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First Financial Northwest, Inc.
Form PRER14A
April 04, 2012

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No. 1)

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 pursuant to § 240.14a-12

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

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

Payment of filing fee (Check the appropriate box):

No fee required.
Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
N/A
- (2) Aggregate number of securities to which transactions applies:
N/A
- (3) Per unit price or other underlying value of transaction computed pursuant to
Exchange Act Rule 0-11:
N/A
- (4) Proposed maximum aggregate value of transaction:
N/A
- (5) Total fee paid:
N/A
- Fee paid previously with preliminary materials:
N/A
- Check box if any part of the fee is offset as provided by Exchange Act Rule
0-11(a)(2) and identify the filing for which the offsetting fee was paid
previously. Identify the previous filing by registration statement number, or
the Form or Schedule and the date of its filing.
- (1) Amount previously paid:
N/A
- (2) Form, schedule or registration statement no.:

(3)	Filing party:	N/A
(4)	Date filed:	N/A

PRELIMINARY COPY – SUBJECT TO COMPLETION

April __, 2012

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 Carco Theatre, located at 1717 SE Maple Valley Highway, Renton, Washington, on _____, May __, 2012, 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.

Your vote at the annual meeting of shareholders is especially important this year. Your Board of Directors has returned First Financial to profitability, significantly improved our performance ratios, reduced nonperforming assets, dramatically reduced our riskiest loans and deleveraged our balance sheet. We also intend to return to paying cash dividends and begin a stock repurchase program as soon as permitted by our regulators.

As you may know, Joseph Stilwell and a group of funds he controls have nominated two people to stand for election to First Financial’s Board of Directors. Your Board strongly urges you to support First Financial’s nominees.

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 white proxy card as promptly as possible or to vote by telephone or the Internet, following the instructions on the white 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/Victor Karpiak

Victor Karpiak
Chairman, President and Chief Executive Officer

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 ___, 2012

Notice is hereby given that the annual meeting of shareholders of First Financial Northwest, Inc. will be held at the Carco Theatre, located at 1717 SE Maple Valley Highway, Renton, Washington, on _____, May ___, 2012, at 9:00 a.m., local time, for the following purposes:

Proposal 1. Election of three directors for a term of three years;

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 2012.

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 30, 2012, 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 white 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 white 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 __, 2012

IMPORTANT: The prompt return of proxies will save us the expense of further requests for proxies in order to ensure a quorum. A white 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 white proxy card.

PROXY STATEMENT

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

ANNUAL MEETING OF SHAREHOLDERS
May ___, 2012

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 white proxy card to our shareholders on or about April __, 2012.

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: _____, May ___, 2012

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

Place: Carco Theatre, 1717 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;

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 2012.

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 ____, 2012

Our Proxy Statement and 2011 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;
 - White proxy card; and
 - 2011 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=156>.

Who is Entitled to Vote?

We have fixed the close of business on March 30, 2012, 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 30, 2012, 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 white 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 white proxy card. You can always change your vote at the meeting if you are a shareholder of record.

Voting instructions are included on your white proxy card. Shares of First Financial common stock represented by properly executed proxies will be voted by the individuals named on the white 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 have received a communication from Joseph Stilwell and a group of funds he controls (the "Stilwell Group") asking you to vote using their green proxy card. We urge you not to vote using the green proxy card. Please vote by using the enclosed white proxy card, which is solicited on behalf of First Financial's Board of Directors, and discard the green proxy card from the Stilwell Group. If you have already voted using the green proxy card from the Stilwell Group, you may change your vote by promptly signing, dating and returning the enclosed white proxy card or following the instructions on the white proxy card to vote by telephone or the Internet. Only the latest dated proxy card or vote you submit will be counted.

You may receive more than one white 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 white 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 three nominees for election as directors. As described on page 10 under “Contested Election,” the Stilwell Group intends to nominate two people for election as directors. Only, the three nominees for election as directors who receive the highest number of votes actually cast will be elected.

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 three 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 on the white proxy card.

