First Foundation Inc.
Form 10-K
March 16, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-36461

FIRST FOUNDATION INC.

(Exact name of Registrant as specified in its charter)

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

18101 Von Karman Avenue, Suite 700

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

(949) 202-4160

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, par value, $.001 per share

(Title of Class)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of 15(d) of the Act. YES ¨ NO x.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definitions of "accelerated filer and large accelerated filer" and "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

No market existed for registrant's Common Stock on either the last day of the second quarter of fiscal 2014. Registrant's shares were listed and commenced trading on the NASDAQ Global Stock Market on November 3, 2014.

As of March 12, 2015, a total of 7,878,597 shares of registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

FIRST FOUNDATION INC.

ANNUAL REPORT ON FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2014

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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 or that do not relate solely to historical matters. However, our actual results and financial performance in the future will be affected by known and currently unknown risks, uncertainties and other factors that may cause our actual results or financial performance in the future to differ materially from the results or financial performance that may be expressed, predicted or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among others, those set forth below in ITEM 1A. RISK FACTORS, and readers of this report are urged to read the cautionary statements contained in that Section of this Report. In some cases, you can identify forward-looking statements by words like “may,” “will,” “should,” “could,” “believes,” “intends,” “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 of the forward-looking statements contained in this report to reflect events or circumstances after the date of this document or the occurrence of currently unanticipated events or developments or to conform such forward-looking statements to actual results or to changes in its opinions or expectations, except as may be required by applicable law.

PART I

Item 1. Business
Overview

Unless we state otherwise or the context otherwise requires, references in this Annual Report on Form 10-K to “we,” “our,” and “us” refer to First Foundation Inc., a California corporation, (or FFI or the Company) and its consolidated subsidiaries, First Foundation Advisors (or FFA) and First Foundation Bank (or FFB).

We are a California based financial services company that provides a comprehensive platform of personalized financial services to high net-worth individuals and their families, family businesses and other affiliated organizations. We consider high net-worth individuals to be individuals with net worth, excluding their primary residence, of over $1.0 million. Our integrated platform provides investment management, wealth planning, consulting, trust and banking products and services to effectively and efficiently meet the financial needs of our clients. We have also established a lending platform that offers loans to individuals and entities that own and operate multifamily residential and commercial real estate properties. In addition, we provide business banking products and services to small to moderate-sized businesses and professional firms, and consumer banking products and services to individuals and families who would not be considered high net-worth. As of December 31, 2014, we had $3.22 billion of assets under management (or AUM), $1.36 billion of total assets, $1.17 billion of loans and $963 million of deposits. Our investment management, wealth planning, consulting, and trust services provide us with substantial, fee-based, recurring revenues, such that in 2014, our non-interest income was 37% of our total revenues.

Our strategy is focused on expanding our strong and stable client relationships by delivering high quality, coordinated investment management, wealth planning, consulting, trust and banking products and services. We are able to maintain a client-focused approach by recruiting and retaining experienced and qualified staff, including highly qualified relationship managers, private bankers and financial planners.

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

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

Through FFA and FFB, we offer a comprehensive platform of personalized financial services to high net-worth individuals and their families, family businesses and other affiliated organizations. Our integrated platform provides investment management, wealth planning, consulting, trust and banking products and services to effectively and efficiently meet the financial needs of our clients. Our broad range of financial product and services are more consistent with those offered by larger financial institutions, while our high level of personalized service, accessibility and responsiveness to our clients are more typical of the services offered by boutique investment management firms and community banks. We believe this combination of an integrated platform of comprehensive financial services and products and personalized and responsive service differentiates us from many of our competitors and has contributed to the growth of our client base and our business.

Overview of our Investment Advisory and Wealth Management Business

FFA is a fee-based investment adviser which provides investment advisory services primarily to high net-worth individuals, their families and their family businesses, and other affiliated organizations. FFA strives to provide its clients with a high level of personalized service by its staff of experienced relationship managers. As of December 31, 2014, FFA had total $3.22 billion of AUM. FFA's operations comprise the investment management, wealth planning and consulting segment of our business.

Overview of Our Banking Business

FFB is engaged in private and commercial banking, offering a broad range of personal and business banking products and services 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, single family real estate loans, and consumer loans. FFB also provides the convenience of online and other personal banking services to its clients. 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 has also established a lending platform that offers loans to individuals and entities who own and operate multifamily residential and commercial real estate properties. In addition, FFB provides its products and services to individuals and families who would not be considered high net-worth, small to moderate sized businesses and professional firms. At December 31, 2014, FFB had $1.35 billion of total assets, $1.17 billion of loans and $972 million of deposits. FFB's operations comprise the trust and banking segment of our business.

Relationship Managers and Private Bankers

Our operating strategy has been to build strong and stable long-term client relationships, one at a time, by delivering high quality, coordinated investment management, wealth planning, consulting, trust and banking products and services. The success of this strategy is largely attributable to our experienced and high quality client relationship managers and private bankers. The primary role of our relationship managers and private bankers, in addition to attracting new clients, is to develop and maintain a strong relationship with their clients and to coordinate the services we provide to their clients. We have experienced low turnover in our client service personnel and we believe we can continue to attract and retain experienced and client-focused relationship managers and private bankers. At December 31, 2014, we employed 16 relationship managers and 20 private bankers.

Wealth Management Products and Services

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

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

AUM at FFA has grown at a compound annual growth rate of 21% over the three year period ending December 31, 2014. Changes in our AUM reflects additions from new clients, the gains or losses recognized from investment results, additional funds received from existing clients, withdrawals of funds by clients, and terminations. During the 3 year period ending December 31, 2014, additions from new clients and net gains from investment results were 72% and 28%, respectively, of the total of additions from new clients and net gains from investment results.

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

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 affiliated 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.

