



**First Financial Northwest, Inc.**

**CORPORATE GOVERNANCE POLICY**

October 2019

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## **1.0 Introduction**

The following Corporate Governance Policy, together with First Financial Northwest, Inc.'s (referred to as the "Company," unless the context indicates otherwise) Articles of Incorporation and Bylaws and the charters of the Company's standing Committees (described below), provide the general framework for the governance of the Company. The Nominating and Corporate Governance Committee of the Board will review this policy and other aspects of the Company's corporate governance practices on an annual basis or more often if the Board of the Directors (the "Board") or such Committee deems it necessary or advisable.

## **2.0 Duties and Responsibilities of Each Director**

The members of the Board are elected by the shareholders to oversee the establishment of the Company's policies and to assure that the long-term interests of the shareholders and other stakeholders are being served. The Board has established the following Committees to assist the Board in carrying out its responsibilities: Audit/Compliance/Risk Committee, Nominating and Corporate Governance Committee, Compensation and Awards Committee, and any other Committees the Board deems appropriate.

## **3.0 Composition, Responsibilities and Operation of the Board of Directors**

### ***3.1 Composition***

The Board believes that the number of directors as set forth in the Company's Bylaws is appropriately based on the Company's present activity and business complexity and is also consistent with the need for diverse Board views. The Company's Board of Directors is currently comprised of both management and non-management members. A majority of the Company's Directors must be "independent directors" as defined under the listing standards of The NASDAQ Stock Market.

Directors should possess the highest personal and professional ethics, integrity, and values, and be committed to representing the long-term interests of the shareholders. They must also have an objective perspective and the ability to exercise judgment in the fulfillment of their responsibilities. The Company strives to have a Board with diverse experience at policy-making or strategic-planning levels in business or in other areas that are relevant to the Company's activities.

### ***3.2 Responsibilities***

In addition to its general oversight of management, the Board—through its Committee structure—also performs a number of specific functions, including:

- a. Reviewing, approving, and monitoring fundamental business and financial strategies and major corporate actions;

- b. Selecting, hiring, and approving the compensation of the Company's Chief Executive Officer ("CEO"), as well as overseeing CEO succession planning;
- c. Assessing major risks facing the Company and reviewing mitigating options;
- d. Providing oversight on the selection, evaluation, development, and approval of compensation of senior executive officers (SEOs); and
- e. Ensuring processes are in place for maintaining the integrity of the Company.

Directors must be willing to devote sufficient time and effort to carrying out their duties and responsibilities effectively. Directors should offer their resignation in the event of any significant change in their personal circumstances that significantly and negatively impacts their effectiveness as a director, including, as a result of a change in their principal job responsibilities.

### **3.3 Operation**

The Board of Directors generally meets twice a quarter to review and discuss reports by management on the performance of the Company, operating policies, its plans, and prospects, as well as other issues facing the Company. Directors are expected to attend all scheduled Board and Committee meetings and to have done such advance preparation, including reviewing meeting materials, as is necessary to fulfill their responsibilities.

## **4.0 Establishment and Operation of Board Committees**

The Board will at all times have an Audit/Compliance/Risk Committee, a Nominating and Corporate Governance Committee, a Compensation and Awards Committee, and any other Committees the Board deems appropriate. Each Committee will perform its duties as assigned by the Board and in compliance with the Committee's charter. The principal role of each Committee is summarized below.

### **4.1 Audit/Compliance/Risk Committee**

The Audit/Compliance/Risk Committee must consist of at least three members – all of whom must be independent non-management Directors appointed by the Board to assist it in fulfilling its responsibilities to oversee the Company's internal accounting, regulatory compliance, enterprise risk, and audit processes; in monitoring the annual and interim financial reporting; and assessing the independence of the external auditors. The Committee shall meet at least four times annually, or more frequently as circumstances dictate.

### **4.2 Compensation and Awards Committee**

The Compensation and Awards Committee must consist of at least three members – all of whom must be independent, non-management Directors appointed by the Board to assist it in fulfilling its responsibilities associated with compensation practices of the Company, as well as to recommend for Board approval the compensation and perquisites outside the standard Company benefit programs of the CEO and other SEOs reporting directly to the CEO. The Committee is also responsible for conducting an annual evaluation of the CEO, providing an annual recommendation to the Board for ultimate action related to the compensation for directors, and providing consultative advice to the CEO on personnel matters, including related policies and practices. The Committee shall also be responsible for administering and making all awards under the Company's equity compensation plans. The Committee shall meet at least twice annually, or more frequently as circumstances dictate.

