

First Financial Northwest, Inc.
Form 10-Q
August 05, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-33652

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

Washington 26-0610707
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

201 Wells Avenue South, Renton, Washington 98057
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (425) 255-4400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES X NO

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of August 2, 2016, 13,326,616 shares of the issuer's common stock, \$0.01 par value per share, were outstanding.

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FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Dollars in thousands, except share data)

Part 1. Financial Information

Item 1. Financial Statements

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash on hand and in banks	\$ 6,051	\$5,713
Interest-earning deposits with banks	31,454	99,998
Investments available-for-sale, at fair value	136,028	129,565
Loans receivable, net of allowance of \$10,134 and \$9,463	766,046	685,072
Federal Home Loan Bank ("FHLB") stock, at cost	7,631	6,137
Accrued interest receivable	3,158	2,968
Deferred tax assets, net	3,438	4,556
Other real estate owned ("OREO")	2,331	3,663
Premises and equipment, net	18,206	17,707
Bank owned life insurance ("BOLI"), net	23,700	23,309
Prepaid expenses and other assets	1,193	1,225
Total assets	\$ 999,236	\$ 979,913
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing deposits	\$ 25,137	\$29,392
Interest-bearing deposits	635,073	646,015
Total deposits	660,210	675,407
FHLB Advances	161,500	125,500
Advance payments from borrowers for taxes and insurance	2,144	1,794
Accrued interest payable	114	135
Other liabilities	5,813	6,404
Total liabilities	829,781	809,240
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$0.01 par value; authorized 10,000,000 shares; no shares issued or outstanding	—	—
Common stock, \$0.01 par value; authorized 90,000,000 shares; issued and outstanding 13,327,916 shares at June 30, 2016, and 13,768,814 shares at December 31, 2015	133	138
Additional paid-in capital	131,312	136,338
Retained earnings, substantially restricted	44,640	42,892
Accumulated other comprehensive gain (loss), net of tax	423	(1,077)
Unearned Employee Stock Ownership Plan ("ESOP") shares	(7,053)	(7,618)
Total stockholders' equity	169,455	170,673
Total liabilities and stockholders' equity	\$ 999,236	\$ 979,913

See accompanying selected notes to consolidated financial statements.

FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES

Consolidated Income Statements

(Dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		
	2016		2015
Interest income			
Loans, including fees	\$9,048		\$8,000
Investments available-for-sale	757		490
Interest-earning deposits	47		65
Dividends on FHLB stock	44		3
Total interest income	9,896		9,203
Interest expense			
Deposits	1,441		1,320
FHLB advances	272		32
Total interest expense	1,713		1,352
Net interest income	8,183		7,851
Provision (recapture of provision) for loan losses	600		(500)
Net interest income after provision (recapture of provision) for loan losses	7,583		8,351
Noninterest income			
BOLI income	225		225

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Events of Default and Acceleration

If the Notes have become immediately due and payable following an Event of Default (as defined in the section Description of Senior Debt Securities Events of Default in the accompanying Prospectus) with respect to the Notes, the default amount payable will be equal to the Payment at Maturity, calculated as though the date of acceleration were the Maturity Date.

If the Notes have become immediately due and payable following an Event of Default, you will not be entitled to any additional payments with respect to the Notes. For more information, see Description of Senior Debt Securities Events of Default beginning on page 7 of the accompanying Prospectus.

Withholding

The Bank or the applicable paying agent will deduct or withhold from a payment on a Note any present or future tax, duty, assessment or other governmental charge that the Bank determines is required by law or the interpretation or administration thereof to be deducted or withheld. Payments on a Note will not be increased by any amount to offset such deduction or withholding.

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HYPOTHETICAL PAYMENTS ON THE NOTES

The examples set out below are included for illustration purposes only. The hypothetical Percentage Changes used to illustrate the calculation of the Payment at Maturity (rounded to two decimal places) are not estimates or forecasts of the Final Price or the Closing Price of the Reference Asset on any Valuation Date or on any Trading Day prior to the Maturity Date. All examples assume that a holder purchased Notes with an aggregate Principal Amount of \$1,000.00, a hypothetical Initial Price of \$100.00, a hypothetical Coupon Barrier Price of \$75.00 (75.00% of the Initial Price), and a hypothetical Principal Barrier Price of \$75.00 (75.00% of the Initial Price), reflect the Contingent Coupon Rate of 10.30% per annum (5.15% per semi-annual period), and assume that no Market Disruption Event occurs on any Valuation Date. Amounts below may have been rounded for ease of analysis.

Example 1. Notes are Called on the First Valuation Date

Valuation Date	Hypothetical Closing Price	Hypothetical Payment (Per Note)
First	\$110 (greater than Initial Price callable)	\$1,051.50 (Principal Amount plus Contingent Coupon Payment)

If on the first Valuation Date the Closing Price is \$110.00, which is greater than the Initial Price of \$100.00, the Notes will be automatically called. The Bank will pay you on the Call Payment Date \$1,051.50 per Note, reflecting the Principal Amount plus the \$51.50 Contingent Coupon Payment.

Example 2. Notes are Not Called and the Final Price of the Reference Asset is not below the Principal Barrier Price:

Valuation Date	Hypothetical Closing Price	Hypothetical Payment (Per Note)
First through fifth	\$90 (less than Initial Price, greater than Coupon Barrier Price)	On each Contingent Coupon Payment Date: \$51.50, for a total of \$257.50 (Contingent Coupon Payments)
Final Valuation Date	\$95 (less than Initial Price, greater than Principal Barrier Price)	\$1,051.50 (Principal Amount plus Contingent Coupon Payment)

If the Closing Prices on each of the first through fifth Valuation Dates are less than the Initial Price but greater than the Coupon Barrier Price, Contingent Coupon Payments will be made on the relevant Contingent Coupon Payment Dates and the Notes will not be called. If on the Final Valuation date, the Final Price is \$95.00, which is greater than the Principal Barrier Price but less than the Initial Price, the Bank will pay at maturity a total of \$1,051.50 per Note, reflecting the Principal Amount plus the \$51.50 Contingent Coupon Payment. In addition to earlier Contingent Coupon Payments, the Bank will have paid you a total of \$1,309.00 per Note.

Example 3. The Notes are Not Called and the Final Price of the Reference Asset is below the Principal Barrier Price:

Valuation Date	Hypothetical Closing Price	Hypothetical Payment (Per Note)
First through fifth	\$80 (less than Initial Price, greater than Coupon Barrier Price)	On each Contingent Coupon Payment Date: \$51.50, for a total of \$257.50 (Contingent Coupon Payments)
Final Valuation Date	\$50 (less than Initial Price, less than Principal Barrier Price)	$[\$1,000.00 + (\$1,000.00 \times \text{Percentage Change})] =$ $\$1,000.00 + [\$1,000.00 \times (-50.00\%)] =$ \$500.00 (Payment at Maturity)

If the Closing Prices on each of the first through fifth Valuation Dates are less than the Initial Price but greater than the Coupon Barrier Price, Contingent Coupon Payments will be made on the relevant Contingent Coupon Payment

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Dates and the Notes will not be called. If on the Final Valuation Date the Final Price is less than the Principal Barrier Price the Bank will pay you at maturity the Principal Amount plus the product of the Principal Amount and Percentage Change, in this case equaling \$500.00 per Note, and no additional Contingent Coupon Payment will be made. When added to the Contingent Coupon Payments of \$257.50 paid in respect of prior Valuation Dates, the Bank will have paid you approximately \$757.50 per Note.

Any payment on the Notes, including any repayment of principal, is subject to the creditworthiness of the Bank. If the Bank were to default on its payment obligations, you may not receive any amounts owed to you under the Notes and you could lose your entire investment.

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ADDITIONAL RISK FACTORS

An investment in the Notes involves significant risks. In addition to the following risks included in this pricing supplement, we urge you to read "Risk Factors" beginning on page S-1 of the accompanying Prospectus Supplement and "Risk Factors" beginning on page 1 of the accompanying Prospectus.

You should understand the risks of investing in the Notes and should reach an investment decision only after careful consideration, with your advisers, of the suitability of the Notes in light of your particular financial circumstances and the information set forth in this pricing supplement and the accompanying Prospectus and Prospectus Supplement.

