First Foundation Inc.
Form 10-12G
October 17, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES

Pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934

FIRST FOUNDATION INC.

State or other jurisdiction of incorporation or organization: California

I.R.S. Employer Identification Number: 20-8639702

18101 Von Karman Avenue, Suite 700

Irvine, CA 92612

Phone: (949) 202-4160

(Address and telephone number of principal executive offices)

Securities to be registered pursuant to Section 12(b) of the Act:

None

(Title of each class)

N/A

(Name of each exchange on which to be registered)

Securities to be registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.001 per share

(Title of class)

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

Large accelerated filer ¨ Accelerated filer ¨
Non-accelerated filer ¨ Smaller reporting company x

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this document contains forward-looking statements (as such term is defined in 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 and that do not relate solely to historical matters. However, actual results and financial performance in the future will be affected by known and currently unknown risks, uncertainties and other factors that may cause 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. In some cases, you can identify forward-looking statements by words like "may," "will," "should," "could," "believes," "intends," "exp "anticipates," "plans," "estimates," "predicts," "potential," "project" and "continue" and similar expressions. Readers of this document 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 such forward-looking statements to reflect events or circumstances after the date of this document or the occurrence of 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.

This Form 10 registration statement does not constitute an offer or solicitation to sell our shares or any other securities. Any such offer or solicitation will be made in accordance with the terms of all applicable securities laws.

"First Foundation Inc.," "First Foundation Advisors," "First Foundation Bank," and "First Foundation Insurance Services," anc their respective logos are trademarks and/or service marks of First Foundation Inc. and its subsidiaries. All other trademarks, service marks and trade names referred to in this Form 10 registration statement are the property of their respective owners.

(ii)

IMPLICATIONS OF BEING AN EMERGING GROWTH COMPANY

As a company with less than $1.0 billion in revenue during our last fiscal year, we qualify as an "emerging growth company" as defined in the Jumpstart our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting requirements and is relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company:

- we are permitted to present only two years of audited financial statements and only two years of related Management's Discussion and Analysis of Financial Condition and Results of Operations;
- we are exempt from the requirement to obtain an attestation and report from our auditors on the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002;
- we are permitted to provide less extensive disclosure about our executive compensation arrangements;
- we are not required to give our stockholders non-binding advisory votes on executive compensation or golden parachute arrangements; and
- we have elected to use an extended transition period for complying with new or revised accounting standards.

We may take advantage of these provisions for up to five years subsequent to the effective date of this Form 10 registration statement or such earlier time that we are no longer an emerging growth company. We will cease to be an emerging growth company upon the earliest of (i) the last day of the first fiscal year in which our annual gross revenues exceed $1.0 billion, (ii) December 31 of the fiscal year that we become a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, or the Exchange Act, which would occur if the market value of our common stock held by non-affiliates exceeds $700 million as of the last business day of our most recently completed second fiscal quarter and we have been publicly reporting for at least 12 months, or (iii) the date on which we have issued more than $1.0 billion in non-convertible debt during the preceding three-year period.

We may choose to take advantage of some but not all of these reduced burdens. We have taken advantage of reduced reporting requirements in this Form 10 registration statement. Accordingly, the information contained herein may be different from the information reported by our competitors that are public companies, or by other public companies in which you have made an investment.

ITEM 1. BUSINESS

Overview

We are a financial services company that provides comprehensive financial services, including investment management, wealth planning, consulting, banking and trust services, though an integrated platform. First Foundation Inc., ("we," "our," "us," the "Company" or "FFI"), is a California corporation which is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (Holding Company Act"). We conduct our business through our wholly owned subsidiaries, First Foundation Advisors ("FFA") and First Foundation Bank ("FFB" or the "Bank"). FFA, which is a registered investment adviser under the Investment Advisers Act of 1940, as amended (the "Investment Advisors Act"), conducts our investment advisory and wealth management business. FFA provides investment advisory services, financial consulting and and related services predominantly to high-net-worth individuals and their families, family businesses, and other organizations. As of June 30, 2013, FFA had assets under management ("AUM") of $2.36 billion. FFB, which is a California state chartered bank, conducts our banking and trust operation. The deposits held by FFB are insured to the maximum extent permitted by law by the Federal Deposit Insurance Corporation ("FDIC"). As of June 30, 2013, FFB had total assets of $891 million. The operations of FFA and FFB are conducted through a total of seven wealth management offices (at which we provide investment management, wealth planning, consulting, banking and trust services), six of which are in Southern California and one of which is in Las Vegas, Nevada and through our corporate and administrative offices located in Irvine, California.

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 the "FRB") and the Federal Reserve Bank of San Francisco (the "FRBSF") under delegated authority from the FRB. As an FDIC-insured, California state chartered bank, FFB is subject to regulation and examination by the 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, as a registered investment adviser under the Investment Advisors Act, is subject to regulation by the Securities and Exchange Commission (the "SEC" or the "Commission").

We were organized in October 2006 under the name "Keller Financial Group" to become the holding company for FFA, which commenced its operations in 1990. In June, 2007, the then shareholders of FFA (which was incorporated under the name Keller Investment Management Inc. in 2007), exchanged all of their FFA shares for a total of 2,000,000 shares of our common stock, as a result of which, FFA became a wholly-owned subsidiary of the Company. Prior to June 2007, the Company had no material assets and had conducted no business operations.

In 2007, we organized FFB and filed an application with the U.S. Office of Thrift Supervision (the "OTS"), to become an FDIC-insured federal savings bank. In September 2007, we sold 3,200,000 shares of our common stock, at a price of $10.00 per share, solely to accredited investors in a private offering, raising gross proceeds of $32.0 million. On September 17, 2007, FFB received its banking charter from the OTS and we contributed $25.0 million to FFB in exchange for 100% of its shares. FFB commenced its banking operations in October 2007. Effective June 28, 2012,

FFB was converted from a federal savings bank to a California state chartered, FDIC insured bank, subject to regulation by the FDIC and the DBO.

In February 2009, we amended our articles of incorporation to change our name to First Foundation Inc.. In September 2009, the the company that was previously known as Keller Investment Management Inc. changed its names to First Foundation Advisors.

Our headquarters offices are located at 18101 Von Karman Avenue, Suite 700, Irvine, California 92612, where our phone number is (949) 202-4160.

Overview of our Investment Advisory and Wealth Management Business.

FFA is a fee-only investment adviser which provides investment advisory services primarily to high net worth individuals, their families and their family businesses. In addition, FFA provides fee-only wealth management services predominantly to high-net-worth individuals and their families, family businesses, and non-profit organizations. FFA strives to provide its clients with a high level of personalized service by its staff of experienced relationship managers and consultants. As of June 30, 2013, FFA had approximately 1,300 clients, located primarily in Southern California, and had AUM of $2.36 billion. For segment reporting purposes, FFA's operations are referred to as Wealth Management.

Overview of Our Banking Business.

FFB is engaged in private and commercial banking, offering a broad range of personal and business banking and trust services to its clients. Its private banking services include a variety of deposit products, including personal checking, savings and money market deposits and certificates of deposit, and single family real estate loans, consumer loans and online and other personal 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 and enhanced business services. FFB's client base is comprised primarily of mid-to-high net worth individuals and their families, small to moderate sized businesses and professional firms.

We have grown and extended FFB's banking franchise from a single banking office, which opened in October 2007, in the City of Irvine, in Orange County California, to a total of seven offices located in the cities of: El Centro, La Jolla, Newport Beach, Palm Desert, Pasadena, and West Los Angeles, California and Las Vegas, Nevada.

At June 30, 2013, FFB had $891 million of total assets, $798 million of loans and $727 million of deposits. By comparison, at December 31, 2011 and 2010, FFB had total assets of $549 million and $404 million, respectively, loans of $523 million and $337 million, respectively, and total deposits of $410 million and $290 million, respectively. FFB generated net interest income of $27.7 million in the year ended December 31, 2012, as compared to $20.1 million and $11.9 million in the years ended December 31, 2011 and 2010, respectively. In the six months ended June 30, 2013, net interest income totaled $17.7 million, as compared to $12.3 million for the same six months of 2012. For segment reporting purposes, our banking operations are referred to as Banking.

FFB was organized and commenced operations in October 2007, as a federal savings bank subject to regulation and examination by the OTS, pursuant to the Home Owners' Loan Act of 1933, as amended ("HOLA") and, as a result, we registered as a unitary savings and loan holding company, also regulated by the OTS. In May 2012, the Bank filed applications with the FDIC and DBO to become a California state chartered bank and the Company filed an

application with the Federal Reserve Board to become a bank holding company registered under the Holding Company Act. In June 2012, following the approval of those applications, the Bank became a California state-chartered bank subject to regulation and examination by the DBO pursuant to the California Financial Code and by the FDIC under the Federal Deposit Insurance Act, ("FDIA") , and ceased to be a federal savings bank subject to regulation under HOLA. At that same time, the Company became a one-bank holding company subject to regulation by the Federal Reserve Board under the Holding Company Act, and ceased to be a savings and loan holding company. For information regarding the banking laws and regulations to which the Company and the Bank are subject, see "Supervision and Regulation" in this item 1 in this Form 10.

Recent Developments

Term Loan. In April 2013, we borrowed a total of $7.5 million under a term loan from an unaffiliated bank lender. The principal amount of the loan bears interest at a rate of Libor plus 4.0% per annum. The term of the loan is five years. The loan agreement requires us to make monthly payments of principal and interest the amounts of which are based on a 10 year amortization schedule, with a final payment of the unpaid principal balance, in the amount of approximately $3.8 million, plus accrued but unpaid interest, at the maturity date of the loan, which will be in May 2018. We have the right, in our discretion, to prepay all or a portion of the loan at any time, without any penalties or premium. We have pledged all of the common stock of the Bank to the lender as security for the performance of our payment and other obligations under the loan agreement. The loan agreement obligates us to meet certain financial covenants with which we were in compliance at June 30, 2013. For additional information regarding the term loan, see “FINANCIAL INFORMATION - Management’s Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - *Term Loan*” included in Item 2 in this Form 10.

Private Offering of Common Stock. Earlier in 2013, we commenced a private offering of up to 500,000 shares of our common stock at a price of $18 per share in cash pursuant to Rule 506 of Regulation D under the Securities Act of 1933, as amended ("Regulation D"). Shares are being offered and sold only to "accredited investors" as defined in Rule 501 of Regulation D. As of September 30, 2013, no stock has been issued in this offering pending the receipt of subscriptions for at least 275,000 of the shares.

