



First Financial Northwest, Inc.

**AUDIT / COMPLIANCE / RISK
COMMITTEE CHARTER**

April 2019

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1.0 Purpose of the Audit / Compliance / Risk Committee

The Audit / Compliance / Risk Committee (“Committee”) is appointed by the Board of Directors (“Board”) to assist the Board in fulfilling its oversight responsibilities. The Committee’s primary duties and responsibilities are to:

- Oversee the integrity of First Financial Northwest, Inc’s (the “Corporation”) financial reporting processes, financial statement audits, and systems of internal controls regarding finance, accounting, and legal matters;
- Oversee the independence and performance of the Corporation’s independent auditors and internal audit function;
- Provide an avenue for open, continuing, and direct communication among the independent auditors (internal and external), management, and the Board;
- Establish and provide for a strong “tone at the top” regarding the Bank’s commitment to a culture of compliance and communicating such commitment throughout the Bank;
- Provide general oversight over all compliance related activities, including implementation, training, monitoring, and audit activities as they relate to consumer protection laws and regulations;
- Monitor Enterprise Risk Management (ERM) implementation/execution, and adherence to Board established risk limits and internal controls;
- Establish risk reporting scope and protocol; and
- Ensure all risk types (market/interest rate, credit, operational, liquidity, reputational, strategic and information technology risks) are proactively identified, measured, and managed consistent with the risk tolerance/appetite of the Board.

2.0 Authority of the Committee

The Committee has the authority to conduct any investigation appropriate in fulfilling its responsibilities. It has direct access to the independent auditors as well as anyone in the organization. It is empowered to:

1. Retain outside counsel, accountants, consultants, or other experts deemed necessary in the performance of its duties;
2. Demand funding from the Corporation to ensure adequate resources are available in order to carry out its duties and responsibilities;
3. Meet with management, staff, independent auditors, or outside counsel, as necessary;
4. Have the sole authority for the selection/engagement, retention, and when necessary, the termination and replacement of the independent auditors that examine the consolidated financial statements of the Corporation; and
5. Expect ultimate accountability from the independent auditors.

3.0 Composition of the Committee

The Committee composition shall be in accordance with the Nasdaq Stock Market (the "NASDAQ") listing standards. The Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent non-executive directors, free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment. The Board or its Nominating Committee will appoint the Committee members and the Committee Chair. If a Committee Chair is not designated or present, the members of the Committee may designate an Acting Chair by majority vote of the membership. A simple majority of Committee members shall constitute a quorum.

Each Committee member will be both independent and financially literate, as defined by applicable regulations of the Securities and Exchange Commission ("SEC"), NASDAQ, and the Board. At least one "financial expert" member shall have expertise in accounting or financial reporting, as defined by NASDAQ and the requirements of the SEC.

Members of the Committee will be considered independent if they have no relationship to the Corporation or the Corporation's subsidiary that may interfere with the exercise of their independent judgment.

Examples of such relationships include, but are not limited to:

1. Being employed by the Corporation or First Financial Northwest Bank (the "Bank") for the current year or any of the past five years;
2. Accepting any compensation from the Corporation or the Bank other than compensation for services as a Board member;
3. Serving or having served in any of the past five years as a consultant, advisor, promoter, or legal counsel of or to the Corporation or the Bank; and
4. Being an immediate family member of an individual who is, or has been in any of the past five years, employed as an officer of the Corporation or the Bank.

4.0 Committee Meetings

The Committee shall meet at least four times per year, with authority to convene additional meetings, as circumstances require. The Committee will invite members of the Board, management, auditors, or others to attend meetings and provide pertinent information, as necessary. As part of its job to foster open and candid communication, the Committee shall periodically meet with management, the Chief Risk Officer, and the external and internal auditors in separate executive sessions to discuss any matters the Committee or any of these parties believe should be discussed privately.

5.0 Responsibilities and Duties

Review Procedures

1. Review and reassess the adequacy of this Charter at least annually to ensure it meets the requirements of regulators, investors, and the Corporation. Submit the Charter to the Board of

Directors for approval, and have the document published at least every three years in accordance with SEC regulations.

2. Review the Corporation's annual audited financial statements prior to filing or distribution. Review should include discussion with management and independent auditors of significant issues regarding accounting principles, practices, and judgments.
3. In consultation with management and the independent auditors, (both external and internal), consider the integrity of the Corporation's financial reporting processes and internal controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors together with management's responses.
4. Review with financial management the Corporation's quarterly financial results. Discuss any significant changes to the Corporation's accounting principles and any items required to be communicated by the independent auditors in accordance with SAS 90. Review and approve financial filings mandated by the SEC prior to their submission.

External Audits

5. Review the independence, performance, and budget (including fees) of the external auditor and select/engage, retain, and when necessary, terminate and replace the external auditor when circumstances warrant.
6. Ensure external audit engagement letters do not contain unsafe and unsound limitation of liability provisions (i.e. indemnification of external auditors against claims made by third parties; hold harmless or release of external auditor liability for claims or potential claims that might be asserted by the Corporation; or limitations on the remedies available to the Corporation).
7. Approve the fees paid to the independent auditors for all audit and other services performed.
8. Review, in advance, the independent auditors audit plans and scope for the coming year, and any non-audit services performed or planned, and approve all work that the independent auditors perform for the Corporation.
9. Determine, through discussions with the independent auditors, that no restrictions are being placed by management on the scope of their examinations.
10. On an annual basis, review and discuss with the independent auditors all significant relationships they have with the Corporation that could impair the auditors' independence.
11. Prior to releasing the year-end audited financial statements, discuss the results of the audit with the independent auditors. Discuss certain matters required to be communicated to audit committees in accordance with AICPA SAS 90.
12. Consider the independent auditors' judgments about the quality and appropriateness of the Corporation's accounting principles as applied in its financial reporting.

