

First Foundation Inc.  
Form 10-K  
March 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

Commission file number: 001-36461

FIRST FOUNDATION INC.

(Exact name of registrant as specified in its charter)

Delaware 20-8639702  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

18101 Von Karman Avenue, Suite 700

Irvine, CA 92612 92612  
(Address of principal executive offices) (Zip Code)

(949) 202-4160

(Registrant's telephone number, including area code)



DOCUMENTS INCORPORATED BY REFERENCE

None.

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FIRST FOUNDATION INC.

ANNUAL REPORT ON FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2017

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## FORWARD-LOOKING STATEMENTS

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are those that predict or describe future events or trends or that do not relate solely to historical matters. However, our actual results and financial performance in the future will be affected by known and currently unknown risks, uncertainties and other factors that may cause our actual results or financial performance in the future to differ materially from the results or financial performance that may be expressed, predicted or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among others, those set forth below in Item 1A Risk Factors, and readers of this report are urged to read the cautionary statements contained in that section of this report. In some cases, you can identify forward-looking statements by words like “may,” “will,” “should,” “could,” “believes,” “intends,” “expects,” “anticipates,” “plans,” “estimates,” “predicts,” “potential,” “project” and “continue” and similar expressions. Readers of this report are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the respective dates on which such statements were made and which are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements.

First Foundation Inc. expressly disclaims any intent or any obligation to release publicly any revisions or updates to any of the forward-looking statements contained in this report to reflect events or circumstances after the date of this report or the occurrence of currently unanticipated events or developments or to conform such forward-looking statements to actual results or to changes in its opinions or expectations, except as may be required by applicable law.

## PART I

### Item 1. Business

#### Overview

Unless we state otherwise or the context otherwise requires, references in this Annual Report on Form 10-K to “we,” “our,” and “us” refer to First Foundation Inc., a Delaware corporation, (“FFI” or the “Company”) and its consolidated subsidiaries, First Foundation Advisors (“FFA”) and First Foundation Bank (“FFB” or “Bank”), and FFB’s wholly owned subsidiaries, First Foundation Insurance Services (“FFIS”) and Blue Moon Management, LLC.

We are a California based financial services company that provides a comprehensive platform of financial services to individuals, businesses and other organizations. Our integrated platform provides investment advisory and wealth management services, banking products and services, trust services, and life insurance services to effectively and efficiently meet the financial needs of our clients. As part of our lending activities, we have established a platform that offers loans to individuals and entities that own and operate multifamily residential and commercial real estate properties. In addition, we provide business banking products and services to small to moderate-sized businesses and professional firms, and consumer banking products and services to individuals and families. As of December 31, 2017, we had \$4.3 billion of assets under management (or AUM), \$4.5 billion of total assets, \$3.7 billion of loans and \$3.4 billion of deposits. Our investment advisory and wealth management, trust and insurance services provide us with substantial, fee-based, recurring revenues, such that in 2017, our non-interest income was 25% of our total revenues.

Our strategy is focused on expanding our strong and stable client relationships by delivering high quality, coordinated products and services. We are able to maintain a client-focused approach by recruiting and retaining experienced and qualified staff.

We intend to continue to grow our business by (i) marketing our services directly to prospective new clients; (ii) obtaining new client referrals from existing clients, attorney and accountant referral sources and through referral agreements with asset custodial firms; (iii) adding experienced relationship managers, commercial bankers and commercial real estate (“CRE”) loan producers who may have established client relationships that we can serve; (iv) cross-selling our services among our wealth management and banking clients; (v) making opportunistic acquisitions of complementary businesses and/or establishing de novo offices in select markets within and outside our existing market areas.

Our broad range of financial products and services are more consistent with those offered by larger financial institutions, while our high level of personalized service, accessibility and responsiveness to our clients are more typical of the services offered by boutique investment advisory and wealth management firms and community banks. We believe this combination of an integrated platform of comprehensive financial services and products and personalized and responsive service differentiates us from many of our competitors and has contributed to the growth of our client base and our business.

FFI is a bank holding company incorporated in Delaware. As a bank holding company, we are subject to regulation and examination by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board” or “FRB”) and the Federal Reserve Bank of San Francisco (“FRBSF”) under delegated authority from the FRB. FFB is a California state chartered bank and is subject to regulation and examination by the Federal Deposit Insurance Corporation (“FDIC”) and the California Department of Business Oversight (“DBO”). FFB also is a member of the Federal Home Loan Bank of San Francisco (“FHLB”), which provides it with a source of funds in the form of short-term and long-term borrowings. FFA is a California corporation that began operating as a fee-based registered investment advisor under the Investment Advisers Act of 1940, (“Investment Advisers Act”) in 1990, and is subject to regulation by the Securities and Exchange Commission, (“SEC”), under that Act.

## Overview of Our Banking Business

FFB is engaged in offering a broad range of personal and business banking products and services and trust services to its clients, including individuals, small to moderate sized businesses and professional firms. Its banking products and services for individuals include a variety of deposit products, including personal checking, savings and money market deposits and certificates of deposit, single family real estate loans, and consumer loans and online banking services. FFB's business banking products and services include multifamily and commercial real estate loans, commercial term loans and lines of credit, transaction and other deposit accounts, online banking, mobile banking and enhanced business services. FFIS was established to provide life agency insurance services. Clients are obtained through relationships/referrals from existing client relationships, FFI clients and newly generated clients via prospecting. At December 31, 2017, FFB had \$4.5 billion of total assets, \$3.7 billion of loans and \$3.4 billion of deposits. FFB's operations comprise the banking, trust and insurance segments of our business.

## Overview of Our Investment Advisory and Wealth Management Business

FFA is a fee-based investment advisor which provides investment advisory and wealth management services primarily to high net-worth individuals, their families and their family businesses, and other affiliated organizations. FFA strives to provide its clients with a high level of personalized service by its staff of experienced relationship managers. As of December 31, 2017, FFA had \$4.3 billion of AUM. FFA's operations comprise the investment advisory and wealth management segments of our business.

## Relationship Managers, Commercial Bankers and CRE Loan Producers

Our operating strategy has been to build strong and stable long-term client relationships, one at a time, by delivering high quality, coordinated investment advisory and wealth management services, banking products and services, trust and insurance services. The success of this strategy is largely attributable to our experienced and high quality client relationship managers, commercial bankers and CRE loan producers. The primary role of our relationship managers, commercial bankers and CRE loan producers, in addition to attracting new clients, is to develop and maintain a strong relationship with their clients and to coordinate the services we provide to their clients. We believe we can continue to attract and retain experienced and client-focused relationship managers, commercial bankers and CRE loan producers.

## Banking Products and Services

Through FFB, we offer a wide range of loan products, deposit products, business and personal banking services and trust services. Our loan products are designed to meet the credit needs of our clients in a manner that, at the same time, enables us to effectively manage the credit and interest rate risks inherent in our lending activities. Loan products include commercial lending and commercial real estate lending, predominantly on multifamily properties. Deposits represent our principal source of funds for making loans and investments and acquiring other interest-earning assets. The yields we realize on our loans and other interest-earning assets and the interest rates we pay to attract and retain deposits are the principal determinants of our banking revenues. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" elsewhere in this Annual Report on Form 10-K.

Our lending activities serve the credit needs of individuals, owners of multifamily and commercial real estate properties, small to moderate size businesses and professional firms in our market areas. As a result we offer a variety of loan products consisting of multifamily and single family residential real estate loans, commercial real estate loans, commercial term loans and lines of credit, and consumer loans. We handle substantially all of our loan processing, underwriting and servicing at our administrative office in Irvine, California.

The following table sets forth information regarding the types of loans that we make, by amounts and as a percentage of our total loans outstanding at December 31:

(dollars in thousands)	2017		2016			
	Balance	% of Total	Balance	% of Total		
Recorded Investment balance:						
Loans secured by real estate:						
Residential properties:						
Multifamily	\$1,935,429	52.9	% \$1,178,003	46.2	%	
Single family	645,816	17.7	% 602,886	23.6	%	
Total loans secured by residential properties	2,581,245	70.6	% 1,780,889	69.8	%	
Commercial properties	696,748	19.1	% 476,959	18.7	%	



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Land	37,160	1.0	%	24,100	0.9	%
Total real estate loans	3,315,153	90.7	%	2,281,948	89.4	%
Commercial and industrial loans	310,779	8.5	%	237,941	9.3	%
Consumer loans	29,330	0.8	%	32,127	1.3	%
Total loans	\$3,655,262	100.0	%	\$2,552,016	100.0	%

Residential Mortgage Loans – Multi-family: We make multi-family residential mortgage loans for terms up to 30 years primarily for properties located in California. These loans generally are adjustable rate loans with interest rates tied to a variety of independent indexes; although in some cases these loans have fixed interest rates for periods ranging from 3 to 10 years and adjust thereafter based on an applicable index. These loans generally have interest rate floors, payment caps, and prepayment penalties. The loans are underwritten based on a variety of underwriting criteria, including an evaluation of the character and creditworthiness of the borrower and guarantors, loan-to-value and debt service coverage ratios, borrower liquidity and credit history. In addition, we perform stress testing for changes in interest rates, capitalization rates and other factors and review general economic trends such as lease rates, values and absorption rates. We typically require personal guarantees from the owners of the entities to which we make such loans.

**Residential Mortgage Loans – Single-family:** We offer single family residential mortgage loans to our existing clients and new clients obtained through approved broker relationships. In most cases, these take the form of non-conforming jumbo and super jumbo loans and FFB does not currently sell or securitize any of its single family residential mortgage loan originations. FFB does not originate loans defined as high cost by state or federal banking regulators. The majority of FFB’s single family residential loan originations are collateralized by first mortgages on real properties located in Southern California. These loans are generally adjustable rate loans with fixed terms ranging from 3 to 10 years and terms of the loan not exceeding 30 years. These loans generally have interest rate floors and payment caps. The loans are underwritten based on a variety of underwriting criteria, including an evaluation of the character and creditworthiness of the borrower and guarantors, loan-to-value and debt to income ratios, borrower liquidity, income verification and credit history. In addition, we perform stress testing for changes in interest rates and other factors and review general economic trends such as market values.

**Commercial Real Estate Loans - Owner Occupied:** Owner occupied commercial real estate loans are generally made to businesses that have demonstrated a history of profitable operations. To qualify for such loans, prospective borrowers generally must have operating cash flow sufficient to meet their obligations as they become due, and good payment histories. Our commercial real estate loans are secured by first trust deeds on nonresidential real property. These loans generally are adjustable rate loans with interest rates tied to a variety of independent indexes; although in some cases these loans have fixed interest rates for periods ranging from 3 to 10 years and adjust thereafter based on an applicable index. These loans generally have terms of 10 years, interest rate floors, payment caps, and prepayment penalties. The loans are underwritten based on a variety of underwriting criteria, including an evaluation of the character and creditworthiness of the borrower and guarantors, loan-to-value and debt service coverage ratios, borrower liquidity and credit history. In addition, we perform stress testing for changes in interest rates, cap rates and other factors and review general economic trends such as lease rates, values and absorption rates. We typically require personal guarantees from the owners of the entities to which we make such loans.

**Commercial Loans:** We offer commercial term loans and commercial lines of credit to our clients. Commercial loans generally are made to businesses that have demonstrated a history of profitable operations. To qualify for such loans, prospective borrowers generally must have operating cash flow sufficient to meet their obligations as they become due, and good payment histories. Commercial term loans are either fixed rate loans or adjustable rate loans with interest rates tied to a variety of independent indexes and are made for terms ranging from 1 to 5 years. Commercial lines of credit are adjustable rate loans with interest rates usually tied to the Wall Street Journal prime rate or LIBOR rates, are made for terms ranging from 1 to 2 years, and contain various covenants, including a requirement that the borrower reduce its credit line borrowings to zero for specified time periods during the term of the line of credit. The loans are underwritten based on a variety of underwriting criteria, including an evaluation of the character and creditworthiness of the borrower and guarantors, debt service coverage ratios, historical and projected client income, borrower liquidity and credit history. In addition, we perform stress testing for changes in interest rates and other factors and review general economic trends in the client’s industry. We typically require personal guarantees from the owners of the entities to which we make such loans.

**Equipment Financing:** We offer equipment financing to provide financing solutions to third party originators, including equipment brokers, lessors and other referral sources. A majority of the equipment financing business is small in nature, typically averaging below \$250,000, has terms ranging from 3 to 7 years, carry fixed rates and are secured by the underlying equipment and the operations of the borrower.

**Small Business Lending and USDA Lending:** The Bank is approved as a Small Business Administration (“SBA”) lender and as a United States Department of Agriculture (“USDA”) lender. The Bank uses both the SBA and USDA lending programs to serve existing clients and potential new clients. As government guaranteed programs, the Bank is required to comply with underwriting guidelines and terms and conditions set forth under the related programs.

**Consumer Loans:** We offer a variety of consumer loans and credit products, including personal installment loans and lines of credit, and home equity lines of credit designed to meet the needs of our clients. Consumer loans are either

fixed rate loans or adjustable rate loans with interest rates tied to a variety of independent indexes and are made for terms ranging from 1 to 10 years. The loans are underwritten based on a variety of underwriting criteria, including an evaluation of the character creditworthiness and credit history of the borrower and guarantors, debt to income ratios, borrower liquidity, income verification, and the value of any collateral securing the loan. Consumer loan collections are dependent on the borrower's ongoing cash flows and financial stability and, as a result, generally pose higher credit risks than the other loans that we make.

For all of our loan offerings, we utilize a comprehensive approach in our underwriting process. This includes the requirement that all factors considered in our underwriting be appropriately documented. In our underwriting, our primary focus is always on the borrower's ability to repay. However, because our underwriting process allows us to view the totality of the borrower's capacity to repay, concerns or issues in one area can be compensated for by other favorable financial criteria. This personalized and detailed approach allows us to better understand and meet our clients' lending needs.

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Bank Deposit Products: We offer a wide range of deposit products, including personal and business checking, savings accounts, interest-bearing negotiable order of withdrawal accounts, money market accounts and time certificates of deposit. The following table sets forth information regarding the type of deposits which our clients maintained with us and the average interest rates on those deposits as of December 31:

(dollars in thousands)	2017			2016		
	Amount	% of Total	Weighted Average Rate	Amount	% of Total	Weighted Average Rate
<b>Demand deposits:</b>						
Noninterest-bearing	\$1,097,196	31.9	% —	\$661,781	27.3	% —
Interest-bearing	235,294	6.8	% 0.411	% 194,274	8.0	% 0.471
Money market and savings	1,210,240	35.1	% 0.840	% 941,344	38.8	% 0.677
Certificates of deposits	900,797	26.2	% 1.189	% 629,396	25.9	% 0.589
Total	\$3,443,527	100.0	% 0.634	% \$2,426,795	100.0	% 0.453

As of December 31, 2017, our nine largest bank depositors accounted for, in the aggregate, 34% of our total deposits. See Item 1A—Risk Factors.

Trust Services: FFB is licensed to provide trust services to clients in California, Nevada and Hawaii. Those services, which consist primarily of the management of trust assets, complement the investment advisory and wealth management services that FFA offers to our clients and, as a result, provide us with cross-selling opportunities. Additionally, trust service fees provide an additional source of noninterest income for us. At December 31, 2017, trust AUM totaled \$571 million.

Insurance Services: Through FFIS, we offer life insurance products provided by unaffiliated insurance carriers from whom we collect a brokerage fee.

### Wealth Management Products and Services

FFA is a fee-based investment advisor which provides investment advisory and wealth management services primarily for high net-worth individuals and their families, family businesses and other affiliated organizations (including public and closely-held corporations, family foundations and private charitable organizations). FFA provides high net-worth clients with personalized services designed to enable them to reach their personal and financial goals by coordinating FFA's investment advisory and wealth management services with risk management and estate and tax planning services that are provided by outside service providers, for which FFA does not receive commissions or referral fees. FFA's clients benefit from certain cost efficiencies available to institutional managers, such as block trading, access to institutionally priced no-load mutual funds, ability to seek competitive bid/ask pricing for bonds, low transaction costs and management fees charged as a percentage of the assets managed, with tiered pricing for larger accounts.

FFA's investment advisory and wealth management team strives to create diversified investment portfolios for its clients that are individually designed, monitored and adjusted based on the discipline of fundamental investment analysis. FFA focuses on creating investment portfolios that are commensurate with a client's objectives, risk preference and time horizon, using traditional investments such as individual stocks and bonds and mutual funds. FFA also provides comprehensive and ongoing advice and coordination regarding estate planning, retirement planning, charitable and business ownership issues, and issues faced by executives of publicly-traded companies.

AUM at FFA has grown at a compound annual growth rate of 13% over the five year period ending December 31, 2017. Changes in our AUM reflects additions from new clients, the gains or losses recognized from investment results, additional funds received from existing clients, withdrawals of funds by clients, and terminations.

FFA does not provide custodial services for its clients. Instead, client investment accounts are maintained under custodial arrangements with large, well established brokerage firms, either directly or through FFB. However, FFA advises its clients that they are not obligated to use those services and that they are free to select securities brokerage firms and custodial service providers of their own choosing. FFA has entered into referral agreements with certain of the asset custodial firms that provide custodial services to our clients. Under these arrangements, the asset custodial firms provide referrals of prospective new clients whose increase in wealth warrants a more personalized and expansive breadth of financial services that we are able to provide in exchange for a fee. This fee is either a percentage of the fees we charge to the client or a percentage of the AUM of the client. The asset custodial firms are entitled to continue to receive these fees for as long as we continue to provide services to the referral client. These referral agreements do not require the client to maintain their assets at the custodial firm and are fully disclosed to the client prior to our providing services to them.

## Competition

The banking and investment advisory and wealth management businesses in California, Nevada and Hawaii, generally, and in our market areas, in particular, are highly competitive. A relatively small number of major national and regional banks, operating over wide geographic areas, including Wells Fargo, JP Morgan Chase, US Bank, Comerica, Union Bank and Bank of America, dominate our banking markets. Those banks, or their affiliates, may also offer investment advisory and wealth management services. We also compete with large, well known banking and wealth management firms, including City National, First Republic, Northern Trust and Boston Private. Those banks and investment advisory and wealth management firms generally have much greater financial and capital resources than we do and as a result of their ability to conduct extensive advertising campaigns and their relatively long histories of operations in our markets, are generally better known than us. In addition, by virtue of their greater total capitalization, the large banks have substantially higher lending limits than we do, which enables them to make much larger loans and to offer loan products that we are not able to offer to our clients.

We compete with these much larger banks and investment advisory and wealth management firms primarily on the basis of the personal and “one-on-one” service that we provide to our clients, which many of these competitors are unwilling or unable to provide, other than to their wealthiest clients, due to costs involved or their “one size fits all” approaches to providing financial services to their clients. We believe that our principal competitive advantage is our ability to offer our services through one integrated platform, enabling us to provide our clients with the efficiencies and benefits of dealing with a cohesive group working together to assist our clients to meet their personal investment and financial goals. We believe that only the largest financial institutions in our area provide similar integrated platforms of products and services, which they sometimes reserve for their wealthiest and institutional clients. In addition, while we also compete with many local and regional banks and numerous local and regional investment advisory and wealth management firms, we believe that only a very few of these banks offer investment advisory or wealth management services and that a very few of these investment advisory and wealth management firms offer banking services and, therefore, these competitors are not able to provide such an integrated platform of comprehensive financial services to their clients. This enables us to compete effectively for clients who are dissatisfied with the level of service provided at larger financial institutions, yet are not able to receive an integrated platform of comprehensive financial services from other regional or local financial services organizations.

While we provide our clients with the convenience of technological access services, such as remote deposit capture, internet banking and mobile banking, we compete primarily by providing a high level of personal service. As a result, we do not try to compete exclusively on pricing. However, because we are located in a highly competitive market place and because we are seeking to grow our businesses, we attempt to maintain our pricing in line with our principal competitors.

## Supervision and Regulation

Federal and state laws extensively regulate bank holding companies and banks. This regulation is intended primarily for the protection of depositors, customers and the FDIC’s deposit insurance fund and is not for the benefit of our stockholders. Set forth below are summary descriptions of the material laws and regulations that affect or bear on our operations. The summaries are not intended, and do not purport, to be complete and are qualified in their entirety by reference to the described laws and regulations.