Banking Products and Services

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

FFB also provides trust services to clients in California and Nevada. Those services, which consist primarily of the management of trust assets, complement the investment and wealth management services that FFA offers to our clients and, as a result, provide us with cross-selling opportunities. Additionally, trust service fees provide an additional source of noninterest income for us. At December 31, 2014, trust AUM totaled $415 million.

Our lending activities serve the credit needs of high net-worth individuals and their businesses, owners of multifamily and commercial real estate properties, individuals and families who would not be considered high net-worth, small to moderate size businesses and professional firms in our market areas. As a result we offer a variety of loan products consisting of multifamily and single family residential real estate loans, commercial real estate loans, commercial term loans and lines of credit, and consumer loans. We handle all loan processing, underwriting and servicing at our administrative office in Irvine, California.

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

(dollars in thousands)	2014 Balance	% of Total		2013 Balance	% of Total	
Recorded Investment balance:						
Loans secured by real estate:						
Residential properties:						
Multifamily	$481,491	41.3	%	$405,984	44.9	%
Single family	360,644	30.9	%	227,096	25.2	%
Total loans secured by residential properties	842,135	72.2	%	633,080	70.1	%
Commercial properties	205,320	17.6	%	154,982	17.2	%
Land	4,309	0.4	%	3,794	0.4	%
Total real estate loans	1,051,764	90.2	%	791,856	87.7	%
Commercial and industrial loans	93,537	8.0	%	93,255	10.3	%
Consumer loans	21,125	1.8	%	18,484	2.0	%
Total loans	$1,166,426	100.0	%	$903,595	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 an evaluation of the character and creditworthiness of the borrower and guarantors, loan-to-value and debt service coverage ratios, borrower liquidity and credit history. In addition, we perform stress testing for changes in interest rates, capitalization rates and other factors and review general economic trends such as lease rates, values and absorption rates. We typically require personal guarantees from the owners of the entities to which we make such loans.

Residential Mortgage Loans – Single-family: We offer single family residential mortgage loans 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. FFB does not originate loans defined as high cost by state or federal banking regulators. The majority of FFB's single family residential loan originations are collateralized by first mortgages on real properties located in Southern California. These loans are generally adjustable rate loans with fixed terms ranging from 3 to 7 years terms. These loans generally have interest rate floors and payment caps. The loans are underwritten based on a variety of underwriting criteria, including an evaluation of the character and creditworthiness of the borrower and guarantors, loan-to-value and debt to income ratios, borrower liquidity, income verification and credit history. In addition, we perform stress testing for changes in interest rates and other factors and review general economic trends such as market values.

Commercial Real Estate Loans: 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 an evaluation of the character and creditworthiness of the borrower and guarantors, loan-to-value and debt service coverage ratios, borrower liquidity and credit history. In addition, we perform stress testing for changes in interest rates, cap rates and other factors and review general economic trends such as lease rates, values and absorption rates. We typically require personal guarantees from the owners of the entities to which we make such loans.

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

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. The loans are underwritten based on a variety of underwriting criteria, including an evaluation of the character creditworthiness and credit history of the borrower and guarantors, debt to income ratios, borrower liquidity, income verification, and the value of any collateral securing the loan. Consumer loan collections are dependent on the borrower’s ongoing cash flows and financial stability and, as a result, generally pose higher credit risks than the other loans that we make.

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

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:

	2014		Weighted Average	2013		Weighted Average
(dollars in thousands)	Amount	% of Total	Rate	Amount	% of Total	Rate
Demand deposits:						
Noninterest-bearing	$246,137	25.6 %	—	$217,782	27.1 %	—
Interest-bearing	291,509	30.3 %	0.504 %	217,129	27.1 %	0.504 %
Money market and savings	171,958	17.8 %	0.499 %	121,260	15.1 %	0.499 %
Certificates of deposits	253,350	26.3 %	0.606 %	245,866	30.7 %	0.606 %
Total	$962,954	100.0 %	0.398 %	$802,037	100.0 %	0.398 %

As of December 31, 2014, our 6 largest bank depositors accounted for, in the aggregate, 33% of our total deposits. See ITEM 1A—RISK FACTORS.

Insurance Services: Through First Foundation Insurance Services (or FFIS), a wholly owned subsidiary of FFB, we offer life insurance products provided by unaffiliated insurance carriers from whom we collect a brokerage fee.

Competition

The banking and investment and wealth management businesses in California and Las Vegas, Nevada, generally, and in FFI's market areas, in particular, are highly competitive. A relatively small number of major national and regional banks, operating over wide geographic areas, including Wells Fargo, JP Morgan Chase, US Bank, Comerica, Union Bank and Bank of America, dominate the Southern California banking market. Those banks, or their affiliates, also offer private banking and investment and wealth management services. 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 us. In addition, by virtue of their greater total capitalization, the large banks have substantially higher lending limits than we do, which enables them to make much larger loans and to offer loan products that we are not able to offer to our clients.

We compete with these much larger banks and investment 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 professional advisors and banking officers 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, these competitors are not able to provide such an integrated platform of comprehensive financial services to their clients. This enables us to compete effectively for clients who are dissatisfied with the level of service provided at larger financial institutions, yet are not able to receive an integrated platform of comprehensive financial services from other regional or local financial service organizations.

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 businesses, we attempt to maintain our pricing in line with our principal competitors.

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 Board of Governors of the Federal Reserve Board (or the Federal Reserve or the FRB).

As a bank holding company, we are allowed to engage, directly or indirectly, only in banking and other activities that the Federal Reserve has determined, or in the future may deem, to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Business activities which the Federal Reserve has designated as being closely related to banking include the provision of investment advisory, securities brokerage, insurance agency and data processing services, among others.

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

Additionally, among its powers, the Federal Reserve may require any bank holding company to terminate an activity or terminate control of, or liquidate or divest itself of, any subsidiary or affiliated company that the 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 Federal Reserve 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 Federal Reserve prior to purchasing or redeeming their common stock or other equity securities. A bank holding company and its non-banking subsidiaries also are prohibited from implementing so-called tying arrangements whereby clients may be required to use or purchase services or products from the bank holding company or any of its non-bank subsidiaries in order to obtain a loan or other services from any of the holding company's subsidiary banks.