The Notes Do Not Guarantee Any Return Of Principal; You May Suffer A Loss Of All Or A Substantial Portion Of The Principal Amount Of Your Notes.

The Notes do not guarantee any return of principal. The repayment of any principal on the Notes at maturity depends on the Final Price of the Reference Asset. The Bank will only repay you the full Principal Amount of your Notes if the Final Price of the Reference Asset on the Final Valuation Date is equal to or greater than the Principal Barrier Price. If the Final Price of the Reference Asset on the Final Valuation Date is less than the Principal Barrier Price you may lose all or a substantial portion of your initial investment in an amount equal to the negative Percentage Change, subject to any return realized in the form of Contingent Coupon Payments. Accordingly, you could lose all or a substantial portion of your initial investment in the Notes if the Final Price of the Reference Asset on the Final Valuation Date is less than the Principal Barrier Price.

The Automatic Call Feature Limits Your Potential Return.

The appreciation potential of the Notes as of any Valuation Date is limited to your initial investment plus the applicable Contingent Coupon Payment otherwise due on such day. In addition, if the Notes are called, which may occur as early as the first Valuation Date, the amount of interest payable on the Notes will be less than the full amount of interest that would have been payable if the Notes had not been called prior to maturity. If the Notes are automatically called, you will lose the opportunity to continue to potentially accrue and be paid Contingent Coupon Payments from the relevant Call Payment Date to the scheduled Maturity Date, and the total return on the Notes could be minimal. Because of the automatic call feature, the term of your investment in the Notes may be limited to a period that is shorter than the original term of the Notes and may be as short as six months. There is no guarantee that you would be able to reinvest the proceeds from an investment in the Notes at a comparable return for a similar level of risk in the event the Notes are automatically called prior to the Maturity Date.

The Notes Do Not Provide For Fixed Payments Of Interest And You May Receive No Contingent Coupon Payments On One Or More Contingent Coupon Payment Dates, Or Even Throughout The Entire Term Of The Notes.

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On each Contingent Coupon Payment Date you will receive a Contingent Coupon Payment if, **and only if**, the Closing Price of the Reference Asset on the related Valuation Date is greater than or equal to the Coupon Barrier Price. If the Closing Price of the Reference Asset on any Valuation Date is less than the Coupon Barrier Price, you will not receive any Contingent Coupon Payment on the related Contingent Coupon Payment Date, and if the Closing Price of the Reference Asset is less than the Coupon Barrier Price on each Valuation Date over the term of the Notes, you will not receive any Contingent Coupon Payments over the entire term of the Notes.

Your Return On The Notes Will Be Limited To The Contingent Coupon Payments Paid On The Notes, If Any.

The Payment at Maturity will not exceed the Principal Amount plus the final Contingent Coupon Payment and any positive return you receive on the Notes will be composed solely of the sum of any Contingent Coupon Payments received prior to and at maturity. Therefore, if the appreciation of the Reference Asset exceeds the sum of the Contingent Coupon Payments made to you, if any, the Notes will underperform an investment in securities linked to the Reference Asset providing full participation in the appreciation. Accordingly, the return on the Notes may be less than the return would be if you made an investment in securities directly linked to the positive performance of the Reference Asset.

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Your Return May Be Lower Than The Return On A Conventional Debt Security Of Comparable Maturity.

The return that you will receive on your Notes, which could be negative, may be less than the return you could earn on other investments. Even if your return is positive, your return may be less than the return you would earn if you bought a conventional senior interest bearing debt security of the Bank with the same maturity date or if you invested directly in the securities included in the Reference Asset. Your investment may not reflect the full opportunity cost to you when you take into account factors that affect the time value of money.

If The Price Of The Reference Asset Changes, The Market Value Of Your Notes May Not Change In The Same Manner.

Your Notes may trade quite differently from the performance of the Reference Asset. Changes in the price of the Reference Asset may not result in a comparable change in the market value of your Notes. We discuss some of the reasons for this disparity under [The Price At Which The Notes May Be Sold Prior To Maturity Will Depend On A Number Of Factors And May Be Substantially Less Than The Amount For Which They Were Originally Purchased](#) below.

We Have No Affiliation With The Reference Asset Or The Sponsor Or Publisher Of The Underlying Index And Have Not Independently Verified Their Public Disclosure Of Information.

We are not affiliated in any way with the Reference Asset or the publisher or sponsor of the NYSE Arca Gold Miners Index, the underlying index (the [Index](#)), and have no ability to control or predict their actions, including any errors in or discontinuation of disclosure regarding the methods or policies relating to the management or calculation of the Reference Asset or the Index. None of the Reference Asset or the publisher or sponsor of the underlying Index has any obligation to consider your interest as an investor in the Notes in taking any actions that might affect the value of the Notes. We have derived the information about the Reference Asset, the publisher of the Index and the Index contained herein from publicly available information, without independent verification, and we do not assume any responsibility for the adequacy of such information. You, as an investor in the Notes, should make your own investigation into the Reference Asset and the Index. The Reference Asset and the publisher and sponsor of the Index are not involved in the offering of the Notes made hereby in any way and have no obligation to consider your interest as an owner of Notes in taking any actions that might affect the value of the Notes.

We Cannot Control Actions By Any Of The Unaffiliated Companies Whose Securities Are Included In The Reference Asset Or The Underlying Index.

Actions by any company whose securities are held by the Reference Asset or included in the underlying Index may have an adverse effect on the price of its security, the Final Price of the Reference Asset and the value of the Notes. These companies will not be involved in the offering of the Notes and will have no obligations with respect to the Notes, including any obligation to take our or your interests into consideration for any reason. These companies will not receive any of the proceeds of the offering of the Notes and will not be responsible for, and will not have participated in, the determination of the timing of, prices for, or quantities of, the Notes to be issued. These companies will not be involved with the administration, marketing or trading of the Notes and will have no obligations with

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respect to the amounts to be paid to you at maturity or on any Contingent Coupon Payment Date.

The Reference Asset Does Not Measure The Performance Of Gold Bullion.

The Reference Asset measures the performance of shares of gold and silver mining companies and not gold bullion. Therefore the Reference Asset may under- or over-perform gold bullion over the short- or long-term.

An Investment In The Notes Is Subject To Risks Associated With Investing In Securities With Concentration In The Gold And Silver Mining Industry.

The Reference Asset seeks to track the performance of the NYSE Arca Gold Miners Index, which is comprised of the stocks of companies primarily engaged in the mining of gold or silver. The shares of the Reference Asset may be subject to increased price volatility as they are linked to a single industry, market or sector and may be more susceptible to adverse economic, market, political or regulatory occurrences affecting that industry, market or sector. Because the Reference Asset primarily invests in stocks and American depositary receipts of companies that are

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involved in the gold mining industry, and to a lesser extent the silver mining industry, the shares of the Reference Asset, and the value of Notes linked to the Reference Asset, are subject to certain risks associated with such companies. Gold mining companies are highly dependent on the price of gold and subject to competition pressures that may have a significant effect on their financial condition. Gold prices are subject to volatile price movements over short periods of time and are affected by numerous factors. These include economic factors, including, among other things, the structure of and confidence in the global monetary system, expectations of the future rate of inflation, the relative strength of, and confidence in, the U.S. dollar (the currency in which the price of gold is generally quoted), interest rates and gold borrowing and lending rates, and global or regional economic, financial, political, regulatory, judicial or other events. Gold prices may also be affected by industry factors such as industrial and jewelry demand, lending, sales and purchases of gold by the official sector, including central banks and other governmental agencies and multilateral institutions which hold gold, levels of gold production and production costs, and short-term changes in supply and demand because of trading activities in the gold market. Similarly, silver mining companies are highly dependent on the price of silver. Silver prices can fluctuate widely and may be affected by numerous factors. These include general economic trends, technical developments, substitution issues and regulation, as well as specific factors including industrial and jewelry demand, expectations with respect to the rate of inflation, the relative strength of the U.S. dollar (the currency in which the price of silver is generally quoted) and other currencies, interest rates, central bank sales, forward sales by producers, global or regional political or economic events, and production costs and disruptions in major silver producing countries.