### Bank Holding Company Regulation

First Foundation Inc. is a registered bank holding company subject to regulation under the Bank Holding Company Act of 1956, as amended (the “Holding Company Act”). Pursuant to the Holding Company Act, we are subject to supervision and periodic examination by, and are required to file periodic reports with the Federal Reserve.

As a bank holding company, we are allowed to engage, directly or indirectly, only in banking and other activities that the Federal Reserve has determined, or in the future may deem, to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Business activities that the Federal Reserve has designated as being closely related to banking include the provision of investment advisory, securities brokerage, insurance agency and data processing services, among others. A bank holding company meeting certain eligibility requirements may elect to qualify as a “financial holding company,” allowing it and its non-bank affiliated companies to engage in a broader range of financial activities including securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; engaging in insurance underwriting; and engaging in merchant banking activities. We have not elected to be a financial holding company.

Under Federal Reserve regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve’s policy that a bank holding company, in serving as a source of strength to its subsidiary banks, should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. For that

reason, among others, the Federal Reserve requires all bank holding companies to maintain capital at or above certain prescribed levels. A bank holding company's failure to meet these requirements will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of the Federal Reserve's regulations or both, which could lead to the imposition of restrictions (including restrictions on growth) on, or a regulatory enforcement order against, the bank holding company.

Additionally, among its powers, the Federal Reserve may require any bank holding company to terminate an activity or terminate control of, or liquidate or divest itself of, any subsidiary or affiliated company that the Federal Reserve determines constitutes a significant risk to the financial safety, soundness or stability of the bank holding company or any of its banking subsidiaries. The Federal Reserve also has the authority to regulate aspects of a bank holding company's debt. Subject to certain exceptions, bank holding companies also are required to file written notice and obtain approval from the Federal Reserve prior to purchasing or redeeming their common stock or other equity securities. A bank holding company and its non-banking subsidiaries also are prohibited from implementing so-called tying arrangements whereby clients may be required to use or purchase services or products from the bank holding company or any of its non-bank subsidiaries in order to obtain a loan or other services from any of the holding company's subsidiary banks.

Because FFB is a California state chartered bank, the Company is deemed to be a bank holding company within the meaning of Section 1280 of the California Financial Code. As such, we are subject to examination by, and may be required to file reports with, the DBO.

#### Regulation of First Foundation Bank

FFB is subject to primary supervision, periodic examination and regulation by the FDIC, which is its primary federal banking regulator, and the DBO, because FFB is a California state chartered bank.

Various requirements and restrictions under Federal and California banking laws affect the operations of FFB. These laws and the implementing regulations can determine the extent of supervisory control to which a bank will be subject by its federal and state bank regulators. These laws and regulations cover most aspects of a bank's operations, including:

- the reserves a bank must maintain against deposits and for possible loan losses and other contingencies;
- the types of and limits on loans and investments that a bank may make;
- the borrowings that a bank may incur;
- the opening of branch offices;
- the rate at which it may grow its assets and business;
- the acquisition and merger activities of a bank;
- the amount of dividends that a bank may pay; and
- the capital requirements that a bank must satisfy.

California law permits state chartered commercial banks to engage in any activity permissible for national banks. Those permissible activities include conducting many so-called "closely related to banking" or "nonbanking" activities either directly or through their operating subsidiaries.

#### Acquisition of Control of a Bank Holding Company or a Bank

As a bank holding company, we must obtain the prior approval of the Federal Reserve to acquire more than five percent of the outstanding shares of voting securities or substantially all of the assets, by merger or purchase, of (i) any bank or other bank holding company and (ii) any other entities engaged in banking-related businesses or that provide banking-related services. In addition, FFB must obtain the prior approval of the FDIC and the DBO before acquiring or merging with any other depository institution.



Capital Requirements Applicable to Banks and Bank Holding Companies

In December 2010, the International Basel Committee on Banking Supervision issued a new set of international guidelines for determining regulatory capital, known as “Basel III”. In 2012, the federal bank regulatory agencies adopted rules (the “New Capital Rules”) establishing a new comprehensive capital framework for U.S. banking organizations. The New Capital Rules implement Basel III and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-

Frank Act”). The New Capital Rules substantially revised the risk-based capital requirements applicable to U.S. banking organizations, including the Company and FFB, from the prior U.S. risk-based capital rules, redefined the components of capital and addressed other issues affecting the capital ratios applicable to banking organizations. The New Capital Rules also replaced the existing approach used in risk-weighting of a banking organization’s assets with a more risk-sensitive approach. The New Capital Rules became effective for the Company and FFB on January 1, 2015 (subject, in the case of certain of those rules, to phase-in periods).

Among other things, the New Capital Rules (i) introduce a new capital measure called “Common Equity Tier 1” (“CET-1”), (ii) specify that Tier 1 capital consists of CET-1 and “Additional Tier 1 capital” instruments meeting specified requirements, and (iii) make most deductions and adjustments to regulatory capital measures applicable to CET-1 and not to the other components of capital, and expanded the scope of the deductions and adjustments from capital compared to the prior capital rules, thus potentially requiring banking organizations to achieve and maintain higher levels of CET-1 in order to meet minimum capital ratios.

The New Capital Rules prescribe a standardized approach for calculating risk-weighted assets depending on the nature of assets, generally ranging from 0% for U.S. Government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

The New Capital Rules also introduce a “capital conservation buffer” that is designed to absorb losses during periods of economic stress. If a banking organizations does not maintain a capital conservation buffer consisting of an addition 2.5% of CET-1 on top of the minimum risk-weighted asset ratio, it will face constraints on dividends, equity repurchases and executive compensation, depending on the amount of the shortfall. The capital conservation buffer will be phased in beginning on January 1, 2016 at 0.625%, and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

Under the New Capital Rules, the minimum capital ratios (including the applicable increment of the capital conservation buffer) applicable to the Company and FFB as of January 1, 2017 were as follows:

CET-1 to risk-weighted assets	5.75	%
Tier 1 capital (i.e., CET-1 plus Additional Tier 1) to risk-weighted assets	7.25	%
Total capital (i.e., Tier 1 plus Tier 2) to risk-weighted assets	9.25	%
Tier 1 capital-to-average consolidated assets as reported on consolidated financial statements <sup>(1)</sup>	4.0	%

(1) Commonly referred to as a banking institution’s “leverage ratio”.

As of January 1, 2018, the above ratios (other than the leverage ratio) were increased by 0.625% to 6.375%, 7.875% and 9.875%, respectively. When the capital conservation buffer is fully phased in on January 1, 2019, the New Capital Rules will require most bank holding companies and banks, including the Company and FFB, to be subject to the following risk-based capital requirements (i) a minimum CET-1-to-risk-weighted asset ratio of at least 7.0% (4.5% plus the 2.5% capital conservation buffer), (ii) a Tier 1 capital-to-risk-weighted asset ratio to 8.5% (6.0% plus the capital conservation buffer) and (iii) Total capital-to-risk weighted asset ratio to 10.5% (8.0% plus the capital conservation buffer).

In addition, the New Capital Rules provide for a number of deductions from and adjustments to CET-1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income, and significant investments in common equity issued by nonconsolidated financial entities, be deducted from CET-1 to the extent that any one such category exceeds 10% of CET-1 or all such categories, in the aggregate, exceed

15% of CET-1. While the New Capital Rules require the impact of certain items of Accumulated Other Comprehensive Income (“AOCI”) to be included in capital for purposes of determining regulatory capital ratios most banking organizations, including the Company and FFB, were entitled to make a one-time permanent election to continue to exclude these items from capital. In 2015, we elected to continue this exclusion.

The New Capital Rules require that trust preferred securities be phased out from Tier 1 capital by January 1, 2016, except in the case of banking organizations with total consolidated assets of less than \$15 billion, which will be permitted to include trust preferred securities issued prior to May 19, 2010 in Tier 1 capital, subject to a limit of 25% of tier 1 capital elements.

#### Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), established a framework for regulation of federally insured depository institutions, including banks, and their parent holding companies and other affiliates, by their federal banking regulators. Among other things, FDICIA requires the relevant federal banking regulator to take “prompt corrective action” with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the

prompt submission by that bank of an acceptable capital restoration plan if its bank regulator has concluded that it needs additional capital.

Supervisory actions by a bank's federal regulator under the prompt corrective action rules generally depend upon an institution's classification within one of five capital categories, which is determined on the basis of a bank's Tier 1 leverage ratio, Tier 1 capital ratio and total capital ratio. Tier 1 capital consists principally of common stock and nonredeemable preferred stock and retained earnings.

Under FDICIA regulations, an insured depository institution's capital category will depend upon how its capital levels compare with these capital measures and the other factors established by the relevant federal banking regulator. These regulations, were revised to reflect the New Capital Rules effective January 1, 2015, provided that a bank would be classified as: "well capitalized" if it had a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a CET-1 ratio of 6.5% or greater, and a Tier 1 leverage ratio of 5.0% or greater, and was not subject to any order or written directive by any such regulatory agency to meet and maintain a specific capital level for any capital measure; "adequately capitalized" if it had a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a CET-1 ratio of 4.5% or greater and a Tier 1 leverage ratio of 4.0% or greater; "undercapitalized" if it had a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a CET-1 ratio of less than 4.5% and a Tier 1 leverage ratio of less than 4.0%; "significantly undercapitalized" if it had a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a CET-1 ratio of less than 3.0% or a Tier 1 leverage ratio of less than 3.0%; and "critically undercapitalized" if its tangible equity was equal to or less than 2.0% of average quarterly tangible assets. A bank that is classified as well-capitalized, adequately capitalized or undercapitalized based on its capital levels may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for a hearing, determines that an unsafe or unsound condition or practice warrants such treatment.

The capital classification of a bank affects the frequency of examinations of the bank by its primary federal bank regulatory agency impacts the ability of the bank to engage in certain activities and affects the deposit insurance premiums that are payable by the bank. Under FDICIA, the federal banking regulators are required to conduct a full-scope, on-site examination of every bank at least once every 12 months.

An undercapitalized bank is generally prohibited from paying dividends or management fees to its holding company. In addition, an undercapitalized bank that fails to submit, or fails to obtain the approval by its federal banking regulator of a capital restoration plan will be treated as if it is "significantly undercapitalized." In that event, the bank's federal banking regulator may impose a number of additional requirements and restrictions on the bank, including orders or requirements (i) to sell sufficient voting stock to become "adequately capitalized," (ii) to reduce its total assets, and (iii) cease the receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator. If an undercapitalized bank is a subsidiary of a bank holding company, then, for its capital restoration plan to be approved, the bank's parent holding company must guarantee that the bank will comply with, and provide assurances of the performance by the bank of, its capital restoration plan. Under such a guarantee and assurance of performance, if the bank fails to comply with its capital restoration plan, the parent holding company may become subject to liability for such failure in an amount up to the lesser of (i) 5.0% of its bank subsidiary's total assets at the time it became undercapitalized, or (ii) the amount that is necessary (or would have been necessary) to bring the bank into compliance with all applicable capital standards as of the time it failed to comply with the plan.

If a bank is classified as "significantly undercapitalized" or "critically undercapitalized," its federal banking regulator would be required to take one or more prompt corrective actions that would, among other things require the bank to (i) raise additional capital by means of sales of common stock or nonredeemable preferred shares, (ii) improve its management, (iii) limit the interest rates it may pay on deposits, (iv) altogether prohibit transactions by the bank with its affiliates, (v) terminate certain activities that pose undue or unreasonable risks, and (vi) restrict the compensation being paid to its executive officers. If a bank is classified as critically undercapitalized, FDICIA requires the bank to

be placed into conservatorship or receivership within 90 days, unless its federal banking regulatory agency determines that there are other measures that would enable the bank, within a relatively short period of time, to increase its capital in an amount sufficient to improve its capital classification under the prompt corrective action framework.

#### Safety and Soundness Standards

Banking institutions may be subject to potential enforcement actions by the federal banking regulators for unsafe or unsound practices or for violating any law, rule, regulation, or any condition imposed in writing by its primary federal banking regulatory agency or any written agreement with that agency. The federal banking agencies have adopted guidelines designed to identify and address potential safety and soundness concerns that could, if not corrected, lead to deterioration in the quality of a bank's assets, liquidity or capital. Those guidelines set forth operational and managerial standards relating to such matters as internal controls,

information systems and internal audit systems; risk management; loan documentation; credit underwriting; asset growth; earnings; and compensation, fees and benefits.

In addition, the federal banking agencies have adopted safety and soundness guidelines with respect to the quality of loans and other assets of insured depository institutions. These guidelines provide standards for establishing and maintaining a system to identify problem loans and other problem assets and to prevent those assets from deteriorating. Under these standards, an FDIC-insured depository institution is expected to conduct periodic asset quality reviews to identify problem loans and any other problem assets, estimate the inherent losses in those loans and other assets and establish reserves that are sufficient to absorb those estimated losses; compare problem loans and other problem asset totals to capital; take appropriate corrective action to resolve problem loans and other problem assets; consider the size and potential risks of material asset concentrations; and provide periodic quality reports with respect to their loans and other assets which provide adequate information for the bank's management and the board of directors to assess the level of risk to its loans and other assets.

These guidelines also establish standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient for the maintenance of adequate capital and reserves.

#### Potential Regulatory Enforcement Actions

If, as a result of an examination of a bank holding company or a bank, its federal banking regulatory agency, determined that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of its operations had become unsatisfactory or that the bank or its management was in violation of any law or regulation, that agency would have the authority to take a number of different remedial actions as it deems appropriate under the circumstances. These actions include the power to enjoin any "unsafe or unsound" banking practices; to require that affirmative action be taken to correct any conditions resulting from any violation of law or unsafe or unsound practice; to issue an administrative order that can be judicially enforced; to require that it increase its capital; to restrict its growth; assess civil monetary penalties against the it or its officers or directors; to remove officers and directors of the bank; and if the federal agency concludes that such conditions at the bank cannot be corrected or there is an imminent risk of loss to depositors, to terminate a bank's deposit insurance, which in the case of a California state chartered bank would result in revocation of its charter and require it to cease its banking operations. Under California law the DBO has many of these same remedial powers with respect to FFB.

#### Dividends

It is the policy of Federal Reserve that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the holding company's expected future needs for capital and liquidity and to maintain its financial condition. It is also a Federal Reserve policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of financial strength for their banking subsidiaries. Additionally, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policies and has discouraged dividend payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

Cash dividends from FFB are one of the principal sources of cash (in addition to any cash dividends that might be paid to us by FFA) that is available to the Company for its operations and to fund any cash dividends that our board of directors might declare in the future. The Company is a legal entity separate and distinct from FFB and FFB is subject to various statutory and regulatory restrictions on its ability to pay cash dividends to the Company. Under the California law, a bank's ability to pay cash dividends to us is limited to the lesser of: (i) the bank's retained earnings or (ii) the bank's income for its last three fiscal years (less any distributions to shareholders made during such period). However, with the prior approval of the DBO, a bank may pay cash dividends in an amount not to exceed the greatest of the: (1) retained earnings of the bank; (2) net income of the bank for its last fiscal year; or (3) net income of the bank for its current fiscal year. In addition, under FDIC regulations, FFB is generally prohibited from paying cash

dividends in amounts that would cause FFB to become undercapitalized. Additionally, the FDIC and the DBO have the authority to prohibit FFB from paying cash dividends, if either of those agencies deems the payment of dividends by FFB to be an unsafe or unsound practice.

The FDIC also has established guidelines with respect to the maintenance of appropriate levels of capital by banks under its jurisdiction. Compliance with the standards set forth in those guidelines and the restrictions that are or may be imposed under the prompt corrective action provisions of federal law could limit the amount of dividends which FFB may pay.

#### Single Borrower Loan Limitations

With certain limited exceptions, the maximum amount of unsecured obligations that any borrower (including certain related entities) may owe to a California state bank at any one time may not exceed 15% of the sum of the bank's shareholders' equity, allowance for loan and lease losses, capital notes and debentures. The combined secured and unsecured obligations of any borrower may not exceed 25% of the sum of the bank's shareholders' equity, allowance for loan and lease losses, capital notes and debentures.

#### Deposit Insurance

The deposits of FFB are insured by the FDIC's Deposit Insurance Fund (the "DIF"), up to applicable limits. The Dodd-Frank Act permanently increased the maximum deposit insurance amount for banks, savings institutions and credit unions to \$250,000 per depositor and raised the minimum reserve ratio of the DIF to 1.35%.

The FDIC uses a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's CAMELS supervisory rating. The risk matrix utilizes different risk categories distinguished by capital levels and supervisory ratings. As a result of the Dodd-Frank Act, the base for insurance assessments is now consolidated average assets less average tangible equity. Assessment rates are calculated using formulas that take into account the risk of the institution being assessed. FDIC deposit insurance expense also includes FICO assessments related to outstanding FICO bonds.

The FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The Company's management is not aware of any practice, condition, or violation that might lead to the termination of its deposit insurance.

#### Executive Compensation Restrictions

In June 2010, the Federal Reserve and the FDIC issued comprehensive guidelines on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of the organizations by encouraging excessive risk-taking. The guidelines apply to those employees of a banking organization that have the ability to materially affect the risk profile of a banking organization, either individually or as part of a group. Generally, the guidelines (i) prohibit incentive compensation that encourages risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) prohibit incentive compensation arrangements that are inconsistent with effective internal controls and risk management, and (iii) mandate that incentive compensation programs be supported by strong corporate governance principles and practices, including active and effective oversight by the banking organization's board of directors. The federal banking regulatory agencies have the authority to bring enforcement actions against a banking organization if the agency concludes that its incentive compensation arrangements, or related risk-management control or governance processes, pose an undue risk to the organization's safety and soundness and that the organization is not taking prompt and effective measures to correct the deficiencies.

In addition, the Dodd-Frank Act directs federal banking regulators to promulgate rules prohibiting incentive-based compensation arrangements that would encourage imprudent risk-taking by executives of depository institutions and their holding companies that have assets of more than \$1.0 billion. Proposed rules were issued in 2011 but have not become final.

In February 2014, the Company adopted an incentive compensation clawback policy. Among other things, the policy provides that, if any of the Company's previously published financial statements are restated due to a material noncompliance with any financial reporting requirements under the federal securities laws, the Company will seek to recover the amount by which any incentive compensation paid in the previous three years to any executive officer exceeds the incentive compensation which the Company's audit committee determines would have been paid to such executive officer had such compensation been determined on the basis of the restated financial statements.



### Federal Home Loan Bank System

FFB is a member of the FHLB. Among other benefits, each regional Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its member banks. Each regional Federal Home Loan Bank is financed primarily from the sale of consolidated obligations of the overall Federal Home Loan Bank system. As an FHLB member, FFB is required to own a certain amount of capital stock in the FHLB. At December 31, 2017, FFB was in compliance with the FHLB's stock ownership requirement. Historically, the FHLB has paid dividends on its capital stock to its members.

### Restrictions on Transactions between FFB and the Company and its other Affiliates

FFB is subject to Sections 23A and 23B of, and Federal Reserve Regulation W under, the Federal Reserve Act, which impose restrictions on (i) any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, the Company or any of its other subsidiaries; (ii) the purchase of or investments in Company stock or other Company securities; (iii) the taking of Company securities as collateral for the loans that FFB makes; (iv) the purchase of assets from the Company or any of its other subsidiaries and (v) transactions between a bank and its financial subsidiaries, as well as other affiliates. These restrictions prevent the Company and any of its subsidiaries from obtaining borrowings or extensions of credit from FFB, unless the borrowings are secured by marketable obligations in designated amounts, and such secured loans and any investments by FFB in the Company or any of its subsidiaries are limited, individually, to 10% of FFB's capital and surplus (as defined by federal regulations), and in the aggregate are limited to 20%, of FFB's capital and surplus.

California law also imposes restrictions with respect to transactions involving the Company and any other persons that may be deemed under that law to control FFB. The Dodd-Frank Act extends the application of Section 23A of the Federal Reserve Act to derivative transactions, repurchase agreements and securities lending and borrowing transactions that create credit exposure to an affiliate or an insider of a bank. Any such transactions with any affiliates must be fully secured. In addition, the exemption from Section 23A for transactions with financial subsidiaries has been eliminated.