Financial Services Modernization Act

The Financial Services Modernization Act (or the Gramm-Leach-Bliley Act or the Modernization Act), was enacted into law in 1999 primarily to establish a comprehensive framework that would permit affiliations among commercial banks, insurance companies, securities and investment banking firms, and other financial service providers. Accordingly, the Act amended the Holding Company Act to permit a bank holding company that meets certain eligibility requirements to qualify as a "financial holding company," and its non-bank affiliated companies to engage in a broader range of financial activities to foster greater competition among financial services companies both domestically and internationally.

The Modernization Act also contains provisions that expressly preempt and make unenforceable any state law restricting bank holding companies or their affiliates from engaging in the insurance underwriting or related businesses. 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.

According to current FRB regulations implementing the Modernization Act, 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.

Before a bank holding company may engage in any of those financial activities, 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," entitling it 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.

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

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

Subject to certain limited exemptions, the Holding Company Act and the Change in Bank Control Act of 1978, as amended (or the Change in Control Act), together with their implementing regulations, require:

- the approval of the FRB before any person or company may acquire "control" of a bank holding company; and
- the approval of an insured depository institution's federal bank regulator before any person or company may acquire "control" of the institution.

Under the Change in Control Act, control of a bank holding company or a bank or other insured depository institution is conclusively presumed to exist if an individual or company (i) acquires 25% or more of any class of voting securities of the bank holding company or the depository institution, or (ii) has the direct or indirect power to direct or cause the direction of the management and policies of the bank holding company or the insured depository institution, whether through ownership of voting securities, by contract or otherwise; except that no individual will be deemed to control a bank holding company or an insured depository institution solely on account of being one of its directors, officers or employees. The Change in Control Act also establishes a presumption, which is rebuttable, that a person will be deemed to control a bank holding company or an insured depository institution if that person acquires 10% or more, but less than 25%, of any class of voting securities of a bank holding company which has a class of equity securities registered with the SEC under the Exchange Act, or if no other person will own a greater percentage of that class of voting securities immediately after the transaction.

However, as a bank holding company, we must obtain the prior approval of the FRB to acquire more than five percent of the outstanding shares of voting securities of a bank or another bank holding company. In addition, the Dodd Frank Act, which is discussed in greater detail below, provides that an acquisition by a bank holding company of a bank located outside the bank holding company's home state may not be approved, unless the FRB has determined that the bank holding company is well-capitalized and well managed.

Capital Requirements Applicable to Bank Holding Companies

Because it requires bank holding companies to be a source of financial strength for their bank subsidiaries, the Federal Reserve has adopted regulations that require bank holding companies to meet capital adequacy guidelines similar to those that apply to banks and other insured depository institutions. For additional information regarding these guidelines, see " First Foundation Bank – Capital Adequacy Guidelines" and New Basel III Capital Requirements" below

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 holding company'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.

The Dodd-Frank Act

From time to time, federal and state legislation is enacted which can affect our operations and our operating results by materially increasing our 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 non-bank financial service providers.

The recent economic recession and credit crisis that required, among other measures, the federal government to provide substantial financial support to many of 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 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 is a summary of some of the provisions of the most significant of these laws, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act or Dodd-Frank. The regulatory sweep of the Dodd-Frank Act is broad and its provisions apply not only to the regulation of bank holding companies and insured depository institutions, but also to investment banking and other financial companies and to public companies that are regulated by the SEC. Accordingly, the following summary focuses primarily on the provisions of the Dodd-Frank Act that are applicable to banking organizations. It is not intended to be complete and is qualified in its entirety by reference to the Dodd-Frank Act itself and the regulations promulgated thereunder.

The Dodd-Frank Act, which was signed into law on July 21, 2010, has significantly changed federal regulation of bank holding companies and banks and other insured depository institutions (collectively, "banking institutions"). Among other things, the Dodd-Frank Act has created a new Financial Stability Oversight Council to identify systemic risks in the country's banking and financial system and gives federal banking regulators new authority to take control of and liquidate banking institutions, and large investment banking and other financial services firms, facing the prospect of imminent failure in any case where such failure would create systemic risks to the U.S. banking or financial system. The Dodd-Frank Act also created the Consumer Financial Protection Bureau (or CFPB), which is a new independent federal regulatory agency with broad powers and authority to adopt regulations under, and administer and regulate, federal consumer protection laws.

Set forth below is a summary description of some of the key provisions of the Dodd-Frank Act that may affect the Company or FFB. The description does not purport to be complete and is qualified in its entirety by reference to the Dodd-Frank Act itself and the regulations adopted thereunder.

Imposition of New Capital Standards on Bank Holding Companies. The Dodd-Frank Act required the Federal Reserve to apply consolidated capital requirements to bank holding companies that are no less stringent than those currently applied to insured depository institutions, such as FFB. The Federal Reserve implemented this requirement by its adoption of the new Basel III capital rules in June 2014. See " First Foundation Bank — New Basel III Capital Requirements" below.

Increase in Deposit Insurance and Changes Affecting the FDIC Deposit Insurance Fund. The Dodd-Frank Act permanently increased the maximum deposit insurance amount for banks, savings institutions and credit unions from $100,000 to $250,000 per depositor. The Dodd-Frank Act also broadened the base for FDIC insurance assessments which are used to fund the FDIC's Deposit Insurance Fund (or DIF) which, as a result, are now based on an insured depository institution's the average consolidated total assets, less tangible equity capital, may lead to increases in FDIC insurance assessments for many FDIC insured banks. The Dodd-Frank Act also requires the FDIC to increase the reserve ratio of the DIF from 1.15% to 1.35% of the total deposits insured by the FDIC by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. See also, " First Foundation Bank –The Deposit Insurance Fund and FDIC Insurance Premiums" below.