Even if Joseph Stilwell is elected by shareholders, his service on the Board is dependent on regulatory approval. Any new director added to our Board of Directors must receive approval from the Board of Governors of the Federal Reserve (“Federal Reserve”). Although Spencer L. Schneider, one of the Stilwell Group’s nominees, had received prior approval to serve on the Board, he served for five weeks and resigned abruptly. Mr. Schneider may need to re-apply for

approval to serve on the Board and there is no guarantee that the Federal Reserve would again grant its approval. In addition, each of our current directors also serves as a director of our primary subsidiary, First Savings Bank Northwest. Mr. Stilwell would need the additional approval of the Federal Deposit Insurance Corporation (“FDIC”) and the Washington Department of Financial Institutions (“Washington DFI”) in order to serve on the Bank’s Board of Directors. Mr. Schneider had also received the approval of the FDIC and the Washington DFI to serve on the Bank’s Board, served for five weeks and resigned abruptly. Mr. Schneider may need to re-apply for approval to serve on the Bank’s Board and, again, there is no guarantee that the FDIC and the Washington DFI would again grant their approval.

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

Approval of the advisory (non-binding) vote on executive compensation requires the affirmative vote of a majority of the votes cast 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 on the white proxy card.

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, 2012, requires the affirmative vote of a majority of the votes cast at the annual meeting. Abstentions are not affirmative votes and, therefore, 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 on the white proxy card.

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 30, 2012, 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

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- 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.

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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	1,663,892 (2)	8.85
First Financial Northwest Foundation P.O. Box 419 Renton, Washington 98057	1,535,400 (3)	8.16
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	1,603,298 (5)	8.53
O-Cap Partners, L.P. c/o Mr. Lloyd Jagai 712 Fifth Avenue, 26th Floor New York, New York 10019	964,603 (6)	5.13
Directors		
Victor Karpiak (7)	253,796 (8)	1.35
Joann E. Lee	133,764 (9)	*
Gary F. Kohlwes	175,564 (10)	*
Robert L. Anderson	118,564 (11)	*
Gerald Edlund	143,564 (12)	*
Gary F. Faull	132,764	*
M. Scott Gaspard (7)(13)	81,896	*
Daniel L. Stevens	--	*
Named Executive Officers		
Kari A. Stenslie	75,447	*
Roger Elmore	101,884	*
Herman Robinson	52,999 (14)	*
All Executive Officers and Directors as a Group (11 persons)	1,270,242	6.75

- *
(1) Less than one percent of shares outstanding.
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, 58,764 shares; Ms. Lee, 58,764 shares; Dr. Kohlwes, 58,764 shares; Mr. Anderson, 58,764 shares; Mr. Edlund, 58,764 shares; Mr. Faull, 58,764 shares; Mr. Gaspard, 30,000 shares; Ms. Stenslie, 30,000 shares; Mr. Elmore, 30,000; and Mr. Robinson, 10,000 shares.
- (2) The ESOP has sole voting power with respect to 1,213,172 shares, shared voting power with respect to 450,720 shares and sole dispositive power with respect to 1,663,892 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.

(Footnotes continue on following page)

- (5) Based solely on a Schedule 13D/A dated February 24, 2012. 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 and Joseph Stilwell have shared voting and dispositive power over the shares reported.
- (6) Based solely on a Schedule 13D dated January 18, 2012. According to that filing, O-CAP Management, L.P., O-CAP Advisors, LLC, O-CAP GP, LLC, Michael E. Olshan and Jared S. Sturdivant have shared voting and dispositive power over 964,603 shares, O-CAP Partners, L.P. has shared voting and dispositive power over 571,226 shares, and O-CAP Offshore Master Fund, L.P. and O-CAP Offshore Fund, Ltd. have shared voting and dispositive power over 393,377 shares.
- (7) Also a named executive officer of First Financial.
- (8) Includes 25,000 shares owned solely by his spouse, all of which were pledged in connection with a loan to purchase the shares.
- (9) Includes 15,000 shares owned solely by her spouse.
- (10) Includes 25,000 shares owned solely by his spouse, as well as 5,400 shares owned as custodian for a minor.
- (11) Includes 25,000 shares held jointly with his spouse.
- (12) Includes 3,100 shares owned solely by his spouse, 16,600 shares held jointly with his spouse and 23,000 shares owned by companies he and his spouse control.
- (13) Mr. Gaspard resigned effective December 31, 2011, to become President of the Washington Financial League. On December 22, 2011, he was appointed as a director of First Financial and First Savings Bank, effective January 1, 2012.
- (14) 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. In December 2011, Robert W. McLendon and Harry A. Blencoe retired and M. Scott Gaspard and Daniel L. Stevens were appointed to fill the vacancies. In January 2012, the Board of Directors voted to increase its size from eight to nine directors and appointed Spencer L. Schneider, at the request of Joseph Stilwell, to fill the vacancy created by the increase in the size of the Board. On February 15, 2012, Mr. Schneider resigned and the Board voted to decrease its size to eight directors. Messrs. Gaspard and Stevens were recommended as directors by First Financial's Nominating and Corporate Governance Committee.