#### **4.3 Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee must consist of at least three members – all of which must be independent, non-management Directors appointed by the Board to assess Board and Committee membership needs and implement policies and procedures regarding corporate governance matters. The Committee shall meet at least twice annually, or more frequently as circumstances dictate.

#### **5.0 Succession Planning**

Based upon recommendations from the Nominating and Corporate Governance Committee, the Board shall review and ensure the maintenance of a succession plan for the Board of Directors and Executive Management.

#### **6.0 Convening Executive Sessions of Independent Directors**

The Board will hold, on an as needed basis, generally limited to previously scheduled Board meeting days, an executive session for independent directors without management present. These sessions must be presided over by the Chairman of the Board; if the Chairman is not an independent director, a facilitating director will be appointed by the Board for these purposes.

#### **7.0 Board of Directors' Interaction with Management and Third Parties**

The Board shall have complete access to the Company's senior management, provided that Directors use reasonable efforts to ensure that in exercising this right, their actions will not be distracting or intrusive to the business operations of the Company.

The Board and its Committees shall also have the right to retain independent outside financial, legal, or other advisors.

It is the general policy of the Company that the CEO or CFO act as the spokesperson for the Company in communicating with investors, research analysts, and the media, although the CEO or CFO may, from time to time, request individual directors or other executive officers to meet or otherwise communicate with various constituencies that are involved with the Company.

#### **8.0 Evaluation of the Performance of the Board of Directors and the CEO**

The Board and each of its Committees shall annually review their own performance to determine whether the Board and each of its Committees are functioning effectively. The review and any applicable action is to be discussed by the full Board once a year.

The Compensation and Awards Committee of the Board shall be responsible for an annual evaluation of the performance of the CEO. The Committee shall (a) review and modify, as appropriate, the goals and objectives proposed by the CEO; and (b) determine the extent to which the achievement of those goals and objectives shall affect the Compensation of the CEO. The Committee shall provide recommendations to the independent members of the Board of Directors, consistent with the findings of the Committee.

## **9.0 Director Orientation and Continuing Education**

At such time as a director joins the Board, the Board and the CEO will provide appropriate orientation for the director, including arrangements of meetings with management. Such orientation will also include a review of federal securities requirements outlined in the "Trading in Securities and Confidentiality of Inside Information for Officers and Directors Policy." The Board considers it desirable that directors participate in continuing education opportunities and considers such participation an appropriate expense to be reimbursed by the Company.

## **10.0 Shareholder Access to Directors**

The Board of Directors welcomes communications from the Company's shareholders. Shareholders may send communications to the Board of Directors, or to any particular director, to the following address: 201 Wells Avenue, Renton, Washington 98057. Shareholders should indicate clearly the name of the director or directors to whom the communication is being sent so that each communication may be forwarded directly to the appropriate director(s). All shareholder communications shall be reported to the Board of Directors on at least a quarterly basis.

## **11.0 Policy of the Board of Directors on Retirement**

The Company, inclusive of First Financial Northwest, Inc., First Financial Northwest Bank, and First Financial Diversified are of the opinion that establishing a mandatory retirement age is consistent with good corporate governance and increases the opportunity for new perspectives, skills, and ideas on the Board.

For this reason, the Company has adopted a policy that no person shall be eligible for election or re-election to the Company's board of directors if such person has attained the age of 75 prior to his or her election. The Corporate Governance/Nominating Committee is responsible for reviewing and consulting with the Board on director retirement matters.

## **12.0 Directors' Attendance at Annual Meetings**

The Company encourages, but does not require, the members of the Board of Directors to attend the Corporation's annual meeting of its shareholders.

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Approved: October 18, 2019  
The Board of Directors  
First Financial Northwest, Inc.

**Previous Revision/Review Dates**

December 2018  
December 2017  
November 2016  
December 2015  
December 2014  
December 2013  
December 2012  
October 2011  
September 2010  
August 2009  
August 2008