Payment of Interest on Business Checking Accounts. The Dodd-Frank Act has eliminated a federal statutory prohibition against the payment of interest on business checking accounts, which is expected to increase the competition for and interest that banks are prepared to pay on such accounts.

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 federal or state banking regulatory agency that issued the enforcement action does not object to the proposed conversion within 30 days following its receipt of a notice of that conversion.

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 establish a branch in that state. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in its state. Accordingly, banks will be able to enter new markets more freely.

The Volcker Rule

Pursuant to the Dodd-Frank Act, the Federal Reserve and the FDIC have adopted regulations, which became effective on April 1, 2014, to implement the "Volcker Rule" which prohibits insured depository institutions and companies affiliated with insured depository institutions ("banking organizations") from engaging in short-term proprietary trading of certain securities, derivatives, commodity futures, and options on these instruments, for their own account. Those regulations also impose limits on the investments that banking organizations may make in, and other relationships that banking organizations may have with, hedge funds or private equity funds. Certain collateralized debt obligations, securities backed by trust preferred securities, which were initially defined in the regulations as covered funds subject to the investment prohibitions of the Volker Rule, have been exempted from those prohibitions due to concerns that many community banks would otherwise have been required to recognize significant losses on such obligations and securities.

These regulations provide exemptions for certain activities, including market making, underwriting, hedging, trading in government obligations, insurance company activities, and organizing and offering hedge funds or private equity funds. The regulations also clarify that certain activities are not prohibited by the Volker Rule, including acting as agent, broker, or custodian. The compliance requirements under the regulations vary based on the size of the banking organization and the scope of its activities. Banking organizations with significant trading operations will be required to establish detailed compliance programs and their CEOs will be required to attest that the programs are reasonably designed to achieve compliance with the final regulations. Independent testing and analyses of a banking organization's compliance program also will be required. On the other hand, the regulations reduce the burden on smaller, less-complex banking organizations by limiting their compliance and reporting requirements. Additionally, a banking organization that does not engage in covered trading activities will not have to establish a compliance program.

Neither the Company nor FFB held any investment positions at December 31, 2014 that were subject to these regulations. Therefore, we believe that these regulations will not require us to make any material changes in our operations or businesses.

Executive Compensation Restrictions

In June 2010, the Federal Reserve and the FDIC issued comprehensive guidelines on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of the organizations by encouraging excessive risk-taking. The guidelines apply to any employees of a banking organization that have the ability to materially affect the risk profile of a banking organization, either individually or as part of a group.

Pursuant to these guidelines, each federal bank regulatory agency, as part of it regular, risk-focused examination of the banking organizations it regulates, assesses their incentive compensation arrangements based on the key principles their incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization’s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance principles and practices, including active and effective oversight by the banking organization’s board of directors. The federal banking regulatory agencies have the authority to bring enforcement actions against a banking organization if the agency concludes that its incentive compensation arrangements, or related risk-management control or governance processes, pose an undue risk to the organization's safety and soundness and that the organization is not taking prompt and effective measures to correct the deficiencies.

In addition, the Dodd-Frank Act directs federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies that have assets of more than $1.0 billion.

Moreover, if an insured bank has been determined by its federal banking regulatory agency to be a "troubled" institution, it may not adopt any new, or make any payments or awards under any existing, incentive compensation plans, or make any change in control payments, to its executive officers without first obtaining the approval of its federal banking regulatory agency to do so.

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

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002, or the 'Sarbanes-Oxley Act" was enacted into law on July 30, 2002. The primary purposes of the Sarbanes-Oxley Act were to strengthen (i) the oversight of public accounting firms that audit, and (ii) the corporate governance policies and practices of, companies the common stock or other equity securities of which are publicly traded ("public companies". The Act granted authority, primarily to the Securities and Exchange Commission (or the SEC), to adopt rules for implementing that Act. Among other things, the Sarbanes-Oxley Act:

- provided for enhanced regulation of the independence, responsibilities and conduct of accounting firms which provide auditing services to public companies;
- established an independent board, known as the Public Company Accounting Oversight Board, or PCAOB, with the authority to set auditing, quality and ethical standards for, and the power to investigate and discipline, public accounting firms;
- increased the criminal penalties for financial fraud committed by public company executives and public accounting firms or their key personnel;
- required enhanced monitoring of, and certifications by, the chief executive and chief financial officers of public companies of their financial disclosures, internal financial controls and their audit processes;
- required accelerated disclosures of material information by public companies; and
- required enhanced disclosures by public companies of their corporate governance policies and practices.

Additionally, pursuant to requirements of the Sarbanes-Oxley Act, the New York, American and NASDAQ Stock Exchanges promulgated rules requiring public companies to adopt and implement expanded corporate governance policies and practices as a condition to the listing, or continued listing, of their shares on those Exchanges. Among other things, those rules (i) require public companies to expand the authority, role and responsibilities of their boards of directors, (ii) require that a majority of the members of their boards of directors be independent of management ("independent directors") and establish more stringent standards that directors needed to meet to qualify as independent directors, (iii) require boards of directors to establish standing audit, compensation and nominating and corporate governance committees comprised of independent directors and (iv) increased the corporate transactions for which shareholder approval is required.

Regulation of the Company by the California Department of Business Oversight

Because FFB is a California state chartered bank, the Company is deemed to be 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.

First Foundation Bank

General.

FFB 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 FFB is a California state chartered bank.

Various requirements and restrictions under Federal and California banking laws affect the operations of FFB. These laws and the implementing regulations, 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 may obtain and the interest it is permitted to pay on different types of deposit accounts;
- the types of and limits on loans and investments that a bank may make;
- the borrowings that a bank may incur;
- the number and location of branch offices that a bank may establish;
- the rate at which it may grow its assets and business;
- the acquisition and merger activities of a bank;
- the amount of dividends that a bank may pay; and
- the capital requirements that a bank must satisfy.