An Investment In The Notes Is Subject To Risks Associated With Investing In The International Securities Market.

Investments in securities linked to the value of foreign equity securities involve particular risks. Your return on the Notes and the value of the Notes may be affected by factors affecting the international securities markets, specifically markets in the countries represented by the Reference Asset's holdings.

A foreign stock exchange may impose trading limitations intended to prevent extreme fluctuations in individual security prices and may suspend trading in certain circumstances. These actions could limit variations in the Closing Price of the Reference Asset, which could, in turn, adversely affect the value of the Notes. The foreign securities markets whose stocks comprise the Reference Asset may have less liquidity and may be more volatile than U.S. or other securities markets and market developments may affect foreign markets differently from U.S. or other securities markets. Direct or indirect government intervention to stabilize the foreign securities markets, as well as cross-shareholdings in foreign companies, may affect trading prices and volumes in those markets. Also, there is generally less publicly available information about foreign companies than about those U.S. companies that are subject to the reporting requirements of the SEC, and foreign companies are subject to accounting, auditing and financial reporting standards and requirements that differ from those applicable to U.S. reporting companies.

Securities prices in foreign countries are subject to political, economic, financial and social factors that apply in those geographical regions. These factors, which could negatively affect those securities markets, include the possibility of recent or future changes in a foreign government's economic and fiscal policies, the possible imposition of, or changes in, currency exchange laws or other laws or restrictions applicable to foreign companies or investments in foreign equity securities and the possibility of fluctuations in the rate of exchange between currencies, the possibility of outbreaks of hostility and political instability and the possibility of natural disasters or adverse public health developments in the region. Moreover, foreign economies may differ favorably or unfavorably from the U.S. economy in important respects such as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency.

An Investment In The Notes Is Subject To Exchange Rate Risk.

Some of the underlying assets held by the Reference Asset (the Reference Asset Constituents) may be issued by non-U.S. issuers. Accordingly, investors in the Notes will be exposed to currency exchange rate risk with respect to each of the currencies in which the Reference Asset Constituents held by the Reference Asset are traded. An investor's net exposure will depend on the extent to which these currencies strengthen or weaken against the U.S. dollar. If the dollar strengthens against these currencies, the net asset value of the Reference Asset will be adversely affected and the price of the Reference Asset, and consequently the market value of the Notes, may decrease.

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The Amount To Be Paid At Maturity Will Not Be Affected By All Developments Relating To The Reference Asset.

Changes in the price of the Reference Asset during the term of the Notes before any Valuation Date or Valuation Dates will not be reflected in the calculation of the Payment at Maturity, unless the price of the Reference Asset trades or closes below the Principal Barrier Price on the Final Valuation Date (subject to adjustments as described herein, including those described under Certain Terms of the Notes Anti-dilution Adjustments Relating to the Reference Asset; Alternate Calculation). The Calculation Agent will calculate this amount by comparing only the Final Price of the Reference Asset on the Final Valuation Date to the Initial Price and the Principal Barrier Price. No other price of the Reference Asset will be taken into account with respect to the Payment at Maturity. As a result, you may receive less than the principal amount of your Notes, even if the price of the Reference Asset on the Final Valuation Date has increased at certain times during the term of the Notes before decreasing to a price below the Initial Price or Principal Barrier Price as of the Final Valuation Date.

You Must Rely On Your Own Evaluation Of The Merits Of An Investment Linked To The Reference Asset.

In the ordinary course of business, we, JMS or our respective affiliates may have expressed views on expected movements in the Reference Asset or the Reference Asset Constituents, and may do so in the future. These views or reports may be communicated to our clients and clients of our affiliates. However, these views are subject to change from time to time. Moreover, other professionals who deal in markets relating to the Reference Asset may at any time have significantly different views from those of us or our affiliates. For these reasons, you are encouraged to derive information concerning the Reference Asset or the Reference Asset Constituents from multiple sources, and you should not rely solely on our views or the views expressed by our affiliates. For additional information, see Information Regarding the Reference Asset in this pricing supplement and the public disclosures made by the publisher of the Reference Asset.

The Historical Performance Of The Reference Asset Should Not Be Taken As An Indication Of Its Future Performance.

The price of the Reference Asset will determine the amount to be paid on the Notes at maturity and whether the Notes will be called prior to maturity. The historical performance of the Reference Asset does not necessarily give an indication of its future performance. As a result, it is impossible to predict whether the price of the Reference Asset will rise or fall during the term of the Notes. The price of the Reference Asset will be influenced by complex and interrelated political, economic, financial and other factors.

Anti-Dilution Adjustments Relating To The Shares Of The Reference Asset Do Not Address Every Event That Could Affect Such Shares.

An Adjustment Factor, as described herein, will be used to determine the Final Price of the Reference Asset. The Adjustment Factor will be adjusted by the Calculation Agent for certain events affecting the shares of the Reference Asset. However, the Calculation Agent will not make an adjustment for every event that could affect such shares. If an event occurs that does not require the Calculation Agent to adjust the Adjustment Factor, the value of the Notes may be

adversely affected.

Changes That Affect The Underlying Index Will Affect The Market Value Of The Notes And The Amount You Will Receive At Maturity.

The Reference Asset is an exchange traded fund that seeks to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of the Index. The policies of the sponsor of the Index (the Index Sponsor) concerning the calculation of the Index, additions, deletions or substitutions of the components of the Index and the manner in which changes affecting those components, such as stock dividends, reorganizations or mergers, may be reflected in the Index and, therefore, could affect whether a Contingent Coupon Payment is payable, the amount of the Payment at Maturity, and the market value of the Notes prior to maturity. The amounts payable on the Notes and their market value could also be affected if the Index Sponsor changes these policies, for example, by changing the manner in which it calculates the Index.

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The Reference Asset And The Index Are Different And The Performance Of The Reference Asset May Not Correlate With That Of The Index.

The performance of the Reference Asset may not exactly replicate the performance of the Index because the Reference Asset will reflect transaction costs and fees that are not included in the calculation of the Index. It is also possible that the Reference Asset may not fully replicate or may in certain circumstances diverge significantly from the performance of the Index due to the temporary unavailability of certain securities in the secondary market, the performance of any derivative instruments contained in the Reference Asset, differences in trading hours between the Reference Asset and the Index or due to other circumstances. In addition, because the shares of the Reference Asset are traded on a securities exchange and are subject to market supply and investor demand, the price of a share of the Reference Asset may differ from the net asset value per share of the Reference Asset.

You Will Not Have Any Shareholder Rights With Respect To The Shares Of The Reference Asset.

You will not become a holder of shares of the Reference Asset or a holder of securities included in the Index as a result of owning a Note. You will not have any voting rights, any right to receive dividends or other distributions or any other rights with respect to such shares or securities. You will have no right to receive delivery of any shares or securities at stated maturity or upon automatic call.

Certain Business And Trading Activities May Create Conflicts With Your Interests And Could Potentially Adversely Affect The Value Of The Notes.

We, JMS or one or more of our respective affiliates, may engage in trading and other business activities that are not for your account or on your behalf (such as holding or selling of the Notes for our proprietary account or effecting secondary market transactions in the Notes for other customers). These activities may present a conflict between your interest in the Notes and the interests we, JMS or one or more of our respective affiliates, may have in our or their proprietary account. We, JMS and our respective affiliates may engage in any such activities without regard to the Notes or the effect that such activities may directly or indirectly have on the value of the Notes.

Moreover, we, JMS and our respective affiliates play a variety of roles in connection with the issuance of the Notes, including hedging our obligations under the Notes and making the assumptions and inputs used to determine the pricing of the Notes and the estimated value of the Notes when the terms of the Notes are set. We expect to hedge our obligations under the Notes through one of our affiliates and/or another unaffiliated counterparty. In connection with such activities, our economic interests and the economic interests of affiliates of ours may be adverse to your interests as an investor in the Notes. Any of these activities may affect the value of the Notes. In addition, because hedging our obligations entails risk and may be influenced by market forces beyond our control, this hedging activity may result in a profit that is more or less than expected, or it may result in a loss. We or one or more of our affiliates will retain any profits realized in hedging our obligations under the Notes even if investors do not receive a favorable investment return under the terms of the Notes or in any secondary market transaction. For additional information regarding our hedging activities, please see [Use of Proceeds and Hedging](#) in this pricing supplement.