Acquisition of Desert Commercial Bank. On August 15, 2012, we completed the acquisition of Desert Commercial Bank, a California state-chartered bank headquartered in Palm Desert, California ("DCB"), in exchange for our issuance to the former DCB shareholders of a total of 815,447 shares of our common stock, valued at $15.00 per share for their shares of DCB common stock. The acquisition was accomplished by means of a merger of DCB with and into FFB, in which FFB was the surviving bank and the separate existence of DCB ceased (the "DCB Acquisition"). As a result of the DCB Acquisition, FFB acquired from DCB approximately $35.0 million of cash, $90 million of loans, $9 million of investment securities, and $6 million of deferred taxes and other assets, and assumed approximately $127 million of deposits. We also converted DCB's two banking offices, located in Palm Desert and El Centro, California, respectively, to wealth management offices and we consolidated one of our then existing offices, located in La Quinta, California, into the Palm Desert office. Pursuant to the merger agreement with DCB, the number of shares that we issued in the DCB Acquisition gave effect to a downward adjustment of $4.5 million in the consideration that we would have otherwise paid, in shares of our common stock, to the former shareholders of DCB to offset possible losses we might incur on certain assets that we acquired from DCB in the merger. The merger agreement provides that if, as of the second anniversary of the consummation of the DCB Acquisition, actual losses on those assets total less than $4.5 million, we will issue to the former DCB shareholders a number of additional shares of our common stock determined by dividing the price per share of $15.00 into 90% of the amount, if any, by which $4.5 million exceeds the losses incurred on those assets. As of June 30, 2013, we do not expect to pay out any additional consideration to the former DCB shareholders.

Our Business

Through FFB and FFA, we offer our clients a full range of financial services from a single platform. Our broad range of products and services are more typical of those offered by larger financial institutions, while our high level of personalized service and responsiveness is more typical of the service offered by boutique financial service firms and community banks. We believe that this combination of a comprehensive financial platform and personalized service differentiates us from many of our competitors and has contributed to the growth of our client base and our wealth management, investment advisory, banking and trust business. Our client base includes high net worth individuals, their families, foundations and businesses, small to moderate sized businesses and professional firms.

Bank Products and Services

Through FFB, we offer a wide range of deposit products, lending products, business and personal banking services, including online banking and trust services.

The interest earned on loans in excess of a bank's funding costs (net interest income) is usually the principal source of revenue for a bank. The amount of interest charged on a loan is based on market factors, credit risk evaluations and the term of the loan. When making a loan, a bank takes on credit risk as well as interest rate risk. Our loan products are designed to meet the needs of our clients in a manner that allows us to effectively manage the credit and interest rate risks inherent in the loans we make. Deposits are a bank's principal source of funds for making loans and investments and acquiring other interest-earning assets. Additionally, the interest expense that a bank must incur to attract and maintain deposits has a significant impact on its operating results. A bank's interest expense, in turn, will be determined primarily by prevailing interest rates and the types of deposits that it offers to and is able to attract from its clients.

Generally, banks seek to attract “core deposits” which consist of non-interest bearing and low cost interest-bearing demand, deposits, and savings and money market deposits. By comparison, time deposits (also sometimes referred to as “certificates of deposit”), including those in denominations of $250,000 or more, usually bear much higher rates of interest and are more interest-rate sensitive and volatile than core deposits. A bank that is not able to attract significant amounts of core deposits must rely on more expensive time deposits or alternative sources of cash, such as FHLB borrowings, to fund interest-earning assets, which means that its costs of funds are likely to be higher and, as a result, its net interest margin is likely to be lower than a bank with higher proportion of core deposits.

Our trust services are an integral part of our platform as they allow us to provide services to trusts held by or set up for the benefit of our clients. Recurring trust fees provide an additional source of noninterest income for our operations.

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, 2012 and June 30, 2013, respectively:

	June 30, 2013		December 31, 2012	
(dollars in thousands)	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Demand deposits:				
Noninterest-bearing	$185,092	-	$131,827	-
Interest-bearing	164,217	0.501 %	103,085	0.558 %
Money market and savings deposits	91,365	0.378 %	91,278	0.488 %
Certificates of deposit	279,257	0.693 %	323,551	0.732 %
Total	$719,931	0.431 %	$649,741	0.522 %

Bank Loan Products

We offer our clients a number of different loan products, consisting primarily of multi-family and single family residential real estate loans, commercial real estate loans, commercial term loans and lines of credit, and consumer loans. The Bank handles all loan processing, underwriting and servicing at its corporate office. 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, 2012 and June 30, 2013:

(dollars in thousands)	June 30, 2013		December 31, 2012	
	Balance	% of Total	Balance	% of Total
Outstanding principal balance:				
Loans secured by real estate:				
Residential properties:				
Multifamily	$373,485	46.8 %	$367,412	49.4 %
Single family	186,536	23.3 %	155,864	21.0 %
Total loans secured by residential properties	560,021	70.1 %	523,276	70.4 %
Commercial properties	144,781	18.1 %	132,217	17.8 %
Land	5,748	0.7 %	7,575	1.0 %
Total real estate loans	710,550	89.0 %	663,068	89.2 %
Commercial and industrial loans	72,074	9.0 %	67,920	9.1 %
Consumer loans	15,875	2.0 %	12,585	1.7 %
Total loans	$798,499	100.0 %	$743,573	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 Southern 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 7 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 loan-to-value and debt service coverage ratios, borrower liquidity and credit history. 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 primarily as an accommodation to our existing clients. In most cases, these take the form of non-conforming loans and FFB does not sell or securitize any of its single family residential mortgage loan originations. The Bank does not originate loans defined as high cost by state or federal banking regulators. The majority of the Bank'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 7 years terms.

Commercial Real Estate Loans: 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 7 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 loan-to-value and debt service coverage ratios, borrower liquidity and credit history. 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 one to five years. Commercial lines of credit are adjustable rate loans with interest rates usually tied to the Wall Street Journal prime rate, are made for terms ranging from one to two 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.

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 one to ten years. 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.

Wealth Management Products and Services

FFA provides investment advisory services on a fee-only basis and consulting services for individuals, retirement plans, charitable institutions and private foundations. FFA also provides ultra-high net worth clients with personalized services designed to enable them to reach their personal and financial goals and by coordinating FFA's investment advisory and wealth management services with risk management and estate and tax planning services available from 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 investment management fees charged as a percentage of the assets managed, with tiered pricing for larger accounts.

FFA 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, including issues faced by executives of publicly-traded companies and by owners of privately-held companies.

FFA does not provide custodial services for its clients. Instead, it 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 also provides wealth management services, consisting of financial, investment and economic advisory and related services, to high-net-worth individuals and their families, family businesses, and other organizations (including public and closely-held corporations, family foundations and private charitable organizations). Those services include education, instruction and consultation on financial planning and management matters, and Internet-based data processing administrative support services involving the processing and transmission of financial and economic data primarily for charitable organizations.

Competition

The banking and investment and wealth management businesses in California, generally, and in FFI's market area, in particular, are highly competitive. A relatively small number of major national and regional banks, operating over a wide geographic area, including Wells Fargo, JP Morgan Chase, US Bank, Comerica, Union Bank, City National and Bank of America, dominate the Southern California banking market. Those banks, or their affiliates, also offer private banking and investment and wealth management services in our market area. We also compete with large, well known private banking and wealth management firms, including City National, First Republic, Northern Trust and Boston Private. Those banks and investment 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 Southern California, are generally better known than we are. 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 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 banking, trust, and investment and wealth management services through one integrated platform, enabling us to

provide our clients with the efficiencies and benefits of dealing with a cohesive group of individuals 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 or wealth management services and that a very few of these investment and wealth management firms offer banking services and, therefore, are not able to provide such an integrated platform of 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 services from other regional or local financial service providers.

While we provide our clients with the convenience of technological access services, such as remote deposit capture and internet banking, we compete primarily by providing a high level of personal service associated with our private banking focus. 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 business, we attempt to maintain our pricing in line with our primary competitors.

Impact of Economic Conditions, Government Policies and Legislation on our Business

Impact of Economic Conditions and Government Monetary Policies.

Our profitability, like that of most financial institutions, is affected to a significant extent by our net interest income, which is the difference between the interest income we generate on interest-earning assets, such as loans and investment securities, and the interest we pay on deposits and other interest-bearing liabilities, such as borrowings. Our interest income and interest expense, and hence our net interest income, depends to a great extent on prevailing market rates of interest, which are highly sensitive to many factors that are beyond our control, including inflation, recession and unemployment. Moreover, it is often difficult to predict, with any assurance, how changes in economic conditions of this nature will affect our future financial performance.

Our net interest income and operating results also are affected by monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the FRB. The FRB implements national monetary policies to curb inflation, or to stimulate borrowing and spending in response to economic downturns, through its open-market operations by adjusting the required level of reserves that banks and other depository institutions must maintain, and by varying the target federal funds and discount rates on borrowings by banks and other depository institutions. These actions affect the growth of bank loans, investments and deposits and the interest earned on interest-earning assets and paid on interest-bearing liabilities. The nature and impact of any future changes in monetary and fiscal policies on us cannot be predicted with any assurance.

Legislation and Governmental Actions.

From time to time, federal and state legislation is enacted which can affect our operations and our operating results by materially increasing the costs of doing business, limiting or expanding the activities in which banks and other financial institutions may engage, or altering the competitive balance between banks and other financial services providers.

The recent economic recession and credit crisis that, among other measures, required the federal government to provide substantial financial support to the largest of the banks and other financial service organizations in the United States, led the U.S. Congress to adopt a number of new laws, and the U.S. Treasury Department and the federal banking regulators, including the FRB and the FDIC, to take broad actions, to address systemic risks and volatility in the U.S. banking system. Set forth below are summaries of such recently adopted laws and regulatory actions, which are not intended to be complete and which are qualified in their entirety by reference to those laws and regulations.