#### Regulatory Guidelines for Commercial Real Estate Loan Concentrations

The Federal Reserve and the FDIC have published guidelines that call for the adoption of heightened risk mitigation measures by insured banks with a concentration of commercial real estate loans in its loan portfolio. The guidelines provide that a bank will be deemed to have a concentration of commercial real estate loans if (i) the total reported loans for construction, land development and other land represent 100% or more of the bank's total capital, or (ii) the total reported loans secured by multifamily and non-farm residential properties, plus loans for construction, land development and other land, represent 300% or more of the bank's total capital and the bank's commercial real estate loan portfolio has increased by 50% or more during the prior 36 months. If such a concentration exists, the guidelines call for the bank (x) to implement heightened risk assessment and risk management practices, including board and management oversight and strategic planning, (y) to implement and maintain stringent loan underwriting standards, and to use market analyses and stress testing tools to monitor the condition of the bank's commercial real estate loan portfolio and to assess the impact that adverse economic conditions affecting the real estate markets could have on the bank's financial condition and (z) if determined to be necessary on the basis of the results of such stress tests, to increase its allowance for loan losses and its capital.

#### Technology Risk Management and Consumer Privacy

Federal and state banking regulatory agencies have issued various policy statements focusing on the importance of technology risk management and supervision in evaluating the safety and soundness of the banks they regulate. According to those policy statements, the use by banking organizations of technology-related products, services, processes and delivery channels, such as the internet, exposes them to a number of risks which include operational, compliance, security, privacy, and reputational risk. The banking regulators generally expect the banking organizations they regulate to prudently manage technology-related risks as part of their comprehensive risk management policies in order to identify, monitor, measure and control risks associated with the use of technology.

Pursuant to the Gramm-Leach-Bliley Act ("GLBA"), the federal banking agencies have adopted rules and established standards to be followed in implementing safeguards that are designed to ensure the security and confidentiality of customer records and information, protection against any anticipated threats or hazards to the security or integrity of such records and protection against unauthorized access to or use of such records or information in a way that could result in substantial harm or inconvenience to a customer. Among other requirements, these rules require each bank organization to implement a comprehensive written information security program that includes administrative, technical and physical safeguards relating to customer information. GLBA also requires banking organizations to

provide each of their customers with a notice of their privacy policies and practices and prohibits a banking organization from disclosing nonpublic personal information about a customer to nonaffiliated third parties unless the banking organization satisfies various notice and “opt-out” requirements and the customer has not chosen to opt out of the disclosure. Additionally, the federal banking agencies are authorized to issue regulations as necessary to implement those notice requirements and non-disclosure restrictions.

#### Community Reinvestment Act

The Community Reinvestment Act (“CRA”) requires the federal banking regulatory agencies to evaluate the record of a bank in meeting the credit needs of its local communities, including those of low and moderate income neighborhoods in its service area. A bank’s compliance with its CRA obligations is based on a performance-based evaluation system which determines the bank’s CRA ratings on the basis of its community lending and community development performance. A bank may have substantial penalties

imposed on it and generally will be required to take corrective measures in the event it fails to meet its obligations under CRA. Federal banking agencies also may take compliance with CRA and other fair lending laws into account when regulating and supervising other activities of a bank or its bank holding company. Moreover, when a bank or bank holding company files an application for approval to acquire a bank or another bank holding company, the federal banking regulatory agency reviewing the application will consider CRA assessment of the subsidiary bank or banks of the applicant bank holding company. A lower CRA rating may be the basis for requiring the applicant's bank subsidiary to take corrective actions to improve its CRA performance as a condition to the approval of the acquisition or as a basis for denying the application altogether.

#### Bank Secrecy Act and USA Patriot Act

The Company and the Bank are subject to the Bank Secrecy Act, as amended by the USA PATRIOT Act, which gives the federal government powers to address money laundering and terrorist threats through enhanced domestic security measures, expanded surveillance powers and mandatory transaction reporting obligations. For example, the Bank Secrecy Act and related regulations require that we report currency transactions that exceed certain thresholds and transactions determined to be suspicious, establish due diligence requirements for accounts and take certain steps to verify customer identification when accounts are opened. The Bank Secrecy Act requires financial institutions to develop and maintain a program reasonably designed to ensure and monitor compliance with its requirements, to train employees to comply with and to test the effectiveness of the program. Any failure to meet the requirements of the Bank Secrecy Act can result in the imposition of substantial penalties and in adverse regulatory action against the offending bank. FFI and FFB have each adopted policies and procedures to comply with the Bank Secrecy Act.

#### Consumer Laws and Regulations

The Company and FFB are subject to a broad range of federal and state consumer protection laws and regulations prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition. Those laws and regulations include:

- The Home Ownership and Equity Protection Act of 1994, which requires additional disclosures and consumer protections to borrowers designed to protect them against certain lending practices, such as practices deemed to constitute "predatory lending."
- The Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, which requires banking institutions and financial services businesses to adopt practices and procedures designed to help deter identity theft, including developing appropriate fraud response programs, and provides consumers with greater control of their credit data.
  - The Truth in Lending Act which requires that credit terms be disclosed in a meaningful and consistent way so that consumers may compare credit terms more readily and knowledgeably.
- The Equal Credit Opportunity Act, which generally prohibits, in connection with any consumer or business credit transactions, discrimination on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), or the fact that a borrower is receiving income from public assistance programs.
- The Fair Housing Act, which regulates many lending practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status.
- The Home Mortgage Disclosure Act, which includes a "fair lending" aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.
- The Real Estate Settlement Procedures Act, which requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements and prohibits certain abusive practices, such as kickbacks.
- The National Flood Insurance Act, which requires homes in flood-prone areas with mortgages from a federally regulated lender to have flood insurance.
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The Secure and Fair Enforcement for Mortgage Licensing Act of 2008, which requires mortgage loan originator employees of federally insured institutions to register with the Nationwide Mortgage Licensing System and Registry, a database created by the states to support the licensing of mortgage loan originators, prior to originating residential mortgage loans.

The Dodd-Frank Act also contains a variety of provisions intended to reform consumer mortgage practices. The provisions include (1) a requirement that lenders make a determination that at the time a residential mortgage loan is consummated the consumer has a reasonable ability to repay the loan and related costs, (2) a ban on loan originator compensation based on the interest rate or other terms of the loan (other than the amount of the principal), (3) a ban on prepayment penalties for certain types of loans, (4) bans on

arbitration provisions in mortgage loans and (5) requirements for enhanced disclosures in connection with the making of a loan. The Dodd-Frank Act also imposes a variety of requirements on entities that service mortgage loans.

#### Consumer Financial Protection Bureau

The Dodd-Frank Act created a new, independent federal agency, called the Consumer Financial Protection Bureau (the “CFPB”), which has been granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the GLBA and certain other statutes. The CFPB has examination and primary enforcement authority with respect to the compliance by depository institutions with \$10 billion or more in assets with federal consumer protection laws and regulations. Smaller institutions are subject to rules promulgated by the CFPB, but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act also (i) authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages, including a determination of the borrower’s ability to repay, and (ii) will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a “qualified mortgage” as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal financial consumer protection laws and regulations.

#### Volcker Rule

In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of the Dodd-Frank Act commonly referred to as the “Volcker Rule.” Under these rules and subject to certain exceptions, banking entities are restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered “covered funds.” These rules became effective on April 1, 2014, although certain provisions are subject to delayed effectiveness under rules promulgated by the FRB. These new rules may require us to conduct certain internal analysis and reporting to ensure continued compliance. The Company held no investment positions at December 31, 2017 which were subject to the final rule.

#### Regulation of First Foundation Advisors

FFA is a registered investment advisor under the Investment Advisers Act and the SEC’s regulations promulgated thereunder. The Investment Advisers Act imposes numerous obligations on registered investment advisors, including fiduciary, recordkeeping, operational, and disclosure obligations. FFA is also subject to regulation under the securities laws and fiduciary laws of certain states and to Employee Retirement Income Security Act of 1974 (“ERISA”), and to regulations promulgated thereunder, insofar as it is a “fiduciary” under ERISA with respect to certain of its clients. ERISA and the applicable provisions of the Code, impose certain duties on persons who are fiduciaries under ERISA, and prohibit certain transactions by the fiduciaries (and certain other related parties) to such plans. The foregoing laws and regulations generally grant supervisory agencies broad administrative powers, including the power to limit or restrict FFA from conducting its business in the event that it fails to comply with such laws and regulations. Possible sanctions that may be imposed in the event of such noncompliance include the suspension of individual employees, limitations on the business activities for specified periods of time, revocation of registration as an investment advisor and/or other registrations, and other censures and fines. Changes in these laws or regulations could have a material adverse impact on the profitability and mode of operations of FFI and its subsidiaries.

#### Future Legislation

Congress may enact legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact legislation from time to time affecting the regulation of financial institutions chartered by or

operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulations, or the application thereof, cannot be predicted, although enactment of the proposed legislation could impact the regulatory structure under which we operate and may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital or modify our business strategy, limit our ability to pursue business opportunities or activities or alter the competitive balance between banks and non-bank financial service providers.

#### Employees

As of December 31, 2017, the Company had approximately 394 full-time employees.

## Mergers and Acquisitions

We have completed three acquisitions since 2012. In November 2017, we completed the acquisition of Community 1st Bancorp, the holding company for Community 1st Bank. In June 2015, we completed the acquisition of Pacific Rim Bank. In August 2012, we completed the acquisition of Desert Commercial Bank.

On December 18, 2017, we entered into a definitive agreement to acquire PBB Bancorp, the holding company for Premier Business Bank, headquartered in Los Angeles, California with six branch offices and \$626 million in total assets as of December 31, 2017. Pursuant to the merger agreement, PBB Bancorp shareholders will receive 1.05 shares of FFI common stock in exchange for each share of PBB Bancorp. The 100% stock transaction is valued at approximately \$106 million in aggregate, based on a closing price for FFI common stock of \$19.04 as of December 18, 2017. The value of the merger consideration will fluctuate based on First Foundation's common stock price. Consummation of the merger is subject to customary closing conditions, including, among others, shareholder and regulatory approval. The merger is expected to close in the second quarter of 2018.

## Available Information

The Company's annual reports on Form 10-K, proxy statements, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13 (a) or 15 (d) of the Exchange Act are accessible for free at the Investor Relations section of our website at [www.ff-inc.com](http://www.ff-inc.com) as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. These reports are also available for free on the SEC's website at [www.sec.gov](http://www.sec.gov). Additionally, these reports can be found and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549, or by calling the SEC at 1-800-SEC-0330. All website addresses given in this report are for information only and are not intended to be an active link or to incorporate any website information into this report.

## Item 1A. Risk Factors

Our business is subject to a number of risks and uncertainties that could prevent us from achieving our business objectives and could hurt our future financial performance and the price performance of our common stock. Such risks and uncertainties also could cause our future financial condition and future financial performance to differ significantly from our current expectations, which are described in the forward-looking statements contained in this report. Those risks and uncertainties, many of which are outside of our ability to control or prevent, include the following:

### Risks Related to Our Business

We could incur losses on the loans we make.

Loan defaults and the incurrence of losses on loans are inherent risks in our business. Loan losses necessitate loan charge-offs and write-downs in the carrying values of a banking organization's loans and, therefore, can adversely affect its results of operations and financial condition. Accordingly, our results of operations will be directly affected by the volume and timing of loan losses, which for a number of reasons can vary from period to period. The risks of loan losses are exacerbated by economic recessions and downturns, or by other events that can lead to local or regional business downturns. If business and economic conditions weaken generally or specifically in the principal markets in which we do business, more of our borrowers may fail to perform in accordance with the terms of their loans, in which event loan charge-offs and asset write-downs could increase, which could have a material adverse



effect on our business, financial condition, results of operations and prospects.

Our allowance for credit losses may not be adequate to cover actual losses.

In accordance with regulatory requirements and generally accepted accounting principles in the United States, we maintain an allowance for loan and lease losses (“ALLL”) to provide for loan and lease defaults and non-performance and a reserve for unfunded loan commitments, which, when combined, we refer to as the allowance for credit losses. Our allowance for credit losses may not be adequate to absorb actual credit losses, and future provisions for credit losses could materially and adversely affect our operating results. Our allowance for credit losses is based on prior experience and an evaluation of the risks inherent in our then-current portfolio. The amount of future losses may also vary depending on changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates. Federal and state regulators, as an integral part of their examination process, review our loans and leases and allowance for credit losses. While we believe our allowance for credit losses is appropriate for the risk identified in our loan and lease portfolio, we cannot provide assurance that we

will not further increase the allowance for credit losses, that it will be sufficient to address losses, or that regulators will not require us to increase this allowance. Any of these occurrences could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business and operations may be adversely affected in numerous and complex ways by economic conditions.

Our businesses and operations, which primarily consist of lending money to customers in the form of loans, borrowing money from customers in the form of deposits, investing in securities and investment management, are sensitive to general business and economic conditions in the United States. If the United States economy weakens, our growth and profitability from our lending, deposit and investment operations could be constrained. Uncertainty about the federal fiscal policymaking process, the medium and long-term fiscal outlook of the federal government, and future tax rates is a concern for businesses, consumers and investors in the United States. In addition, economic conditions in foreign countries could affect the stability of global financial markets, which could hinder United States economic growth. Weak economic conditions may be characterized by deflation, fluctuations in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity. The current economic environment is also characterized by interest rates at historically low levels, which impacts our ability to attract deposits and to generate attractive earnings through our investment portfolio. All of these factors are detrimental to our business, and the interplay between these factors can be complex and unpredictable. Adverse economic conditions and government policy responses to such conditions could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our banking, investment advisory and wealth management operations are geographically concentrated in California, Nevada and Hawaii, leading to significant exposure to those markets.

Our business activities and credit exposure, including real estate collateral for many of our loans, are concentrated in California, Nevada and Hawaii, as approximately 95% of the loans in our loan portfolio were made to borrowers who live and/or conduct business in those states. This geographic concentration imposes risks from lack of geographic diversification. Difficult economic conditions, including state and local government deficits, in California, Nevada and Hawaii may affect our business, financial condition, results of operations and future prospects, where adverse economic developments, among other things, could affect the volume of loan originations, increase the level of nonperforming assets, increase the rate of foreclosure losses on loans and reduce the value of our loans and loan servicing portfolio. Any regional or local economic downturn that affects California, Nevada or Hawaii or existing or prospective borrowers or property values in such areas may affect us and our profitability more significantly and more adversely than our competitors whose operations are less geographically concentrated.

Changes in interest rates could reduce our net interest margins and net interest income.

Income and cash flows from our banking operations depend to a great extent on the difference or “spread” between the interest we earn on interest-earning assets, such as loans and investment securities, and the rates at which we pay interest on interest-bearing liabilities, such as deposits and borrowings. Interest rates are highly sensitive to many factors that are beyond our control, including (among others) general and regional and local economic conditions, the monetary policies of the Federal Reserve Board, bank regulatory requirements, competition from other banks and financial institutions and a change over time in the mix of our loans, investment securities, on the one hand, and on our deposits and other liabilities, on the other hand. Changes in monetary policy will, in particular, influence the origination and market value of and the yields we can realize on loans and investment securities and the interest we pay on deposits. Our net interest margins and earnings also could be adversely affected if we are unable to adjust our interest rates on loans and deposits on a timely basis in response to changes in economic conditions or monetary policies. For example, if the rates of interest we pay on deposits, borrowings and other interest-bearing liabilities increase faster than we are able to increase the rates of interest we charge on loans or the yields we realize on investments and other interest-earning assets, our net interest income and, therefore, our earnings will decrease. In particular, the rates of interest we charge on loans may be subject to longer fixed interest periods compared to the interest we must pay on deposits. On the other hand, increasing interest rates generally lead to increases in net interest income; however, such increases also may result in a reduction in loan originations, declines in loan prepayment rates and reductions in the ability of borrowers to repay their current loan obligations, which could result in increased loan defaults and charge-offs and could require increases to our ALLL, thereby offsetting either partially or totally the increases in net interest income resulting from the increase in interest rates. Additionally, we could be prevented from increasing the interest rates we charge on loans or from reducing the interest rates we offer on deposits due to “price” competition from other banks and financial institutions with which we compete. Conversely, in a declining interest rate environment, our earnings could be adversely affected if the interest rates we are able to charge on loans or other investments decline more quickly than those we pay on deposits and borrowings.

Changes in interest rates could increase our operating expenses.

Customer service costs, which are reimbursements of costs incurred by our clients and are related primarily to our noninterest bearing demand deposits, are impacted by changes in interest rates. In a rising interest rate environment, the amounts we make available for reimbursement to our clients increases, resulting in higher costs to us. The amount of the reimbursement and the impact of interest rate increases may vary by client.

Real estate loans represent a high percentage of the loans we make, making our results of operations vulnerable to downturns in the real estate market.

At December 31, 2017, loans secured by multifamily and commercial real estate represented approximately 72% of our outstanding loans. The repayment of such loans is highly dependent on the ability of the borrowers to meet their loan repayment obligations to us, which can be adversely affected by economic downturns that can lead to (i) declines in the rents and, therefore, in the cash flows generated by those real properties on which the borrowers depend to fund their loan payments to us, and (ii) decreases in the values of those real properties, which make it more difficult for the borrowers to sell those real properties for amounts sufficient to repay their loans in full. As a result, our operating results are more vulnerable to adverse changes in the real estate market than other financial institutions with more diversified loan portfolios and we could incur losses in the event of changes in economic conditions that disproportionately affect the real estate markets.

Liquidity risk could adversely affect our ability to fund operations and hurt our financial condition.

Liquidity is essential to our banking business, as we use cash to make loans and purchase investment securities and other interest-earning assets and to fund deposit withdrawals that occur in the ordinary course of our business. Our principal sources of liquidity include earnings, deposits, FHLB borrowings, sales of loans or investment securities

held for sale, repayments by clients of loans we have made to them, and the proceeds from sales by us of our equity securities or from borrowings that we may obtain. If our ability to obtain funds from these sources becomes limited or the costs of those funds increase, whether due to factors that affect us specifically, including our financial performance, or due to factors that affect the financial services industry in general, including weakening economic conditions or negative views and expectations about the prospects for the financial services industry as a whole, then our ability to grow our banking and investment advisory and wealth management businesses would be harmed, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not be able to maintain a strong core deposit base or other low-cost funding sources.

We depend on checking, savings and money market deposit account balances and other forms of customer deposits as our primary source of funding for our lending activities. Our future growth will largely depend on our ability to maintain and grow a strong deposit base. There is no assurance that we will be able to grow and maintain our deposit base. The account and deposit

balances can decrease when customers perceive alternative investments, such as the stock market or real estate, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into investments (or similar deposit products at other institutions that may provide a higher rate of return), we could lose a relatively low cost source of funds, increasing our funding costs and reducing our net interest income and net income. Additionally, any such loss of funds could result in lower loan originations, which could materially negatively impact our growth strategy.

Our nine largest deposit clients account for 34% of our total deposits.

As of December 31, 2017, our nine largest bank depositors accounted for, in the aggregate, 34% of our total deposits. As a result, a material decrease in the volume of those deposits by a relatively small number of our depositors could reduce our liquidity, in which event it could become necessary for us to replace those deposits with higher-cost deposits, the sale of securities or FHLB borrowings, which would adversely affect our net interest income and, therefore, our results of operations.

Although we plan to grow by acquiring other banks, there is no assurance that we will succeed in doing so.

One of the key elements of our business plan is to grow our banking franchise and increase our market share, and for that reason, we intend to take advantage of opportunities to acquire other banks. However, there is no assurance that we will succeed in doing so. Our ability to execute on our strategy to acquire other banks may require us to raise additional capital and to increase FFB's capital position to support the growth of our banking franchise, and will also depend on market conditions, over which we have no control. Moreover, any bank acquisitions will require the approval of our bank regulators and there can be no assurance that we will be able to obtain such approvals on acceptable terms, if at all.

Our acquisitions may subject us to unknown risks.