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In addition, the Bank will serve as Calculation Agent for the Notes and will have sole discretion in calculating the amounts payable in respect of the Notes. Exercising discretion in this manner could adversely affect the value of the Notes.

The Calculation Agent Can Postpone The Determination Of A Closing Price Or The Final Price If A Market Disruption Event Occurs.

The determination of a Closing Price or the Final Price may be postponed if the Calculation Agent determines that a Market Disruption Event has occurred or is continuing on any Valuation Date. If such a postponement occurs, then the applicable Valuation Date will be postponed to the first succeeding day that is a Trading Day and on which a Market Disruption Event has not occurred and is not continuing. In no event, however, will any Valuation Date be postponed by more than seven Trading Days. As a result, if a Market Disruption Event occurs or is continuing on the Final Valuation Date, the Maturity Date for the Notes could also be postponed, although not by more than seven Trading Days. No interest will accrue as a result of a delayed payment.

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If the determination of the Closing Price of the Reference Asset for any Valuation Date is postponed to the last possible day, but a Market Disruption Event occurs or is continuing on that day, that day will nevertheless be the date on which the Closing Price of the Reference Asset will be determined by the Calculation Agent. In such an event, the Calculation Agent will make a good faith estimate in its sole discretion of the Closing Price for the Reference Asset that would have prevailed in the absence of the Market Disruption Event in respect of the Reference Asset. See Certain Terms of the Notes Market Disruption Events in this pricing supplement. Under certain circumstances, the determinations of the Calculation Agent will be confirmed by one or more independent calculation experts. See Certain Terms of the Notes Appointment of Independent Calculation Experts in this pricing supplement.

There Are Potential Conflicts Of Interest Between You And The Calculation Agent.

The Calculation Agent will, among other things, determine the amount of your Payment at Maturity on the Notes. We will serve as the Calculation Agent. We may change the Calculation Agent after the original issue date without notice to you. The Calculation Agent will exercise its judgment when performing its functions. For example, the Calculation Agent may have to determine whether a Market Disruption Event has occurred, and make certain adjustments with respect to the Reference Asset if certain events occur. This determination may, in turn, depend on the Calculation Agent's judgment whether the event has materially interfered with our ability or the ability of one of our affiliates to unwind our hedge positions.

Since this determination by the Calculation Agent will affect the Payment at Maturity on the Notes, the Calculation Agent may have a conflict of interest if it needs to make a determination of this kind. Under certain circumstances, the determinations of the Calculation Agent will be confirmed by one or more independent calculation experts. See Certain Terms of the Notes Appointment of Independent Calculation Experts in this pricing supplement.

No Assurance That The Investment View Implicit In The Notes Will Be Successful.

It is impossible to predict with certainty whether and the extent to which the price of the Reference Asset will rise or fall. There can be no assurance that the Final Price will be greater than the Principal Barrier Price. The Final Price may be influenced by complex and interrelated political, economic, financial and other factors that affect the securities included in the Reference Asset. You should be willing to accept the risks of the price performance of equity securities in general and the Reference Asset in particular, and the risk of losing some or all of your initial investment.

Furthermore, we cannot give you any assurance that the future performance of the Reference Asset will result in your receiving an amount greater than or equal to the Principal Amount of your Notes. Certain periods of historical performance of the Reference Asset would have resulted in you receiving less than the Principal Amount of your Notes if you had owned notes with terms similar to these Notes in the past. See Information Regarding The Reference Asset in this pricing supplement for further information regarding the historical performance of the Reference Asset.

The Notes Are Not Ordinary Debt Securities.

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The Notes have certain investment characteristics that differ from traditional fixed income securities. Specifically, the performance of the Notes will not track the same price movements as traditional interest rate products. The return that you will receive on the Notes, which could be negative, may be less than the return you could earn on other investments. Even if your return is positive, your return may be less than the return you would earn if you bought a conventional senior interest bearing debt security of the Bank. A person should reach a decision to invest in the Notes after carefully considering, with his or her advisors, the suitability of the Notes in light of his or her investment objectives and the information set out in the above terms of the offering. The Issuer does not make any recommendation as to whether the Notes are a suitable investment for any person.

Your Investment Is Subject To The Credit Risk Of The Bank.

The Notes are senior unsecured debt obligations of the Bank and are not, either directly or indirectly, an obligation of any third party. As further described in the accompanying Prospectus and Prospectus Supplement, the Notes will rank on par with all of the other unsecured and unsubordinated debt obligations of the Bank, except such obligations

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as may be preferred by operation of law. Any payment to be made on the Notes, including the return of the Principal Amount at maturity or on a Call Payment Date, as applicable, depends on the ability of the Bank to satisfy its obligations as they come due. As a result, the actual and perceived creditworthiness of the Bank may affect the market value of the Notes and, in the event the Bank were to default on its obligations, you may not receive the amounts owed to you under the terms of the Notes.

If we default on our obligations under the Notes, your investment would be at risk and you could lose some or all of your investment. See Description of Senior Debt Securities Events of Default in the accompanying Prospectus.

The Indenture does not contain any restrictions on our ability or the ability of any of our affiliates to sell, pledge or otherwise convey all or any securities. We and our affiliates will not pledge or otherwise hold any security for the benefit of holders of the Notes. Consequently, in the event of a bankruptcy, insolvency or liquidation involving us, any securities we hold as a hedge to the Notes will be subject to the claims of our creditors generally and will not be available specifically for the benefit of the holders of the Notes.

The Price At Which The Notes May Be Sold Prior To Maturity Will Depend On A Number Of Factors And May Be Substantially Less Than The Amount For Which They Were Originally Purchased.

The price at which the Notes may be sold prior to maturity will depend on a number of factors. Some of these factors include, but are not limited to: (i) actual or anticipated changes in the price of the Reference Asset over the full term of the Note, (ii) volatility of the price of the Reference Asset and the market's perception of future volatility of the price of the Reference Asset, (iii) changes in interest rates generally, (iv) any actual or anticipated changes in our credit ratings or credit spreads, and (v) time remaining to maturity. In particular, the price of the Notes may be impacted by the fact that the Notes may be automatically called prior to maturity. Additionally, the interest rates of the Notes reflect not only our credit spread generally but also the automatic call feature of the Notes and thus may not reflect the rate at which a note without an automatic call feature might be issued and sold.

Depending on the actual or anticipated level of interest rates, the market value of the Notes may decrease and you may receive up to 100% less than the original issue price if you sell your Notes prior to maturity.

The Inclusion Of Dealer Spread And Projected Profit From Hedging In The Original Issue Price Is Likely To Adversely Affect Secondary Market Prices.

Assuming no change in market conditions or any other relevant factors, the price, if any, at which JMS or any other party is willing to purchase the Notes at any time in secondary market transactions will likely be significantly lower than the original issue price, since secondary market prices are likely to exclude underwriting commissions paid with respect to the Notes and the cost of hedging our obligations under the Notes that are included in the original issue price. The cost of hedging includes the projected profit that we and/or our affiliates may realize in consideration for assuming the risks inherent in managing the hedging transactions. These secondary market prices are also likely to be reduced by the costs of unwinding the related hedging transactions. In addition, any secondary market prices may differ from

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values determined by pricing models used by JMS as a result of dealer discounts, mark-ups or other transaction costs.

The Bank's Estimated Value Of The Notes Is Lower Than The Original Issue Price (Price To Public) Of The Notes.

The Bank's estimated value is only an estimate using several factors. The original issue price of the Notes exceeds the Bank's estimated value because costs associated with selling and structuring the Notes, as well as hedging the Notes, are included in the original issue price of the Notes. See "The Bank's Estimated Value of the Notes" in this pricing supplement.

The Bank's Estimated Value Does Not Represent Future Values Of The Notes And May Differ From Others Estimates.