If, as a result of an examination of a federally regulated bank, its federal banking 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 the bank's operations had become unsatisfactory or that the bank or its management was in violation of any law or regulation, that agency would have the authority to take a number of different remedial actions as it deems appropriate under the circumstances. These actions include the power:

- to enjoin any "unsafe or unsound" banking practices;
- to require that affirmative action be taken to correct any conditions resulting from any violation of law or unsafe or unsound practice;
- to issue an administrative order that can be judicially enforced against the bank;
- 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 FFB.

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.

Federal Home Loan Bank System. FFB is a member of the FHLB. Among other benefits, each regional Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its member banks. Each regional Federal Home Loan Bank is financed primarily from the sale of consolidated obligations of the overall Federal Home Loan Bank system. As an FHLB member, FFB is required to own a certain amount of capital stock in the FHLB. At December 31, 2014, FFB 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, 2014, FFB was in compliance with these requirements.

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Limitations and Restrictions on the Payment of Dividends and Other Transfers of Funds by FFB.

Cash dividends from FFB are one of the principal sources of cash (in addition to any cash dividends that might be paid to us by FFA) that is available to the Company for its operations and to fund any cash dividends that our board of directors might declare in the future. We are a legal entity separate and distinct from FFB and FFB is subject to various statutory and regulatory restrictions on its ability to pay cash dividends to us. Those restrictions would prohibit FFB, subject to certain limited exceptions, from paying cash dividends in amounts that would cause FFB to become undercapitalized. Additionally, the FDIC and the DBO have the authority to prohibit FFB from paying cash dividends, if either of those agencies deems the payment of dividends by FFB to be an unsafe or unsound practice.

The FDIC also has established guidelines with respect to the maintenance of appropriate levels of capital by banks under its jurisdiction. Compliance with the standards set forth in those guidelines and the restrictions that are or may be imposed under the prompt corrective action provisions of federal law could limit the amount of dividends which FFB may pay. Also, until September 2014, we are required to obtain the prior approval of the FDIC before FFB may pay any dividends.

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

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

The Dodd-Frank Act extended the application so Section 23A of the Federal Reserve Act to derivative transactions, repurchase agreements and securities lending and borrowing transactions that create credit exposure to an affiliate or an insider of a bank. Any such transactions with any affiliates must be fully secured. In addition, the exemption from Section 23A for transactions with financial subsidiaries has been eliminated. 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.

Safety and Soundness Standards.

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

internal controls, information systems and internal audit systems;

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

In addition, the federal banking agencies have adopted safety and soundness guidelines with respect to the quality of loans and other assets of insured depository institutions. These guidelines provide six standards for establishing and maintaining a system to identify problem loans and other problem assets and to prevent those assets from deteriorating. Under these standards, an FDIC-insured depository institution is expected to:

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

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

Regulatory Guidelines for Commercial Real Estate Loan Concentrations

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

Single Borrower Loan Limitations.

California law imposes on all California state-chartered banks, including FFB, "single borrower loan limitations" which consist of the following:

- unsecured borrowings of any customer of a California state-chartered bank, together with the borrowings of any family members or affiliates of the customer, to the bank may not exceed 15% of the sum of the bank's shareholders' equity, allowance for loan losses, capital notes and debentures; and
- the aggregate of secured and unsecured borrowings of any customer of a California state-chartered bank, together with the borrowings of any family members or affiliates of the customer, to the bank may not exceed 25% of the sum of the bank's shareholders' equity, allowance for loan losses, capital notes and debentures.

Technology Risk Management and Consumer Privacy

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

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

In addition, the Modernization Act requires banking organizations to provide each of their customers with a notice of their privacy policies and practices and prohibits a banking organization from disclosing nonpublic personal information about a customer to nonaffiliated third parties unless the banking organization satisfies various notice and "opt-out" requirements and the customer has not chosen to opt out of the disclosure. Additionally, the federal banking agencies are authorized to issue regulations as necessary to implement those notice requirements and non-disclosure restrictions. More specifically, the Modernization Act privacy regulations require all banking organizations to develop initial and annual privacy notices that describe in general terms the banking organization's information sharing practices. Any banking organization that shares nonpublic personal information about customers with nonaffiliated third parties must also provide customers with notices advising them that, subject to certain limited exceptions, the customer has the opportunity and a reasonable time period to inform the bank that it may not share the customer's nonpublic personal information with nonaffiliates of the bank. These regulations also place limitations on the extent to which a banking organization may disclose an account number or access code for credit card, deposit, or transaction accounts to any nonaffiliated third party for use in marketing such programs.

Capital Adequacy and Prompt Corrective Action Provisions of the FDIC Improvement Act

Capital Adequacy Guidelines. The Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, established a framework for regulation of federally insured depository institutions, including banks, and their parent holding companies and other affiliates, by their federal banking regulators. Among other things, FDICIA requires the relevant federal banking regulator to take "prompt corrective action" with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission by that bank of an acceptable capital restoration plan if its bank regulator has concluded that it needs additional capital.

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

Under FIDICIA regulations, an insured depository institution's capital category will depend upon how its capital levels compare with these capital measures and the other factors established by the relevant federal banking regulator. Prior to January 1, 2015, those regulations provided that a bank would be classified as:

"well capitalized" if it had a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater and a Tier 1 leverage ratio of 5.0% or greater, and was not subject to any order or written directive by any such regulatory agency to meet and maintain a specific capital level for any capital measure;
"adequately capitalized" if it had a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a Tier 1 leverage ratio of 4.0% or greater, but was not "well capitalized";
"undercapitalized" if it had a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0% and a Tier 1 leverage ratio of less than 4.0%;
"significantly undercapitalized" if it had a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0%, or a Tier 1 leverage ratio of less than 3.0%; and

"critically undercapitalized" if its tangible equity was equal to or less than 2.0% of average quarterly tangible assets. However, if a bank that was classified as "well-capitalized" is determined (after notice and opportunity for hearing), by its federal banking regulator, to be in an unsafe or unsound condition or to be engaging in an unsafe or unsound practice, that agency could, under certain circumstances, reclassify the bank as adequately capitalized. The federal banking regulator of a bank that is classified as adequately capitalized or undercapitalized could require the bank to comply with bank supervisory provisions and restrictions that would apply to a bank in the next lower capital classification, if the banking regulator has obtained supervisory information regarding the bank (other than with respect to its capital levels) which raises safety or soundness concerns. However, a significantly undercapitalized bank may not be treated by its regulatory agency as critically undercapitalized by reason of such safety or soundness concerns alone.