Certain events may arise after the date of an acquisition, or we may learn of certain facts, events or circumstances after the closing of an acquisition, that may affect our financial condition or performance or subject us to risk of loss. These events include, but are not limited to: our success in integrating the operations, retaining key employees and customers, achieving anticipated synergies, meeting expectations and otherwise realizing the undertaking's anticipated benefits; litigation resulting from circumstances occurring at the acquired entity prior to the date of acquisition; loan downgrades and credit loss provisions resulting from underwriting of certain acquired loans determined not to meet our credit standards; personnel changes that cause instability within a department; delays in implementing new policies or procedures or the failure to apply new policies or procedures; and other events relating to the performance of our business. In addition, if we determined that the value of an acquired business had decreased and that the related goodwill was impaired, an impairment of goodwill charge to earnings would be recognized. Acquisitions involve inherent uncertainty and we cannot determine all potential events, facts and circumstances that could result in loss or increased costs or give assurances that our due diligence or mitigation efforts will be sufficient to protect against any such loss or increased costs.

Growing our banking business may not increase our profitability and may adversely affect our future operating results.

Since we commenced our banking business in October 2007, we have grown our banking franchise and now have 14 branch offices and three loan production offices in California, Nevada and Hawaii. We plan to continue to grow our banking business both organically and through acquisitions of other banks. However, the implementation of our growth strategy poses a number of risks for us, including:

- the risk that any bank acquisitions we might consummate in the future will prove not to be accretive to or may reduce our earnings if we do not realize anticipated cost savings or if we incur unanticipated costs in integrating the acquired banks into our operations or if a substantial number of the clients of any of the acquired banks move their banking

business to our competitors;

• the risk that any newly established offices will not generate revenues in amounts sufficient to cover the start-up costs of those offices, which would reduce our earnings;

• the risk that such expansion efforts will divert management time and effort from our existing banking operations, which could adversely affect our future financial performance; and

• the risk that the additional capital which we may need to support our growth or the issuance of shares in any bank acquisitions will be dilutive of the investments that our existing stockholders have in the shares of our common stock that they own and in their respective percentage ownership interests they have in the Company.

We may not have the ability to attract capital necessary to maintain regulatory ratios and fund growth.

We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, particularly if our asset quality or earnings were to deteriorate. Our ability to raise additional capital, if needed, will depend on several things, especially conditions in the capital markets at that time, that are outside of our control, as well as our own financial performance. Economic conditions and the loss of confidence in financial institutions may increase our cost of funds and limit our access to some customary sources of capital. We cannot provide assurances that such capital will be available on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, our depositors, or counterparties participating in the capital markets may adversely affect our capital costs, ability to raise capital, and liquidity. Moreover, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital which, in turn, would require that we compete with those other institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our financial condition, results of operations and liquidity.

New lines of business or new products and services may subject us to additional risks.

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts. We may invest significant time and resources in developing and marketing new lines of business and/or new products and services. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible or may be dependent on identifying and hiring a qualified person to lead the division. In addition, existing management personnel may not have the experience or capacity to provide effective oversight of new lines of business and/or new products and services.

External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations, financial condition and prospects.

A reduction in demand for our products and our failure to adapt to such a reduction could adversely affect our business, results of operations and financial condition.

The demand for the products that we offer may be reduced due to a variety of factors, such as demographic patterns, changes in customer preferences or financial conditions, regulatory restrictions that decrease customer access to particular products, or the availability of competing products. Should we fail to adapt to significant changes in our customers' demand for, or access to, our products, our revenues could decrease significantly and our operations could be harmed. Even if we do make changes to existing products or introduce new products to fulfill customer demand, customers may resist such changes or may reject such products. Moreover, the effect of any product change on the results of our business may not be fully ascertainable until the change has been in effect for some time, and, by that time, it may be too late to make further modifications to such product without causing further harm to our business, results of operations, and financial condition.

We face intense competition from other banks and financial institutions and other wealth and investment management firms that could hurt our business.

We conduct our business operations in markets where the banking business is highly competitive and is dominated by large multi-state and in-state banks with operations and offices covering wide geographic areas. We also compete with other financial service businesses, including investment advisory and wealth management firms, mutual fund companies, financial technology companies, and securities brokerage and investment banking firms that offer competitive banking and financial products and services as well as products and services that we do not offer. Larger

banks and many of those other financial service organizations have greater financial and marketing resources than we do that enable them to conduct extensive advertising campaigns and to shift resources to regions or activities of greater potential profitability. They also have substantially more capital and higher lending limits than we do, which enable them to attract larger clients and offer financial products and services that we are unable to offer, putting us at a disadvantage in competing with them for loans and deposits and investment management clients. If we are unable to compete effectively with those banking or other financial services businesses, we could find it more difficult to attract new and retain existing clients and our net interest margins, net interest income and investment management advisory fees could decline, which would materially adversely affect our business, results of operations and prospects, and could cause us to incur losses in the future.

In addition, our ability to successfully attract and retain investment advisory and wealth management clients is dependent on our ability to compete with competitors' investment products, level of investment performance, client services and marketing and distribution capabilities. If we are not successful in retaining existing and attracting new investment management clients, our business, financial condition, results of operations and prospects may be materially and adversely affected.



The loss of key personnel or inability to attract additional personnel could hurt our future financial performance.

We currently depend heavily on the contributions and services provided by Rick Keller, our Executive Chairman, Scott Kavanaugh, Chief Executive Officer of FFI and FFB, David DePillo, President of FFB, John Hakopian, President of FFA, and John Michel, Chief Financial Officer of FFI, FFB and FFA, as well as a number of other key management personnel. Our future success also will depend, in part, on our ability to retain our existing, and attract additional, qualified private banking officers, relationship managers and investment advisory personnel. Competition for such personnel is intense. If we are not successful in retaining and attracting key personnel, our ability to retain existing clients or attract new clients could be adversely affected and our business, financial condition, results of operations or prospects could be significantly harmed.

We are required to make significant estimates and assumptions in the preparation of our financial statements and our estimates and assumptions may not be accurate.

The preparation of our consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires our management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of income and expense during the reporting periods. Critical estimates are made by management in determining, among other things, the allowance for loan losses, amounts of impairment of assets, and valuation of income taxes. If our underlying estimates and assumptions prove to be incorrect, our financial condition and results of operations may be materially adversely affected.

The fair value of our investment securities can fluctuate due to factors outside of our control.

Factors beyond our control can significantly influence and cause adverse changes to occur in the fair values of securities in our investment securities portfolio. These factors include, but are not limited to, rating agency actions in respect of the investment securities in our portfolio, defaults by the issuers of such securities, concerns with respect to the enforceability of the payment or other key terms of such securities, changes in market interest rates and continued instability in the capital markets. Any of these factors, as well as others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could materially and adversely affect our business, results of operations, financial condition and prospects. In addition, the process for determining whether an impairment of a security is other-than-temporary usually requires complex, subjective judgments, which could subsequently prove to have been wrong, regarding the future financial performance and liquidity of the issuer of the security, the fair value of any collateral underlying the security and whether and the extent to which the principal of and interest on the security will ultimately be paid in accordance with its payment terms.

A loss or material reduction of access to securitization markets for multifamily loans may adversely impact our business model, profitability and growth.

We may sell multifamily loans through the securitization market. The securitization market, along with credit markets in general, experienced unprecedented disruptions during the economic downturn from 2008 to 2010. Although market conditions have since improved, for a number of years following the economic downturn, certain issuers experienced increased risk premiums while there was a relatively lower level of investor demand for certain asset-backed securities (particularly those securities backed by nonprime collateral). In addition, the risk of volatility surrounding the global economic system and uncertainty surrounding regulatory reforms such as the Dodd-Frank Act continue to create uncertainty around access to the capital markets. The shift of power in the United States government following the 2016 election increased uncertainty as the current administration seeks to unwind or reverse regulatory reforms impacting the financial industry which were put in place during the prior administration. As a result, there can be no assurance that we will continue to be successful in selling multifamily loans through the securitization market. Adverse changes in the securitization market generally could materially adversely affect our

ability to securitize loans on a timely basis or upon terms acceptable to us. This could increase our cost of funding, reduce our margins or cause us to hold assets until investor demand improves.

Technology and marketing costs may negatively impact our future operating results.

The financial services industry is constantly undergoing technological changes in the types of products and services provided to clients to enhance client convenience. Our future success will depend upon our ability to address the changing technological needs of our clients and to compete with other financial services organizations which have successfully implemented new technologies. The costs of implementing technological changes, new product development and marketing costs may increase our operating expenses without a commensurate increase in our business or revenues, in which event our business, financial condition, results of operations and prospects could be materially and adversely affected.

Fraudulent activity, breaches of our information security, and cybersecurity attacks could have a material adverse effect on our business, financial condition, results of operations or future prospects.

As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our clients and that may result in financial losses or increased costs to us or our clients, disclosure or misuse of confidential information belonging to us or personal or confidential information belonging to our clients, misappropriation of assets, litigation, or damage to our reputation. Fraudulent activity may take many forms, including check “kiting” or fraud, electronic fraud, wire fraud, “phishing” and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to data processing or data storage systems used by us or by our clients, denial or degradation of service attacks, and malware or other cyber-attacks. The financial services industry has experienced increases in electronic fraudulent activity, security breaches and cyber-attacks, including in the commercial banking sector, with cyber-criminals targeting commercial bank and brokerage accounts on an increasing basis. Moreover, in recent periods, several governmental agencies and large corporations, including financial service organizations, credit reporting agencies and retail companies, have suffered major data breaches, in some cases exposing not only their confidential and proprietary corporate information, but also sensitive financial and other personal information of their clients or customers and their employees or other third parties, and subjecting those agencies and corporations to potential fraudulent activity and their clients, customers and other third parties to identity theft and fraudulent activity in their credit card and banking accounts. Therefore, security breaches and cyber-attacks can cause significant increases in operating costs, including the costs of compensating clients and customers for any resulting losses they may incur and the costs and capital expenditures required to correct the deficiencies in and strengthen the security of data processing and storage systems.

Although we invest in systems and processes that are designed to detect and prevent security breaches and cyber-attacks and we conduct periodic tests of our security systems and processes, there is no assurance that we will succeed in anticipating or adequately protecting against or preventing all security breaches and cyber-attacks from occurring due to a number of possible causes, many of which will be outside of our control, including the changing nature and increasing frequency of such attacks, the increasing sophistication of cyber-criminals, and possible weaknesses that go undetected in our data systems notwithstanding the testing we conduct of those systems. If we are unable to detect or prevent a security breach or cyber-attack from occurring, then we and our clients could incur losses or damages; and we could sustain damage to our reputation, lose clients and business, suffer disruptions to our business and incur increased operating costs, and be exposed to additional regulatory scrutiny or penalties and to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We rely on communications, information, operating and financial control systems technology and related services from third-party service providers and there can be no assurance that we will not suffer an interruption in those systems.

We rely heavily on third-party service providers for much of our communications, information, operating and financial control systems technology, including our internet banking services and data processing systems. Any failure or interruption of, or security breaches in, these systems could result in failures or interruptions in our operations or in the client services we provide. Additionally, interruptions in service and security breaches could damage our reputation, lead existing clients to terminate their business relationships with us, make it more difficult for us to attract new clients and subject us to additional regulatory scrutiny and possibly financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We continually encounter technological change, and we may have fewer resources than many of our competitors to invest in technological improvements.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many national vendors provide turn-key services that allow smaller banks to compete with institutions that have substantially greater resources to invest in technological improvements. We may not be able, however, to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

The Company could be subject to tax audits, challenges to its tax positions, or adverse changes or interpretations of tax laws.

The Company is subject to federal and applicable state income tax laws and regulations. Income tax laws and regulations are often complex and require significant judgment in determining the Company's effective tax rate and in evaluating its tax positions. The Company's determination of its tax liability is subject to review by applicable tax authorities. Any audits or challenges of such determinations may adversely affect the Company's effective tax rate, tax payments or financial condition. Recently enacted U.S. tax legislation made significant changes to federal tax law, including the taxation of corporations, by, among other things, reducing the corporate income tax rate, disallowing certain deductions that had previously been allowed, and altering the expensing of capital expenditures. The implementation and evaluation of these changes may require significant judgment and substantial planning on behalf of the Company. These judgments and plans may require the Company to take new and different tax positions that if challenged could adversely affect the Company's effective tax rate, tax payments or financial condition. In addition, the new tax legislation remains subject to potential amendments, technical corrections, and further regulatory guidance and interpretation, any of which could lessen or increase certain adverse impacts on the Company. Furthermore, as the new tax legislation goes into effect, future changes may occur at the federal or state level that could result in unfavorable adjustments to the Company's tax liability.

Our ability to attract and retain clients and key employees could be adversely affected if our reputation is harmed.

Our ability (and the ability of FFB and FFA) to attract and retain clients and key employees could be adversely affected if our reputation is harmed. Any actual or perceived failure to address various issues could cause reputational harm, including a failure to address any of the following types of issues: legal and regulatory requirements; cybersecurity and the proper maintenance or protection of the privacy of client and employee financial or other personal information; record keeping deficiencies or errors; money-laundering; potential conflicts of interest and ethical issues. Moreover, any failure to appropriately address any issues of this nature could give rise to additional regulatory restrictions, and legal risks, which could lead to costly litigation or subject us to enforcement actions, fines, or penalties and cause us to incur related costs and expenses. In addition, our banking, investment advisory and wealth management businesses are dependent on the integrity of our banking personnel and our investment advisory and wealth managers. Lapses in integrity could cause reputational harm to our businesses that could lead to the loss of existing clients and make it more difficult for us to attract new clients and, therefore, could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may incur significant losses due to ineffective risk management processes and strategies.

We seek to monitor and control our risk exposures through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational and compliance systems, and internal control and management review processes. However, those systems and review processes and the judgments that accompany their application may not be effective and, as a result, we may not anticipate every economic and financial outcome in all market environments or the specifics and timing of such outcomes, particularly in the event of the kinds of dislocations in market conditions experienced in recent years, which highlight the limitations inherent in using historical data to manage risk. If those systems and review processes prove to be ineffective in identifying and managing risks, we could be subjected to increased regulatory scrutiny and regulatory restrictions could be imposed on our business, including on our potential future business lines, as a result of which our business and operating results could be adversely affected.

A natural disaster could harm our business.

Historically, California, in which a substantial portion of our business is located, has been susceptible to natural disasters, such as earthquakes, drought, floods and wild fires. The nature and level of natural disasters cannot be predicted. These natural disasters could harm our operations through interference with communications, including the

interruption or loss of our computer systems, which could prevent or impede us from gathering deposits, originating loans and processing and controlling our flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. Additionally, natural disasters could negatively impact the values of collateral securing our borrowers' loans and interrupt our borrowers' abilities to conduct their business in a manner to support their debt obligations, either of which could result in losses and increased provisions for loan losses for us.

We are exposed to risk of environmental liabilities with respect to real properties that we may acquire.

From time to time, in the ordinary course of our business, we acquire, by or in lieu of foreclosure, real properties which collateralize nonperforming loans. As an owner of such properties, we could become subject to environmental liabilities and incur substantial costs for any property damage, personal injury, investigation and clean-up that may be required due to any environmental contamination that may be found to exist at any of those properties, even if we did not engage in the activities that led to such contamination and those activities took place prior to our ownership of the properties. In addition, if we are the owner or former owner

of a contaminated site, we may be subject to common law claims by third parties seeking damages for environmental contamination emanating from the site. If we were to become subject to significant environmental liabilities or costs, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our investment advisory and wealth management business may be negatively impacted by changes in economic and market conditions.

Our investment advisory and wealth management business may be negatively impacted by changes in general economic and market conditions because the performance of that business is directly affected by conditions in the financial and securities markets. The performance of the financial markets and the businesses operating in the securities industry can be highly volatile within relatively short periods of time and is directly affected by, among other factors, domestic and foreign economic conditions and general trends in business and finance, and by the threat, as well as the occurrence, of global conflicts, all of which are beyond our ability to control. We cannot assure you that broad market performance will be favorable in the future. Declines or a lack of sustained growth in the financial markets may adversely affect the market value and performance of the investment securities that we manage, which could lead to reductions in our investment management and advisory fees and, therefore, may result in a decline in the performance of our investment advisory and wealth management business. Additionally, if FFA's performance were to decline, that could lead some of our clients to reduce their assets under management by us and make it more difficult for us to retain existing clients and attract new clients. If any of these events or circumstances were to occur, the operating results of our investment advisory and wealth management business and, therefore, our earnings could be materially and adversely affected.

The investment management contracts we have with our clients are terminable without cause and on relatively short notice by our clients, which makes us vulnerable to short term declines in the performance of the securities under our management.

Like most investment advisory and wealth management businesses, the investment advisory contracts we have with our clients are typically terminable by the client without cause upon less than 30 days' notice. As a result, even short term declines in the performance of the securities we manage, which can result from factors outside our control, such as adverse changes in market or economic condition or the poor performance of some of the investments we have recommended to our clients, could lead some of our clients to move assets under our management to other asset classes such as broad index funds or treasury securities, or to investment advisors which have investment product offerings or investment strategies different than ours. Therefore, our operating results are heavily dependent on the financial performance of our investment portfolios and the investment strategies we employ in our investment advisory businesses and even short-term declines in the performance of the investment portfolios we manage for our clients, whatever the cause, could result in a decline in assets under management and a corresponding decline in investment management fees, which would adversely affect our results of operations.

The market for investment managers is extremely competitive and the loss of a key investment manager to a competitor could adversely affect our investment advisory and wealth management business.

We believe that investment performance is one of the most important factors that affect the amount of assets under our management and, for that reason, the success of FFA's business is heavily dependent on the quality and experience of our investment managers and their track records in terms of making investment decisions that result in attractive investment returns for our clients. However, the market for such investment managers is extremely competitive and is increasingly characterized by frequent movement of investment managers among different firms. In addition, our individual investment managers often have direct contact with particular clients, which can lead to a strong client relationship based on the client's trust in that individual manager. As a result, the loss of a key investment manager to a competitor could jeopardize our relationships with some of our clients and lead to the loss of client accounts, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be adversely affected by the soundness of certain securities brokerage firms.

FFA does not provide custodial services for its clients. Instead, client investment accounts are maintained under custodial arrangements with large, well established securities brokerage firms, either directly or through arrangements made by FFA with those firms. As a result, the performance of, or even rumors or questions about the integrity or performance of, any of those brokerage firms could adversely affect the confidence of FFA's clients in the services provided by those firms or otherwise adversely impact their custodial holdings. Such an occurrence could negatively impact the ability of FFA to retain existing or attract new clients and, as a result, could have a material adverse effect on our business, financial condition, results of operations and prospects.

#### Risks Related to Our Regulatory Environment

The banking industry is highly regulated, and legislative or regulatory actions taken now or in the future may have a significant adverse effect on our operations.



The banking industry is extensively regulated and supervised under both federal and state laws and regulations that are intended primarily to protect customers, depositors, the FDIC's Deposit Insurance Fund, and the banking system as a whole, not our stockholders. We are subject to the regulation and supervision of the Federal Reserve Board, the FDIC and the DBO. The banking laws, regulations and policies applicable to us govern matters ranging from the maintenance of adequate capital, safety and soundness, mergers and changes in control to the general business operations conducted by us, including permissible types, amounts and terms of loans and investments, the amount of reserves held against deposits, restrictions on dividends, imposition of specific accounting requirements, establishment of new offices and the maximum interest rate that may be charged on loans.

We are subject to changes in federal and state banking statutes, regulations and governmental policies, or the interpretation or implementation of them, including regulations to be implemented as a result of the enactment of the Dodd-Frank Act. Any changes in any federal or state banking statute, regulation or governmental policy, including changes which may occur in 2018 and beyond during the current administration, could affect us in substantial and unpredictable ways, including ways that may adversely affect our business, results of operations, financial condition or prospects. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs. In addition, federal and state banking regulators have broad authority to supervise our banking business and that of our subsidiaries, including the authority to prohibit activities that represent unsafe or unsound banking practices or constitute violations of statute, rule, regulation, or administrative order. Failure to comply with any such laws, regulations or regulatory policies could result in sanctions by regulatory agencies, restrictions on our business activities, civil money penalties or damage to our reputation, all of which could adversely affect our business, results of operations, financial condition or prospects.

Federal and state banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions which we are, or may become, subject to as a result of such examinations may adversely affect us.