New Basel III Capital Rules. U.S. banks and bank holding companies are required to maintain certain amounts of capital and meet certain risk-based capital ratios primarily for the purposes of managing credit risk and providing a buffer against losses inherent in the banking business. The current risk-based capital rules are based on the 1988 capital accord of the International Basel Committee on Banking Supervision (the “Basel Committee”), which is comprised of central banks and bank supervisors and regulators from the major industrialized countries. The Basel Committee develops broad policy guidelines for use by each country’s banking regulators in determining the banking supervisory policies and rules they apply. In December 2010, the BCBS issued a new set of more stringent international guidelines for determining regulatory capital, known as “Basel III” largely in response to the credit crisis which began in 2008 and which led to government “bail-outs” of troubled banks and other financial institutions.

In July 2013, the FRB adopted final rules (the “New Capital Rules”) establishing a new comprehensive capital framework for U.S. banking organizations based on the Basel III guidelines, and the FDIC adopted substantially identical rules on an interim basis. The rules not only implement the Basel Committee’s December 2010 framework for strengthening international capital standards, but also certain provisions of the Dodd-Frank Act. The New Capital Rules substantially revise and heighten the risk-based capital requirements applicable to U.S. banking organizations, including the Company and the Bank, from the current U.S. risk-based capital rules and replace the existing approach used in risk-weighting of a banking organization’s assets with a more risk-sensitive approach. The New Capital Rules will become effective for the Company and the Bank 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"), and (ii) specify that Tier 1 capital consists of common equity and "Additional Tier 1 capital" instruments meeting specified requirements, thus potentially requiring banking organizations to achieve and maintain higher levels of CET-1 in order to meet minimum capital ratios.

In addition, when fully phased-in on January 1, 2019, the New Capital Rules will require the Company and the Bank, as well as most other U.S. based bank holding companies and banks, to maintain a 2.5% "capital conservation buffer," comprised entirely of CET-1 capital, on top of heighted minimum capital to risk-weighted asset ratios mandated by Basel III, thereby further increasing the capital ratios that banks and bank holding companies will be required to meet. For additional information regarding these new capital requirements, see "Supervision and Regulation - First Foundation Bank – *New Basel III Capital Rules*" in this Item 1 in this Form 10.

The Dodd-Frank Act: On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act significantly changes federal banking regulation. Among other things, the Dodd-Frank Act created a new Financial Stability Oversight Council to identify systemic risks in the banking and financial system and gives federal regulators new authority to take control of and liquidate banking institutions and other financial firms facing the prospect of imminent failure that would create systemic risks to the U.S. financial system. The Dodd-Frank Act also created the Consumer Financial Protection Bureau ("CFPB"), which is a new independent federal regulator with broad powers and authority to administer and regulate federal consumer protection laws.

The Dodd-Frank Act is expected to have a significant impact on banks and bank holding companies and we expect that many of its provisions will impact our business operations as they take effect. However, many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years, making it difficult to anticipate the overall impact of that Act on the Company and the Bank. Set forth below is a summary description of some of the key provisions of the Dodd-Frank Act that may affect us. The description does not purport to be complete and is qualified in its entirety by reference to the Dodd-Frank Act itself.

Imposition of New Capital Standards on Bank Holding Companies. The Dodd-Frank Act required the FRB to apply consolidated capital requirements to bank holding companies that are no less stringent than those currently applied to depository institutions, such as the Bank. The FRB implemented this requirement by its adoption of the new Basel III capital rules in June 2013. See "Supervision and Regulation - First Foundation Bank – New Basel III Capital Rules" below.

Increase in Deposit Insurance and Changes Affecting the FDIC Insurance Fund. The Dodd-Frank Act permanently increased the maximum deposit insurance amount for banks, savings institutions and credit unions to $250,000 per depositor. Additionally, the Dodd-Frank Act eliminates the federal statutory prohibition against the payment of

interest on business checking accounts, which is likely to increase the competition for and interest that banks pay on such accounts. The Dodd-Frank Act also broadens the base for FDIC insurance assessments, which will now be based on the average consolidated total assets, less tangible equity capital, of an insured financial institution and which may result in increases in FDIC insurance assessments for many FDIC insured banks. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds.

Executive Compensation Provisions. The Dodd-Frank Act directs federal banking regulators to promulgate rules prohibiting the payment of excessive compensation to executives of depository institutions and their holding companies with assets in excess of $1.0 billion.

Limitations on Conversion of Bank Charters. The Dodd-Frank Act prohibits a bank or other depository institution from converting from a state to federal charter or vice versa while it is subject to a cease and desist order or other formal enforcement action or a memorandum of understanding with respect to a significant supervisory matter, unless the appropriate federal banking agency gives notice of the conversion to the federal or state regulatory agency that issued the enforcement action and that agency does not object within 30 days.

Interstate Banking. The Dodd-Frank Act authorizes national and state banks to establish branches in other states to the same extent as a bank chartered by that state would be permitted to branch. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks will be able to enter new markets more freely.

Restrictions on Derivative Transactions. The Dodd-Frank Act prohibits state-chartered banks from engaging in derivatives transactions unless the legal lending limits of the state in which the bank is chartered take into consideration credit exposure to derivatives transactions. For this purpose, derivative transactions include any contract, agreement, swap, warrant, note or option that is based in whole or in part on the value of, any interest in, or any quantitative measure or the occurrence of any event relating to, one or more commodities, securities, currencies, interest or other rates, indices or other assets.

Extension of Limitations on Banking Transactions by Banks with their Affiliates. The Dodd-Frank Act applies Section 23A and Section 22(h) of the Federal Reserve Act (governing transactions with insiders of banks and other depository institutions) 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. The Dodd-Frank Act also expands the definition of affiliate for purposes of quantitative and qualitative limitations of Section 23A of the Federal Reserve Act to include mutual funds advised by a depository institution or any of its affiliates.

Debit Card Fees. The Dodd-Frank Act provides that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the card issuer and requires the FRB to establish standards for reasonable and proportional fees which may take into account the costs of preventing fraud. As a result, the FRB adopted a rule, effective October 1, 2011, which limits interchange fees on debit card transactions to a maximum of 21 cents per transaction plus 5 basis points of the transaction amount. A debit card issuer may recover an additional one cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements prescribed by the FRB. Although, as a technical matter, this new limitation applies only to institutions with assets of more than $10 billion, it is expected that many smaller institutions will reduce their interchange fees in order to remain competitive with the larger institutions that are required to comply with this new limitation.

Consumer Protection Provisions of the Dodd-Frank Act. The Dodd-Frank Act creates a new, independent federal agency, called the Consumer Financial Protection Bureau ("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 Gramm-Leach-Bliley Act 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.

In January 2013, the CFPB approved certain mortgage lending reform regulations impacting the Truth in Lending Act (the "TILA") and the Real Estate Settlement Procedures Act ("RESPA"). Among other things, those reforms:

- expand the population of loans that are subject to higher cost loan regulations and additional disclosures;
- prohibit the payment of compensation to mortgage brokers based on certain fees or premiums, such as yield spread premiums, payable by or charged to home borrowers;
- increase the regulation of mortgage servicing activities, including with respect to error resolution, forced-placement insurance and loss mitigation and collection activities;
- require financial institutions to make a reasonable and good faith determination that the borrower has the ability to repay the residential mortgage loan before it is approved for funding and provides that the failure of a financial institution to make such a determination will entitle the borrower to assert that failure as a defense to any foreclosure action on the mortgage loan; and
- impose appraisal requirements for high cost loans and loans secured by first mortgage liens on residential real estate.

Although most of these regulations are scheduled to become effective as of January 1, 2014, some became effective beginning in 2013.

The CFPB also has proposed other regulatory changes that have not yet become final, including regulations that would require mortgage loan disclosures under TILA and RESPA to be simplified and integrated, and regulations that would govern electronic transfers of foreign currency.

Supervision and Regulation

Both federal and state laws extensively regulate bank holding companies and banks. Such regulation is intended primarily for the protection of depositors and the FDIC's deposit insurance fund and is not for the benefit of shareholders. Set forth below are summary descriptions of the material laws and regulations that affect or bear on our operations. Those summaries are not intended, and do not purport, to be complete and are qualified in their entirety by reference to the laws and regulations that are summarized below.

First Foundation Inc.

General. 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 that Act, we are subject to supervision and periodic examination by, and are required to file periodic reports with the FRB.

As a bank holding company, we are allowed to engage, directly or indirectly, only in banking and other activities that the FRB 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 designated by the FRB to be closely related to banking include securities brokerage and insurance brokerage services and products and data processing services, among others.

As a bank holding company, we also are required to obtain the prior approval of the FRB for the acquisition of more than 5% of the outstanding shares of any class of voting securities, or of 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.

Under FRB 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 FRB'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 FRB 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 FRB to be an unsafe and unsound banking practice or a violation of the FRB's regulations or both, which could lead to the imposition of restrictions on the offending bank holding company, including restrictions on its further growth.

Additionally, among its powers, the FRB 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 FRB determines constitutes a significant risk to the financial safety, soundness or stability of the bank holding company or any of its banking subsidiaries. The FRB also has the authority to regulate provisions of a bank holding company's debt, including authority to impose interest ceilings and reserve requirements on such debt. Subject to certain exceptions, bank holding companies also are required to file written notice and obtain approval from the FRB 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 also is a bank holding company within the meaning of Section 3700 of the California Financial Code. As such, we are subject to examination by, and may be required to file reports with, the DBO.

Financial Services Modernization Act. The Financial Services Modernization Act, which also is known as the Gramm-Leach-Bliley Act, was enacted into law in 1999. The principal objectives of that Act were to establish a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities and investment banking firms, and other financial service providers. Accordingly, the Act revised and expanded the Bank Holding Company Act to permit a bank holding company system meeting certain specified qualifications to engage in a broader range of financial activities to foster greater competition among financial services companies both domestically and internationally. To accomplish those objectives, among other things, the Act repealed the two affiliation provisions of the Glass-Steagall Act that had been adopted in the early 1930s during the Great Depression: Section 20, which restricted the affiliation of Federal Reserve Member Banks with firms "engaged principally" in specified securities activities; and Section 32, which restricted officer, director, or employee interlocks between a member bank and any company or person "primarily engaged" in specified securities activities.

The Financial Services Modernization Act also contains provisions that expressly preempt and make unenforceable any state law restricting the establishment of financial affiliations, primarily related to insurance. That Act also:

- broadened the activities that may be conducted by national banks, bank subsidiaries of bank holding companies, and their financial subsidiaries;
- provided an enhanced framework for protecting the privacy of consumer information;
- adopted a number of provisions related to the capitalization, membership, corporate governance, and other measures designed to modernize the Federal Home Loan Bank system;
- modified the laws governing the implementation of the Community Reinvestment Act ("CRA"), which is described in greater detail below; and
- addressed a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of banking institutions.

