directors or an authorized committee, we may discontinue payment of the executive's salary beginning six months after a determination that he has become entitled to benefits under the disability plan or is otherwise unable to fulfill his duties under the employment agreement.

In the event of either Mr. Karpiak's or Mr. Kiley's death while employed under an employment agreement and prior to any termination of employment, we will pay to his estate, or such person as he may have previously designated, the salary which was not previously paid to him and which he would have earned if he had continued to be employed under the agreement through the last day of the month in which he died, together with the benefits provided under the employment agreement through that date.

The employment agreements also provide for benefits in the event of either Mr. Karpiak's or Mr. Kiley's involuntary termination. If an executive's employment is terminated for any reason other than cause, or change in control, or he terminates his own employment because of a material diminution of or interference with his duties, responsibilities or benefits, including any of the following actions unless consented to: (1) a requirement that he be based at any place other than Renton, Washington, or within a radius of 35 miles from the location of First Financial's administrative offices; (2) a material demotion; (3) a material reduction in the number or seniority of personnel reporting to him; (4) a reduction in Mr. Karpiak's salary or a material adverse change in his perquisites, benefits or vacation, or a 20 percent or more reduction in Mr. Kiley's base salary; (5) a material permanent increase in the required hours of work or his workload; or (6) the failure of the First Financial Board of Directors to elect Mr. Karpiak as President and Chief Executive Officer of First Financial or the First Saving Bank Board of Directors to elect Mr. Kiley as President and Chief Executive Officer of the Bank, we must pay certain benefits. Mr. Karpiak would receive his salary at the rate in effect immediately prior to the date of termination during the remaining term of his employment agreement. We would also be required to provide Mr. Karpiak during the remaining term of his agreement substantially the same group life insurance, hospitalization, medical, dental, prescription drug and other health benefits, and long-term disability insurance (if any) for the benefit of Mr. Karpiak and his dependents and beneficiaries who would have been eligible for such benefits if he had not suffered involuntary termination. Mr. Kiley would receive his salary at the rate in effect immediately prior to the date of termination over the one-year period beginning on his date of termination. We would also be required to provide Mr. Kiley during the one-year period beginning on his date of termination substantially the same group life insurance, hospitalization, medical, dental, prescription drug and other health benefits, and long-term disability insurance (if any) for the benefit of Mr. Kiley and his dependents and beneficiaries who would have been eligible for such benefits if he had not suffered involuntary termination.

If Mr. Karpiak's employment is terminated during the year following the effective date of a change in control of First Financial or First Savings Bank, or he terminates his own employment following a change in control for any of the reasons listed in the previous paragraph, we must pay him a lump sum equal to 299 percent of his base amount (as defined in Section 280G of the Internal Revenue Code) and must provide during the remaining term of the

employment agreement substantially the same group life insurance, hospitalization, medical, dental, prescription drug and other health benefits, and long-term disability insurance (if any) for the benefit of the executive and his dependents and beneficiaries who would have been eligible for such benefits if he had not suffered involuntary termination. If Mr. Kiley's employment is terminated during the year following the effective date of a change in control of First Financial or First Savings Bank, or he terminates his own employment following a change in control for any of the reasons listed in the

previous paragraph, we must pay him a lump sum equal to 100 percent of his then-annual salary and must provide during the one-year period beginning on his date of termination substantially the same group life insurance, hospitalization, medical, dental, prescription drug and other health benefits, and long-term disability insurance (if any) for the benefit of the executive and his dependents and beneficiaries who would have been eligible for such benefits if he had not suffered involuntary termination.

Section 280G of the Internal Revenue Code provides that severance payments that equal or exceed three times the individual's base amount are deemed to be "excess parachute payments" if they are conditioned upon a change in control. Individuals are subject to a 20 percent excise tax on the amount of such excess parachute payments. If excess parachute payments are made, First Financial Northwest and First Savings Bank would not be entitled to deduct the amount of such excess payments. Mr. Karpiak's employment agreement provides that severance and other payments that are subject to a change in control will be reduced to the extent necessary to ensure that no amounts payable to the executive will be considered excess parachute payments.