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.

We believe it is important for the Board of Directors to have input from management in overseeing our operations and in setting our policies and procedures. As a result, First Financial's bylaws require that the President of First Financial also be a director. The Board of Directors has not determined what action it may take, if any, in the event Mr. Karpiak, the President of First Financial, is not re-elected by the shareholders to the Board of Directors, but it is anticipated that if this occurs the Board would amend the bylaws to remove this requirement.

The Board of Directors recommends a vote "FOR" the election of Victor Karpiak, M. Scott Gaspard and Daniel L. Stevens on the white proxy card.

Name	Age as of December 31, 2011	Year First Elected or Appointed Director (1)	Term to Expire
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BOARD NOMINEES

Victor Karpiak	57	1998	2015
M. Scott Gaspard	58	2011	2015
Daniel L. Stevens	68	2011	2015

DIRECTORS CONTINUING IN OFFICE

Gary F. Faull	67	1999	2013
Joann E. Lee	56	2005	2013
Gary F. Kohlwes	75	1977	2014
Robert L. Anderson	78	1980	2014
Gerald Edlund	75	1985	2014

(1) Includes prior service on the Board of Directors of First Savings Bank (previously known as First Savings Bank of Renton).

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.

Victor Karpiak is Chairman of the Board, President and Chief Executive Officer 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. Mr. Karpiak also served as Chief Financial Officer from 2007 until February 2008. Prior to the conversion, he held the same positions with 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.

M. Scott Gaspard was appointed as a director of First Financial and First Savings Bank effective as of January 1, 2012. Mr. Gaspard is President of the Washington Financial League, a trade association representing community bankers in the State of Washington. From January 1, 2009 until December 31, 2011, he was Senior Vice President, External Affairs of First Financial Northwest and First Savings Bank. Prior to that, he was Senior Vice President, Manager of Government and Industry Relations at Washington Mutual, Inc. from 2003 until December 31, 2008. Before that, Mr. Gaspard served as an officer of the Washington Financial League from 1979 to 2003, becoming President in 1981. Mr. Gaspard is a director for the statewide, non-profit Washington Community Reinvestment Association. He is the former Chair and current trustee of the Northwest Financial Association's Employee Benefit Trust, a multi-state multiple employer trust providing benefit plans for banks, thrifts and credit unions in Washington and Oregon. Mr. Gaspard previously served as national president of the State Association of

Trade Executives and as a director of America's Community Bankers (now part of the American Bankers Association). Mr. Gaspard received his Bachelor of Science, Business Administration from the University of Puget Sound.

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.

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.

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, 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.

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 oversee. Dr. Kohlwes is a member of the Board of Directors of Washington Pacific Insurance, SPA. 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 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.

Gerald Edlund 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. Edlund has served as a director of First Savings Bank since 1985 and served as Secretary of First Financial Holdings, MHC, since it was established in 2002 until the conversion. Mr. Edlund graduated from the University of Washington with a degree in Landscape Architecture. He has been a registered landscape architect in the State of Washington since 1973 and a member of American Society of Landscape Architects since 1975. As President of Edlund Associates, Inc., a landscape design/construction firm, since 1980, he has been responsible for site design, construction, budget development and project management of commercial, municipal and residential projects. He has a broad knowledge of the building and construction industry in the area of site design and development. Mr. Edlund is a member of the New Horizon School Board, a member and past president of the Renton Rotary Club and a member of the Allied Arts of Renton. He was a member of the City of Renton Arts Commission for 24 years and served on the King County Open Space Citizens' Oversight Committee.