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Before a bank holding company may engage in any of the financial activities authorized by the Financial Services Modernization Act, it must file an application with its Federal Reserve Bank that confirms that it meets certain qualitative eligibility requirements established by the FRB. A bank holding company that meets those qualifications and files such an application will be designated as a "financial holding company," in which event it will become entitled to affiliate with securities firms and insurance companies and engage in other activities, primarily through non-banking subsidiaries, that are financial in nature or are incidental or complementary to activities that are financial in nature. According to current FRB regulations, activities that are financial in nature and may be engaged in by financial holding companies, through their non-bank subsidiaries, include:

- securities underwriting, dealing and market making;
- sponsoring mutual funds and investment companies;
- engaging in insurance underwriting; and
- engaging in merchant banking activities.

A bank holding company that does not qualify as a financial holding company may not engage in such financial activities. Instead, as discussed above, it is limited to engaging in banking and such other activities that have been determined by the FRB to be closely related to banking.

Privacy Provisions of the Financial Services Modernization Act. As required by the Financial Services Modernization Act, federal banking regulators have adopted rules that limit the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. Pursuant to the rules, financial institutions must provide:

- initial notices to clients about their privacy policies, describing the conditions under which banks and other financial institutions may disclose non-public personal information about their clients to non-affiliated third parties and affiliates;
- annual notices of their privacy policies to current clients; and
- a reasonable method for clients to "opt out" of disclosures to nonaffiliated third parties.

Acquisitions of Control of Banks. The Holding Company Act and the Change in Bank Control Act of 1978, as amended, together with regulations of the FRB, require FRB approval before any person or company may acquire "control" of a bank holding company, subject to exemptions for some transactions. Control is conclusively presumed to exist if an individual or company (i) acquires 25% or more of any class of voting securities of a bank holding company or (ii) has the direct or indirect power to direct or cause the direction of the management and policies of a bank holding company, whether through ownership of voting securities, by contract or otherwise; provided that no individual will be deemed to control a bank holding company solely on account of being a director, officer or employee of the bank holding company. Control is presumed to exist if a person acquires 10% or more but less than 25% of any class of voting securities of a bank holding company with securities registered under Section 12 of the Exchange Act or if no other person will own a greater percentage of that class of voting securities immediately after the transaction.

Dividends. It is the policy of FRB 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 organization’s expected future needs for capital and liquidity and to maintain its financial condition. It is also an FRB 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, due to the current financial and economic environment, the FRB 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.

First Foundation Bank

General. The Bank is subject to primary supervision, periodic examination and regulation by (i) the FDIC, which is its primary federal banking regulator, and (ii) the DBO, because the Bank is a California state chartered bank.

Various requirements and restrictions under Federal and California banking laws affect the operations of the Bank. These laws and the implementing regulations, which are promulgated by federal and state bank regulatory agencies, 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 deposits it obtains and the interest it is permitted to pay on different types of deposit accounts;
- the loans and investments that a bank may make;
- the borrowings that a bank may incur;
- the number and location of wealth banking offices that a bank may establish;
- the rate at which it may grow its assets;
- 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.

If, as a result of an examination of a federally regulated bank, a bank's primary federal bank regulatory agency, such as the FDIC, were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of a bank's operations had become unsatisfactory or that the bank or its management was in violation of any law or regulation, that agency has the authority to take a number of different remedial actions as it deems appropriate under the circumstances. These actions include the power:

- to enjoin "unsafe or unsound" banking practices;
- to require that affirmative action be taken to correct any conditions resulting from any violation or practice;
- to issue an administrative order that can be judicially enforced;
- to require the bank to increase its capital;
- to restrict the bank's growth;
- to assess civil monetary penalties against the bank or its officers or directors;
- to remove officers and directors of the bank; and
- if the federal agency concludes that such conditions 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.

Additionally, under California law the DBO has many of these same remedial powers with respect to the Bank.

Permissible Activities and Subsidiaries. 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.

Interstate Banking and Branching. Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, bank holding companies and banks generally have the ability to acquire or merge with banks in other states; and, subject to certain state restrictions, banks may also acquire or establish new branches outside their home states. Interstate branches are subject to certain laws of the states in which they are located. Besides its operations in California, we have recently established a wealth management office in Las Vegas, Nevada.

Federal Home Loan Bank System. The Bank 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, the Bank is required to own a certain amount of capital stock in the FHLB. At December 31, 2012, the Bank was in compliance with the FHLB's stock ownership requirement. Historically, the FHLB has paid dividends on its capital stock to its members.

Federal Reserve Board Deposit Reserve Requirements. The FRB requires all federally-insured depository institutions to maintain reserves at specified levels against their transaction accounts. At December 31, 2012, the Bank was in compliance with these requirements.

Dividends and Other Transfers of Funds. Cash dividends from the Bank 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. We are a legal entity separate and distinct from the Bank and the Bank is subject to various statutory and regulatory restrictions on its ability to pay cash dividends to us. Those restrictions would prohibit the Bank, subject to certain limited exceptions, from paying cash dividends in amounts that would cause the Bank to become undercapitalized. Additionally, the FDIC and the DBO have the authority to prohibit the Bank from paying cash dividends, if either of those agencies deems the payment of dividends by the Bank 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 the Bank may pay. Also, until September 2014, we are required to obtain the prior approval of the FDIC before the Bank may pay any dividends.

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

Restrictions on Transactions between the Bank and the Company and its other Affiliates. The Bank is subject to restrictions imposed by federal law on 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; the purchase of, or investments in, Company stock or other Company securities, the taking of such securities as collateral for loans; and the purchase of assets from the Company or any of its other subsidiaries. These restrictions prevent the Company and any of its subsidiaries from borrowing

from the Bank unless the borrowings are secured by marketable obligations in designated amounts, and such secured loans and investments by the Bank in the Company or any of its subsidiaries are limited, individually, to 10% of the Bank's capital and surplus (as defined by federal regulations) and, in the aggregate, for all loans made to and investments made in the Company and its other subsidiaries, to 20% of the Bank'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 the Bank.

Safety and Soundness Standards. Banking institutions may be subject to potential enforcement actions by the federal 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, federal banking agencies have adopted safety and soundness guidelines with respect to asset quality. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an FDIC-insured depository institution is expected to:

- conduct periodic asset quality reviews to identify problem assets, estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb those estimated losses;
- compare problem asset totals to capital;
- take appropriate corrective action to resolve problem assets;
- consider the size and potential risks of material asset concentrations; and
- provide periodic asset quality reports with adequate information for the bank's management and the board of directors to assess the level of asset risk.

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.

Capital Standards and Prompt Corrective Action. The Federal Deposit Insurance Act ("FDIA") provides 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, the FDIA 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 of an acceptable capital restoration plan if the depository institution's 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.

A depository institution's capital category under the prompt corrective action regulations will depend upon how its capital levels compare with various relevant capital measures and the other factors established by the relevant federal banking regulations. Those regulations provide that a bank will be:

- "*well capitalized*" if it has a Tier 1 leverage ratio of 5.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater and a total risk-based capital ratio of 10.0% or greater, and is 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 has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not "well capitalized";
- "*undercapitalized*" if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0%;
- "*significantly undercapitalized*" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%; and
- "*critically undercapitalized*" if its tangible equity is equal to or less than 2.0% of average quarterly tangible assets.

If a bank that is classified as a well-capitalized institution is determined (after notice and opportunity for hearing), by its federal regulatory agency to be in an unsafe or unsound condition or to be engaging in an unsafe or unsound practice, that agency may, under certain circumstances, reclassify the bank as adequately capitalized. If a bank has been classified as adequately capitalized or undercapitalized, its federal regulatory agency may nevertheless require it to comply with bank supervisory provisions and restrictions that would apply to a bank in the next lower capital classification, if that regulatory agency has obtained supervisory information regarding the bank (other than with respect to its capital levels) that raises safety or soundness concerns. However, a significantly undercapitalized bank may not be treated by its regulatory agency as critically undercapitalized.

The FDIA generally prohibits a bank from making any capital distributions (including payments of dividends) or paying any management fee to its parent holding company if the bank would thereafter be "undercapitalized." "Undercapitalized" banks are subject to growth limitations and are required to submit a capital restoration plan. The federal regulatory agency for such a bank may not accept the bank's capital restoration plan unless the agency determines, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the bank's capital. In addition, for a capital restoration plan to be acceptable, the bank's parent holding company must guarantee that the bank will comply with its capital restoration plan. The bank holding company also is required to provide appropriate assurances of performance. 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 the its bank subsidiary's total assets at the time it became undercapitalized, and (ii) the amount which 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 an undercapitalized bank fails to submit an acceptable capital restoration plan, it will be treated as if it is "significantly undercapitalized." In that event, the bank's federal regulatory agency 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.

New Basel III Capital Rules: The current risk-based capital rules applicable to domestic banks and bank holding companies are based on the 1988 capital accord of the International Basel Committee on Banking Supervision (the "Basel Committee"), which is comprised of central banks and bank supervisors and regulators from the major industrialized countries. The Basel Committee develops broad policy guidelines for use by each country's banking regulators in determining the banking supervisory policies and rules they apply. In December 2010, the Basel Committee issued a new set of international guidelines for determining regulatory capital, known as "Basel III". In June 2012, the FRB issued, for public comment, three notices of proposed rulemaking which, if adopted, would have made significant changes to the regulatory risk-based capital and leverage requirements for banks and bank holding companies ("banking organizations") in the United States consistent with the Basel III guidelines.

In July 2013, the FRB adopted final rules (the "New Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations, and the FDIC adopted substantially identical rules on an interim basis. The rules implement the Basel Committee's December 2010 framework for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The New Capital Rules substantially revise the risk-based capital requirements applicable to U.S. banking organizations, including the Company and the Bank, from the current U.S. risk-based capital rules, define the components of capital and address other issues affecting the capital ratios applicable to banking organizations. The New Capital Rules also replace the existing approach used in risk-weighting of a banking organization's assets with a more risk-sensitive approach. The New Capital Rules will become effective for the Company and the Bank 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, (iii) apply most deductions and adjustments to regulatory capital measures to CET-1 and not to the other components of capital, thus potentially requiring banking organizations to achieve and maintain higher levels of CET-1 in order to meet minimum capital ratios, and (iv) expand the scope of the deductions and adjustments from capital as compared to existing capital rules.