The Federal Reserve Board, the FDIC, and the DBO may conduct examinations of our business, including for compliance with applicable laws and regulations. As a result of an examination, regulatory agencies may determine that the financial condition, capital resources, asset quality, asset concentrations, earnings prospects, management, liquidity, sensitivity to market risk, or other aspects of any of our operations are unsatisfactory, or that we or our management are in violation of any law, regulation or guideline in effect from time to time. Regulatory agencies may take a number of different remedial actions, including the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to change the composition of our concentrations in portfolio or balance sheet assets, to assess civil monetary penalties against officers or directors, to remove officers and directors and, if such conditions cannot be corrected or there is an imminent risk of loss to depositors, the FDIC may terminate our deposit insurance. A regulatory action against us could have a material adverse effect on our business, results of operations, financial condition and prospects.

As a result of the Dodd-Frank Act and associated rulemaking, we have become subject to stringent capital requirements.

The Dodd-Frank Act required, among other things, that the federal banking agencies establish minimum leverage and risk-based capital requirements for insured banks and their holding companies. In July 2013, the federal banking agencies adopted the New Capital Rules, implementing the Basel III capital standards and establishing the minimum capital levels required under the Dodd-Frank Act, which apply to all U.S. banks, subject to various transition periods. We were required to comply with the New Capital Rules by January 1, 2015 with capital conservation buffer and deductions from common equity tier 1 capital phased in through 2019. The New Capital Rules establishes a common equity Tier 1 capital ratio of 6.5% of risk-weighted assets, tier 1 capital ratio of 8.0%, and total capital ratio of 10.0%, and leverage ratio of 5.0% for a financial institution to be considered "well capitalized" for regulatory purposes. Additionally, the New Capital Rules requires an institution to maintain a 2.5% common equity Tier 1

capital conservation buffer (phased in in annual increments of 0.625% beginning January 1, 2016) over the minimum risk-based capital requirement to avoid restrictions on the ability to pay dividends, discretionary bonuses, and to engage in share repurchases. The New Capital Rules increases the required capital for certain categories of assets, including high volatility construction real estate loans and certain exposures related to securitizations; however, the New Capital Rules retains the current capital treatment of residential mortgages. Under the New Capital Rules, we made a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. Implementation of these capital requirements, or any other new regulations, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations, financial condition or prospects.

New and future rulemaking by the CFPB and other regulators, as well as enforcement of existing consumer protection laws, may have a material and adverse effect on our operations and operating costs.

The CFPB has the authority to implement and enforce a variety of existing federal consumer protection statutes and to issue new regulations but, with respect to institutions of our size, does not have primary examination and enforcement authority with respect to such laws and regulations. The authority to examine depository institutions with \$10.0 billion or less in assets, like us, for compliance with federal consumer laws remains largely with our primary federal regulator, the FDIC. However, the CFPB may participate in examinations of smaller institutions on a “sampling basis” and may refer potential enforcement actions against such institutions to their primary regulators. In some cases, regulators such as the Federal Trade Commission and the Department of Justice also retain certain rulemaking or enforcement authority, and we also remain subject to certain state consumer protection laws. As an independent bureau within the Federal Reserve Board, the CFPB may impose requirements more severe than the previous bank regulatory agencies. The CFPB has placed significant emphasis on consumer complaint management and has established a public consumer complaint database to encourage consumers to file complaints they may have against financial institutions. We are expected to monitor and respond to these complaints, including those that we deem frivolous, and doing so may require management to reallocate resources away from more profitable endeavors.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, the CFPB and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution’s performance under the Community Reinvestment Act or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution’s performance under fair lending laws in private class action litigation. Any such actions could have a material adverse effect on our business, financial condition, results of operations and prospects.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, the USA PATRIOT Act of 2001 and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the Treasury to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of any financial institutions that we may acquire in the future are deemed deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, which would negatively impact our business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition, results of operations and prospects.

Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information and adversely affect our business opportunities.

We are subject to various privacy, information security and data protection laws, including requirements concerning security breach notification, and we could be negatively impacted by these laws. For example, our business is subject to the Gramm-Leach-Bliley Act which, among other things: (i) imposes certain limitations on our ability to share non-public personal information about our customers with non-affiliated third parties; (ii) requires that we provide certain disclosures to customers about our information collection, sharing and security practices and afford customers the right to “opt out” of any information sharing by us with non-affiliated third parties (with certain exceptions) and (iii) requires that we develop, implement and maintain a written comprehensive information security program containing safeguards appropriate based on our size and complexity, the nature and scope of our activities, and the sensitivity of customer information we process, as well as plans for responding to data security breaches. Various state and federal banking regulators and states and foreign countries have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Moreover, legislators and regulators in the United States and other countries are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on our current and planned privacy, data protection and information security-related practices, our collection, use, sharing, retention and safeguarding of

consumer or employee information, and some of our current or planned business activities. This could also increase our costs of compliance and business operations and could reduce income from certain business initiatives. This includes increased privacy-related enforcement activity at the federal level, by the Federal Trade Commission, as well as at the state level, such as with regard to mobile applications.

Compliance with current or future privacy, data protection and information security laws (including those regarding security breach notification) affecting customer or employee data to which we are subject could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could have a material adverse effect on our business, financial conditions or results of operations. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory or governmental investigations or actions, litigation, fines, sanctions and damage to our reputation, which could have a material adverse effect on our business, financial condition or results of operations.

FFA's business is highly regulated, and the regulators have the ability to limit or restrict, and impose fines or other sanctions on, FFA's business.

FFA is registered as an investment adviser with the SEC under the Investment Advisers Act and its business is highly regulated. The Investment Advisers Act imposes numerous obligations on registered investment advisers, including fiduciary, record keeping, operational and disclosure obligations. Moreover, the Investment Advisers Act grants broad administrative powers to regulatory agencies such as the SEC to regulate investment advisory businesses. If the SEC or other government agencies believe that FFA has failed to comply with applicable laws or regulations, these agencies have the power to impose fines, suspensions of individual employees or other sanctions, which could include revocation of FFA's registration under the Investment Advisers Act. We are also subject to the provisions and regulations of ERISA to the extent that we act as a "fiduciary" under ERISA with respect to certain of our clients. ERISA and the applicable provisions of the federal tax laws, impose a number of duties on persons who are fiduciaries under ERISA and prohibit certain transactions involving the assets of each ERISA plan which is a client, as well as certain transactions by the fiduciaries (and certain other related parties) to such plans. Additionally, like other investment advisory and wealth management companies, FFA also faces the risks of lawsuits by clients. The outcome of regulatory proceedings and lawsuits is uncertain and difficult to predict. An adverse resolution of any regulatory proceeding or lawsuit against FFA could result in substantial costs or reputational harm to FFA and, therefore, could have an adverse effect on the ability of FFA to retain key relationship and wealth managers, and to retain existing clients or attract new clients, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

#### Risks Related to Ownership of Our Common Stock

We do not plan to pay dividends for the foreseeable future. Additionally, our ability to pay dividends is subject to statutory, regulatory and other restrictions.

In order to support and fund the growth of our banking business, it is our policy to retain cash to use in our business rather than pay dividends to our stockholders. As a result, we have not paid any cash dividends since FFB commenced its banking operations in October 2007 and we have no plans to pay cash dividends at least for the foreseeable future. Additionally, our ability to pay dividends to our stockholders is restricted by Delaware and federal law and the policies and regulations of the Federal Reserve Board, which is our federal banking regulator.

Our ability to pay dividends to stockholders is also dependent on the payment to us of cash dividends by our subsidiaries, FFA and FFB. FFA and FFB are corporations that are separate and distinct from us and, as a result, they are subject to separate statutory or regulatory dividend restrictions that can affect their ability to pay cash dividends to us. FFA's ability to pay cash dividends to us is restricted under California corporate law. FFB's ability to pay dividends to us is limited by various banking statutes and regulations and California law. Moreover, based on their assessment of the financial condition of FFB or other factors, the FDIC or the DBO could find that payment of cash

dividends by FFB to us would constitute an unsafe or unsound banking practice, in which event they could restrict FFB from paying cash dividends, even if FFB meets the statutory requirements to do so. See the section entitled “Dividend Policy and Restrictions on the Payment of Dividends” in Item 5 of this report below for additional information about our dividend policy and the dividend restrictions that apply to us and to FFB and FFA.

The market prices and trading volume of our common stock may be volatile.

The price of our common stock constantly changes and has increased substantially since the fourth quarter of 2016. We cannot assure you that the market prices and trading volumes of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect the prices of our shares or result in fluctuations in those prices or in trading volume of our common stock could include the following, many of which are outside of our control:

- quarterly variations in our operating results or in the quality of our earnings or assets;

- operating results that differ from the expectations of management, securities analysts and investors;

changes in expectations as to our future financial performance;

the operating and securities price performance of other companies that investors believe are comparable to us;

the implementation of our growth strategy and performance of acquired businesses that vary from the expectations of securities analysts and investors;

the actual or anticipated enactment of new more costly government regulations that are applicable to our businesses or the imposition of regulatory restrictions on us;

our dividend policy and any changes that might occur to that policy in the future;

future sales by us of our common stock or any other of our equity securities;

changes in global financial markets and global economies and general market conditions, such as changes in interest rates or fluctuations in stock, commodity or real estate valuations; and

announcements of strategic developments, material acquisitions and other material events in our business or in the businesses of our competitors.

These broad market and industry factors may decrease the market price of our common stock, regardless of our actual operating performance. The stock market in general has from time to time experienced extreme price and volume fluctuations, including in recent months. In addition, in the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Share ownership by our officers and directors and certain agreements may make it more difficult for third parties to acquire us or effectuate a change of control that might be viewed favorably by other stockholders.

As of March 9, 2018, our executive officers and directors owned, in the aggregate, approximately 15% of our outstanding shares. As a result, if our executive officers and directors were to oppose a third party's acquisition proposal for, or a change in control of, the Company, our executive officers and directors may have sufficient voting power to be able to block or at least delay such an acquisition or change in control from taking place, even if other stockholders would support such a sale or change of control. In addition, a number of our executive officers have change of control agreements which could increase the costs and, therefore, lessen the attractiveness of an acquisition of the Company to a potential acquiring party.

Our corporate governance documents, and certain corporate and banking laws applicable to us, could make a takeover attempt, which may be beneficial to our stockholders, more difficult.

Our Board of Directors has the power under our certificate of incorporation to issue additional shares of common stock and create and authorize the sale of one or more series of preferred stock without having to obtain stockholder approval for such action. As a result, our Board could authorize the issuance of shares of a series of preferred stock to implement a stockholders rights plan (often referred to as a "poison pill") or could sell and issue preferred shares with special voting rights or conversion rights, which could deter or delay attempts by our stockholders to remove or replace management, and attempts of third parties either to engage in proxy contests or to acquire control of the Company. In addition, our charter documents:

enable our Board to fill any vacancy on the Board;

enable our Board to amend our bylaws without stockholder approval, subject to certain exceptions; and

require compliance with an advance notice procedure with regard to any business that is to be brought by a stockholder before an annual or special meeting of stockholders and with regard to the nomination by stockholders of candidates for election as directors.

These provisions could delay or prevent an acquisition of the Company or other transaction that some of our stockholders may believe is beneficial to them. Furthermore, federal and state banking laws and regulations applicable to us require anyone seeking to acquire more than 10% of our outstanding shares or otherwise effectuate a

change of control of the Company or of FFB, to file an application with, and to receive approval from, the Federal Reserve Board, the DBO, and the FDIC to do so. These laws and regulations may discourage potential acquisition proposals and could delay or prevent a change of control of the Company, including by means of a transaction in which our stockholders might receive a premium over the market price of our common stock.



We may issue additional equity securities, or engage in other transactions which could dilute our book value or affect the priority of our common stock, which may adversely affect the market price of our common stock.

Our Board of Directors may determine from time to time to raise additional capital by issuing additional shares of our common stock or other securities. In addition, we may issue additional securities in connection with future acquisitions we may make. We are not restricted from issuing additional shares of common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. We cannot predict or estimate the amount, timing, or nature of any future offerings or issuances of additional stock in connection with acquisitions, or the prices at which such offerings may be affected. Such offerings could be dilutive to common stockholders. New investors also may have rights, preferences and privileges that are senior to, and that adversely affect, our then-current common stockholders. Additionally, if we raise additional capital by making additional offerings of debt or preferred equity securities, upon liquidation, holders of our debt securities and shares of preferred stock, and lenders with respect to other borrowings, will receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution.

We may elect under the JOBS Act to use an extended transition period for complying with new or revised accounting standards.

We are an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). The JOBS Act allows us, as an emerging growth company, to take advantage of extended transition periods for the implementation of new or revised accounting standards. As a result, we will not be required to comply with new or revised accounting standards (i) until those standards apply to private companies, even if that is later than the date or dates on which they become effective for public companies or (ii) if sooner, until we cease to be an “emerging growth company” as defined in the JOBS Act. As a result, our financial statements may not be fully comparable to the financial statements of public companies that contain new or revised accounting standards not yet applicable to private companies or emerging growth companies, which could make our common stock less attractive to investors.

The reduced disclosures and relief from certain other significant disclosure requirements that are available to emerging growth companies may make our common stock less attractive to investors.

As an “emerging growth company” we are entitled to exemptions from certain reporting requirements that apply to public companies that are not emerging growth companies. These exemptions include the following:

- an exemption from the requirements of the Section 404 of the Sarbanes-Oxley Act of 2002, which requires public companies that are accelerated filers or large accelerated filers (within the meaning of the Exchange Act) to obtain and include in their annual reports on Form 10-K an attestation report from their independent registered public accountants with respect to the effectiveness of their internal control over financial reporting;
- less extensive disclosure obligations regarding executive compensation in our proxy statements or other periodic reports that we file with the SEC; and
- exemptions from the requirements to have our stockholders vote, on an advisory and nonbinding basis, on executive compensation and on any golden parachute payments.

In addition, even if we choose voluntarily to comply with any of the requirements from which we are exempt, we may later rely on those exemptions to avail ourselves of the reduced reporting and disclosure requirements applicable to emerging growth companies.

We may remain an emerging growth company until December 31, 2020, although we may cease to be an emerging growth company earlier under certain circumstances, including if, before the end of that period, it is determined that we have become a large accelerated filer under the rules of the SEC (which depends on, among other things, having a market value of common stock held by non-affiliates in excess of \$700 million).

Because we will be relying on one or more of these exemptions, investors and securities analysts may find it more difficult to evaluate our common stock, and some investors may find our common stock less attractive, and, as a result, there may be a less active trading market for our common stock than would be the case if we were not an emerging growth company, which could result in a reduction to the trading volume and greater volatility in the prices of our common stock.

A failure to maintain effective internal control over financial reporting could have a material adverse effect on our business and stock prices.

Although, as an emerging growth company, we are not required to obtain or include in our annual reports on Form 10-K an attestation report from our independent registered accountants with respect to the effectiveness of our internal control over financial reporting, like all other public companies, our Chief Executive Officer and our Chief Financial Officer are required, annually, to assess, and disclose their findings in our annual reports on Form 10-K with respect to, the effectiveness of our internal control over financial reporting in a manner that meets the requirements of Section 404(a) of the Sarbanes-Oxley Act. The rules governing the standards that must be met for our Chief Executive and Chief Financial Officers to assess and report on the effectiveness of our internal control over financial reporting are complex and require significant documentation, testing and possible remediation, which could significantly increase our operating expenses. See Item 9A “Controls and Procedures” below to review the attestation report of our Chief Executive Officer and Chief Financial Officer regarding the effectiveness of our internal control over financial reporting as of December 31, 2017.

Additionally, if we are unable to maintain the effectiveness of our internal control over financial reporting in the future, we may be unable to report our financial results accurately and on a timely basis. In such an event, investors and clients may lose confidence in the accuracy and completeness of our financial statements, as a result of which our liquidity, access to capital markets, and perceptions of our creditworthiness could be adversely affected and the market prices of our common stock could decline. In addition, we could become subject to investigations by NASDAQ, the SEC, or the Federal Reserve Board, or other regulatory authorities, which could require us to expend additional financial and management resources. As a result, an inability to maintain the effectiveness of our internal control over financial reporting in the future could have a material adverse effect on our business, financial condition, results of operations and prospects.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

An investment in our common stock is not an insured deposit and is not guaranteed by the FDIC, so you could lose some or all of your investment.

An investment in our common stock is not a bank deposit and is not insured against loss or guaranteed by the FDIC, any other deposit insurance fund or by any other public or private entity. An investment in our common stock is inherently risky for the reasons described herein. As a result, if you acquire our common stock, you could lose some or all of your investment.

#### Other Risks and Uncertainties.

Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business, financial condition, operating results and future prospects.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The corporate headquarters for FFI and each of its subsidiaries is located in Irvine, California. The Company has offices in California in Irvine, Indian Wells, Pasadena, El Centro, West Los Angeles, El Segundo, Laguna Hills, Seal Beach, Auburn, Oakland, Sacramento, Roseville, Burlingame, and San Diego and in Las Vegas, Nevada, and in Honolulu, Hawaii. All of these offices, except for the office in Auburn, California, are leased pursuant to non-cancelable operating leases that will expire between 2018 and 2026. The building for the office in Auburn, California is owned by us and is on land that is leased under a non-cancellable lease that expires in 2028.

Item 3. Legal Proceedings.

In the ordinary course of business, we are subject to claims, counter claims, suits and other litigation of the type that generally arise from the conduct of financial services businesses. We are not aware of any threatened or pending litigation that we expect will have a material adverse effect on our business operations, financial condition or results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

## Market Information

On November 3, 2014, our common stock became listed and commenced trading on the NASDAQ Global Stock Market under the trading symbol "FFWM". The following table shows the high and low sales prices of our shares for the respective periods set forth below, as reported on the NASDAQ Global Stock Market:

Quarter Ended	High	Low
2017:		
March 31 <sup>(1)</sup>	\$ 17.02	\$ 13.83
June 30	16.62	15.28
September 30	17.92	16.17
December 31	19.27	17.40
2016:		
March 31 <sup>(1)</sup>	\$ 11.80	\$ 10.46
June 30 <sup>(1)</sup>	11.50	10.11
September 30 <sup>(1)</sup>	12.58	10.31
December 31 <sup>(1)</sup>	14.90	11.90

(1) Per share data has been adjusted to reflect the two-for-one stock split effective January 18, 2017. The closing per share sales price of our common stock, as reported by NASDAQ, on March 9, 2018 was \$19.02. As of the same date, a total of 38,991,228 shares of our common stock were issued and outstanding which were held of record by approximately 3,000 shareholders.

## Dividend Policy and Restrictions on the Payment of Dividends

We have not previously paid cash dividends on our common stock. It is our current intention to invest our cash flow and earnings in the growth of our businesses and, therefore, we have no plans to pay cash dividends for the foreseeable future.

Our ability to pay dividends to our stockholders is subject to the restrictions set forth in the Delaware General Corporation Law (the "DGCL") and the regulatory authority of the Federal Reserve. The DGCL provides that a corporation, unless otherwise restricted by its certificate of incorporation, may declare and pay dividends out of its surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or for the preceding fiscal year, as long as the amount of capital of the corporation is not less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets. Surplus is defined as the excess of a corporation's net assets (i.e., its total assets minus its total liabilities) over the capital associated with issuances of its common stock. Moreover, the DGCL permits a board of directors to reduce its capital and transfer such amount to its surplus. In determining the amount of surplus of a Delaware corporation, the assets of the corporation, including stock of subsidiaries owned by the corporation, must be valued at their fair market value as determined by the board of directors, regardless of their historical book value. In addition, since we are a bank holding company subject to regulation by the FRB, it may become necessary for us to obtain the approval of the FRB before we can pay cash dividends to our stockholders.

Cash dividends from our two wholly-owned subsidiaries, FFB and FFA, represent the principal source of funds available to us, which we might use to pay cash dividends to our shareholders or for other corporate purposes. Since FFA and FFB are California corporations, they are subject to dividend payment restrictions under the California

General Corporation Law (the “CGCL”). The laws of the State of California, as they pertain to the payment of cash dividends by California state chartered banks, limit the amount of funds that FFB would be permitted to dividend to us more strictly than does the CGCL. In particular, under California law, cash dividends by a California state chartered bank may not exceed, the lesser of (i) the sum of its net income for the last three fiscal years (after deducting all dividends paid during the period), or (ii) the amount of its retained earnings.