Contested Election

Joseph Stilwell and a group of funds he controls have nominated two people to stand for election to the First Financial Board of Directors at the annual meeting. **YOUR BOARD OF DIRECTORS URGES YOU TO RETURN ONLY THE WHITE PROXY CARD WHICH IS ENCLOSED OR TO VOTE BY TELEPHONE OR THE INTERNET BY FOLLOWING THE INSTRUCTIONS ON THE WHITE PROXY CARD, AND TO VOTE "FOR" THE ELECTION OF EACH OF THE BOARD'S NOMINEES.**

The Board of Directors, on the advice of counsel, believes that the Stilwell Group's proxy solicitation and other recent actions may be in violation of federal banking law because the Stilwell Group has failed to either make the applicable commitments or the required regulatory filings under the control regulations of the Federal Reserve. The Federal Reserve's control rules generally prohibit any company from controlling a savings association without seeking and obtaining prior regulatory approval to become a savings and loan holding company. Investors seeking to avoid regulation and oversight as a savings and loan holding company are required to remain passive as to their involvement and influence over the management and policies of a savings and loan holding company, and the Federal Reserve has established specific passivity standards and related commitments to allow an investor to potentially qualify as a passive investor exempt from the control rules.

The Stilwell Group has not sought advance regulatory approval from the Federal Reserve. Furthermore, First Financial believes the conduct and publicly expressed intent of the Stilwell Group would not enable it to qualify as a passive investor under the Federal Reserve's rules. The Stilwell Group's recent actions that raise concerns under the Federal Reserve's control rules include: (1) mounting a proxy contest to elect two of its nominees to our Board of Directors; (2) demanding various actions or changes in the executive management, policies and business decisions of First Financial; (3) demanding to have Mr. Schneider placed on various Board committees of First Financial and its subsidiary, First Savings Bank; (4) owning in excess of 5% of First Financial's common stock while taking or demanding the actions described above; and (5) other actions that have the intent and effect of exerting a controlling influence over the management and policies of First Financial. These actions are inconsistent with the Federal

Reserve's established rules and guidance on permissible passive investments that are exempt from advance regulatory approval.

We have requested guidance from the Federal Reserve and plan to await a final determination from them before considering the Stilwell Group's nominees. Therefore, we urge you to elect the directors recommended by the Board, by completing the enclosed white proxy card and returning it in the enclosed postage-paid envelope, and not signing or

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returning any other proxy sent to you by other parties. You may also vote by telephone or Internet by following the instructions on the white proxy card.

Background and Contacts with the Stilwell Group

This section sets forth a chronology of material discussions and contacts that First Financial and its representatives had with the principals and representatives of the Stilwell Group from September 12, 2011, which is the date that the Stilwell Group filed its Schedule 13D stating it intended to seek Board representation, through April __, 2012.

- On September 15, 2011, John F. Breyer, Jr. of Breyer & Associates PC, Counsel to First Financial (“Company Counsel”), had discussion with Spencer L. Schneider regarding the Schedule 13D that was filed by the Stilwell Group on September 12, 2011.
- From September 19, 2011 through September 29, 2011, Company Counsel had further discussion with Mr. Schneider conveying First Financial’s goals and stating that these goals were not inconsistent with those of the Stilwell Group.
- On October 5, 2011, a meeting was convened in Renton, Washington at First Financial’s office in connection with Mr. Stilwell’s request that Mr. Schneider be added to First Financial’s and First Savings Bank’s Boards of Directors. In addition to Mr. Schneider, the meeting was attended by Company Counsel, Mr. Victor Karpiak of First Financial and Ms. Megan Parisi and Ms. Nina Nikpour, as representatives of Mr. Stilwell.
- On October 6 and 11, 2011, Company Counsel had follow-up discussions with Mr. Schneider on the required regulatory applications to become a director of First Financial and First Savings Bank.
- On October 14, 2011, Company Counsel provided draft resolutions to Mr. Schneider for his review. The resolutions were to be submitted to First Financial’s Board in connection with the regulatory applications Mr. Schneider needed to complete to become a director of First Financial and First Savings Bank.
- On October 19, 2011, First Financial’s Board met and adopted resolutions authorizing Company Counsel and First Financial management to assist Mr. Schneider in completing his regulatory applications.
- On October 28, 2011, Mr. Schneider contacted Company Counsel regarding the required Federal Reserve, FDIC and Washington DFI application forms for his appointment as a director.
- On October 30, 2011, Mr. Schneider contacted Company Counsel commenting on the difficult disclosure issues that needed to be addressed in his applications and requested that Company Counsel review his applications. Mr. Schneider also questioned the need for filing the required applications and related financial information. Company Counsel explained the reasons the applications and related financial information are required and sent Mr. Schneider comments on his applications.
- On November 2, 3 and 7, 2011, Mr. Schneider followed up with Company Counsel on questions he had on his comments on the application materials.
- On November 7, 2011, Mr. Schneider emailed Company Counsel additional questions regarding the Federal Reserve, FDIC and Washington DFI applications. Company Counsel responded to Mr. Schneider’s questions and provided Mr. Schneider the form to be used to request confidential treatment for portions of his application materials. Mr. Schneider advised Company Counsel of the filing of an amended Schedule 13D by the Stilwell Group to reflect the addition of another Stilwell fund to the Stilwell Group.