Under the New Capital Rules, as of January 1, 2015 the minimum capital ratios will be:

CET-1 to risk-weighted assets	4.5%
Tier 1 capital (i.e., CET-1 plus Additional Tier 1) to risk-weighted assets	6.0%
Total capital (i.e., Tier 1 plus Tier 2) to risk-weighted assets	8.0%
Tier 1 capital to average consolidated assets as reported on consolidated financial statements [1]	4.0%

(1) Commonly referred to as a banking institution's "leverage ratio".

When fully phased in on January 1, 2019, the New Capital Rules also will require the Company and the Bank, as well as most other bank holding companies and banks, to maintain a 2.5% "capital conservation buffer," composed entirely of CET-1, on top of the minimum risk-weighted asset ratios set forth in the above table. This capital conservation buffer will have the effect of increasing (i) the CET-1-to-risk-weighted asset ratio to 7.0%, (ii) the Tier 1 capital-to-risk-weighted asset ratio to 8.5%, and (iii) the Total capital-to-risk weighted asset ratio to 10.5%.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking organizations with a ratio of CET-1 to risk-weighted assets above the minimum, but below the capital conservation buffer, will face constraints on dividends, equity repurchases and executive compensation based on the amount of the shortfall. The implementation of the capital conservation buffer will begin 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.

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. The deductions and other adjustments to CET-1 will be phased in incrementally between January 1, 2015 and January 1, 2018. Additionally, the impact may be mitigated prior to or during the phase-in period by the determination of other than temporary impairments ("OTTI") and additional accumulation of retained earnings. Under current capital standards, the effects of certain items of Accumulated Other Comprehensive Income ("AOCI") included in capital are excluded for purposes of determining regulatory capital ratios. By contrast, under the New Capital Rules, the effects of certain items of AOCI will not be excluded. However, most banking organizations, including the Company and the Bank, may make a one-time permanent election, not later than January 1, 2014, to continue to exclude these items from capital. We have not yet determined whether to make this election.

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 2 capital, without any limitations.

In the case of the Bank, the New Capital Rules also revise the "prompt corrective action" regulations under the Federal Deposit Insurance Act, by (i) introducing a CET-1 ratio requirement at each capital quality level (other than critically undercapitalized), with a minimum ratio of 6.5% for a bank to qualify for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) requiring a leverage ratio of 4% to be adequately capitalized (as compared to the current 3% leverage ratio for a bank with a composite supervisory rating of 1) and a leverage ratio of 5% to be well-capitalized. The New Capital Rules do not, however, change the total risk-based capital requirement for any "prompt corrective action" category.

The New Capital Rules prescribe a standardized approach for calculating risk-weighted assets that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the 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. In addition, the New Capital Rules also provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

Federal Deposit Insurance Corporation Deposit Insurance. In addition to supervising and regulating state chartered non-member banks, the FDIC insures deposits, up to prescribed statutory limits, of all federally insured banks and savings institutions in order to safeguard the safety and soundness of the banking and savings industries. The FDIC insures client deposits through the Deposit Insurance Fund (the "DIF") up to prescribed limits for each depositor. The Dodd-Frank Act increased the maximum deposit insurance amount from $100,000 to $250,000. The DIF is funded primarily by FDIC assessments paid by each DIF member institution. The amount of each DIF member's assessment is

based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. Pursuant to the Federal Deposit Insurance Reform Act of 2005, the FDIC is authorized to set the reserve ratio for the DIF annually at between 1.15% and 1.50% of estimated insured deposits. The FDIC may increase or decrease the assessment rate schedule on a semi-annual basis. The Dodd-Frank Act increased the minimum reserve ratio from 1.15% of estimated deposits to 1.35% of estimated deposits (or a comparable percentage of the asset-based assessment base described above). The Dodd-Frank Act requires the FDIC to offset the effect of the increase in the minimum reserve ratio when setting assessments for insured depository institutions with less than $10 billion in total consolidated assets, such as the Bank. The FDIC has until September 30, 2020 to achieve the new minimum reserve ratio of 1.35%.

Additionally, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the predecessor to the DIF. The FICO assessment rates, which are determined quarterly, averaged 0.066% of insured deposits in fiscal 2012. These assessments will continue until the FICO bonds mature in 2017.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors. Pursuant to California law, the termination of a California state chartered bank's FDIC deposit insurance would result in the revocation of the bank's charter, forcing it to cease conducting banking operations.

Community Reinvestment Act and Fair Lending Developments. Like all other federally regulated banks, the Bank is subject to fair lending requirements and the evaluation of its small business operations under the CRA. The CRA generally requires the federal banking 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 violates its obligations under the CRA. Federal banking agencies also may take compliance with the 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 holding company files an application for approval to acquire a bank or another bank holding company, the FRB will review the CRA assessment of each of the subsidiary banks of the applicant bank holding company, and a low CRA rating may be the basis for denying the application.

USA Patriot Act of 2001 and Bank Secrecy Act. In October 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA Patriot Act) of 2001 was enacted into law in response to the September 11, 2001 terrorist attacks. The USA Patriot Act was adopted to strengthen the ability of U.S. law enforcement and intelligence agencies to work cohesively to combat terrorism on a variety of fronts. Of particular relevance to banks and other federally insured depository institutions are the USA Patriot Act's sweeping anti-money laundering and financial transparency provisions and various related implementing regulations that:

- establish due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts and foreign correspondent accounts;
- prohibit U.S. institutions from providing correspondent accounts to foreign shell banks;
- establish standards for verifying client identification at account opening; and
- set rules to promote cooperation among financial institutions, regulatory agencies and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

Under implementing regulations issued by the U.S. Treasury Department, banking institutions are required to incorporate a client identification program into their written money laundering plans that includes procedures for:

- verifying the identity of any person seeking to open an account, to the extent reasonable and practicable;

- maintaining records of the information used to verify the person's identity; and
- determining whether the person appears on any list of known or suspected terrorists or terrorist organizations.

The Company and the Bank also are subject to the federal Bank Secrecy Act of 1970, as amended, which establishes requirements for recordkeeping and reporting by banks and other financial institutions designed to help identify the source, volume and movement of currency and monetary instruments into and out of the United States to help detect and prevent money laundering and other illegal activities. 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 involve substantial penalties and result in adverse regulatory action. FFI and FFB have each adopted policies and procedures to comply with the Bank Secrecy Act.

Consumer Laws and Regulations. The Company and the Bank 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, or HOEPA, 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."
- Laws and regulations requiring banks to establish privacy policies which limit the disclosure of nonpublic information about consumers to nonaffiliated third parties.
- The Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, or the FACT 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, or TILA, 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, or ECOA, 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, or HMDA, 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, or RESPA, 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, or NFIA, which requires homes in flood-prone areas with mortgages from a federally regulated lender to have flood insurance.
- The Secure and Fair Enforcement for Mortgage Licensing Act of 2008, or SAFE Act, 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.

Regulation W. The FRB has adopted Regulation W to comprehensively implement Sections 23A and 23B of the Federal Reserve Act. Sections 23A and 23B and Regulation W 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. The statute and regulation 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). However, certain transactions that generally do not expose a bank to undue risk or abuse the safety net are exempted from coverage under Regulation W.

Historically, a subsidiary of a bank was not considered an affiliate for purposes of Sections 23A and 23B, since their activities were limited to activities permissible for the bank itself. However, the Gramm-Leach-Bliley Act authorized "financial subsidiaries" that may engage in activities not permissible for a bank. These financial subsidiaries are now considered affiliates that are subject to Sections 23A and 23B. Certain transactions between a financial subsidiary and another affiliate of a bank are also covered by Sections 23A and 23B and under Regulation W.

First Foundation Advisors

Registered Investment Adviser Regulation. FFA is a registered investment adviser under the Investment Advisers Act of 1940, and the U.S. Securities and Exchange Commission's regulations promulgated thereunder. The Investment Advisers Act imposes numerous obligations on registered investment advisers, 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 the 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 Internal Revenue Code of 1986, as amended, 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 adviser 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.

Employees

As of August 30, 2013, First Foundation Inc. and its subsidiaries had a total of 185 employees, 179 of whom worked full time. None of our employees are represented by labor unions and we believe that employee relations are good.

ITEM 1A. RISK FACTORS

This Form 10 registration statement contains forward-looking statements, as described at page (ii) under the caption "Note Regarding Forward-Looking Statements." We believe that the risks described below are the most important factors which may cause our actual results of operations in the future to differ materially from the results set forth in the forward-looking statements contained in this Form 10. However, our businesses and financial performance could be materially and adversely affected in the future by other risks or developments that either are not known to us at the present time or are currently immaterial to our business. Such risks could include, but are not necessarily limited to, unexpected changes in government regulations, unexpected adverse changes in local, national or global economic or market conditions and the commencement of litigation against us.

Risks Affecting our Business

We could incur losses on the loans we make.

Loan defaults and the incurrence of losses on loans are inherent risks of the banking business. The incurrence of loan losses necessitate loan charge-offs and write-downs in the carrying values of a bank's assets and, therefore, can adversely affect a bank's results of operations and financial condition. As a result, 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, as evidenced by the substantial magnitude of the loan losses which many banks incurred as a result of the economic recession that commenced in 2008 and continued into 2010, or by other events that can lead to local or regional business downturns. Although an economic recovery in the U.S. has begun, unemployment remains high and there continue to be uncertainties about the strength and sustainability of the recovery. If the economic recovery were to remain weak or economic conditions were again to deteriorate, loan charge-offs and asset write-downs could increase, which could have a material adverse effect on our future operating results, financial condition and capital.

If our allowance for loan and lease losses is not adequate to cover actual or estimated future loan losses, our earnings may decline.