Also, because the payment of cash dividends has the effect of reducing capital, capital requirements imposed on FFB by the DBO and the FDIC may operate, as a practical matter, to preclude the payment, or limit the amount of, cash dividends that might otherwise be permitted to be made under California law; and the DBO and the FDIC, as part of their supervisory powers, generally require insured banks to adopt dividend policies which limit the payment of cash dividends much more strictly than do applicable state laws.

### Restrictions on Intercompany Transactions

Sections 23A and 23B of the Federal Reserve Act, and the implementing regulations thereunder, limit transactions between a bank and its affiliates and limit a bank's ability to transfer to its affiliates the benefits arising from the bank's access to insured deposits, the payment system and the discount window and other benefits of the Federal Reserve System. Those Sections of the Act and the implementing regulations impose quantitative and qualitative limits on the ability of a bank to extend credit to, or engage in certain other transactions with, an affiliate (and a non-affiliate if an affiliate benefits from the transaction).

### Equity Compensation Plans

Certain information with respect to our equity compensation plans, as of December 31, 2017, is set forth in Item 12, in Part III of this Report and is incorporated herein by this reference.

### Recent Sales of Unregistered Securities

On November 10, 2017, we completed the acquisition of C1B and its wholly owned subsidiary, Community 1st Bank, through a merger of C1B with and into FFI. Pursuant to the terms of the merger agreement, each outstanding share of C1B common stock was converted into the right to receive 0.453 shares of FFI common stock. At the closing of this acquisition, we issued an aggregate of 2,955,623 shares of FFI common stock, which had a value of \$17.55 per share based on the closing price per share of FFI common stock on November 10, 2017. These shares were issued in reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") provided in Section 3(a)(10) of the Securities Act.



## Stock Performance Graph

The following graph shows a comparison from November 3, 2014 (the date our common stock commenced trading on the NASDAQ Global Market) through December 31, 2017 of the cumulative total return for our common stock, compared against (i) the Russell 2000 Index, which measures the performance of the smallest 2,000 members, by market cap, (i) the Russell 3000 Index, which measures the performance of the smallest 3,000 members, by market cap, of the Russell Index, and (ii) an index published by SNL Securities and known as the SNL Western Bank Index, which is comprised of 47 banks and bank holding companies (including the Company), the shares of which are listed on NASDAQ or the New York Stock Exchange and most of which are based in California and the remainder of which are based in nine other western states.

The stock performance graph assumes that \$100 was invested in Company common stock at the close of market on November 3, 2014, and, at that same date, in the Russell 2000 Index, the Russell 3000 Index and the SNL Western Bank Index and that any dividends paid in the indicated periods were reinvested. Shareholder returns shown in the stock performance graph are not necessarily indicative of future stock price performance.

	Period Ending				
	11/3/2014	12/31/2014	12/31/2015	12/31/2016	12/31/2017
First Foundation Inc. (FFWM)	100.00	97.21	126.42	152.73	198.71
Russell 2000 Index	100.00	102.95	97.07	115.97	131.22
Russell 3000 Index	100.00	102.06	100.55	111.03	131.96
SNL Western Bank Index	100.00	103.25	106.98	118.60	132.24

The above performance graph shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities under that section and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act.

Item 6. Selected Financial Data

With the exception of the certain items included in the selected performance and capital ratios, the following selected consolidated financial information as of and for the years ended December 31, 2017, 2016, and 2015 have been derived from our audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K, and the selected consolidated financial information as of and for the years ended December 31, 2014 and 2013 have been derived from our audited consolidated financial statements not appearing in this Annual Report on Form 10-K.

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You should read the following selected financial and operating data in conjunction with other information contained in this Annual Report on Form 10-K, including the information set forth in the sections entitled “Capitalization” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, as well as our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. The average balances used in computing certain ratios, have been computed using daily averages, except for average equity, which is computed using the average of beginning and end of month balances.

	As of and for the Year Ended December 31,										
(In thousands, except share and per share data)	2017		2016		2015		2014		2013		
<b>Selected Income Statement Data:</b>											
Net interest income	\$	113,618	\$	89,449	\$	64,471	\$	42,814	\$	35,674	
Provision for loan losses		2,762		4,681		2,673		235		2,395	
<b>Noninterest Income:</b>											
Asset management, consulting and other fees		26,710		24,384		23,486		21,798		18,240	
Other <sup>(1)</sup>		12,009		10,176		5,287		2,951		1,584	
Noninterest expense		98,976		80,994		61,458		52,507		43,622	
Income before taxes		50,599		38,334		22,832		14,821		9,481	
Net income		27,582		23,303		13,378		8,394		7,851	
<b>Share and Per Share Data: <sup>(2)</sup></b>											
<b>Net income per share:</b>											
Basic	\$	0.80	\$	0.72	\$	0.60	\$	0.54	\$	0.53	
Diluted		0.78		0.70		0.58		0.51		0.51	
<b>Shares used in computation:</b>											
Basic		34,482,630		32,365,800		22,310,014		15,474,072		14,848,420	
Diluted		35,331,059		33,471,816		23,151,710		16,332,686		15,484,430	
Tangible book value per share <sup>(3)</sup>	\$	9.46	\$	8.62	\$	8.05	\$	6.33	\$	5.59	
Shares outstanding at end of period <sup>(4)</sup>		38,207,766		32,719,632		31,961,052		15,690,364		15,467,028	
<b>Selected Balance Sheet Data:</b>											
Cash and cash equivalents	\$	120,394	\$	597,946	\$	215,748	\$	29,692	\$	56,954	
Loans, net of deferred fees <sup>(5)</sup>		3,799,707		2,791,251		1,754,883		1,166,392		903,645	
Allowance for loan and lease losses (“ALLL”)		18,400		15,400		10,600		10,150		9,915	
Total assets		4,541,185		3,975,403		2,592,579		1,355,424		1,037,360	
Noninterest-bearing deposits		1,097,196		661,781		299,794		246,137		217,782	
Interest-bearing deposits		2,346,331		1,765,014		1,222,382		716,817		584,255	
Borrowings <sup>(6)</sup>		678,000		1,250,000		796,000		282,886		141,603	
Shareholders’ equity <sup>(4)</sup>		394,951		284,264		259,736		99,496		86,762	
<b>Selected Performance and Capital Ratios:</b>											
Return on average assets		0.70	%	0.80	%	0.76	%	0.71	%	0.86	%
Return on average equity		8.5	%	8.4	%	8.1	%	9.1	%	10.2	%
Net yield on interest-earning assets		2.93	%	3.13	%	3.39	%	3.70	%	4.06	%
Efficiency ratio <sup>(7)</sup>		63.3	%	65.3	%	70.7	%	76.0	%	78.6	%
Noninterest income as a % of total revenues		25.4		27.9		33.1		36.6		35.7	
		8.02	%	7.10	%	9.93	%	7.33	%	8.34	%

Tangible common equity to tangible assets<sup>(3)</sup>

Tier 1 leverage ratio	8.44	%	8.76	%	11.81	%	7.32	%	8.67	%
Tier 1 risk-based capital ratio	11.99	%	12.80	%	17.44	%	11.02	%	13.04	%
Total risk-based capital ratio	12.61	%	13.52	%	18.19	%	12.23	%	14.30	%

Other Information:

Assets under management (end of period)	4,296,077		3,586,672							
	\$		\$		\$3,471,237		\$3,221,674		\$2,594,961	
NPAs to total assets	0.31	%	0.25	%	0.32	%	0.11	%	0.32	%
Charge-offs to average loans	0.00	%	0.00	%	0.15	%	0.00	%	0.10	%
Ratio of ALLL to loans <sup>(8)</sup>	0.54	%	0.60	%	0.61	%	0.87	%	1.16	%
Number of banking offices <sup>(9)</sup>	14		11		9		8		8	

(1) The 2017 and 2016 amounts include \$7.0 million and \$7.8 million in gains on sales of loans, respectively. The 2017 and 2014 amounts include \$0.1 million and \$1.0 million of gains on sale of REO.

(2) Share and per share data has been adjusted to reflect the two-for-one stock split effective January 18, 2017.

- (3) Tangible common equity, (also referred to as tangible book value) and tangible assets, are equal to common equity and assets, respectively, less \$33.6 million of intangible assets as of December 31, 2017, \$2.2 million of intangible assets as of December 31, 2016, \$2.4 million of intangible assets as of December 31, 2015, \$0.2 million of intangible assets as of December 31, 2014, and \$0.3 million of intangible assets as of December 31, 2013. We believe that this information is consistent with the treatment by bank regulatory agencies, which exclude intangible assets from the calculation of capital ratios. Accordingly, we believe that tangible common equity to tangible assets and tangible book value per share provide information that is important to investors and that is useful in understanding our capital position and ratios. However, these non-GAAP financial measures are supplemental and are not a substitute for an analysis based on GAAP measures. As other companies may use different calculations for these measures, this presentation may not be comparable to other similarly titled measures reported by other companies.
- (4) As a result of our acquisition of Community 1st Bancorp in 2017, we issued 2,955,623 shares of our common stock valued at \$17.55 per share. As a result of our acquisition of Pacific Rim Bank in 2015, we issued 1,242,690 shares of our common stock, valued at \$9.50 per share. As a result of our acquisition of Desert Commercial Bank, in 2014 and 2013, we issued 47,160 and 62,128 shares of our common stock, respectively, valued at \$7.50 per share, as part of a contingent payout. As a part of our at-the-market offering, in 2017, we issued 1,382,506 shares of our common stock at a weighted average price of \$16.83 per share. In 2015, we issued 14,337,662 shares of our common stock at a price of \$9.63 per share in a public offering and sold 544,070 shares of our common stock to the President of FFB at a price of 9.19 per share. As a result of private offerings, in 2013 we issued 637,974 shares of our common stock at a price of \$9.00 per share, and 77,468 shares of our common stock at a price of \$7.50 per share. As a result of the exercise of stock options: in 2017, we issued 1,072,000 shares of our common stock at an average exercise price of \$5.18 per share; in 2016, we issued 690,592 shares of our common stock at an average exercise price of \$6.17 per share; in 2015, we issued 62,614 shares of our common stock at an average exercise price of \$6.47 per share; and in 2014, we issued 169,732 shares of our common stock at an average exercise price of \$5.60 per share. We issued 78,005, 67,988, 21,524, 6,444, and 19,334 shares of common stock upon the vesting of restricted stock units in 2017, 2016, 2015, 2014, and 2013, respectively.
- (5) Includes loans classified as loans held for sale.
- (6) Borrowings consist primarily of overnight and short-term advances obtained by FFB from the Federal Home Loan Bank. This line also includes outstanding debt of FFI.
- (7) The efficiency ratio is the ratio of noninterest expense to the sum of net interest income and noninterest income. The efficiency ratio excludes (i) \$2.6 million of costs related to an acquisition in 2017; (ii) \$1.0 million in gains on sale of REO in 2014; and (iii) in 2014, \$1.0 million of costs related to a cancelled initial public offering and \$1.0 million of contingent payout expense related to the acquisition of DCB.
- (8) This ratio excludes loans acquired in our acquisitions as generally accepted accounting principles in the United States, or GAAP, requires estimated credit losses for acquired loans to be recorded as discounts to those loans.
- (9) Does not include our corporate and administrative office or loan production offices, At December 31, 2017, we had 3 loan production offices.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended to facilitate the understanding and assessment of significant changes and trends in our businesses that accounted for the changes in our results of operations in the year ended December 31, 2017, as compared to our results of operation in the year ended December 31, 2016; in our results of operations in the year ended December 31, 2016, as compared to our results of operations in the year ended December 31, 2015, and our financial condition at December 31, 2017 as compared to our financial condition at December 31, 2016. This discussion and analysis is based on and should be read in conjunction with our consolidated financial statements and the accompanying notes thereto contained elsewhere in this Annual Report on Form 10-K. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations. Some of the factors that could cause results to differ materially from expectations are discussed in the sections entitled "Risk Factors" and "Forward-Looking Statements" contained elsewhere in this Annual Report on Form 10-K.

### Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and accounting practices in the banking industry. Certain of those accounting policies are considered critical accounting policies, because they require us to make estimates and assumptions regarding circumstances or trends that could materially affect the value of those assets, such as economic conditions or trends that could impact our ability to fully collect our loans or ultimately realize the carrying value of certain of our other assets. Those estimates and assumptions are made based on current information available to us regarding those economic conditions or trends or other circumstances. If changes were to occur in the events, trends or other circumstances on which our estimates or assumptions were based, or other unanticipated events were to occur that might affect our operations, we may be required under GAAP to adjust our earlier estimates and to reduce the carrying values of the affected assets on our balance sheet, generally by means of charges against income, which could also affect our results of operations in the fiscal periods when those charges are recognized.

**Utilization and Valuation of Deferred Income Tax Benefits.** We record as a "deferred tax asset" on our balance sheet an amount equal to the tax credit and tax loss carryforwards and tax deductions (collectively "tax benefits") that we believe will be available to us to offset or reduce income taxes in future periods. Under applicable federal and state income tax laws and regulations, tax benefits related to tax loss carryforwards will expire if they cannot be used within specified periods of time. Accordingly, the ability to fully use our deferred tax asset related to tax loss carryforwards to reduce income taxes in the future depends on the amount of taxable income that we generate during those time periods. At least once each year, or more frequently, if warranted, we make estimates of future taxable income that we believe we are likely to generate during those future periods. If we conclude, on the basis of those estimates and the amount of the tax benefits available to us, that it is more likely, than not, that we will be able to fully utilize those tax benefits prior to their expiration, we recognize the deferred tax asset in full on our balance sheet. On the other hand, if we conclude on the basis of those estimates and the amount of the tax benefits available to us that it has become more likely, than not, that we will be unable to utilize those tax benefits in full prior to their expiration, then, we would establish a valuation allowance to reduce the deferred tax asset on our balance sheet to the amount with respect to which we believe it is still more likely, than not, that we will be able to use to offset or reduce taxes in the future. The establishment of such a valuation allowance, or any increase in an existing valuation allowance, would be effectuated through a charge to the provision for income taxes or a reduction in any income tax credit for the period in which such valuation allowance is established or increased.

**Allowance for Loan and Lease Losses.** Our ALLL is established through a provision for loan losses charged to expense and may be reduced by a recapture of previously established loss reserves, which are also reflected in the statement of income. Loans are charged against the ALLL when management believes that collectability of the principal is unlikely. The ALLL is an amount that management believes will be adequate to absorb estimated losses on existing loans that may become uncollectible based on an evaluation of the collectability of loans and prior loan loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the

loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions and certain other subjective factors that may affect the borrower's ability to pay. While we use the best information available to make this evaluation, future adjustments to our ALLL may be necessary if there are significant changes in economic or other conditions that can affect the collectability in full of loans in our loan portfolio.

Adoption of new or revised accounting standards. For some accounting standards, we may elect to take advantage of the extended transition period afforded by the JOBS Act, for the implementation of new or revised accounting standards. As a result, we may not be required to comply with new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies or we cease to be an "emerging growth" company as defined in the JOBS Act. As a result of this election, our financial statements may not be comparable to the financials statements of companies that comply with public company effective dates.

We have two business segments, “Banking” and “Investment Management and Wealth Planning” (“Wealth Management”). Banking includes the operations of FFB and FFIS and Wealth Management includes the operations of FFA. The financial position and operating results of the stand-alone holding company, FFI, are included under the caption “Other” in certain of the tables that follow, along with any consolidation elimination entries.

## Overview and Recent Developments

We experienced strong growth during 2017 with loan originations of \$1.7 billion, and deposit growth, excluding the deposits acquired from C1B, of \$605 million. Wealth Management’s AUM increased by \$709 million or 20% during 2017, and totaled \$4.3 billion as of December 31, 2017. Total revenues (net interest income and noninterest income) increased by 23%.

The results of operations for Banking and Wealth Management reflect the benefits of this growth. Income before taxes for Banking increased \$13.4 million from \$40.2 million in 2016 to \$53.5 million in 2017. Income before taxes for Wealth Management increased from \$2.1 million in 2016 to \$3.1 million in 2017. On a consolidated basis, income before taxes increased \$12.3 million from \$38.3 million in 2016 to \$50.6 million in 2017.

On December 18, 2017, we entered into a definitive agreement to acquire PBB Bancorp, the holding company for Premier Business Bank. As of December 31, 2017, Premier Business Bank had six branch offices and \$626 million in total assets. Pursuant to the merger agreement, PBB Bancorp shareholders will receive 1.05 shares of FFI common stock in exchange for each share of PBB Bancorp. The 100% stock transaction is valued at approximately \$106 million in aggregate, based on a closing price for FFI common stock of \$19.04 as of December 18, 2017. The value of the merger consideration will fluctuate based on First Foundation’s common stock price. Consummation of the merger is subject to customary closing conditions, including, among others, shareholder and regulatory approval. The merger is expected to close in the second quarter of 2018.

On November 10, 2017, we completed the acquisition of C1B, the holding company for Community 1st Bank. In connection with this acquisition, we issued an aggregate of 2,955,623 shares of FFI common stock, acquired \$227 million of loans, \$412 million of deposits, and recorded a core deposit intangible of \$6 million and goodwill of \$26 million.

During 2017, we sold 1.4 million shares of our common stock through our at the market (“ATM”) offering at an average price of \$16.83 per share, generating net proceeds of \$22.8 million.

After a determination that additional investment would not provide adequate returns, we discontinued the property and casualty insurance activities in the fourth quarter of 2017. The Company did not incur any significant costs as a result of this action.

In the fourth quarter of 2017, we recorded a \$5.4 million tax charge, attributable to the remeasurement of our net deferred tax asset as a result of the reduced corporate tax rate under the Tax Cuts and Jobs Act enacted in the fourth quarter of 2017. Our effective tax rate for 2017 was 45.5% as compared to 39.2% for 2016, and as compared to a statutory rate of approximately 41.5%. As a result of the changes in tax rates under the Tax Cuts and Jobs Act, we expect our statutory rate to be approximately 29% in 2018.

## Results of Operations

### Years Ended December 31, 2017 and 2016.

Our net income for 2017 was \$27.6 million, as compared to \$23.3 million for 2016. The primary sources of revenue for Banking are net interest income, fees from its deposits, trust and insurance services, gains on sales of loans, certain loan fees, and consulting fees. The primary sources of revenue for Wealth Management are asset management fees



assessed on the balance of AUM. Compensation and benefit costs, which represent the largest component of noninterest expense, accounted for 53% and 78%, respectively, of the total noninterest expense for Banking and Wealth Management in 2017.

The following tables show key operating results for each of our business segments for the years ended December 31:

(dollars in thousands)	Banking	Wealth Management	Other	Total
2017:				
Interest income	\$136,801	\$ —	\$—	\$136,801
Interest expense	22,530	—	653	23,183
Net interest income	114,271	—	(653 )	113,618
Provision for loan losses	2,762	—	—	2,762
Noninterest income	16,016	23,556	(853 )	38,719
Noninterest expense	73,990	20,469	4,517	98,976
Income (loss) before taxes on income	\$53,535	\$ 3,087	\$(6,023)	\$50,599
2016:				
Interest income	\$100,642	\$ —	\$—	\$100,642
Interest expense	11,193	—	—	11,193
Net interest income	89,449	—	—	89,449
Provision for loan losses	4,681	—	—	4,681
Noninterest income	13,832	21,348	(620 )	34,560
Noninterest expense	58,422	19,232	3,340	80,994
Income (loss) before taxes on income	\$40,178	\$ 2,116	\$(3,960)	\$38,334

General. Our net income and income before taxes in 2017 were \$27.6 million and \$50.6 million, respectively, as compared to \$23.3 million and \$38.3 million, respectively, in 2016. The increase in income before taxes was the result of a \$13.4 million increase in income before taxes for Banking and a \$1.0 million increase in income before taxes for Wealth Management, which were partially offset by a \$2.1 million increase in corporate expenses. The increase in Banking was due to higher net interest income, a lower provision for loan losses and higher noninterest income which were partially offset by higher noninterest expenses. The increase in Wealth Management was due to higher noninterest income which was partially offset by higher noninterest expense. Corporate interest expenses are related to the holding company line of credit which did not exist in 2016. Corporate noninterest expenses increased in 2017 by \$1.2 million when compared to 2016 due to costs related to strategic activities, including the Company's at the market stock offering and acquisition related activities, higher charitable contributions and other increases in costs, including legal and marketing.