- On November 8, 2011, Company Counsel had discussions with Mr. Schneider about additional information to be included in his application materials. Company Counsel provided Mr. Schneider with these additional application materials as well as contact information for submitting these materials to the Federal Reserve, FDIC and Washington DFI.
- On November 9, 2011, Company Counsel received materials from Mr. Schneider for his application, assembled the application materials, emailed Mr. Schneider the copies to be filed, received Mr. Schneider's authorization for filing, and sent the filings via overnight mail to the Federal Reserve, the FDIC and the Washington DFI on behalf of Mr. Schneider.
- On November 14, 2011, Company Counsel exchanged emails with Mr. Schneider regarding FDIC forms that were missing from Mr. Schneider's filing.
- On November 15, 2011, Company Counsel exchanged emails with Mr. Schneider regarding the name check form and fingerprint card required by the FDIC.
- On November 16, 2011, Company Counsel sent a follow-up email to Mr. Schneider regarding the Federal Reserve application and telephone calls received by Mr. Schneider from the Federal Reserve.
- On November 17, 2011, Company Counsel had discussion with Mr. Schneider and prepared a letter on his behalf to transmit additional application materials to the Federal Reserve, FDIC and Washington DFI.
- On November 18, 2011, Company Counsel received an email from Mr. Schneider that the Federal Reserve had accepted his application. Company Counsel confirmed to Mr. Schneider that the acceptance was not an approval. The Federal Reserve also requested confirmation from Mr. Schneider of certain information included in his application, which required correction. Company Counsel received an email from Mr. Schneider regarding supplementary materials to be provided to the Federal Reserve, FDIC and Washington DFI.
- On November 21, 2011, Company Counsel sent the Federal Reserve Mr. Schneider's fingerprint card in connection with the application materials being processed for Mr. Schneider's appointment as a director of First Financial. Similarly, Company Counsel sent the FDIC and the Washington DFI additional materials (i.e., name check form and consent for release of information and fingerprint card) on Mr. Schneider's behalf in connection with the application materials being processed for Mr. Schneider's appointment as a director of First Savings Bank.
- On November 28, 2011, Company Counsel received an email sent by the Federal Reserve to Mr. Schneider that indicated the Federal Reserve had received all of the required materials in connection with Mr. Schneider's appointment as a director of First Financial.
- On December 1, 2011, Company Counsel followed-up with the Federal Reserve regarding Mr. Schneider's application materials.
- On December 9, 2011, Company Counsel emailed Mr. Schneider a letter received from the Federal Reserve-San Francisco notifying Company Counsel that the Federal Reserve was extending its review of Mr. Schneider's application materials.
- On December 12, 2011, Company Counsel emailed Mr. Schneider a letter received from the FDIC deeming his application complete. Mr. Schneider required clarification of the FDIC letter and also informed Company Counsel that he had spoken with the Federal Reserve examiner regarding supplemental information that he would be filing

in connection with his pending application.