On a quarterly basis we conduct various analyses to estimate the losses inherent in our loan portfolio. However, this evaluation requires us to make a number of estimates and judgments regarding the financial condition of our borrowers, the fair value of the properties collateralizing the loans we have made to them and economic trends that could affect the ability of borrowers to meet their loan payment obligations to us and our ability to offset or mitigate loan losses by foreclosing and reselling the real properties collateralizing many of those loans. Based on those

estimates and judgments, we make determinations, which are necessarily subjective, with respect to the adequacy of our allowance for loan and lease losses, or ALLL, and the extent to which it is necessary to increase our ALLL by making additional provisions for loan losses through a charge to income. If, due to events or other circumstances outside of our control or otherwise, those estimates or judgments prove to have been incorrect, economic conditions worsen unexpectedly or our banking regulators conclude that our ALLL is not adequate, we would have to increase the provisions we make for loan losses in order to increase our ALLL, which would reduce our income or could cause us to incur operating losses in the future.

Adverse changes in economic conditions in Southern California could disproportionately harm us.

The substantial majority of our clients and the properties securing a large proportion of the loans we have made and will continue to make are located in Southern California, where foreclosure rates and unemployment have remained high relative to most other regions of the country. A downturn in economic conditions, or even the continued weakness of the economic recovery in California, or the occurrence of natural disasters, such as earthquakes or fires, which are more common in Southern California than in other parts of the country, could harm our business by:

- reducing loan demand which, in turn, would lead to reductions in our net interest margins and net interest income;

- adversely affecting the financial capability of borrowers to meet their loan obligations to us, which could result in increases in loan losses and require us to make additional provisions for possible loan losses, thereby adversely affecting our operating results or causing us to incur losses in the future; and
- causing reductions in real property values that, due to our reliance on real properties to collateralize many of our loans, could make it more difficult for us to prevent losses from being incurred on non-performing loans through the foreclosure and sale of those real properties.

Adverse changes in the economic and market conditions, and changes in government regulations and government monetary policies could materially and negatively affect our business and results of operations.

Our business and results of operations are directly affected by factors such as political, economic and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond our control. A deterioration in economic conditions, whether caused by global, national, regional or local concerns or problems, or a further downgrade in the United States debt rating, which could occur if the President and Congress are not able to resolve their differences over the U.S. budget, could result in the following consequences, any of which could materially harm our business and operating results:

- a deterioration in the credit quality of our banking clients;
- an increase in loan delinquencies and losses;
- an increase in problem assets and foreclosures;
- declines in the values of real properties collateralizing the loans we make;
- the need to increase our ALLL;
- fluctuations in the value of, or impairment losses which may be incurred with respect to, FFB’s investment securities;
- decreases in the demand for our products and services;
- increases in competition for low cost or non-interest bearing deposits; and
- decreases in the investment management and advisory fees we generate which can be adversely affected by declines in the values of, or changes in the mix of securities to a higher proportion of non-equity securities in, the securities portfolios of our investment advisory clients.

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

Like other banks, our income and cash flows 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 interest rates we pay on interest-bearing liabilities, such as deposits and borrowings. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions, the monetary policies of the Federal Reserve Board, and competition from other banks and financial institutions. Changes in monetary policy, including changes in interest rates, will influence the origination and market value of and our yields on loans and investment securities and the interest we pay on deposits and on our borrowings. If we are unable to adjust our interest rates on loans and deposits on a timely basis in response to such changes in economic conditions or monetary policies, our earnings could be

adversely affected. In addition, 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. Rising interest rates also generally result in a reduction in loan originations, declines in loan repayment 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. 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 FFB competes. 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.

Residential real estate loans represent a high percentage of FFB's loans, making our results of operations vulnerable to downturns in the real estate market.

At June 30, 2013, loans secured by multifamily and single family residences represented 70% of FFB's outstanding loans. The repayment of residential real estate loans is highly dependent on the market values of the real properties that collateralize these loans and on the ability of the borrowers to meet their loan repayment obligations to us, which can be negatively affected by economic downturns that lead to increases in unemployment, or by rising interest rates which can increase the amount of the interest borrowers are required to pay on their loans. As a result, our operating results are more vulnerable to adverse changes in the real estate market or economic downturns than banks 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. FFB's principal sources of liquidity include earnings, deposits, FHLB borrowings, sales of loans or investment securities held for sale, and repayments by clients of loans we have made to them, and capital contributions that we may make to FFB with proceeds from sales of our common stock or from borrowings that we may incur. If the 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 adversely affected and our financial condition and results of operations could be harmed.

Although we plan to grow our business 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, because this may require us to raise additional cash and to increase FFB's capital to support the growth of its 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.

Expansion of our banking franchise might not achieve our goals or 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 by establishing three new wealth management offices in Southern California, one in Las Vegas, Nevada and acquiring two new offices in Palm Desert and El Centro, California as part of the DCB Acquisition. We plan to continue to grow our banking franchise. However, the implementation of our growth strategy, either through organic growth or the acquisition of other banks, will pose a number of risks, including:

- the risk that any newly established wealth management offices will not generate revenues in amounts sufficient to cover the start-up costs of those offices, which would reduce our income or possibly cause us to incur operating losses;
- 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 the acquired banks move their banking business to our competitors;
- 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 share ownership of our existing shareholders.

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We recently obtained a $7.5 million five year term loan that is secured by a pledge of all of FFB's shares, which could have a material adverse effect on our business if we are not able to meet certain financial covenants or to repay the loan.

In April 2013, we entered into a five year term loan agreement pursuant to which we obtained $7.5 million of funds from another bank. We are using the proceeds of the loan to fund the growth of our businesses, which includes the contribution of equity to FFB. In order to obtain that loan, however, we were required to pledge all of the shares of FFB stock to the bank lender as security for our payment and other obligations under that loan agreement. Additionally, the loan agreement contains a number of financial and other covenants which we are required to meet over the five year term of the loan. As a result, such borrowings may make us more vulnerable to general economic downturns and competitive pressures, which could cause us to fail to meet one or more of those financial covenants. If we were unable to meet any of those covenants, we could be required to repay the loan sooner than its maturity date in May 2018. If we are unable to repay the loan when due, whether at maturity or earlier, the lender would have the right to sell our FFB shares to recover the amounts that are due it by us under the loan agreement. Since the stock of FFB comprises one of our most important assets on which our success is dependent, an inability on our part to repay the loan would have a material adverse effect on our business, financial condition and results of operations and cause us to incur significant losses. See "ITEM 2 FINANCIAL INFORMATION - Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - *Term Loan*" for additional information about this loan.

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

We conduct our business operations primarily in Southern California, 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, 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. The larger banks and many of those other financial service organizations have greater financial and marketing resources 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, 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 and financial services businesses, we could find it more difficult to attract new and retain existing clients and our net interest margins and net interest income and our investment management advisory fees could decline, which would adversely affect our results of operations and could cause us to incur losses in the future.

Government regulations may adversely affect our operations, restrict our growth or increase our operating costs.

We are subject to extensive supervision and regulation by federal and California state bank regulatory agencies. The primary objective of these agencies is to protect bank depositors and not shareholders, whose respective interests often differ. These regulatory agencies have the legal authority to impose restrictions which they believe are needed to protect depositors, even if those restrictions would adversely affect the ability of a banking institution to expand its business, restrict its ability to pay cash dividends, cause its costs of doing business to increase, or hinder its ability to compete with less regulated financial services companies. Additionally, due to the complex and technical nature of many of the government regulations to which we are subject, inadvertent violations of those regulations may and sometimes do occur. In such an event, we would be required to correct or implement measures to prevent a recurrence of such violations which could increase our operating costs. If more serious violations were to occur, the regulatory agencies could limit our activities or growth, fine us or ultimately put FFB out of business in the event it was to encounter severe liquidity problems or a significant erosion of capital below the minimum amounts required under applicable bank regulations.

The enactment of the Dodd-Frank Act and the new Basel III Capital Rules pose uncertainties for our business and are likely to increase our costs of doing business in the future.

On July 21, 2010, the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") into law. Changes made by the Dodd-Frank Act include, among others: (i) the establishment of new requirements on banking, derivative and investment activities, including modified capital requirements, (ii) the repeal of the prohibition on the payment of interest on business demand deposit accounts, (iii) the imposition of limitations on debit card interchange fees, (iv) the promulgation of enhanced financial institution safety and soundness regulations, (v) increases in assessment fees and deposit insurance coverage, and (vi) the establishment of new regulatory bodies, such as the Bureau of Consumer Financial Protection (the "BCFP"). The BCFP has been granted rulemaking authority over several federal consumer financial protection laws and, in some instances, has the authority to examine and supervise and enforce compliance by banks and other financial service organizations with these laws and regulations. Certain provisions of the Dodd-Frank Act were made effective immediately; however, much of the Dodd-Frank Act is subject to further rulemaking and/or studies. As a result, we are not able to fully assess the impact that the Dodd-Frank Act will have on us until final rules are adopted and implemented. However, we expect that the Dodd-Frank Act and its implementing regulations will increase the costs of doing business for us and other banking institutions. We also expect that the repeal of the prohibition on the payment by banks of interest on business demand deposits will result in increased "price" competition among banks for such deposits, which could increase the costs of funds to us (as well as to other banks) and result in a reduction in our net interest margins and income in the future.

In July 2013, the FRB adopted final rules (the "New Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations based on capital guidelines adopted by the International Basel Committee on Banking Supervision (the "Basel Committee"), and the FDIC adopted substantially identical rules on an interim basis. The rules not only implement the Basel Committee's December 2010 framework for strengthening international capital standards, but also certain provisions of the Dodd-Frank Act. The New Capital Rules substantially revise and heighten the risk-based capital requirements applicable to U.S. banking organizations, including the Company and the Bank, from the current U.S. risk-based capital rules and replace the existing approach used in risk-weighting of a banking organization's assets with a more risk-sensitive approach. The New Capital Rules will become effective for the Company and the Bank on January 1, 2015 (subject in the case of certain of those Rules to phase-in periods). These new Capital Rules will increase the amount of capital which both the Company and the Bank will have to maintain and it is expected that it will also increase the costs of capital for bank holding companies and banks in the United States. See "Supervision and Regulation - *First Foundation Bank – New Basel III Capital Rules*" above for additional information regarding these new capital requirements.

Premiums for federal deposit insurance have increased and may increase even more.

The FDIC uses the Deposit Insurance Fund, or DIF, to cover insured deposits in the event of bank failures, and maintains that Fund by assessing insurance premiums on FDIC-insured banks and other depository institutions. The increase in bank failures during the three years ended December 31, 2010 caused the DIF to fall below the minimum balance required by law, forcing the FDIC to raise the insurance premiums assessed on FDIC-insured banks in order

to rebuild the DIF. Depending on the frequency and severity of bank failures in the future, the FDIC may further increase premiums or assessments. In addition, our FDIC insurance premiums will increase as we grow our banking business. Such increases in FDIC insurance premiums would increase our costs of doing business and, therefore, could negatively affect our financial performance and earnings in the future.