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

Effective January 1, 2015, these capital adequacy guidelines were revised by Basel III. See " New Basel III Capital Requirements" below.

Corrective Measures for Undercapitalized Banks. FDICIA generally prohibits a bank from paying any dividends or making any capital distributions or paying any management fee to its parent holding company if the bank would thereafter be "undercapitalized." In addition "undercapitalized" banks are subject to growth limitations and are required to submit a capital restoration plan for approval by its federal regulatory agency. However, that agency may not approve 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.

An undercapitalized bank which fails to submit, or fails to obtain the approval by its federal banking regulator of a capital restoration plan will be treated as if it is "significantly undercapitalized." In that event, the bank's federal banking regulator may impose a number of additional requirements and restrictions on the bank, including orders or requirements (i) to sell sufficient voting stock to become "adequately capitalized," (ii) to reduce its total assets, and (iii) cease the receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

If an undercapitalized bank is a subsidiary of a bank holding company, then, for its capital restoration plan to be approved, the bank's parent holding company must guarantee that the bank will comply with, and provide assurances of the performance by the bank of, its capital restoration plan. Under such a guarantee and assurance of performance, if the bank fails to comply with its capital restoration plan, the parent holding company may become subject to liability for such failure in an amount up to the lesser of (i) 5.0% of its bank subsidiary's total assets at the time it became undercapitalized, or (ii) the amount that is necessary (or would have been necessary) to bring the bank into compliance with all applicable capital standards as of the time it failed to comply with the plan.

Corrective Measures for Significantly and Critically Undercapitalized Banks. If a bank is classified as "significantly undercapitalized" or "critically undercapitalized," its federal banking regulator would be required to take one or more prompt corrective actions that would, among other things require the bank to (i) raise additional capital by means of sales of common stock or nonredeemable preferred shares, (ii) improve its management, (iii) limit the interest rates it may pay on deposits, (iv) altogether prohibit transactions by the bank with its affiliates, (v) terminate certain activities that pose undue or unreasonable risks, and (vi) restrict the compensation being paid to its executive officers. If a bank is classified as critically undercapitalized, FDICIA requires the bank to be placed into conservatorship or receivership within 90 days, unless its federal banking regulatory agency determines that there are other measures that would enable the bank, within a relatively short period of time, to increase its capital in an amount sufficient to improve its capital classification under the prompt corrective action framework.

New Basel III Capital Rules.

Prior to 2015, the risk-based capital rules applicable to domestic banks and bank holding companies were 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, consistent with the Basel III guidelines, to the regulatory risk-based capital and leverage requirements for banks and bank holding companies ("banking organizations") in the United States.

In July 2012, the FRB adopted final rules (the "New Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations, and the FDIC subsequently adopted substantially identical rules. 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 revised the risk-based capital requirements applicable to U.S. banking organizations, including the Company and FFB, from the prior U.S. risk-based capital rules, redefined the components of capital and addressed other issues affecting the capital ratios applicable to banking organizations. The New Capital Rules also replaced the existing approach used in risk-weighting of a banking organization's assets with a more risk-sensitive approach. The New Capital Rules became effective for the Company and FFB on January 1, 2015 (subject, in the case of certain of those Rules, to phase-in periods).

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

Under the New Capital Rules, beginning January 1, 2015, the minimum capital ratios are:

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 FFB, 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. Other deductions and adjustments to CET-1 will be phased in incrementally between January 1, 2015 and January 1, 2018. On the other hand, the impact of these deductions and adjustments 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 FFB, were entitled to make a one-time permanent election, not later than January 1, 2015, 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 FFB, the New Capital Rules also revise the “prompt corrective action” regulations under FIDICA, 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 as “well-capitalized”; (ii) increasing the minimum Tier 1 capital ratio for each category, with the minimum Tier 1 capital ratio of 8% (as compared to 6% prior to January 1, 2015) for a bank to be “well-capitalized”; and (iii) requiring a leverage ratio of 4% to be adequately capitalized (as compared to the 3% leverage ratio that was formerly in effect), and a leverage ratio of 5% for a bank 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 former four Basel I-derived categories (0%, 20%, 50% and 100%) to larger and a greater number of risk-sensitive 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.

The Deposit Insurance Fund and FDIC Deposit Insurance Premiums

The FDIC insures the deposits of the customers of all FDIC insured depository institutions up to prescribed limits for each depositor through a Deposit Insurance Fund, or the DIF, from which it makes deposit insurance payments to depositors of failed depository institutions and from which it funds the costs incurred and against which it charges the losses sustained in connection with the closure or other resolution of those institutions. Due to higher levels of bank failures resulting from the recent recession and credit crisis, the insurance payments and the resolution costs increased significantly and largely depleted the DIF. In order to restore the DIF to a statutorily mandated minimum of 1.35% of total deposits which it insures (as compared to 1.15% prior to Dodd-Frank), the FDIC has increased deposit insurance premium rates. The FDIC uses a risk-based system to determine a depository institution's insurance premium rate based on the institution's classification. Institutions assigned to higher risk classifications (that is, institutions that pose a higher risk of loss to the DIF) pay premiums at higher rates than institutions that pose a lower risk. A depository institution's risk classification is assigned based primarily on its capital levels and the level of supervisory concern which the institution poses to the DIF. The FDIC also has the authority, under certain circumstances, to further increase the insurance premium rates of depository institutions. Any increase in FDIC insurance premiums assessed on FFB in the future would increase our noninterest expense and thereby reduce our profitability.