Our effective tax rate for 2017 was 45.5% as compared to 39.2% for 2016, and as compared to a statutory rate of approximately 41.5%. In the fourth quarter, we recorded a \$5.4 million tax charge, attributable to the remeasurement of the net deferred tax asset as a result of the reduced corporate tax rate under the Tax Cuts and Jobs Act enacted in the fourth quarter of 2017. During 2017 and 2016, we realized 743 and 267 basis point reductions in our effective tax rate, respectively, related to excess tax benefits resulting from the exercise of stock awards.

Net Interest Income: The following tables set forth information regarding (i) the total dollar amount of interest income from interest-earning assets and the resultant average yields on those assets; (ii) the total dollar amount of interest expense and the average rate of interest on our interest-bearing liabilities; (iii) net interest income; (iv) net interest rate spread; and (v) net yield on interest-earning assets for the years ended December 31:

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(dollars in thousands)	2017		Average		2016		Average	
	Average	Interest	Yield /Rate	Yield /Rate	Average	Interest	Yield /Rate	Yield /Rate
	Balances				Balances			
<b>Interest-earning assets:</b>								
Loans	\$3,277,530	\$121,707	3.71	%	\$2,263,292	\$85,080	3.76	%
Securities	498,198	12,407	2.49	%	525,480	12,781	2.43	%
FHLB stock, fed funds and deposits	95,941	2,687	2.80	%	64,626	2,781	4.30	%
Total interest-earning assets	3,871,669	136,801	3.53	%	2,853,398	100,642	3.53	%
<b>Noninterest-earning assets:</b>								
Nonperforming assets	7,346				7,261			
Other	32,227				33,696			
Total assets	\$3,911,242				\$2,894,355			
<b>Interest-bearing liabilities:</b>								
Demand deposits	\$265,378	1,503	0.57	%	\$214,120	978	0.46	%
Money market and savings	1,033,174	8,256	0.80	%	704,644	4,663	0.66	%
Certificates of deposit	803,150	7,684	0.96	%	525,685	3,275	0.62	%
Total interest-bearing deposits	2,101,702	17,443	0.83	%	1,444,449	8,916	0.62	%
Borrowings	532,914	5,740	1.08	%	507,025	2,277	0.45	%
Total interest-bearing liabilities	2,634,616	23,183	0.88	%	1,951,474	11,193	0.57	%
<b>Noninterest-bearing liabilities:</b>								
Demand deposits	943,749				650,956			
Other liabilities	13,701				15,809			
Total liabilities	3,592,066				2,618,239			
Stockholders' equity	319,176				276,116			
Total liabilities and equity	\$3,911,242				\$2,894,355			
Net Interest Income		\$113,618				\$89,449		
Net Interest Rate Spread			2.65	%			2.96	%
Net Yield on Interest-earning Assets			2.93	%			3.13	%

Net interest income is impacted by the volume (changes in volume multiplied by prior rate), interest rate (changes in rate multiplied by prior volume) and mix of interest-earning assets and interest-bearing liabilities. The following table provides a breakdown of the changes in net interest income due to volume and rate changes between 2017 as compared to 2016.

(dollars in thousands)	Increase (Decrease) due to		Net Increase
	Volume	Rate	(Decrease)
<b>Interest earned on:</b>			
Loans	\$ 37,773	\$ (1,146 )	\$ 36,627
Securities	(684 )	310	(374 )
FHLB stock, fed funds and deposits	1,072	(1,166 )	(94 )
Total interest-earning assets	38,161	(2,002 )	36,159
<b>Interest paid on:</b>			
Demand deposits	261	264	525
Money market and savings	2,462	1,131	3,593

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Certificates of deposit	2,141	2,268	4,409
Borrowings	112	3,351	3,463
Total interest-bearing liabilities	4,976	7,014	11,990
Net interest income	\$ 33,185	\$ (9,016 )	\$ 24,169

Net interest income increased 27% from \$89.4 million in 2016, to \$113.6 million in 2017 because of a 36% increase in interest-earning assets, which was partially offset by a decrease in our net interest rate spread. The decrease in the net interest rate spread from 2.96% in 2016 to 2.65% in 2017 was due to an increase in the cost of interest-bearing liabilities. The yield on interest-earning assets was 3.53% for both 2017 and 2016 as a decrease in the yield on loans due to prepayments of higher yielding loans and the addition of loans at market rates in the latter half of 2016 which were lower than the then-current yield on our loan portfolio were offset by an increase in the proportion of higher yielding loans to total assets in 2017. The cost of interest-bearing liabilities increased from 0.57% to 0.88% due to increased costs of interest-bearing deposits, resulting from increases in deposit market rates and increased

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costs of borrowings as the average rate on FHLB advances increased from 0.45% in 2016 to 0.99% in 2017. In addition, the Company borrowed on its holding company line of credit during 2017.

Provision for loan losses. The provision for loan losses represents our determination of the amount necessary to be charged against the current period's earnings to maintain the ALLL at a level that is considered adequate in relation to the estimated losses inherent in the loan portfolio. The provision for loan losses is impacted by changes in loan balances as well as changes in estimated loss assumptions and charge-offs and recoveries. The amount of our provision for loan losses also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions and certain other subjective factors that may affect the ability of borrowers to meet their repayment obligations to us. For 2017 and 2016, we recorded provisions for loan losses of \$2.8 million and \$4.7 million, respectively. The lower provision for loan losses reflects improving credit trends in our loan portfolio. We realized \$0.2 million and \$0.1 million in recoveries in 2017 and 2016, respectively.

Noninterest income: Noninterest income for Banking includes fees charged to clients for trust services and deposit services, consulting fees, prepayment and late fees charged on loans, gain on sale of loans and REO, gains and losses from capital market activities and insurance commissions. The following table provides a breakdown of noninterest income for Banking for the years ended December 31:

(dollars in thousands)	2017	2016
Trust fees	\$3,360	\$2,798
Consulting fees	416	680
Deposit charges	442	444
Loss on capital market activities	—	(1,043)
Gain on sale of loans	7,029	7,812
Gain on sale of REO	104	—
Prepayment fees	1,905	1,161
Other	2,760	1,980
Total noninterest income	\$16,016	13,832

Noninterest income in Banking increased \$2.2 million from \$13.8 million in 2016 to \$16.0 million in 2017. Loan related fees, including loan servicing fees, were \$1.8 million higher in 2017 as compared to 2016 due to increased balances of loans serviced for others and increased loan activity. In addition, trust fees increased \$0.6 million due primarily to higher levels of AUM in the Bank's trust operations. During 2017, we realized \$7.0 million in gains on sales of loans as compared to \$7.8 million in gains on the sale of multifamily loans and \$1.0 million in losses from capital market activities during 2016.

Noninterest income for Wealth Management includes fees charged to high net-worth clients for managing their assets and for providing financial planning consulting services. The following table provides a breakdown of noninterest income for Wealth Management for the years ended December 31:

(dollars in thousands)	2017	2016
Asset management fees	\$23,522	\$21,277
Consulting and administration fees	76	88
Other	(42)	(17)
Total noninterest income	\$23,556	\$21,348

The \$2.2 million increase in noninterest income in Wealth Management in 2017 as compared to 2016 was primarily due to increases in asset management fees of 11%. The increases in asset management fees were primarily due to an

11% increase in the AUM balances used for computing the asset management fees in 2017, as compared to AUM balances used for computing the asset management fees in 2016.

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Noninterest Expense: The following table provides a breakdown of noninterest expense for Banking and Wealth Management for the years ended December 31:

(dollars in thousands)	Banking		Wealth Management	
	2017	2016	2017	2016
Compensation and benefits	\$39,357	\$33,024	\$15,899	\$14,579
Occupancy and depreciation	13,070	9,731	2,129	2,151
Professional services and marketing	3,961	6,664	1,838	1,852
Other expenses	17,602	9,003	603	650
Total noninterest expense	\$73,990	\$58,422	\$20,469	\$19,232

Noninterest expense in Banking increased from \$58.4 million in 2016 to \$74.0 million in 2017 due to \$2.6 million of one-time costs related to the acquisition of C1B, increases in staffing and costs associated with the Bank's expansion, including the acquisition of C1B and the growth of its balances of loans and deposits, which was partially offset by lower legal costs. Compensation and benefits for Banking increased \$6.3 million or 19%, during 2017 as compared to 2016 as the number of FTE in Banking increased to 310.9 from 260.2 as a result of the increased staffing related to the C1B acquisition, the December 2016 acquisition of two banking offices and additional personnel added to support the growth in loans and deposits. The \$3.3 million increase in occupancy and depreciation for Banking in 2017 as compared to 2016 was due to costs associated with our expansion into additional corporate space, the C1B acquisition, the December 2016 acquisition of two banking offices, the opening of new offices during 2016 and increases in our data processing costs due to increased volumes and the implementation of enhancements. Litigation related costs for Banking were \$2.8 million lower in 2017 as compared to 2016 due to the reimbursement in 2017 from our insurance providers of \$1.8 million of previously incurred legal costs and costs incurred for a trial in 2016. The \$8.6 million increase in other expenses in Banking in 2017 as compared to 2016 was due to \$2.6 million of one-time costs related to the acquisition of C1B, a \$5.4 million increase in customer service costs related to the increases in noninterest demand deposits and a \$0.4 million increase in FDIC insurance fees.

Noninterest expense in Wealth Management increased \$1.2 million in 2017 as compared to 2016, primarily due to increases in compensation and benefits related to a 6% increase in FTE and cost of living increases.

Years Ended December 31, 2016 and 2015.

Our net income for 2016 was \$23.3 million, as compared to \$13.4 million for 2015. Compensation and benefit costs, which represent the largest component of noninterest expense, accounted for 57% and 76%, respectively, of the total noninterest expense for Banking and Wealth Management in 2016.

The following tables show key operating results for each of our business segments for the years ended December 31:

(dollars in thousands)	Banking	Wealth		Total
		Management	Other	
2016:				
Interest income	\$100,642	\$ —	\$ —	\$100,642
Interest expense	11,193	—	—	11,193
Net interest income	89,449	—	—	89,449
Provision for loan losses	4,681	—	—	4,681
Noninterest income	13,832	21,348	(620 )	34,560
Noninterest expense	58,422	19,232	3,340	80,994
Income (loss) before taxes on income	\$40,178	\$ 2,116	\$(3,960)	\$38,334

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2015:				
Interest income	\$64,471	\$ —	\$—	\$64,471
Interest expense	5,607	—	674	6,281
Net interest income	58,864	—	(674 )	58,190
Provision for loan losses	2,673	—	—	2,673
Noninterest income	8,833	20,530	(590 )	28,773
Noninterest expense	39,982	18,352	3,124	61,458
Income (loss) before taxes on income	\$25,042	\$ 2,178	\$(4,388)	\$22,832

General. Our net income and income before taxes for 2016 were \$23.3 million and \$38.3 million, respectively, as compared to \$13.4 million and \$22.8 million, respectively, for 2015. The increase in income before taxes was the result of a \$15.1 million increase in income before taxes for Banking and a \$0.5 million decrease in corporate expenses. Earnings before taxes for Wealth Management for 2016 were consistent with 2015 as a \$0.8 million increase in noninterest income was offset by a commensurate



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increase in noninterest expenses. The increase in income before taxes in Banking was due to higher net interest income and higher noninterest income which was partially offset by a higher provision for loan losses and higher noninterest expenses. Corporate interest expense decreased by \$0.7 million due to the payoff of a term note in 2015, while corporate noninterest expenses increased by \$0.2 million.

The effective tax rate for 2016 was 39.2% as compared to 41.4% for 2015, with the benefit primarily due to the reductions in taxes on income from excess tax benefits resulting from the exercise of stock awards under ASU 2016-09.

Net Interest Income. The following tables set forth information regarding (i) the total dollar amount of interest income from interest-earning assets and the resultant average yields on those assets; (ii) the total dollar amount of interest expense and the average rate of interest on our interest-bearing liabilities; (iii) net interest income; (iv) net interest rate spread; and (v) net yield on interest-earning assets for the years ended December 31:

(dollars in thousands)	2016			2015				
	Average Balances	Interest	Average Yield /Rate	Average Balances	Interest	Average Yield /Rate		
<b>Interest-earning assets:</b>								
Loans	\$2,263,292	\$85,080	3.76	% \$1,450,081	\$57,481	3.96		%
Securities	525,480	12,781	2.43	% 224,906	5,227	2.32		%
FHLB stock, fed funds and deposits	64,626	2,781	4.30	% 41,356	1,763	4.26		%
Total interest-earning assets	2,853,398	100,642	3.53	% 1,716,343	64,471	3.76		%
<b>Noninterest-earning assets:</b>								
Nonperforming assets	7,261			2,098				
Other	33,696			24,741				
Total assets	\$2,894,355			\$1,743,182				
<b>Interest-bearing liabilities:</b>								
Demand deposits	\$214,120	978	0.46	% \$293,502	1,351	0.46		%
Money market and savings	704,644	4,663	0.66	% 281,539	1,641	0.58		%
Certificates of deposit	525,685	3,275	0.62	% 339,846	1,894	0.56		%
Total interest-bearing deposits	1,444,449	8,916	0.62	% 914,887	4,886	0.53		%
Borrowings	507,025	2,277	0.45	% 369,225	1,395	0.38		%
Total interest-bearing liabilities	1,951,474	11,193	0.57	% 1,284,112	6,281	0.49		%
<b>Noninterest-bearing liabilities:</b>								
Demand deposits	650,956			282,822				
Other liabilities	15,809			10,865				
Total liabilities	2,618,239			1,577,799				
Stockholders' equity	276,116			165,383				
Total liabilities and equity	\$2,894,355			\$1,743,182				
Net Interest Income		\$89,449			\$58,190			
Net Interest Rate Spread			2.96	%			3.27	%
Net Yield on Interest-earning Assets			3.13	%			3.39	%

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Net interest income is impacted by the volume (changes in volume multiplied by prior rate), interest rate (changes in rate multiplied by prior volume) and mix of interest-earning assets and interest-bearing liabilities. The following table provides a breakdown of the changes in net interest income due to volume and rate changes between 2016 as compared to 2015.

(dollars in thousands)	Increase (Decrease) due to		Net Increase (Decrease)
	Volume	Rate	
<b>Interest earned on:</b>			
Loans	\$ 30,697	\$ (3,098 )	\$ 27,599
Securities	7,306	248	7,554
FHLB stock, fed funds and deposits	1,004	14	1,018
<b>Total interest-earning assets</b>	<b>39,007</b>	<b>(2,836 )</b>	<b>36,171</b>
<b>Interest paid on:</b>			
Demand deposits	(372 )	(1 )	(373 )
Money market and savings	2,779	243	3,022
Certificates of deposit	1,148	233	1,381
Borrowings	581	301	882
<b>Total interest-bearing liabilities</b>	<b>4,136</b>	<b>776</b>	<b>4,912</b>
<b>Net interest income</b>	<b>\$ 34,871</b>	<b>\$ (3,612 )</b>	<b>\$ 31,259</b>

Net interest income increased 54% from \$58.2 million in 2015, to \$89.4 million in 2016 due to a 66% increase in interest-earning assets, which was partially offset by a decrease in our net interest rate spread. The decrease in the net interest rate spread from 3.27% for 2015 to 2.96% for 2016 was due to a decrease in yield on total interest earning assets and an increase in the cost of interest bearing liabilities. The yield on interest earning assets decreased from 3.76% to 3.53% due to an increase in the proportion of lower yielding securities to total interest earning assets and a decrease in the yield on loans which was partially offset by a \$0.9 million increase in FHLB dividends. The decrease in yield on loans was due to payments and prepayments of higher yielding loans and the addition of loans at current market rates which are lower than the current yield on our loan portfolio. We realized \$0.7 million and \$0.3 million on the net recovery of mark to mark adjustments related to payoffs of acquired loans in 2016 and 2015, respectively. The increase in the cost of interest-bearing liabilities was due to increased costs of interest-bearing deposits and to increased costs of borrowings. The increase in the cost of deposits was the result of increases in deposit market rates and the use of promotional rates to attract deposits. The increased costs of borrowings related to higher rates on FHLB advances which were partially offset by the payoff of our higher cost term note in the third quarter of 2015. The average rate on FHLB advances increased from 0.20% in 2015 to 0.45% in 2016.

Provision for loan losses. The provision for loan losses represents our estimate of the amount necessary to be charged against the current period's earnings to maintain the ALLL at a level that we consider adequate in relation to the estimated losses inherent in the loan portfolio. The provision for loan losses is impacted by changes in loan balances as well as changes in estimated loss assumptions and charge-offs and recoveries. The amount of the provision also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions and certain other subjective factors that may affect the ability of borrowers to meet their repayment obligations to us. For 2016 and 2015, we recorded provisions for loan losses of \$4.7 million and \$2.7 million, respectively. The increase in the provision for loan losses for 2016 as compared to 2015 reflects the increase in loan balances during 2016 when compared to the increase in loan balances during 2015. We recognized \$0.1 million in recoveries in 2016 as compared to \$2.2 million in chargeoffs in 2015.

Noninterest income. Noninterest income for Banking includes fees charged to clients for trust services and deposit services, consulting fees, prepayment and late fees charged on loans, gain on sale of loans, gains and losses from capital market activities and insurance commissions. The following table provides a breakdown of noninterest income for Banking for the years ended December 31:

(dollars in thousands)	2016	2015
Trust fees	\$2,798	\$2,210
Consulting fees	680	1,100
Deposit charges	444	427
Gain on sale of loans	7,812	2,935
Loss on capital market activities	(1,043 )	—
Prepayment fees	1,161	1,317
Other	1,980	844
Total noninterest income	\$13,832	\$8,833

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The \$5.0 million increase in noninterest income for Banking in 2016 as compared to 2015 was due to higher gains on sales of loans, gains on sales of securities realized in 2016 and increases in revenues related to our insurance agency operations which were partially offset by \$2.4 million of costs incurred to close out a swap. The gain on sale of loans includes gains realized on the sale of \$265 million of loans secured by multifamily properties to Freddie Mac who securitized the loans as part of their small balance loan program. The agreement with Freddie Mac to sell these loans provided for changes in pricing based upon changes in rates on certain treasury swap indices. In an effort to reduce the interest rate risk associated with this agreement, we entered into a swap agreement. In conjunction with the finalization of pricing under the agreement, we closed out our swap position and paid \$2.4 million, including fees, to counterparties under the swap agreement, and the pricing on the loan sale increased by \$2.2 million. We also realized a \$0.6 million gain on the sale of \$41 million of loans to another financial institution in 2016. The \$2.9 million gain on sale of loans in 2015 was primarily related to the sale of \$102 million of loans to Freddie Mac who securitized the loans as part of their small balance loan program. During 2016, during favorable market conditions, we sold securities with less desirable features and higher prepayment risk to better position our securities portfolio and realized gains on sales of securities of \$1.3 million. Included in other noninterest income for 2016 are \$1.2 million of revenues related to our insurance agency operations, an increase of \$0.7 million from 2015, due to a premium earned on a large life insurance policy and increasing revenues from our property and casualty activities which began operations in 2015.

Noninterest income for Wealth Management includes fees charged to high net-worth clients for managing their assets and for providing financial planning consulting services. The following table provides a breakdown of noninterest income for Wealth Management for the years ended December 31:

(dollars in thousands)	2016	2015
Asset management fees	\$21,277	\$20,470
Consulting fees	88	121
Other	(17 )	(61 )
Total noninterest income	\$21,348	\$20,530

The \$0.8 million increase in noninterest income in Wealth Management in 2016 as compared to 2015 was due to increases in asset management fees as a result of a 6% increase in AUM balances on which asset management fees are calculated. AUM, which totaled \$3.6 billion at December 31, 2016, increased by \$115 million during 2016 as new account growth of \$321 million and portfolio gains of \$221 million were partially offset by net withdrawals and account terminations of \$427 million.