The loss of key personnel could hurt our future financial performance.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our future operating results and prospects. We currently depend heavily on the services of our Chairman, Rick Keller, who also is the Chief Executive of FFA, our investment advisory subsidiary, and on our Chief Executive Officer, Scott Kavanaugh, who also is Chief Executive Officer of FFB, as well as a number of other key management personnel. There is no assurance that we will be able to retain the services of Mr. Keller or Mr. Kavanaugh or other key personnel and the loss of any of them could materially and adversely affect our results of operations and future prospects.

In addition, our future success will depend, in part, on our ability to attract and retain additional qualified management and banking personnel and investment advisors and wealth managers. Competition for such personnel is intense and we may not succeed in attracting or retaining the personnel we need, which could adversely affect our ability to attract new and maintain our existing clients, which would hurt our results of operations and our ability to grow our businesses in the future.

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. 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 operating results would be harmed.

We rely on communications, information, operating and financial control systems technology from third-party service providers, and we could 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, or breaches in security, of these systems could result in failures or interruptions in our client relationship management, general ledger, deposit, servicing and/or loan origination systems and, therefore, could harm our business, operating results and financial condition. Additionally, interruptions in service and security breaches could lead existing clients to terminate their business relationships with us and could make it more difficult for us to attract new clients.

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

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; the proper maintenance or protection of the privacy of client and employee financial or other personal information; record keeping; 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 which could result in the loss of clients and, therefore, could have a material adverse effect on our results of operations and financial condition.

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 (often referred to as “Other Real Estate Owned” or “OREO”). 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 and results of operations could be adversely affected.

We may incur significant losses as a result of ineffective risk management processes and strategies.

We seek to monitor and control our risk exposure through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational, 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 over the last several 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, our results of operations could be 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 businesses may be negatively impacted by changes in general economic and market conditions because the performance of those businesses is directly affected by conditions in the financial and securities markets. The financial markets and businesses operating in the securities industry are highly volatile (meaning that performance results can vary greatly within short periods of time) and are 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 control. We cannot assure you that broad market performance will be favorable in the future. Declines in the financial markets or a lack of sustained growth may result in a decline in our performance and may adversely affect the market value and performance of the investment securities that we manage, which would lead to reductions in our investment fees, because they are based primarily on the market value of the securities we manage and could lead some of our clients to reduce their assets under management by us, either of which could adversely affect the financial performance of our investment advisory and wealth management business.

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 other investment and wealth management companies, the investment and wealth management 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 adverse changes in market or economic condition outside our control 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 into broad index funds or treasury securities or to investment advisors which have investment strategies different than ours. Therefore, our operating results are heavily dependent on the financial performance of our investment advisors and wealth

managers 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 mangers 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. As a result, we rely heavily on our investment managers to produce attractive investment returns for our clients. However, the market for 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 regular 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. Losses of such accounts could have a material adverse effect on our results of operations and financial condition.

FFA faces significant competition in its business.

Due to intense competition, FFA may not be able to attract and retain clients at current levels. Competition is especially strong in our geographic market areas, because there are numerous well-established, well-resourced, well-capitalized, and successful investment advisory and wealth management firms in these areas. 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 FFA is not successful in attracting new and retaining existing clients, our results of operations and financial condition may be negatively impacted.

FFA's business is highly regulated, and the regulators have the ability to limit or restrict our activities 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 primarily, at the federal level, under that Act. That 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. 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. Changes in legal, regulatory, accounting, tax and compliance requirements also could adversely affect FFA's operations and financial results, by, among other things, increasing its operating expenses and placing restraints on the marketing of certain investment products. Like other investment 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 investment managers and existing clients or attract new clients, which would harm FFA's businesses and our results of operations.

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.

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 regulatory and other restrictions.

In order to implement our growth strategy, it is our policy to retain cash for our businesses and, as a result, we have never paid any cash dividends and we have no plans to pay cash dividends at least for the foreseeable future. Additionally, our ability to pay dividends to our shareholders is restricted by California law. Moreover, the term loan agreement we entered into in April 2013 prohibits us from paying cash dividends to our shareholders without the lender's prior written consent. See "ITEM 2 FINANCIAL INFORMATION - Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - *Term Loan*" for additional information about this loan.

Our ability to pay dividends is also dependent on the payment to us of dividends by FFB and FFA, which are subject to statutory and regulatory restrictions as well. FFA's ability to pay cash dividends to us is restricted under California law. FFB's ability to pay dividends to us is limited by various banking statutes and regulations. Moreover, based on their assessment of the financial condition of FFB or other factors, the FDIC or the DBO could find that the payment of cash dividends to us by FFB would constitute an unsafe or unsound banking practice and, therefore, prohibit FFB from paying cash dividends to us, even if FFB meets the statutory requirements to do so. See "ITEM 9. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS - Dividend Policy and Restrictions on the Payment of Dividends."

No public market presently exists, and there is no assurance that an active trading market will develop, for our common stock.

Our common stock is not listed and does not trade on any securities exchange or in the over-the-counter market. As a result, the ability of our shareholders to sell, and for other investors to purchase, shares of our common stock is quite limited. Consequently, investors and our existing shareholders may be unable to liquidate their investments in our shares if the need or desire to do so arises and, as a result, may be required to hold their shares indefinitely. In connection with the DCB Acquisition, we agreed that we would use our commercially reasonable efforts to list our common stock on the NASDAQ® Stock Market or on another national securities exchange by October 31, 2013. However, there is no assurance that we will succeed in doing so. Additionally, even if we are able to list our shares on NASDAQ or another national securities exchange, there is no assurance that an active trading market will develop for our shares that would enable our shareholders to readily sell their shares if or when the need or desire to do so arises. Moreover, if the trading market for our common stock ultimately proves to be limited, even after our shares are listed on an exchange, then, the limited trading market may cause fluctuations in the market prices of our common stock to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market for our common stock.

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

Even if a market develops for our common stock, the market prices of our common stock may be volatile and the trading volume may fluctuate and cause significant price variations to occur. We cannot assure you that, if a market does develop for our common stock, the market prices of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect the prices of ours 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 the quality of our earnings or assets;
- operating results that vary 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;
- our implementation of our growth strategy and performance of acquired businesses that vary from the expectations of securities analysts and investors;
- the adoption of new more costly government regulations that are applicable to our businesses or the imposition of regulatory restrictions on us;
- our past and future dividend practices;
- future sales of our equity or equity-related securities;
- changes in global financial markets and global economies and general market conditions, such as interest rates, stock, commodity or real estate valuations or volatility; and
-

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

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

As of August 31, 2013, our executive officers and directors owned, in the aggregate, approximately 37% of our outstanding shares. As a result, if the officers and directors were to oppose a third party's acquisition proposal for, or a change in control of, the Company, the 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 shareholders would support such a sale or change of control. In addition, a number of the Company's 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. See "ITEM 6 - Executive Compensation - Change of Control Agreements" below.

Our articles of incorporation permit our Board of Directors to authorize and sell shares of preferred stock on terms that could discourage a third party from making a takeover attempt that may be beneficial to our shareholders

Our Board of Directors has the power, under our articles of incorporation, to create and authorize the sale of one or more series of preferred stock without having to obtain shareholder approval for such action. As a result, the Board could authorize the issuance of shares of a series of preferred stock to implement a shareholders 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 shareholders to remove or replace management, and attempts of third parties either to engage in proxy contests or to acquire control of the Company.

We may sell additional shares of common stock in the future which could result in dilution to our shareholders.

A total of approximately 12 million authorized but unissued shares of our common stock are available for future sale and issuance by action of our board of directors. Accordingly, our shareholders could suffer dilution in their investment in our common stock and their percentage share ownership if we were to sell additional shares in the future.

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

We are electing to take advantage of the extended transition period afforded by the Jumpstart our Business Startups Act of 2012, or the JOBS Act, for the implementation of new or revised accounting standards and, as a result, we will 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 do not know whether the reduced disclosures and relief from certain other significant disclosure requirements that are available to emerging growth companies will make our common stock less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that apply to other public companies that are not "emerging growth

companies." These exemptions include the following:

- not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002;
- less extensive disclosure obligations regarding executive compensation in our periodic reports and proxy statements; and
- exemptions from the requirements to hold nonbinding advisory votes on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We cannot predict if investors will find our common stock less attractive because we will be relying on these exemptions. If, as a result, some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock, which could result in a reductions and greater volatility in the prices of our common stock.

Pursuant to the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting for so long as we are an "emerging growth company".

Under existing SEC rules and regulations, we will be required to disclose changes made in our internal control over financial reporting on a quarterly basis and management will be required to assess the effectiveness of our disclosure controls and our internal control over financial reporting annually. However, under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 until we are no longer an "emerging growth company." We could be an "emerging growth company" for up to five years.

Our internal control over financial reporting does not currently meet the standards required by Section 404 of the Sarbanes-Oxley Act of 2002, and failure to achieve and maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our business and stock prices.

As a privately held company, we have not been required to maintain internal control over financial reporting in a manner that meets the standards that are made applicable to publicly traded companies under Section 404(a) of the Sarbanes-Oxley Act of 2002. Once we are no longer an "emerging growth company," our independent registered public accounting firm will be required to attest to the effectiveness of our internal control over financial reporting on an annual basis. The rules governing the standards that must be met for our management to assess our internal control over financial reporting are complex and require significant documentation, testing and possible remediation, which could significantly increase our operating expenses.

We may also encounter problems or delays in implementing any changes necessary to make a favorable assessment of our internal control over financial reporting or in completing the implementation of any requested improvements that may be needed for this purpose. If we cannot favorably assess the effectiveness of our internal control over financial reporting, or if required, we are unable to obtain an unqualified attestation report on our internal controls from our independent registered public accounting firm, investors could lose confidence in our financial information which could adversely affect the prices of our common stock.

ITEM 2. FINANCIAL INFORMATION

Selected Consolidated Financial Data

The selected consolidated balance sheet data at December 31, 2012 and 2011 and the selected consolidated operating data for the fiscal years then ended that are set forth below are derived from our audited consolidated financial statements included elsewhere in this Form 10. The selected consolidated balance sheet data at June 30, 2013 and 2012 and the selected consolidated operating data for the six month periods then ended that are set forth below are derived from our unaudited consolidated financial statements included elsewhere in this Form 10. These selected consolidated financial data do not purport to be complete and should be read in conjunction with our consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10.