Internal Audits

13. Review the independence, performance, budget, and scope of internal audit and select/engage, retain, and when necessary, terminate and replace the internal auditor when circumstances warrant.
14. Review internal audit reports and related findings prepared by the internal audit firm together with management's response and follow-up to these reports.

15. Review significant issues presented by the internal audit firm or Chief Risk Officer together with management's response and follow-up to the response.

Compliance

16. Review the effectiveness of the system for monitoring compliance with laws, regulations, and internal policies as well as the results of management's investigation and actions taken in instances of noncompliance.
17. Review the findings of examination by regulatory agencies and auditor findings, recommendations, and observations.
18. Review the process for communicating the Code of Conduct to Corporation personnel and for monitoring compliance therewith.
19. Coordinate investigation of conflicts of interest and unethical conduct.
20. Review all related party transactions for potential conflict of interest and approve related party transactions when warranted.
21. Obtain regular updates from management regarding compliance matters, including CRA Committee, and Operational and Compliance Risk Committee activities/minutes.
22. Review mandated regulatory reports that must be presented to the Board on a periodic basis, including: annual information security report, Security Officer reports, annual identity theft red flag program report, risk assessments related to compliance management, information security, BSA/anti-money laundering, fair lending, multifactor authentication, ACH, as well as product/service specific risk assessments.
23. Review compliance training schedule/curriculum and related performance reports to ensure Bank staff and management has received adequate training in support of the Bank's Compliance Management Program.
24. Review results of all internal compliance monitoring activities conducted by Compliance staff.
25. Review progress of all compliance related implementation activities pertaining to new regulations or changes to existing regulations.
26. Provide sufficient resources to the compliance function of the Bank to ensure adequate coverage and knowledge base is retained.
27. Receive status reports on the regulatory environment from Compliance personnel to ensure the Board is engaged and is kept apprised of the Bank's compliance risks.
28. Conduct such investigations into matters relating to the Bank's legal compliance, as the Committee may deem necessary.

Enterprise Risk Management (ERM)

29. Provide ongoing Board oversight of the ERM framework, implementation, and execution through review of management risk committee activities/meeting minutes and other related management reports, consistent with the risk profile and complexity of operations.
30. Determine the appropriate reporting lines of the Chief Risk Officer, and appropriate risk-escalation protocols.
31. Develop/define the Corporation's desired risk appetite via a formal risk appetite statement and identification of key risk indicators (KRIs) and key performance indicators (KPIs).

- 32. Monitor compliance with internal controls and Board established risk-metrics through review of KRIs and KPIs, risk dashboards, and risk/control self-assessments.

Information Technology (IT)

- 33. Provide ongoing Board oversight of IT resources, investments, and risks through the review of Management IT Steering Committee activities/meeting minutes and other related management reports.
- 34. Oversee the Bank's IT leadership to ensure that the overall strategic direction aligns with IT objectives and activities, as well as with banking objectives and processes.
- 35. Oversee the Bank's IT investment initiatives to ensure proper priorities are assigned.

Reporting

- 36. Review and approve the form of presentation and type of information to be contained in earnings releases.
- 37. Regularly report the results of audits, findings, related recommendations, significant risk exposures (both current and potential), as well as all other Committee activities to the Board of Directors.
- 38. Prepare the Audit Committee Report for inclusion in the Corporation's annual proxy statement, consulting with management or legal counsel, if necessary.
- 39. Review any other reports the Corporation issues that relate to Audit Committee responsibilities.

Miscellaneous

- 40. Provide an independent, direct communication channel between the Board of Directors and the Corporation's internal auditors, external auditors, and regulators.
- 41. Review with the Corporation's counsel, any legal matters that could have a significant impact on the organization's financial statements.
- 42. Establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal controls and auditing matters, including procedures for the confidential, anonymous submission of such complaints by employees. The Committee Chair is responsible for reviewing all complaints reported to the Audit Committee Designee pursuant to the Corporation's Whistleblower Policy and ensuring the Committee is kept apprised of the status of any such complaints.
- 43. Make reasonable efforts to maintain and/or enhance audit, compliance, and risk knowledge-base specific to the banking sector by attending conferences, seminars, or periodic training sessions with appropriate management staff.
- 44. Maintain minutes of meetings and periodically have sessions, which are open to the Board of Directors at large for observation purposes.
- 45. Perform any other activities consistent with this Charter, the Corporation's By-laws and governing documents, as the Committee or the Board deems necessary and appropriate.



Approved: April 24, 2019
The Board of Directors
First Financial Northwest, Inc.

Previous Review/Revision Dates

April 2018
April 2017
July 2016
July 2015
September 2015
August 2014
June 2013