Noninterest Expense. The following table provides a breakdown of noninterest expense for Banking and Wealth Management for the years ended December 31:

(dollars in thousands)	Banking		Wealth Management	
	2016	2015	2016	2015
Compensation and benefits	\$33,024	\$25,273	\$14,579	\$14,031
Occupancy and depreciation	9,731	7,117	2,151	1,952
Professional services and marketing	6,664	2,863	1,852	1,549
Other expenses	9,003	4,729	650	820
Total noninterest expense	\$58,422	\$39,982	\$19,232	\$18,352

The \$18.4 million increase in noninterest expense in Banking in 2016 as compared to 2015 was due primarily to increases in staffing and costs associated with the Bank's expansion, the growth of its balances of loans and deposits and costs associated with our property and casualty insurance agency operations which started during 2015. Compensation and benefits for Banking increased \$7.8 million during 2016 as compared to 2015 as the number of FTE in Banking increased to 260.2 during 2016 from 191.3 during 2015, as a result of the staffing added as a result of

the acquisition of PRB, increased staffing to support the growth in loans and deposits and increased staffing for our property and casualty insurance agency operations which were partially offset by increased deferred costs relating to the higher loan originations. The \$10.7 million increase in occupancy and depreciation, professional services and marketing and other expenses were related to increased costs related to the acquisition of PRB, higher legal costs related to ongoing litigation matters, costs associated with our expansion into additional corporate space and opening of new offices, and costs related to the higher levels of loans and deposits, including FDIC insurance and customer service costs.

Noninterest expense in Wealth Management increased \$0.8 million for 2016 as compared to 2015 primarily due to increased compensation costs related to the increase in FTE from 55.8 for 2015 to 58.8 for 2016.

## Financial Condition

The following table shows the financial position for each of our business segments, and of FFI and elimination entries used to arrive at our consolidated totals which are included in the column labeled Other, at December 31:

(dollars in thousands)	Banking	Wealth Management	Other and Eliminations	Total
<b>2017:</b>				
Cash and cash equivalents	\$ 120,261	\$ 4,407	\$ (4,274 )	\$ 120,394
Securities AFS	519,364	—	—	519,364
Loans Held For Sale	154,380	—	—	154,380
Loans, net	3,645,327	—	—	3,645,327
Premises and equipment	5,519	926	136	6,581
FHLB Stock	19,060	—	—	19,060
Deferred taxes	12,008	172	(37 )	12,143
REO	2,920	—	—	2,920
Goodwill and Intangibles	33,576	—	—	33,576
Other assets	25,521	179	1,740	27,440
Total assets	\$4,537,936	\$ 5,684	\$ (2,435 )	\$4,541,185
Deposits	\$3,460,465	\$ —	\$ (16,938 )	\$3,443,527
Borrowings	628,000	—	50,000	678,000
Intercompany balances	3,301	643	(3,944 )	—
Other liabilities	18,646	2,970	3,091	24,707
Shareholders' equity	427,524	2,071	(34,644 )	394,951
Total liabilities and equity	\$4,537,936	\$ 5,684	\$ (2,435 )	\$4,541,185
<b>2016:</b>				
Cash and cash equivalents	\$597,795	\$ 2,576	\$ (2,425 )	\$597,946
Securities AFS	509,578	—	—	509,578
Loans Held For Sale	250,942	—	—	250,942
Loans, net	2,540,309	—	—	2,540,309
Premises and equipment	5,603	991	136	6,730
FHLB Stock	33,750	—	—	33,750
Deferred taxes	16,602	283	(74 )	16,811
REO	1,734	—	—	1,734
Goodwill and Intangibles	2,177	—	—	2,177
Other assets	13,270	445	1,711	15,426
Total assets	\$3,971,760	\$ 4,295	\$ (652 )	\$3,975,403
Deposits	\$2,435,538	\$ —	\$ (8,743 )	\$2,426,795
Borrowings	1,250,000	—	—	1,250,000
Intercompany balances	3,019	539	(3,558 )	—
Other liabilities	11,670	2,744	(70 )	14,344
Shareholders' equity	271,533	1,012	11,719	284,264
Total liabilities and equity	\$3,971,760	\$ 4,295	\$ (652 )	\$3,975,403
<b>2015:</b>				
Cash and cash equivalents	\$215,671	\$ 5,682	\$ (5,605 )	\$215,748
Securities AFS	565,135	—	—	565,135
Loans, net	1,754,883	—	—	1,754,883
Premises and equipment	1,996	545	112	2,653
FHLB Stock	21,492	—	—	21,492

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Deferred taxes	14,466	630	296	15,392
REO	4,036	—	—	4,036
Goodwill and Intangibles	2,416	—	—	2,416
Other assets	8,645	314	1,865	10,824
Total assets	\$2,588,740	\$ 7,171	\$ (3,332 )	\$2,592,579
Deposits	\$1,569,932	\$ —	\$ (47,756 )	\$1,522,176
Borrowings	796,000	—	—	796,000
Intercompany balances	2,748	121	(2,869 )	—
Other liabilities	9,309	2,634	2,724	14,667
Shareholders' equity	210,751	4,416	44,569	259,736

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(dollars in thousands)	Banking	Wealth Management	Other and Eliminations	Total
Total liabilities and equity	\$2,588,740	\$ 7,171	\$ (3,332 )	\$2,592,579

Our consolidated balance sheet is primarily affected by changes occurring in our Banking operations as our Wealth Management operations do not maintain significant levels of assets. Banking has experienced and is expected to continue to experience increases in its total assets as a result of our growth strategy.

During 2017, total assets increased by \$566 million as the growth of our loans, including loans acquired in the acquisition of C1B, was offset by the elimination of additional borrowings of \$550 million that occurred as of December 31, 2016. Loans and deposits balances acquired in the C1B acquisition were \$227 million and \$412 million, respectively. For the Bank, during 2017, loans, including loans held for sale, increased by \$1.0 billion, deposits increased by \$1.0 billion, cash and cash equivalents decreased by \$478 million, securities AFS increased by \$10 million and FHLB advances decreased by \$622 million. During 2016, total assets for the Company and the Bank increased by \$1.4 billion. For the Bank, during 2016, loans, including loans held for sale, increased by \$1.0 billion, deposits increased by \$866 million, cash and cash equivalents increased by \$382 million, securities AFS decreased by \$56 million and FHLB advances increased by \$454 million.

Cash and cash equivalents, certificates of deposit and securities: Cash and cash equivalents, which primarily consist of funds held at the Federal Reserve Bank or at correspondent banks, including fed funds, decreased by \$478 million during 2017 primarily due to the payoff of the additional borrowing of \$550 million that occurred as of December 31, 2016. Changes in cash and cash equivalents are primarily affected by the funding of loans, investments in securities, and changes in our sources of funding: deposits, FHLB advances and FFI borrowings.

Securities available for sale: The following table provides a summary of the Company's AFS securities portfolio at December 31:

(dollars in thousands)	Amortized Cost	Gross Gains	Unrealized Losses	Estimated Fair Value
<b>2017:</b>				
US Treasury securities	\$ 499	\$—	\$(6 )	\$ 493
Agency mortgage-backed securities	471,131	287	(7,399)	464,019
Beneficial interest – FHLMC securitization	35,930	1,811	(1,889)	35,852
Corporate bonds	19,000	—	—	19,000
<b>Total</b>	<b>\$ 526,560</b>	<b>\$ 2,098</b>	<b>\$(9,294)</b>	<b>\$ 519,364</b>
<b>2016:</b>				
US Treasury Securities	\$ 300	\$—	\$(3 )	\$ 297
Agency mortgage-backed securities	476,163	160	(7,414)	468,909
Beneficial interest – FHLMC securitization	42,028	711	(2,367)	40,372
<b>Total</b>	<b>\$ 518,491</b>	<b>\$ 871</b>	<b>\$(9,784)</b>	<b>\$ 509,578</b>
<b>2015:</b>				
US Treasury Securities	\$ 300	\$—	\$—	\$ 300
Agency note	16,108	—	(95 )	16,013
Agency mortgage-backed securities	538,269	909	(3,030)	536,148
Beneficial interest – FHLMC securitization	12,674	476	(476 )	12,674
<b>Total</b>	<b>\$ 567,351</b>	<b>\$ 1,385</b>	<b>\$(3,601)</b>	<b>\$ 565,135</b>

The US Treasury Securities are pledged as collateral to the State of California to meet regulatory requirements related to FFB's trust operations.



The \$10 million increase in AFS securities was due to \$114 million of AFS securities acquired from C1B and the purchase of \$29 million of AFS securities, which were partially offset by \$74 million in principal payments, \$62 million of sales of AFS securities and decreases in the market value of securities reflected in the mark to market of AFS securities. The \$56 million decrease in AFS securities in 2016 was primarily the result of the sale of \$104 million of AFS securities and the collection of \$91 million in principal payments which were partially offset by the purchase of \$146 million of AFS securities.

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The table below indicates, as of December 31, 2017, the gross unrealized losses and fair values of our investments, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

(dollars in thousands)	Securities with Unrealized Loss at December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
US Treasury Securities	\$197	(2 )	\$296	\$ (4 )	\$493	\$ (6 )
Agency mortgage backed securities	158,984	(1,394 )	259,213	(6,005 )	418,197	(7,399 )
Beneficial interest – FHLMC securitization	—	—	8,738	(1,889 )	8,738	(1,889 )
Total temporarily impaired securities	\$159,181	\$ (1,396 )	\$268,247	\$ (7,898 )	\$427,428	\$ (9,294 )

Unrealized losses on agency notes and agency mortgage-backed securities have not been recognized into income because the issuer bonds are of high credit quality, management does not intend to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach maturity.

The scheduled maturities of securities AFS, other than agency mortgage backed securities, and the related weighted average yield is as follows as of December 31, 2017:

(dollars in thousands)	Less than 1 Year	1 Through 5 years	5 Through 10 Years	After 10 Years	Total
<b>Amortized Cost:</b>					
US Treasury securities	\$ —	\$ 499	\$ —	\$ —	\$499
Corporate bonds	—	—	19,000	—	19,000
Total	—	499	19,000	—	19,499
Weighted average yield	— %	1.03 %	5.24 %	— %	5.13 %
<b>Estimated Fair Value:</b>					
US Treasury securities	\$ —	\$ 493	\$ —	\$ —	\$493
Corporate bonds	—	—	19,000	—	19,000
Total	\$ —	\$ 493	\$ 19,000	\$ —	\$19,493

Agency mortgage backed securities and beneficial interests in FHLMC securitizations are excluded from the above table because such securities are not due at a single maturity date. The weighted average yield of the agency mortgage backed securities and beneficial interests in FHLMC securitizations as of December 31, 2017 was 2.55%.

Loans. The following table sets forth our loans, by loan category, as of December 31:

(dollars in thousands)	2017	2016	2015	2014	2013
Recorded investment balance:					
Loans secured by real estate:					
Residential properties:					
Multifamily	\$1,935,429	\$1,178,003	\$627,311	\$481,491	\$405,984
Single family	645,816	602,886	533,257	360,644	227,096

Total real estate loans secured by residential properties	2,581,245	1,780,889	1,160,568	842,135	633,080
Commercial properties	696,748	476,959	358,791	205,320	154,982
Land	37,160	24,100	12,320	4,309	3,794
Total real estate loans	3,315,153	2,281,948	1,531,679	1,051,764	791,856
Commercial and industrial loans	310,779	237,941	196,584	93,537	93,255
Consumer loans	29,330	32,127	37,206	21,125	18,484
Total loans	3,655,262	2,552,016	1,765,469	1,166,426	903,595
Premiums, discounts and deferred fees and expenses	8,465	3,693	14	(34 )	50
Total	\$3,663,727	\$2,555,709	\$1,765,483	\$1,166,392	\$903,645

Loans and loans held for sale increased by \$1.0 billion in 2017 as a result of \$1.7 billion of originations, \$227 million of loans acquired from C1B and \$8 million of purchases which were partially offset by the sale of \$453 million of multifamily loans and payoffs or scheduled payments of \$491 million. The \$1.0 billion increase in loans, including loans held for sale, during 2016 was the

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result of loan originations and funding of existing credit commitments of \$1.8 billion, which were partially offset by \$430 million of payoffs and scheduled principal payments and the sale of \$306 million in loans.

The scheduled maturities, as of December 31, 2017, of the performing loans categorized as land loans and as commercial and industrial loans, are as follows:

(dollars in thousands)	Scheduled Maturity			Loans With a Scheduled Maturity After One Year	
	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years	Loans With	Loan With
				Fixed Rates	Adjustable Rates
Land loans	\$34,068	\$ 1,497	\$ 1,858	\$ 2,079	\$ 1,276
Commercial and industrial loans	113,723	119,765	79,177	118,522	80,420

Deposits: The following table sets forth information with respect to our deposits and the average rates paid on deposits, as of December 31:

(dollars in thousands)	2017		2016		2015	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
<b>Demand deposits:</b>						
Noninterest-bearing	\$ 1,097,196	—	\$ 661,781	—	\$ 299,794	
Interest-bearing	235,294	0.411 %	194,274	0.471 %	260,167	0.359 %
Money market and savings	1,210,240	0.840 %	941,344	0.677 %	492,015	0.531 %
Certificates of deposits	900,797	1.189 %	629,396	0.589 %	470,200	0.554 %
Total	\$3,443,527	0.634 %	\$2,426,795	0.453 %	\$1,522,176	0.404 %

The \$1.0 billion increase in deposits during 2017 was due to \$412 million of deposits acquired from C1B and increases in our specialty deposits and banking office deposits of \$267 million and \$240 million, respectively. The \$905 million increase in deposits during 2016 reflects the organic growth of our Banking operations, \$179 million of deposits acquired in an acquisition of two banking offices in December 2016 and a \$116 million increase in brokered deposits.

The weighted average rate of interest-bearing deposits increased from 0.50% at December 31, 2015 to 0.62% at December 31, 2016, to 0.93% at December 31, 2017, while the weighted average interest rates of both interest-bearing and noninterest-bearing deposits, increased from 0.40% at December 31, 2015, to 0.45% at December 31, 2016, and 0.63% at December 31, 2017 as the increase in noninterest-bearing deposits as a percentage of total deposits has offset the impact of the increases in rates on interest-bearing deposits on our overall cost of deposits. The financial impact of the increase in noninterest-bearing deposits is reflected in customer service costs which are included in noninterest expenses.

The maturities of our certificates of deposit of \$100,000 or more were as follows as of December 31, 2017:

(dollars in thousands)	
3 months or less	\$ 191,120
Over 3 months through 6 months	59,160
Over 6 months through 12 months	109,216

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Over 12 months	109,835
Total	\$469,331

FFB utilizes a third party program called CDARs which allows FFB to transfer funds of its clients in excess of the FDIC insurance limit (currently \$250,000) to other institutions in exchange for an equal amount of funds from clients of these other institutions. This has allowed FFB to provide FDIC insurance coverage to its clients. Under certain regulatory guidelines, these deposits are considered brokered deposits. From time to time, the Bank will utilize brokered deposits as a source of funding. As of December 31, 2017, the Bank held \$493 million of deposits which are classified as brokered deposits, including \$17.4 million of CDARs reciprocal deposits.

Borrowings: At December 31, 2017, our borrowings consisted of \$628 million of overnight FHLB advances at FFB. At December 31, 2016, our borrowings consisted of \$1.3 billion of overnight FHLB advances at FFB. These overnight FHLB advances were paid in full in the early parts of January 2018 and January 2017, respectively. Because FFB utilizes overnight borrowings, the balance of outstanding borrowings fluctuates on a daily basis. The weighted average interest rate on these overnight borrowings was 0.99% for 2017 and 0.45% for 2016. The average balance of overnight borrowings was \$499 million during 2017 as compared to \$507

million during 2016. The maximum amount of short-term FHLB advances outstanding at any month-end during 2017 and 2016, was \$818 million, and \$1.3 billion, respectively.

Term Loan. In 2017, we entered into a loan agreement with an unaffiliated lender that provides for a revolving line of credit for up to \$50 million. The loan agreement matures in five years, with an option to extend the maturity date subject to certain conditions, and bears interest at 90 day LIBOR plus 350 basis points (3.50%). The loan agreement contains certain financial and non-financial covenants, which include, but are not limited to, a minimum leverage ratio, a minimum total risk-based capital ratio, a maximum non-performing assets to net capital ratio, a maximum classified assets to tier 1 capital ratio, a minimum fixed charge coverage ratio, restrictions on indebtedness, liens, and investments, and places limits on restricted payments. Some of the covenants also apply to the Bank. The Company's obligations under the loan agreement are secured by a first priority security interest in all of the outstanding capital stock of the Bank.

#### Delinquent Loans, Nonperforming Assets and Provision for Credit Losses

Loans are considered past due following the date when either interest or principal is contractually due and unpaid. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on loans is discontinued when reasonable doubt exists as to the full, timely collection of interest or principal and, generally, when a loan becomes contractually past due for 90 days or more with respect to principal or interest. However, the accrual of interest may be continued on a well-secured loan contractually past due 90 days or more with respect to principal or interest if the loan is in the process of collection or collection of the principal and interest is deemed probable. The following tables provide a summary of past due and nonaccrual loans as of December 31:

(dollars in thousands)	Past Due and Still Accruing				Total Past Due and Nonaccrual	Current	Total
	30-59 Days	60-89 Days	90 Days or More	Nonaccrual			
2017:							
Real estate loans:							
Residential properties	\$78	\$ —	\$ —	\$ —	\$ 78	\$2,581,167	\$2,581,245
Commercial properties	—	—	1,320	1,742	3,062	693,686	696,748
Land	—	—	—	—	—	37,160	37,160
Commercial and industrial loans	—	—	789	9,617	10,406	300,373	310,779
Consumer loans	—	—	—	—	—	29,330	29,330
Total	\$78	\$ —	\$ 2,109	\$ 11,359	\$ 13,546	\$3,641,716	\$3,655,262
Percentage of total loans	0.00 %	— %	0.06 %	0.31 %	0.37 %		
2016:							
Real estate loans:							
Residential properties	\$—	\$ —	\$ —	\$ 3,759	\$ 3,759	\$1,777,130	\$1,780,889
Commercial properties	—	—	2,128	1,120	3,248	473,711	476,959
Land	—	—	—	—	—	24,100	24,100
Commercial and industrial loans	—	2	3,800	3,359	7,161	230,780	237,941
Consumer loans	—	—	—	—	—	32,127	32,127
Total	\$—	\$ 2	\$ 5,928	\$ 8,238	\$ 14,168	\$2,537,848	\$2,552,016
Percentage of total loans	— %	0.00 %	0.23 %	0.32 %	0.56 %		

2015:

Real estate loans:

Residential properties	\$—	\$ —	\$—	\$ —	\$ —	\$1,160,568	\$1,160,568
Commercial properties	1,232	—	793	1,552	3,577	355,214	358,791
Land	—	—	—	—	—	12,320	12,320
Commercial and industrial loans	2,425	1,639	5,713	2,509	12,286	184,298	196,584
Consumer loans	1,010	—	1,991	75	3,076	34,130	37,206
Total	\$4,667	\$ 1,639	\$ 8,497	\$ 4,136	\$ 18,939	\$1,746,530	\$1,765,469
Percentage of total loans	0.26 %	0.09 %	0.48 %	0.23 %	1.07 %		

The level of delinquent loans and nonaccrual loans have been adversely impacted by the loans acquired in an acquisition. As of December 31, 2017, of the \$13.5 million in loans over 90 days past due, including loans on nonaccrual, \$1.9 million, or 14% were loans acquired in an acquisition.

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The following table presents the composition of troubled debt restructurings (“TDRs”) by accrual and nonaccrual status as of:

(dollars in thousands)	December 31, 2017			December 31, 2016		
	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Commercial and industrial	\$195	\$4,296	\$4,491	\$317	\$3,109	\$3,426

These loans were classified as a TDR as a result of a reduction in required principal payments and/or an extension of the maturity date of the loans.

The following is a breakdown of our loan portfolio by the risk category of loans at December 31:

(dollars in thousands)	Pass	Special Mention	Substandard	Impaired	Total
2017:					
Real estate loans:					
Residential properties	\$2,578,773	\$192	\$2,280	\$—	\$2,581,245
Commercial properties	680,449	6,326	5,936	4,037	696,748
Land	36,321	—	839	—	37,160
Commercial and industrial loans	298,408	865	2,107	9,399	310,779
Consumer loans	29,330	—	—	—	29,330
Total	\$3,623,281	\$7,383	\$11,162	\$13,436	\$3,655,262
2016:					
Real estate loans:					
Residential properties	\$1,773,296	\$1,500	\$—	\$6,093	\$1,780,889
Commercial properties	470,484	1,913	2,414		