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 2014. These assessments will continue until the FICO bonds mature in 2017.

Community Reinvestment Act and Fair Lending Developments.

Like all other federally regulated banks, FFB is subject to fair lending requirements and the evaluation of its small business operations under the Community Reinvestment Act, or the CRA. The CRA generally requires the federal banking regulatory agencies to evaluate the record of a bank in meeting the credit needs of its local communities, including those of low and moderate income neighborhoods in its service area. A bank's compliance with its CRA obligations is based on a performance-based evaluation system which determines the bank's CRA ratings on the basis of its community lending and community development performance. A bank may have substantial penalties imposed on it and generally will be required to take corrective measures in the event it fails to meet its obligations under 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 federal banking regulatory agency to which the application is assigned will review the CRA assessment of the subsidiary bank or banks of the applicant bank holding company, and a low CRA rating may be the basis for requiring the applicant's bank subsidiary to take corrective actions to improve its CRA performance as a condition to the approval of the acquisition or as a basis for denying the application altogether.

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 of 2001 (USA Patriot Act) 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 FFB also are subject to the federal Bank Secrecy Act of 1970, as amended, or the Bank Secrecy Act, 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 result in the imposition of substantial penalties and in adverse regulatory action against the offending bank. FFI and FFB have each adopted policies and procedures to comply with the Bank Secrecy Act.

Consumer Laws and Regulations.

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

The Home Ownership and Equity Protection Act of 1994, 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."

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.

Consumer Financial Protection Bureau

The Dodd-Frank Act created 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.

The CFPB also issued final rules for residential mortgage lending, which became effective January 10, 2013, including definitions for “qualified mortgages” and detailed standards by which leaders must satisfy themselves of the borrower’s ability to repay the loan and revised forms of disclosure under the TILA and RESPA.

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.

First Foundation Advisors

Registered Investment Adviser Regulation. FFA is a registered investment adviser under the Investment Advisers Act, and the SEC'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 Employee Retirement Income Security Act of 1974, or ERISA, and to regulations promulgated thereunder, insofar as it is a "fiduciary" under ERISA with respect to certain of its clients. ERISA and the applicable provisions of the Code, impose certain duties on persons who are fiduciaries under ERISA, and prohibit certain transactions by the fiduciaries (and certain other related parties) to such plans. The foregoing laws and regulations generally grant supervisory agencies broad administrative powers, including the power to limit or restrict FFA from conducting its business in the event that it fails to comply with such laws and regulations. Possible sanctions that may be imposed in the event of such noncompliance include the suspension of individual employees, limitations on the business activities for specified periods of time, revocation of registration as an investment 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.

Future Legislation

Congress may enact legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulations, or the application thereof, cannot be predicted, although enactment of the proposed legislation could impact the regulatory structure under which we operate and may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital, modify our business strategy and limit our ability to pursue business opportunities in an efficient manner.

Item 1A.Risk Factors

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

Risks Affecting our Business

We could incur losses on the loans we make.

Loan defaults and the incurrence of losses on loans are inherent risks in our business. The incurrence of loan losses necessitate loan charge-offs and write-downs in the carrying values of a banking organization's loans and, therefore, can adversely affect its results of operations and financial condition. Accordingly, our results of operations will be directly affected by the volume and timing of loan losses, which for a number of reasons can vary from period to period. The risks of loan losses are exacerbated by economic recessions and downturns, 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 relatively high, as compared to the pre-recessionary period, and there continue to be uncertainties about the strength and sustainability of that economic recovery. If the economic recovery were to remain weak or economic conditions were again to deteriorate, more of our borrowers may fail to perform in accordance with the terms of their loans, in which event loan charge-offs and asset write-downs could increase, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our allowance for loan losses is determined based upon both objective and subjective factors, and may not prove to be adequate to absorb fully the loan losses we incur, in which event our earnings may suffer.

Like virtually all banks, we follow the practice of maintaining a reserve or allowance for possible loan losses, or ALLL, to absorb loan losses. When it is determined that the payment in full of a loan has become unlikely, the carrying value of the loan is reduced ("written down") to what management believes is its realizable value or, if it is determined that a loan no longer has any realizable value, the carrying value of the loan is written off in its entirety (a loan "charge-off"). Loan write-downs and charge-offs are charged against the ALLL. The amount of the ALLL is increased periodically (i) to replenish the ALLL after it has been reduced due to loan write-downs and charge-offs, (ii) to reflect increases in the volume of outstanding loans, and (iii) to take account of changes in the risk of potential loan losses due to a deterioration in the condition of borrowers or adverse changes in economic conditions. Increases in the ALLL are made through a charge, recorded as an expense in the statement of income, referred to as the "provision for loan losses" and, therefore, can adversely affect earnings.

On a quarterly basis, we make determinations with respect to the sufficiency of the ALLL, and the amount of the provisions for loan losses that we believe will be necessary to maintain the sufficiency of the ALLL. We employ economic and loss migration models that are based on bank regulatory guidelines, industry standards and our own historical loan loss experience, as well as a number of more subjective qualitative factors in order to make these determinations. However, making these determinations involve judgments about changes and trends in current economic conditions and other events that can affect the ability of borrowers to meet their loan payment obligations to us and a weighting among the quantitative and qualitative factors we consider in determining the sufficiency of the ALLL. If, as a result, or due to the occurrence of unexpected events or circumstances outside of our control or otherwise, those judgments subsequently prove to have been incorrect and, as a result, it becomes necessary to increase the amount of the ALLL, we would have to increase the provisions we make for loan losses, which would reduce our earnings, possibly significantly. In addition, the FDIC and the DBO, as an integral part of their examination processes, periodically review the adequacy of our ALLL. These agencies may require us to make additional provisions for loan losses, over and above the provisions that we have already made, the effect of which also would be to reduce our earnings.