Severance Agreement. We have entered into severance agreements with Ms. Stenslie and Messrs. Elmore and Robinson. If First Savings Bank terminates an executive's employment, other than for cause, or an executive terminates his or her own employment within 12 months following a change in control of First Financial or First Savings Bank for any of the reasons described above in the discussion of Messrs. Karpiak and Kiley's employment agreements, the executive would be entitled to payment and benefits. The agreements require that First Savings Bank: (1) pay the executive's salary through the day of termination, including the pro rata portion of any incentive award; (2) pay for the remaining term of the agreement the executive's life, health and disability coverage; and (3) pay in a lump sum an amount equal to 299 percent of the executive's base amount (as defined in Section 280G of the Internal Revenue Code), except for Mr. Robinson's agreement which provides for 100 percent of his base amount. Any payments to an executive under the severance agreement are subject to reduction pursuant to Section 280G of the Internal Revenue Code to avoid excess parachute payments.

Employee Severance Compensation Plan. First Savings Bank established the First Savings Bank Northwest Employee Severance Compensation Plan to provide eligible employees with severance pay benefits in the event of a change in control of First Savings Bank or First Financial. Mr. Soh is covered by this plan. Potential benefits under the plan are based on an employee's position with First Savings Bank.

Under the plan, in the event of a change in control of First Savings Bank or First Financial Northwest, eligible employees who are terminated or who terminate their employment within one year for reasons specified under the severance plan will be entitled to receive a severance payment. If a participant whose employment has terminated has completed at least one year of service, the participant will be entitled to a cash severance payment equal to three months for service of one to two years, six months for service of two to three years, and six months plus one month for each year of continuous employment over three years up to a maximum of one and one-half times the participant's annual compensation. A participant who is an assistant vice president of First Savings Bank prior to the change in control will receive a minimum payment equal to one-half of the participant's annual compensation. Individuals who are vice presidents and above of First Savings Bank prior to the change in control will receive a minimum payment equal to the participant's annual compensation.

Equity Incentive Plan. The 2008 Equity Incentive Plan provides for accelerated vesting of awards in the event of a recipient's death or disability, or a change in control. The plan provides that with respect to outstanding and unvested stock options, stock appreciation rights and restricted stock awards, the vesting date shall be accelerated to the date of the recipient's death or disability, or the earliest date of the change in control.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee are Directors Lee, Kohlwes, Anderson, Faulk and Padrick (appointed effective March 20, 2013). None of the members of the Compensation Committee of the First Financial Board of Directors has served as an officer or employee of First Financial or any of its subsidiaries or had any relationships otherwise requiring disclosure.

PROPOSAL 2 – ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), we are required to include in this Proxy Statement and present at the meeting a non-binding shareholder resolution to approve the compensation of our named executive officers, as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the SEC. This proposal, commonly known as a “say-on-pay” proposal, gives shareholders the opportunity to endorse or not endorse the compensation of First Financial’s executives as disclosed in this Proxy Statement. The proposal will be presented at the annual meeting in the form of the following resolution:

RESOLVED, that the shareholders approve the compensation of First Financial Northwest, Inc.’s named executive officers, as disclosed in the Compensation Discussion and Analysis, the compensation tables and related material in First Financial’s Proxy Statement for the 2013 annual meeting of shareholders.

This vote will not be binding on our Board of Directors or Compensation Committee and may not be construed as overruling a decision by the Board or create or imply any additional fiduciary duty on the Board. It will also not affect any compensation paid or awarded to any executive. The Compensation Committee and the Board may, however, take into account the outcome of the vote when considering future executive compensation arrangements.

The purpose of our compensation policies and procedures is to attract, retain and motivate key executives of proven ability who are critical to our future success. As discussed in the Compensation Discussion and Analysis section, the Compensation Committee believes that the executive compensation for 2012 is reasonable and appropriate, reflecting the peer group data range between the 50th and 75th percentile for base salaries. The subjective approach taken by the Committee, which focuses on fair compensation, without introducing incentive clauses and their unintended consequences, has effectively fulfilled the objective of retaining and attracting key executives with proven ability. During this challenging economic period, our compensation program was modified with a reduction of some benefits and the elimination of all bonuses; however, it still enabled us to replace certain management personnel with highly experienced individuals greatly contributing to improved asset quality and earnings. The fair compensation model committed to by the Compensation Committee encourages a culture of teamwork with recognition that the performance of First Financial is shared by all. This, in turn, has proven to promote longevity with limited personnel turnover creating efficiencies that are aligned with the long-term interests of shareholders. The Compensation Committee will continue to review all elements of the executive compensation program and take any steps it deems necessary to continue to fulfill objectives outlined in the Compensation Discussion and Analysis.