The Bank's estimated value of the Notes is only an estimate, which was determined by reference to the Bank's internal pricing models when the terms of the Notes were set. This estimated value is based on market conditions and other relevant factors existing at that time, the Bank's internal funding rate on the Trade Date and the Bank's

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assumptions about market parameters, which can include volatility, dividend rates, interest rates and other factors. Different pricing models and assumptions could provide valuations for the Notes that are greater or less than the Bank's estimated value. In addition, market conditions and other relevant factors in the future may change, and any assumptions may prove to be incorrect. On future dates, the value of the Notes could change significantly based on, among other things, changes in market conditions, including the value of the Reference Asset, the Bank's creditworthiness, interest rate movements and other relevant factors, which may impact the price at which JMS or any other party would be willing to buy the Notes from you in any secondary market transactions. The Bank's estimated value does not represent a minimum price at which JMS or any other party would be willing to buy the Notes in any secondary market (if any exists) at any time. See "The Bank's Estimated Value of the Notes" in this pricing supplement.

The Bank's Estimated Value Is Not Determined By Reference To Credit Spreads For Our Conventional Fixed-Rate Debt.

The internal funding rate used in the determination of the Bank's estimated value of the Notes generally represents a discount from the credit spreads for our conventional fixed-rate debt. The discount is based on, among other things, our view of the funding value of the Notes as well as the higher issuance, operational and ongoing liability management costs of the Notes in comparison to those costs for our conventional fixed-rate debt. If the Bank were to have used the interest rate implied by our conventional fixed-rate debt, we would expect the economic terms of the Notes to be more favorable to you. Consequently, our use of an internal funding rate for market-linked notes had an adverse effect on the economic terms of the Notes and the estimated value of the Notes on the Trade Date and could have an adverse effect on any secondary market prices of the Notes. See "The Bank's Estimated Value of the Notes" in this pricing supplement.

Hedging Activities By The Bank May Negatively Impact Investors In The Notes And Cause Our Respective Interests And Those Of Our Clients And Counterparties To Be Contrary To Those Of Investors In The Notes.

The Bank or one or more of our affiliates has hedged or expects to hedge the obligations under the Notes by purchasing futures and/or other instruments linked to the Reference Asset. The Bank or one or more of our affiliates also expects to adjust the hedge by, among other things, purchasing or selling any of the foregoing, and perhaps other instruments linked to the Reference Asset, at any time and from time to time, and to unwind the hedge by selling any of the foregoing on or before the Final Valuation Date.

Any of these hedging activities may adversely affect the price of the Reference Asset and therefore the market value of the Notes and the amount you will receive, if any, on the Notes. In addition, you should expect that these transactions will cause the Bank or our affiliates or our respective clients or counterparties, to have economic interests and incentives that do not align with, and that may be directly contrary to, those of an investor in the Notes. The Bank or our affiliates will have no obligation to take, refrain from taking or cease taking any action with respect to these transactions based on the potential effect on an investor in the Notes, and may receive substantial returns with respect to these hedging activities while the value of the Notes may decline.

The Notes Will Not Be Listed On Any Securities Exchange Or Any Inter-Dealer Quotation System; There May Be No Secondary Market For The Notes; Potential Illiquidity Of The Secondary Market; Holding Of The Notes By JMS Or Its Or Our Affiliates And Future Sales.

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The Notes are most suitable for purchasing and holding to maturity. The Notes will be new securities for which there is no trading market. The Notes will not be listed on any organized securities exchange or any inter-dealer quotation system. We cannot assure you as to whether there will be a trading or secondary market for the Notes or, if there were to be such a trading or secondary market, that it would be liquid.

Under ordinary market conditions, JMS or any of its affiliates may (but are not obligated to) make a secondary market for the Notes and may cease doing so at any time. Because we do not expect other broker-dealers to participate in the secondary market for the Notes, the price at which you may be able to trade your Notes is likely to depend on the price, if any, at which JMS or any of its affiliates are willing to transact. If none of JMS or any of its affiliates makes a market for the Notes, there will not be a secondary market for the Notes. Accordingly, we cannot assure you as to the development or liquidity of any secondary market for the Notes. If a secondary market in the

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Notes is not developed or maintained, you may not be able to sell your Notes easily or at prices that will provide you with a yield comparable to that of similar securities that have a liquid secondary market.

In addition, the Principal Amount of the Notes being offered may not be purchased by investors in the initial offering, and JMS or one or more of its or our affiliates may agree to purchase any unsold portion. JMS or such affiliate or affiliates intend to hold the Notes, which may affect the supply of the Notes available in any secondary market trading and therefore may adversely affect the price of the Notes in any secondary market trading. If a substantial portion of any Notes held by JMS or its or our affiliates were to be offered for sale following this offering, the market price of such Notes could fall, especially if secondary market trading in such Notes is limited or illiquid..

The Notes Are Not Insured By Any Third Parties.

The Notes will be solely our obligations. Neither the Notes nor your investment in the Notes are insured by the United States Federal Deposit Insurance Corporation, the Canada Deposit Insurance Corporation, the Bank Insurance Fund or any other government agency or instrumentality of the United States, Canada or any other jurisdiction.

Uncertain Tax Treatment

Significant aspects of the tax treatment of the Notes are uncertain. You should consult your tax advisor about your own tax situation. See [Certain U.S. Federal Income Tax Considerations](#) and [Certain Canadian Income Tax Consequences](#) in this pricing supplement.

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INFORMATION REGARDING THE REFERENCE ASSET

Included in the following pages is a brief description of the Reference Asset. This information has been obtained from publicly available sources. Also set forth below is a table that provides the quarterly high and low closing prices, as well as end-of-period closing prices, for the Reference Asset. We obtained the historical closing price information set forth below from Bloomberg Professional® service (**Bloomberg**) without independent verification. You can obtain the price of the VanEck VectorSM Gold Miners ETF at any time from Bloomberg under the symbol **GDX <EQUITY>** .

We have not undertaken an independent review or due diligence of the information obtained from Bloomberg. The historical performance of the Reference Asset should not be taken as an indication of its future performance, and no assurance can be given as to the Final Price of the Reference Asset. We cannot give you assurance that the performance of the Reference Asset will result in any positive return on your initial investment.

The Reference Asset is registered under the Securities Exchange Act of 1934 (**Exchange Act**). Companies with securities registered under the Exchange Act are required to file periodically certain financial and other information specified by the SEC. Information provided to or filed with the SEC can be inspected and copied at the public reference facilities maintained by the SEC or through the SEC's website at www.sec.gov. In addition, information regarding the Reference Asset may be obtained from other sources including, but not limited to, press releases, newspaper articles and other publicly disseminated documents.

We have not independently verified the accuracy or completeness of reports filed by the Reference Asset's Investment Advisor (the **Investment Advisor**) with the SEC, information published by it on its website or in any other format, information about it obtained from any other source or the information provided below.

We obtained the information regarding the Investment Advisor from publicly available information, including its filings with the SEC. We have not conducted any independent review or due diligence about any such information. You are urged to conduct your own investigation into the Reference Asset and the Investment Advisor.

VanEck VectorsSM Gold Miners ETF

We have derived all information contained herein regarding the VanEck VectorsSM Gold Miners ETF (the **GDX Fund**) from publicly available information. Such information reflects the policies of, and is subject to change by the VanEck Vectors ETF Trust (the **VanEck Vectors ETF Trust**), Van Eck Securities Corporation, and Van Eck Associates Corporation. The Bank has not undertaken an independent review or due diligence of any publicly available information regarding the GDX Fund.

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The GDX Fund is an investment portfolio maintained and managed by the VanEck Vectors ETF Trust and advised by Van Eck Associates Corporation. The VanEck Vectors ETF Trust is an open-end investment company registered under the Investment Company Act of 1940 that consists of numerous separate investment portfolios, including the GDX Fund. The GDX Fund seeks to replicate the performance of the NYSE Arca Gold Miners Index (the Gold Miners Index) by investing in a portfolio of securities that generally replicates the Gold Miners Index. The Gold Miners Index, calculated by NYSE Arca, is a modified market capitalization-weighted index consisting of common stocks and American depository receipts (ADRs) of publicly traded companies involved primarily in mining for gold and silver ore.