In our opinion, the selected consolidated balance sheet data at June 30, 2013 and 2012 and the selected consolidated operating data for the six month periods then ended include all adjustments, consisting principally of normal recurring adjustments, necessary for a fair presentation of such information when read in conjunction with our audited consolidated financial statements. Our historical results are not necessarily indicative of the results of operations to be expected for future periods and the results of operations for the six months period ended June 30, 2013 are not necessarily indicative of the results to be expected for any other interim period in or for the full fiscal year ending December 31, 2013.

	As of and for the Year Ended December 31,			As of and for the the Six Months Ended June 30,	
(In thousands, except share data)	**2012[3]**	2011	2010	2013	2012
Selected Balance Sheet Data:					
Cash and cash equivalents	$63,108	$10,098	$55,954	$40,277	$97,055
Loans, net	735,287	517,553	332,970	789,706	586,579
Deferred taxes	10,055	4,656	-	10,398	5,118
Total assets	830,509	551,584	406,825	894,648	722,938
Deposits	649,741	406,826	283,270	719,931	470,142
Borrowings	100,000	91,000	80,000	91,438	197,000
Total liabilities	756,929	502,387	367,418	818,252	671,300
Shareholders' equity[1]	73,580	49,197	39,407	76,396	51,638
Selected Statement of Operations Data:					
Interest income	$30,874	$23,022	$14,603	$19,354	$13,717
Net interest income	27,729	20,141	11,933	17,680	12,252
Provision for loan losses	2,065	2,297	1,700	1,308	1,075
Noninterest income[2]	16,620	17,700	11,647	9,743	7,845
Noninterest expense	34,476	26,446	22,409	21,421	15,724
Net income (loss)	5,801	9,098	(529)	2,910	2,078
Share and Per Share Data:					
Net income (loss) per share:					
Basic	$0.88	$1.48	$(0.09)	$0.39	$0.34
Diluted	0.85	1.42	(0.09)	0.38	0.32
Shares used in computation:					
Basic	6,603,533	6,164,283	5,881,852	7,395,699	6,173,565
Diluted	6,831,955	6,393,713	5,881,852	7,674,211	6,400,902
Tangible equity per share	$9.94	$7.98	$6.41	$10.26	$8.36
Shares outstanding at end of period	7,366,126	6,166,574	6,145,407	7,414,527	6,176,241
Selected Operating Ratios:					
Return on average assets	0.80%	1.91%	(0.18)%	0.68%	0.64%
Return on average equity	9.9%	20.7%	(1.5)%	7.7%	8.2%
Net yield on interest earning assets	4.20%	4.43%	4.29%	4.31%	4.17%

Efficiency ratio	77.7 %	77.4 %	86.9 %	78.1 %	78.2 %
Other Information:					
Assets under management (end of period)	$ 2,229,116	$ 1,827,436	$ 1,558,650	$ 2,356,917	$ 2,017,353
Ratio of ALLL to total loans[(4)]	1.25 %	1.25 %	1.25 %	1.20 %	1.28 %
Number of wealth management offices	6	4	2	7	4

(1) During 2012, we issued 815,447 shares of our common stock to the former DCB shareholders in connection with our acquisition of DCB and we sold and issued a total of 374,438 shares of common stock at a price of $15.00 per share in a private offering. During 2010, we sold and issued a total of 586,572 shares of our common stock, at a price of $15.00 per share, in a private offering..

(2) Includes a $3.7 million gain on sale of other real estate owned (“REO”) in 2011.

(3) During 2012, as a result of the DCB Acquisition, the Company acquired $35 million of cash, $9 million of securities, $90 million of loans, $6 million of deferred taxes and other assets, and assumed $127 million of deposits. Includes the results of operations of DCB for the period from the date of its acquisition on August 15, 2012 to December 31, 2012.

(4) Ratio excludes loans acquired in a merger as GAAP requires estimated credit losses for acquired loans to be recorded as a discount to those loans.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, and the notes thereto, included elsewhere in this Form 10 registration statement. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our results of operations or financial condition. This discussion and analysis should be read in conjunction with our consolidated financial statements and the accompanying notes contained elsewhere in this Form 10 registration statement.

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 ("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.

We have two business segments, “Banking” and “Investment Management, Wealth Planning and Consulting” (“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.

Recent Developments and Overview

On April 19, 2013, we entered into a term loan note agreement with an unaffiliated bank lender under which we borrowed $7.5 million. These borrowings bear interest at a rate equal to ninety day Libor plus 4.0% per annum. The term of the loan is five years. The loan agreement requires us to make monthly payments of principal and interest, the amounts of which are determined on the basis of a 10 year amortization schedule, with a final payment of the unpaid principal balance, in the amount of $3.8 million plus accrued but unpaid interest, at the maturity date of the loan in May 2018. We have the right, in our discretion, to prepay the loan at any time in whole or, from time to time, in part, without any penalties or premium. We are required to meet certain financial covenants during the term of the loan. As security for our repayment of the loan, we pledged all of the common stock of the Bank to the lender. See “Financial Condition – Term Loan” below for additional information regarding this loan.

We opened an office in Las Vegas in the second quarter of 2013 and we moved into our permanent 10,000 square foot leased office in the third quarter of 2013 where we provide banking and wealth management services.

On August 15, 2012, we completed the acquisition of DCB in exchange for the issuance of 815,447 shares of common stock, valued at $15.00 per share. As a result of the DCB Acquisition, the Bank acquired $35 million of cash, $9 million of securities, $90 million of loans, $6 million of deferred taxes and other assets, and assumed $127 million of deposits along with the operations of DCB. In addition, the Bank acquired branches in Palm Desert and El Centro, California. During the first quarter of 2013, we finished the integration of DCB into our operations.

We have continued to grow both our Banking and Wealth Management operations. Comparing the first six months of 2013 to the corresponding period in 2012, we have increased our revenues (net interest income and noninterest income) by 36%. This growth in revenues is the result of the growth in the Bank’s total interest earning assets and in AUM in Wealth Management.

During the first six months of 2013, total loans and total deposits in Banking increased 7% and 11%, respectively, while the AUM in Wealth Management increased by $128 million or 6% and totaled $2.36 billion as of June 30, 2013. The growth in AUM includes the addition of $117 million of net new accounts and $78 million of gains realized in client accounts during the first six months of 2013.

The results of operations for Banking reflects the benefits of this growth as income before taxes for Banking increased $1.9 million from $4.5 million in the first six months of 2012 to $6.4 million in the first six months of 2013. Because we continue to add new staff and locations as part of our business plan, the increases in our revenues in Wealth Management during the first six months of 2013 were offset by increases in noninterest expenses. On a consolidated basis, our earnings before taxes increased by $1.4 million from $3.3 million in the first six months of 2012 to $4.7 million in the first six months of 2013 as the increase from Banking was offset by a $0.6 million increase in corporate expenses in the first six months of 2013 as compared to the corresponding period in 2012.

Results of Operations

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012.

Our net income for the first six months of 2013 was $2.9 million as compared to $2.1 million for the corresponding period in 2012. This proportional increase was less than the proportional increase in income before taxes because of an increase in our effective tax rate from 37% in 2012 to 38% in 2013. The following is an analysis of our income before taxes for the periods presented.

The primary sources of revenue for Banking are net interest income, fees from its deposits, trust and insurance services, and certain loan fees. The primary sources of revenue for Wealth Management are asset management fees assessed on the balance of AUM and fees charged for consulting and administrative services. Compensation and benefit costs represent the largest component of noninterest expense. For the first six months of 2013, compensation and benefits comprised 63% and 76%, of the total noninterest expense for Banking and Wealth Management, respectively.

The following tables show key operating results for each of our business segments for the six months ended June 30:

	2013			
(dollars in thousands)	Banking	Wealth Management	Other	Total
Interest income	$19,354	$ -	$-	$19,354
Interest expense	1,610	-	64	1,674
Net interest income	17,744	-	(64)	17,680
Provision for loan losses	1,308	-	-	1,308
Noninterest income	1,876	8,059	(192)	9,743
Noninterest expense	11,874	8,609	938	21,421
Income (loss) before taxes on income	$6,438	$ (550)	$(1,194)	$4,694

	2012			
(dollars in thousands)	Banking	Wealth Management	Other	Total
Interest income	$13,717	$ -	$-	$13,717
Interest expense	1,465	-	-	1,465
Net interest income	12,252	-	-	12,252
Provision for loan losses	1,075	-	-	1,075
Noninterest income	1,060	6,893	(108)	7,845
Noninterest expense	7,715	7,519	490	15,724
Income (loss) before taxes on income	$4,522	$ (626)	$(598)	$3,298

General: As a result of the increase in income before taxes for Banking, which was partially offset by an increase in corporate expenses, consolidated income before taxes increased $1.4 million to $4.7 million for the first six months of 2013 as compared to $3.3 million for the first six months of 2012. Income before taxes in Banking was $1.9 million higher in the first six months of 2013 as compared to the first six months of 2012 as higher net interest income and higher noninterest income was partially offset by a higher provision for loan losses and higher noninterest expenses. For Wealth Management, increases in noninterest income during the first six months of 2013 as compared to the

corresponding period in 2012, were offset by comparable increases in noninterest expense. Corporate noninterest expenses were $0.4 million higher in the first six months of 2013 as compared to the first six months of 2012 due to the timing of our annual economic client presentation, which was held in the first quarter of 2013, increased sales and marketing activities and increased community support contributions.

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 six months ended June 30:

(dollars in thousands)	2013 Average Balances	Interest	Average Yield / Rate		2012 Average Balances	Interest	Average Yield / Rate	
Interest-earning assets:								
Loans	$773,679	$19,003	4.92	%	$554,041	$13,573	4.90	%
Securities and FHLB Stock	18,594	176	1.91	%	18,607	115	1.24	%
Fed funds and deposits	32,448	175	1.09	%	14,563	29	0.39	%
Total interest-earning assets	824,721	19,354	4.70	%	587,211	13,717	4.67	%
Noninterest-earning assets:								
Nonperforming assets	2,289				1,742			
Other	20,071				8,585			