The Board of Directors recommends that you vote “FOR” approval of the compensation of our named executive officers as disclosed in this Proxy Statement.

AUDIT COMMITTEE REPORT

The Audit Committee of the First Financial Board of Directors reports as follows with respect to First Financial’s audited financial statements for the fiscal year ended December 31, 2012:

- the Audit Committee has completed its review and discussion of the 2012 audited financial statements with management;

- the Audit Committee has discussed with the independent auditor, Moss Adams LLP, the matters required to be discussed by Statement on Auditing Standards (“SAS”) No. 61, Communication with Audit Committees, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T;
- the Audit Committee has received written disclosures and the letter from the independent auditor required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor’s communications with the Audit Committee concerning independence, and has discussed with the independent auditor the independent auditor’s independence; and

- the Audit Committee has, based on its review and discussions with management of the 2012 audited financial statements and discussions with the independent auditor, recommended to the Board of Directors that First Financial's audited financial statements for the year ended December 31, 2012, be included in its Annual Report on Form 10-K.

The foregoing report is provided by the following directors, who constitute the Audit Committee:

Audit Committee:

Dr. Gary F. Kohlwes (Chairman)

Joann E. Lee

Gary F. Faull

This report shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, and shall not otherwise be deemed filed under such acts.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act requires our directors and executive officers, and persons who own more than 10 percent of First Financial's common stock to report their initial ownership of the common stock and any subsequent changes in that ownership to the SEC. Directors, executive officers and greater than 10 percent shareholders are required by regulation to furnish us with copies of all Section 16(a) forms they file. The SEC has established filing deadlines for these reports and we are required to disclose in this Proxy Statement any late filings or failures to file. Based solely on our review of the copies of such forms we have received and written representations provided to us by the above referenced persons, we believe that, during the fiscal year ended December 31, 2012, all filing requirements applicable to our reporting officers, directors and greater than 10 percent shareholders were properly and timely complied with, except for one late filing on Form 4 covering one transaction by Mr. Elmore.

PROPOSAL 3 – RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR

The Audit Committee of the Board of Directors has appointed Moss Adams LLP as First Financial's independent auditor for the year ending December 31, 2013, and that appointment is being submitted to shareholders for ratification. Moss Adams LLP served as our independent auditor for the year ended December 31, 2012, and a representative of the firm is expected to attend the annual meeting to respond to appropriate questions and will have an opportunity to make a statement if he or she so desires.

The Board of Directors unanimously recommends that you vote "FOR" the ratification of the appointment of Moss Adams LLP as our independent auditor.

The following table sets forth the aggregate fees billed to First Financial and First Savings Bank for professional services rendered by Moss Adams LLP for the fiscal years ended December 31, 2012 and 2011.

| | Years Ended December 31, | |
|--------------------|-----------------------------|------------|
| | 2012 | 2011 |
| Audit Fees | \$ 306,000 | \$ 310,000 |
| Audit-Related Fees | 21,000 | 22,000 |
| Tax Fees | 50,000 | 78,000 |
| All Other Fees | -- | -- |

The Audit Committee pre-approves all audit and permissible non-audit services to be provided by the independent auditor and the estimated fees for these services in connection with its annual review of its charter. In considering non-audit services, the Audit Committee will consider various factors, including but not limited to, whether it would be beneficial to have the service provided by the independent auditor and whether the service could compromise the independence of the independent auditor. All of the services provided by Moss Adams LLP in the year ended December 31, 2012, were approved by the Audit Committee.

MISCELLANEOUS

The Board of Directors is not aware of any business to come before the annual meeting other than those matters described in this Proxy Statement. However, if any other matters should properly come before the meeting, it is intended that proxies in the accompanying form will be voted in respect thereof in accordance with the judgment of the person or persons voting the proxies.

We will pay the cost of soliciting proxies. In addition to this mailing, our directors, officers and employees may also solicit proxies personally, electronically or by telephone without additional compensation. We will also reimburse brokers and other nominees for their expenses in sending these materials to you and obtaining your voting instructions.

Our Annual Report to Shareholders, including the Annual Report on Form 10-K, has been mailed to all shareholders of record as of the close of business on the record date. Any shareholder who has not received a copy of the Annual Report may obtain a copy by writing to the Secretary, First Financial Northwest, Inc., 201 Wells Avenue South, Renton, Washington 98057. The Annual Report is not to be treated as part of the proxy solicitation material or as having been incorporated herein by reference.