The GDX Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the Gold Miners Index by investing in a portfolio of securities that generally replicates the Gold Miners Index. The GDX Fund normally invests at least 80% of its total assets in securities that comprise the Gold Miners Index. The GDX Fund is classified as a non-diversified fund and concentrates its investments in the industry or group of industries that the Gold Miners Index concentrates in.

As of July 31, 2017 the net expense ratio of the GDX Fund is expected to accrue at an annual rate of 0.51% of the GDX Fund's average daily net asset value. Expenses of the GDX Fund reduce the net value of the assets held by the GDX Fund and, therefore, reduce value of the shares of the GDX Fund.

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As of July 31, 2017 the GDX Fund's ten largest company holdings include: Newmont Mining Corporation (10.49%), Barrick Gold Corporation (10.48%), Franco-Nevada Corporation (6.83%), Newcrest Mining Ltd. (6.61%), Goldcorp Inc. (5.96%), Agnico Eagle Mines Ltd. (5.60%), Wheaton Precious Metals Corporation (4.57%), Randgold Resources Ltd. (4.37%), Royal Gold Inc. (3.19%), and Kinross Gold Corporation (2.87%).

In making your investment decision you should review the prospectus related to the GDX Fund, dated May 1, 2016, filed by the VanEck Vectors ETF Trust (the GDX Fund Prospectus) available at:

https://www.sec.gov/Archives/edgar/data/1137360/000093041316006598/c83635_485bpos.htm

In addition, the GDX Fund Prospectus is available on GDX Fund's website as indicated below. In making your investment decision you should pay particular attention to the sections of the GDX Fund Prospectus entitled "Principal Risks of Investing in the Fund" and "Principal Investment Strategies." CIBC has not undertaken an independent review or due diligence of any publicly available information regarding the GDX Fund Prospectus, and such information is not incorporated by reference in, and should not be considered part of, this pricing supplement or the accompanying Prospectus Supplement and Prospectus.

The GDX Fund's website is <https://www.vaneck.com/etf/equity/gdx/overview/>. Shares of the GDX Fund are listed on the NYSE Arca under ticker symbol GDX.

Information filed by the VanEck Vectors ETF Trust with the SEC under the Securities Act of 1933 (the Securities Act), the Investment Company Act of 1940 and/or the Exchange Act, as applicable, can be found by reference to its SEC file number: 333-123257 and 811-10325.

Information from outside sources is not incorporated by reference in, and should not be considered part of, this pricing supplement or the accompanying Prospectus Supplement and Prospectus. CIBC has not conducted any independent review or due diligence of any publicly available information with respect to the GDX Fund.

Historical Information

The following graph sets forth daily Closing Prices of the GDX Fund for the period from January 1, 2012 to August 28, 2017. The Closing Price of the GDX Fund on August 28, 2017 was \$24.26.

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The following table sets forth the high and low Closing Prices, as well as end-of-period Closing Prices, of the GDX Fund for each quarter in the period from January 1, 2012 through June 30, 2017 and from July 1, 2017 through August 28, 2017.

	High	Low	Last
2012			
First Quarter	57.47	48.75	49.54
Second Quarter	50.39	39.34	44.77
Third Quarter	54.81	40.70	53.69
Fourth Quarter	54.25	44.85	46.39
2013			
First Quarter	47.10	35.91	37.85
Second Quarter	37.45	22.22	24.49
Third Quarter	30.43	22.90	25.02
Fourth Quarter	26.54	20.39	21.13
2014			
First Quarter	27.73	21.27	23.61
Second Quarter	26.45	22.04	26.45
Third Quarter	27.43	21.36	21.36
Fourth Quarter	21.94	16.59	18.38
2015			
First Quarter	22.94	17.67	18.24
Second Quarter	20.82	17.76	17.76
Third Quarter	17.85	13.04	13.74
Fourth Quarter	16.90	13.08	13.72
2016			
First Quarter	20.86	12.47	19.97
Second Quarter	27.71	19.53	27.71
Third Quarter	31.32	25.49	26.43
Fourth Quarter	25.96	18.99	20.92
2017			
First Quarter	25.57	21.14	22.81
Second Quarter	24.57	21.10	22.08
Third Quarter through August 28, 2017	24.26	21.21	24.26

Disclaimer

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USE OF PROCEEDS AND HEDGING

The net proceeds from the sale of the Notes will be used as described under "Use of Proceeds" in the accompanying Prospectus Supplement and the Prospectus and to hedge market risks of the Bank associated with its obligation to pay the Principal Amount at maturity of the Notes.

We may hedge our obligations under the Notes by, among other things, purchasing securities, futures, options or other derivative instruments with returns linked or related to changes in the value of the underlying measure or asset, and we may adjust these hedges by, among other things, purchasing or selling securities, futures, options or other derivative instruments at any time. Our cost of hedging will include the projected profit that our counterparty expects to realize in consideration for assuming the risks inherent in hedging our obligations under the Notes. Because hedging our obligations entails risk and may be influenced by market forces beyond our or our counterparty's control, such hedging may result in a profit that is more or less than expected, or could result in a loss. It is possible that we could receive substantial returns from these hedging activities while the value of the Notes declines.

We expect to hedge our obligations under the Notes through one of our affiliates and/or another unaffiliated counterparty.

We have no obligation to engage in any manner of hedging activity and we will do so solely at our discretion and for our own account. No holder of the Notes will have any rights or interest in our hedging activity or any positions we or any unaffiliated counterparty may take in connection with our hedging activity. The hedging activity discussed above may adversely affect the value of the Notes from time to time. See "Additional Risk Factors: The Inclusion Of Dealer Spread And Projected Profit From Hedging In The Original Issue Price Is Likely To Adversely Affect Secondary Market Prices" and "Additional Risk Factors: Certain Business And Trading Activities May Create Conflicts With Your Interests And Could Potentially Adversely Affect The Value Of The Notes" in this pricing supplement.

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THE BANK'S ESTIMATED VALUE OF THE NOTES

The Bank's estimated value of the Notes set forth on the cover of this pricing supplement is equal to the sum of the values of the following hypothetical components: (1) a fixed-income debt component with the same maturity as the Notes, valued using our internal funding rate for structured debt described below, and (2) the derivative or derivatives underlying the economic terms of the Notes. The Bank's estimated value does not represent a minimum price at which JMS or any other person would be willing to buy your Notes in any secondary market (if any exists) at any time. The internal funding rate used in the determination of the Bank's estimated value generally represents a discount from the credit spreads for our conventional fixed-rate debt. The discount is based on, among other things, our view of the funding value of the Notes as well as the higher issuance, operational and ongoing liability management costs of the Notes in comparison to those costs for our conventional fixed-rate debt. For additional information, see *Additional Risk Factors The Bank's Estimated Value Is Not Determined By Reference To Credit Spreads For Our Conventional Fixed-Rate Debt* in this pricing supplement. The value of the derivative or derivatives underlying the economic terms of the Notes is derived from the Bank's or a third party hedge provider's internal pricing models. These models are dependent on inputs such as the traded market prices of comparable derivative instruments and on various other inputs, some of which are market-observable, and which can include volatility, dividend rates, interest rates and other factors, as well as assumptions about future market events and/or environments. Accordingly, the Bank's estimated value of the Notes was determined when the terms of the Notes were set based on market conditions and other relevant factors and assumptions existing at that time. See *Additional Risk Factors The Bank's Estimated Value Does Not Represent Future Values Of The Notes And May Differ From Others' Estimates* in this pricing supplement.

The Bank's estimated value of the Notes is lower than the original issue price of the Notes because costs associated with selling, structuring and hedging the Notes are included in the original issue price of the Notes. These costs include the selling commissions paid to the Bank and other affiliated or unaffiliated dealers, the projected profits that our hedge counterparties, which may include our affiliates, expect to realize for assuming risks inherent in hedging our obligations under the Notes and the estimated cost of hedging our obligations under the Notes. Because hedging our obligations entails risk and may be influenced by market forces beyond our control, this hedging may result in a profit that is more or less than expected, or it may result in a loss. We or one or more of our affiliates will retain any profits realized in hedging our obligations under the Notes. See *Additional Risk Factors The Bank's Estimated Value Of The Notes Is Lower Than The Original Issue Price (Price To Public) Of The Notes* in this pricing supplement.