- On December 13, 2011, Mr. Schneider emailed supplemental information to the Federal Reserve and FDIC regarding his application, with a copy of the email provided to the Washington DFI.
- On December 14, 2011, Mr. Schneider emailed Company Counsel a copy of the Washington DFI approval of his appointment as a director of First Savings Bank.
- On December 15, 2011, Company Counsel received the FDIC's approval of Mr. Schneider's appointment as a director of First Savings Bank.
- On December 19 and December 20, 2011, Mr. Schneider emailed Company Counsel inquiring if any additional actions could be taken to obtain Federal Reserve approval in light of the non-objections received from the FDIC and Washington DFI. Company Counsel placed a call to the Federal Reserve on December 20, 2011 regarding Mr. Schneider's request.
- On December 23, 2011, Mr. Schneider emailed Company Counsel the Federal Reserve approval letter. Mr. Karpiak notified Mr. Schneider that his appointment was being placed on the agenda for the Board's January 25, 2012 meeting and requested that Mr. Schneider email a copy of his Federal Reserve application (without financials) to support the Board of Director's review of his qualifications as a director of First Financial.
- On December 24, 2011, Company Counsel emailed Messrs. Karpiak and Gaspard regarding two concerns that Mr. Schneider had: (1) preparation of a nondisclosure agreement ("NDA") to allow him to share information he receives as a director with Mr. Stilwell while he is on the Board; and (2) Mr. Stilwell's disappointment that Mr. Schneider's appointment to the Board was delayed until February 2012. Mr. Schneider indicated that he and Mr. Stilwell did not want to wait until the January 2012 regularly scheduled Board meeting to be appointed as a director and would prefer a special Board meeting be called that he could attend.
 - On December 28, 2011, Mr. Schneider emailed Company Counsel a draft of the NDA for review.
 - On January 9, 2012, Company Counsel sent comments on the NDA to Mr. Schneider for review.
 - On January 10, 2012, Mr. Schneider sent the revised NDA with additional comments to Company Counsel.
- On January 11, 2012, First Financial's and Bank's Boards of Directors voted to approve the appointment of Mr. Schneider to the respective Boards. First Financial signed and returned the NDA to Mr. Schneider. Following the special Board meeting, Director Gaspard and Mr. Karpiak held a conference call with Mr. Schneider to welcome him to the Board and provide him with confidential information about specific matters the Board was addressing.
- On January 12, 2012, Company Counsel and Mr. Schneider exchange emails regarding the timing of First Financial's press release announcing Mr. Schneider's appointment to First Financial and Bank's Boards. Company Counsel reminded Mr. Schneider that in connection with his appointment as a director he would need to file a Form 3 with the SEC within 10 days of his appointment and offered to provide him with standard information regarding his reporting obligations as a director of First Financial. Company Counsel prepared and sent Mr. Schneider a draft Form 3 for his review.
- Mr. Schneider emailed Mr. Karpiak and requested copies of Board packages for the past four meetings and any other relevant materials. Mr. Schneider also emailed Mr. Karpiak's assistant to request that the materials be sent to

him via overnight mail and also provided to him via email. Mr. Karpiak's assistant provided Mr. Schneider with electronic access, including access codes, to the Board material. Mr. Karpiak's assistant also indicated to Mr. Schneider that the requested materials would be sent to him via overnight mail. Mr. Schneider responded that the December Board minutes were not included

in the items posted securely online. The assistant apologized and indicated that paper copies would be included in his materials being sent via overnight mail and that December had now been posted to the secure online site.

- On January 13, 2012, Mr. Schneider contacted Mr. Karpiak asking to push the January 25, 2012 Board meeting back two days. As a result of scheduling conflicts, the date of the meeting could not be rescheduled.
- On January 16, 2012, Mr. Schneider emailed Mr. Karpiak's assistant for contact information (including email addresses) for First Financial's Board members. The assistant responded that she was out of the office until the following day and provided a contact at First Financial from whom Mr. Schneider could obtain the requested information. Company Counsel had further discussion with Mr. Schneider on materials he is receiving from First Financial and his Form 3 reporting requirements.
- On January 17, 2012, Mr. Schneider emailed Mr. Karpiak regarding his January 16, 2012 request for contact information for the Board, requesting that Mr. Karpiak "assist me in getting this simple information sent to me by someone by email." Mr. Karpiak's assistant, apologizing for the delay, provided Mr. Schneider with the requested information. Mr. Schneider also contacted Mr. Karpiak to indicate that he would need to dial into the Board meeting scheduled for January 25, 2012. Mr. Schneider emailed Mr. Karpiak, copying First Financial's Board members, regarding where he could locate "any reference to board discussions on evaluating the alternative of finding a merger partner."
- On January 18, 2012, Mr. Karpiak indicated to Mr. Schneider that the Board only had informal discussions on his request to evaluate alternatives of finding a merger partner and that nothing would be referenced in Board materials. Mr. Schneider asked Mr. Karpiak to provide a summary of the discussion and any materials First Financial's investment banker had provided. Mr. Schneider also requested that the matter be discussed further (as offered by Mr. Karpiak) at the January 25, 2012 Board meeting. Mr. Schneider requested the Executive Committee minutes for the past four months. Mr. Karpiak's assistant provided these minutes to Mr. Schneider.
- On January 19, 2012, Mr. Schneider emailed Company Counsel regarding the NDA indicating that there may be more people from the Stilwell Group that need to be included.