SHAREHOLDER PROPOSALS

Proposals of shareholders intended to be presented at next year's annual meeting of shareholders must be received at the executive office at 201 Wells Avenue South, Renton, Washington 98057, no later than December 9, 2013, in order to be eligible for inclusion in our printed proxy materials. Any such proposals shall be subject to the requirements of the proxy rules adopted under the Securities Exchange Act, and as with any shareholder proposal (regardless of whether included in our proxy materials), our Articles of Incorporation and Bylaws.

Our Articles of Incorporation provide that in order for a shareholder to make nominations for the election of directors or proposals for business to be brought before a meeting, a shareholder must deliver notice of such nominations and/or proposals to the Secretary not less than 30 nor more than 60 days prior to the date of the meeting; provided that if less than 31 days' notice of the meeting is given to shareholders, such written notice must be delivered not later than the close of business on the tenth day following the day on which notice of the meeting was mailed to shareholders. We anticipate that, in order to be timely, shareholder nominations or proposals intended to be made at the annual meeting must be made by April 15, 2013. As specified in the Articles of Incorporation, the notice with respect to nominations for election of directors must set forth certain information regarding each nominee for election as a director, including the person's name, age, business address and number of shares of common stock held, a written consent to being

named in the Proxy Statement as a nominee and to serving as a director, if elected, and certain other information regarding the shareholder giving such notice. The notice with respect to business proposals to be brought before the annual meeting must state the shareholder's name, address and number of shares of common stock held, a brief

discussion of the business to be brought before the annual meeting, the reasons for conducting such business at the meeting, and any interest of the shareholder in the proposal.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ JOANN E. LEE

JOANN E. LEE
SECRETARY

Renton, Washington
April 8, 2013

REVOCABLE PROXY
FIRST FINANCIAL NORTHWEST, INC.

ANNUAL MEETING OF SHAREHOLDERS
MAY 15, 2013

The undersigned hereby appoints the official Proxy Committee of the Board of Directors of First Financial Northwest, Inc. ("First Financial") with full powers of substitution, as attorneys and proxies for the undersigned, to vote all shares of common stock of First Financial which the undersigned is entitled to vote at the annual meeting of shareholders, to be held at the Renton Community Center, located at 1715 SE Maple Valley Highway, Renton, Washington, on Wednesday, May 15, 2013, at 9:00 a.m., local time, and at any and all adjournments thereof, as indicated.

| | FOR | WITHHELD |
|--|-----|----------|
| 1. The election as director of the nominees listed below (except as marked to the contrary below). | [] | [] |

Three-year term:

Gary F. Faull

Joann E. Lee

Kevin D. Padrick

One-year term:

Joseph W. Kiley III

INSTRUCTIONS: To withhold your vote for any individual nominee, write the nominee's name on the line below.

| | FOR | AGAINST | ABSTAIN |
|--|-----|---------|---------|
| 2. Advisory (non-binding) approval of the compensation of our named executive officers. | [] | [] | [] |
| 3. The ratification of the appointment of Moss Adams LLP as the independent auditor for the year ending December 31, 2013. | [] | [] | [] |
| 4. In their discretion, upon such other matters as may properly come before the meeting. | | | |

The Board of Directors recommends a vote "FOR" all of the proposals.

This proxy will be voted as directed, but if no instructions are specified, this proxy will be voted for the propositions stated. If any other business is presented at the annual meeting, this proxy will be voted by those named in this proxy in their best judgment. At the present time, the Board of Directors knows of no other business to be presented at the meeting.

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS

Should the undersigned be present and elect to vote at the annual meeting or at any adjournment thereof and after notification to the Secretary of First Financial at the meeting of the shareholder's decision to terminate this proxy, then the power of said attorneys and proxies shall be deemed terminated and of no further force and effect.

The undersigned acknowledges receipt from First Financial prior to the execution of this proxy of the Notice of Annual Meeting of Shareholders, a Proxy Statement for the annual meeting of shareholders, and the 2013 Annual Report to Shareholders.

Dated: _____, 2013

PRINT NAME OF SHAREHOLDER

PRINT NAME OF SHAREHOLDER

SIGNATURE OF SHAREHOLDER

SIGNATURE OF SHAREHOLDER

Please sign exactly as your name appears on this proxy card. When signing as attorney, executor, administrator, trustee or guardian, please give your full title. If shares are held jointly, each holder should sign.

Please complete, date, sign and mail this proxy promptly in the enclosed postage-prepaid envelope.