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CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion supplements the discussion in the section called "Material Tax Consequences - United States Taxation" in the accompanying Prospectus, and is subject to the limitations and exceptions set forth therein. Capitalized terms used in this section without definition shall have the respective meanings given such terms in the accompanying Prospectus. This discussion is only applicable to you if you are a U.S. Holder. If you are not a U.S. Holder, please consult your own tax advisor.

The following summary describes certain U.S. federal income tax consequences relevant to the purchase, ownership, and disposition of the Notes. This discussion is based upon current provisions of the Code, existing and proposed Treasury Regulations thereunder, current administrative rulings, judicial decisions and other applicable authorities. All of the foregoing are subject to change, which change may apply retroactively and could affect the continued validity of this summary. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the U.S. federal government, tax; and United States expatriates. This discussion also does not purport to be a complete analysis of all tax considerations relating to the Notes. **You should consult your tax advisor concerning the U.S. federal income tax and other tax consequences of your investment in the Notes in your particular circumstances, including the application of state, local or other tax laws and the possible effects of changes in federal or other tax laws.**

We will not attempt to ascertain whether the Reference Asset (or components thereof) would be treated as a U.S. real property holding corporation within the meaning of Section 897 of the Code.

U.S. Holders

The U.S. federal income tax consequences of your investment in the Notes are uncertain. No statutory, judicial or administrative authority directly discusses how the Notes should be treated for U.S. federal income tax purposes. We intend to treat the Notes as pre-paid cash-settled derivative contracts. Pursuant to the terms of the Notes, you agree to treat the Notes in this manner for all U.S. federal income tax purposes. We will report any Contingent Coupon Payment that is paid by us (including on the Maturity Date or upon an exercised call on a Call Payment Date) as includible in your income as ordinary income, taxable to you in accordance with your regular method of accounting for U.S. federal income tax purposes.

Additionally, you should generally recognize capital gain or loss upon the sale, exchange or payment on maturity in an amount equal to the difference between the amount you receive at such time (excluding the amount attributable to any Contingent Coupon Payment which is treated as ordinary income) and the amount that you paid for your Notes. Such gain or loss should generally be long-term capital gain or loss if you have held your Notes for more than one year. Capital gain recognized by an individual U.S. holder is generally taxed at preferential rates where the property is held for more than one year and is generally taxed at ordinary income rates where the property is held for one year or less. The deductibility of capital losses is subject to limitations. The holding period for Notes of a U.S. holder who acquires the Notes upon issuance will generally begin on the date after the issue date (i.e., the settlement date) of the Notes. If the Notes are held by the same U.S. holder until maturity, that holder's holding period will generally include the Maturity Date.

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Alternative Treatments. As noted above, there is no judicial or administrative authority discussing how the Notes should be treated for U.S. federal income tax purposes. Therefore, other treatments would also be reasonable and the Internal Revenue Service might assert that treatment other than that described above is more appropriate.

For example, the Notes may be properly treated as an investment unit consisting of (i) a non-contingent debt instrument issued by us to you (the Debt Portion) and (ii) a put option with respect to the Reference Asset written by you and purchased by us (the Put Option). The balance of this disclosure assumes this latter treatment is proper and will be respected for U.S. federal income tax purposes.

If the Notes are properly treated as an investment unit consisting of a Debt Portion and Put Option, it is likely that the Debt Portion of the Notes is treated as issued for the principal amount of the Notes (if you are an initial purchaser) and that interest payments on the Notes are treated in part as payments of interest and in part as payments for the Put Option. Under this characterization, a percentage of each Contingent Coupon Payment would be treated as an interest payment for U.S. federal income tax purposes and a percentage of each Contingent Coupon Payment

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would be treated as payment for the Put Option for U.S. federal income tax purposes. The percentage treated as an interest payment for U.S. federal income tax purposes generally would equal our customary market borrowing rate for this type of instrument without taking into account the Reference Asset and associated terms, the remaining percentage of the Contingent Coupon Payment would be in consideration of the Put Option.

If you receive the cash payment of the full principal amount of your Notes upon the call or maturity, such payment is likely treated as (i) payment in full of the principal amount of the Debt Portion (which would not result in the recognition of gain or loss if you are an initial purchaser of the Notes) and (ii) the lapse of the Put Option which likely results in your recognition of short-term capital gain in an amount equal to the amount paid to you for the Put Option and deferred as described in the preceding paragraph. If you receive a cash payment upon the maturity of your Notes (excluding cash received as an Contingent Coupon Payment) of less than the full principal amount of your Notes, such payment would likely be treated as (i) payment in full of the principal amount of the Debt Portion (which would not result in the recognition of gain or loss if you are an initial purchaser of your Notes) and (ii) the cash settlement of the Put Option pursuant to which you paid to us an amount equal to the excess of the principal amount of your Notes over the amount that you received upon the maturity of the Notes (excluding cash received as an Contingent Coupon Payment) in order to settle the Put Option. If the aggregate amount paid to you for the Put Option and deferred as described in the preceding paragraph is greater than the amount you are deemed to have paid to us to settle the Put Option, you will likely recognize short-term capital gain in an amount that is equal to such excess. Conversely, if the amount paid to you for the Put Option and deferred as described in the preceding paragraph is less than the amount you are deemed to have paid to us to settle the Put Option, you will likely recognize short-term capital loss in an amount that is equal to such difference.

Upon the sale of Notes, you would be required to apportion the value of the amount you receive between the Debt Portion and Put Option on the basis of the values thereof on the date of the sale. You would recognize gain or loss with respect to the Debt Portion in an amount equal to the difference between (i) the amount apportioned to the Debt Portion and (ii) your adjusted U.S. federal income tax basis in the Debt Portion (which would generally be equal to the principal amount of the Notes if you are an initial purchaser of the Notes). Except to the extent attributable to accrued but unpaid interest with respect to the Debt Portion, such gain or loss would be long-term capital gain or loss if your holding period is greater than one year. The amount of cash that you receive that is apportioned to the Put Option (together with any amount of premium received in respect thereof and deferred as described above) would be treated as short-term capital gain. If the value of the Debt Portion on the date of the sale of the Notes is in excess of the amount you receive upon such sale, you would likely be treated as having made a payment (to the purchaser in the case of a sale) equal to the amount of such excess in order to extinguish your rights and obligations under the Put Option. In such a case, you would likely recognize short-term capital gain or loss in an amount equal to the difference between the premium you previously received in respect of the Put Option and the amount of the deemed payment made by you to extinguish the Put Option.

If you are a secondary purchaser of Notes, you would be required to allocate your purchase price for Notes between the Debt Portion and Put Option based on the respective fair market values of each on the date of purchase. If, however, the portion of your purchase price allocated to the Debt Portion is at a discount from, or is in excess of, the principal amount of your Notes, you may be subject to the market discount or amortizable bond premium rules. The rules regarding market discount and bond premium are complex and therefore you are urged to consult your tax advisors regarding these rules. The portion of your purchase price that is allocated to the Put Option would likely be offset for tax purposes against amounts you subsequently receive with respect to the Put Option (including amounts received upon a sale of the Notes that are attributable to the Put Option), thereby reducing the amount of gain or increasing the amount of loss you would recognize with respect to the Put Option. If, however, the portion of your purchase price allocated to the Debt Portion as described above is in excess of your purchase price for the Notes, you would likely be treated for tax purposes as having received a payment for the Put Option (which will be deferred as described in the fourth preceding paragraph) in an amount equal to such excess.

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Another possible alternative treatment is that a Note could be treated as a single debt instrument subject to the special tax rules governing contingent payment debt instruments. If the Notes are so treated, you would be required to accrue interest income over the term of a Note based upon the yield at which we would issue a non-contingent fixed-rate debt instrument with other terms and conditions similar to your note. You would recognize gain or loss upon the sale, call or maturity of the Note in an amount equal to the difference, if any, between the amount you receive at such time and your adjusted basis in the Note. In general, your adjusted basis in the Note would be equal

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to the amount you paid for the Note, increased by the amount of interest you previously accrued with respect to the Note. Any gain you recognize upon the sale, call or maturity of the Note would be ordinary income and any loss recognized by you at such time would generally be ordinary loss to the extent of interest you included in income in the current or previous taxable years with respect to the Note, and thereafter would be capital loss.

If a Note is treated as a contingent payment debt instrument and you purchase a Note in the secondary market at a price that is at a discount from, or in excess of, the adjusted issue price of the Note, such excess or discount would not be subject to the generally applicable market discount or amortizable bond premium rules but rather would be subject to special rules set forth in treasury regulations governing contingent payment debt instruments. Accordingly, if you purchase a Note in the secondary market, you should consult your tax advisor as to the possible application of such rules to you.

In 2008, the Internal Revenue Service has released a notice that may affect the taxation of holders of prepaid forward contracts and similar instruments. According to the notice, the Internal Revenue Service and the U.S. Treasury have been considering whether the holder of such instruments should be required to accrue ordinary income on a current basis, and they are seeking taxpayer comments on the subject. While it is not clear whether the Notes would be viewed as similar to such instruments, it is possible that any future guidance could materially and adversely affect the tax consequences of an investment in the Notes, possibly with retroactive effect.

Because of the absence of authority regarding the appropriate tax characterization of the Notes, it is possible that the Internal Revenue Service could seek to characterize the Notes in a manner that results in tax consequences to you that are different from those described above.

We do not believe that the constructive ownership transaction rules of Section 1260 of the Code apply to this offering.

You are urged to consult your tax advisors concerning the significance, and the potential impact, of the above considerations.

Additional Information for U.S. Holders. For the treatment regarding other aspects of interest payments and backup withholding and information reporting considerations please see the discussion under **Material Income Tax Consequences United States Taxation** in the accompanying Prospectus.

CERTAIN CANADIAN INCOME TAX CONSEQUENCES

In the opinion of Blake, Cassels & Graydon LLP, our Canadian tax counsel, the following summary describes the principal Canadian federal income tax considerations under the *Income Tax Act* (Canada) and the Regulations thereto (the Canadian Tax Act) generally applicable at the date hereof to a purchaser who acquires beneficial ownership of a Note pursuant to this pricing supplement and who for the purposes of the Canadian Tax Act and at all relevant times: (a) is neither resident nor deemed to be resident in Canada; (b) deals at arm's length with the Issuer and any transferee resident (or deemed to be resident) in Canada to whom the purchaser disposes of the Note; (c) does not use or hold and is not deemed to use or hold the Note in, or in the course of, carrying on a business in Canada; (d) is entitled to receive all payments (including any interest and principal) made on the Note, and (e) is not a, and deals at arm's length with any, specified shareholder of the Issuer for purposes of the thin capitalization rules in the Canadian Tax Act (a Non-Resident Holder). A specified shareholder for these purposes generally includes a person who (either alone or together with persons with whom that person is not dealing at arm's length for the purposes of the Canadian Tax Act) owns or has the right to acquire or control or is otherwise deemed to own 25% or more of the Issuer's shares determined on a votes or fair market value basis. Special rules which apply to non-resident insurers carrying on business in Canada and elsewhere are not discussed in this summary.

This summary is supplemental to and should be read together with the description of material Canadian federal income tax considerations relevant to a Non-Resident Holder owning Notes under Material Income Tax Consequences Canadian Taxation in the accompanying Prospectus and a Non-Resident Holder should carefully read that description as well.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Non-Resident Holder. Non-Resident Holders are advised to consult with their own tax advisors with respect to their particular circumstances.

Based on Canadian tax counsel's understanding of the Canada Revenue Agency's administrative policies, and having regard to the terms of the Notes, interest payable on the Notes should not be considered to be participating debt interest as defined in the Canadian Tax Act and accordingly, a Non-Resident Holder should not be subject to Canadian non-resident withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by the Issuer on a Note as, on account of or in lieu of payment of, or in satisfaction of, interest.

Non-Resident Holders should consult their own advisors regarding the consequences to them of a disposition of Notes to a person with whom they are not dealing at arm's length for purposes of the Canadian Tax Act.

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SUPPLEMENTAL PLAN OF DISTRIBUTION

Pursuant to the terms of a distribution agreement, JMS will purchase the Notes from the Bank for distribution to other registered broker-dealers or will offer the Notes directly to investors.

Notes sold by JMS to the public will initially be offered at the price to public set forth on the cover page of this pricing supplement. JMS intends to purchase each of the Notes from the Bank at a purchase price equal to the price to public net of a commission of 97.75% of the Principal Amount of such Notes. Any Notes sold by JMS to securities dealers may be sold at an agreed discount to the price to public. The price to public for Notes purchased by certain fee-based advisory accounts may vary between 97.75% and 100% of the face amount of the Notes. Any sale of a Note to a fee-based advisory account at a price to public below 100% of the face amount will reduce the agent's commission specified on the cover page of this pricing supplement with respect to such Note. The price to public paid by any fee-based advisory account will be reduced by the amount of any fees assessed by the securities dealer or dealers involved in the sale of the Notes to such advisory account but not by more than 2.25% of the face amount of the Notes. If all of the offered Notes are not sold at the price to public, JMS may change the offering price and the other selling terms. In addition to offers and sales at the price to public, JMS may offer the Notes from time to time for sale in one or more transactions at market prices prevailing at the time of sale, at prices related to market prices or at negotiated prices.

While JMS may make markets in the Notes, it is under no obligation to do so and may discontinue any market-making activities at any time without notice. See the sections titled "Supplemental Plan of Distribution (Conflicts of Interest)" in the accompanying Prospectus Supplement.

The price at which you purchase the Notes includes costs that the Bank or its affiliates expect to incur and profits that the Bank or its affiliates expect to realize in connection with hedging activities related to the Notes, as set forth above. These costs and profits will likely reduce the secondary market price, if any secondary market develops, for the Notes. As a result, you may experience an immediate and substantial decline in the market value of your Notes on the Issue Date.

JMS and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. JMS and its affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Bank, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, JMS and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Bank. JMS and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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JMS may be deemed to be an underwriter within the meaning of the U.S. Securities Act of 1933, as amended (the Securities Act). We have agreed to indemnify JMS against certain liabilities, including liabilities under the Securities Act, or to contribute to payments made in respect of those liabilities.

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VALIDITY OF THE NOTES

In the opinion of Blake, Cassels & Graydon LLP, as Canadian counsel to the Bank, the issue and sale of the Notes has been duly authorized by all necessary corporate action of the Bank in conformity with the indenture, and when the Notes have been duly executed, authenticated and issued in accordance with the indenture, the Notes will be validly issued and, to the extent validity of the Notes is a matter governed by the laws of the Province of Ontario or the federal laws of Canada applicable therein, will be valid obligations of the Bank, subject to applicable bankruptcy, insolvency and other laws of general application affecting creditors' rights, equitable principles, and subject to limitations as to the currency in which judgments in Canada may be rendered, as prescribed by the *Currency Act* (Canada), and subject to any bail-in conversion requirements under the *Canada Deposit Insurance Corporation Act* (Canada). This opinion is given as of the date hereof and is limited to the laws of the Province of Ontario and the federal laws of Canada applicable therein. In addition, this opinion is subject to customary assumptions about the trustee's authorization, execution and delivery of the indenture and the genuineness of signature, and to such counsel's reliance on the Bank and other sources as to certain factual matters, all as stated in the opinion letter of such counsel dated February 27, 2017, which has been filed as Exhibit 5.2 to the Bank's Registration Statement on Form F-3 filed with the SEC on February 27, 2017.

In the opinion of Mayer Brown LLP, when the Notes have been duly completed in accordance with the indenture and issued and sold as contemplated by the Prospectus Supplement and the Prospectus, the Notes will constitute valid and binding obligations of the Bank, entitled to the benefits of the indenture, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles. This opinion is given as of the date hereof and is limited to the laws of the State of New York. This opinion is subject to customary assumptions about the trustee's authorization, execution and delivery of the indenture and such counsel's reliance on the Bank and other sources as to certain factual matters, all as stated in the legal opinion dated February 27, 2017, which has been filed as Exhibit 5.1 to the Bank's Registration Statement on Form F-3 filed with the SEC on February 27, 2017.

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