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 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 loan losses, which would reduce our earnings; 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 nonperforming loans through the foreclosure and sale of those real properties.

Adverse changes in 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 outside of our ability to control. 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, could result in the following consequences, any of which could have a material adverse effect on our business, financial condition, results of operations or prospects:

- a deterioration in the credit quality of our banking clients;
- an increase in loan delinquencies and loan 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 services or financial products;
increases in competition for low cost or non-interest bearing deposits; and
decreases in the investment management and advisory fees we generate.

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

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

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

At December 31, 2014, loans secured by multifamily and commercial real estate represented approximately 70% of FFB's outstanding loans. The repayment of such loans is highly dependent on the ability of the borrowers to meet their loan repayment obligations to us, which can be adversely affected by economic downturns that can lead to (i) declines in the rents and, therefore, in the cash flows generated by those real properties on which the borrowers depend to fund their loan payments to us, and (ii) decreases in the values of those real properties, which make it more difficult for the borrowers to sell those real properties for amounts sufficient to repay their loans in full. As a result, our operating results are more vulnerable to adverse changes in the real estate market than other financial institutions with more diversified loan portfolios and we could incur losses in the event of changes in economic conditions that disproportionately affect the real estate markets.

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

Liquidity is essential to our banking business, as we use cash to make loans and purchase investment securities and other interest-earning assets and to fund deposit withdrawals that occur in the ordinary course of our business. Our principal sources of liquidity include earnings, deposits, Federal Home Loan Bank (or FHLB) borrowings, sales of loans or investment securities held for sale, repayments by clients of loans we have made to them, and the proceeds from sales by us of our equity securities or from borrowings that we may obtain. If 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 harmed, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our 6 largest deposit clients account for 36% of our total deposits.

As of December 31, 2014, our 6 largest bank depositors accounted for, in the aggregate, 36% of our total deposits. As a result, a material decrease in the volume of those deposits by a relatively small number of our depositors could reduce our liquidity, in which event it could became necessary for us to replace those deposits with higher-cost deposits, lower-yielding securities or FHLB borrowings, which would adversely affect our net interest income and, therefore, our results of operations.

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. Our ability to execute on our strategy to acquire other banks may require us to raise additional capital and to increase FFB's capital position to support the growth of our banking franchise, and will also depend on market conditions, over which we have no control. Moreover, any bank acquisitions will require the approval of our bank regulators and there can be no assurance that we will be able to obtain such approvals on acceptable terms, if at all.

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

Since we commenced our banking business in October 2007, we have grown our banking franchise by establishing three new wealth management offices in Southern California and one in Las Vegas, Nevada and acquiring two new offices in Palm Desert and El Centro, California as part of our acquisition of Desert Commercial Bank, or DCB, in August 2012. We plan to continue to grow our banking business both organically and through acquisitions of other banks. However, the implementation of our growth strategy poses a number of risks for us, including:

- the risk that any 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 earnings;
- the risk that any bank acquisitions we might consummate in the future will prove not to be accretive to or may reduce our earnings if we do not realize anticipated cost savings or if we incur unanticipated costs in integrating the acquired banks into our operations or if a substantial number of the clients of any of the acquired banks move their banking business to our competitors;
- the risk that such expansion efforts will divert management time and effort from our existing banking operations, which could adversely affect our future financial performance; and
- the risk that the additional capital which we may need to support our growth or the issuance of shares in any bank acquisitions will be dilutive of the investments that our existing shareholders have in the shares of our common stock that they own and in their respective percentage ownership interests they have in the Company.

We have obtained, from an unaffiliated bank, a $30.0 million term loan that is secured by a pledge of all of FFB's shares, which could have a material adverse effect on our business, our financial condition and results of operations and future prospects if we are not able to meet financial covenants applicable to that loan or to repay the loan when it becomes due.

In April 2013, we entered into a five year term loan agreement pursuant to which we obtained $7.5 million of borrowings from another bank. We have increased our borrowings under that loan agreement on two occasions: (i) first to $21,875,000 in March 2014, and (ii) then on February 27, 2015 to $30,000,000, at which time the maturity date of the loan was extended from May 1, 2018 to May 1, 2022. We have used the proceeds of the loan primarily to support and fund the growth of our businesses, which included making contributions of equity to FFB and otherwise for working capital purposes. In order to obtain the loan, we were required to pledge 100% of the shares of

FFB capital stock to the bank lender as security for our payment 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 remaining term of the loan. As a result, such borrowings may make us more vulnerable to general economic downturns and competitive pressures that could cause us to fail to meet one or more of those financial covenants. If we are unable to meet any of those covenants, we could be required to repay the loan sooner than its maturity date in May 2022; and, if we are unable to repay the loan in full when due, whether at maturity or earlier, the lender will become entitled to sell our FFB shares to recover the amounts that are due it under the loan agreement. Since the stock of FFB comprises our largest and most important asset on which our success is dependent, an inability on our part to repay the loan when due would have a material adverse effect on our business, financial condition, results of operations and prospects and would cause us to incur significant losses. See the section below in this report entitled “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 wealth and 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. 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 or other financial services businesses, we could find it more difficult to attract new and retain existing clients and our net interest margins, net interest income and investment management advisory fees could decline, which would adversely affect our results of operations and could cause us to incur losses in the future.

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

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

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

Banking laws and 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 on us if they believe that is necessary in order to protect depositors, even if those restrictions would adversely affect our ability to grow our business, cause our operating costs to increase, or hinder our ability to compete with less regulated financial services companies.

We are also subject to numerous laws and government regulations that are applicable to banks and other financial institutions, including the following:

Consumer Protection Laws and Regulations. We are required to comply with various consumer protection laws, including the Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions.

Bank Secrecy Act and other Anti-Money Laundering Laws and Regulations. As a financial institution, we are required by the Bank Secrecy Act, the USA PATRIOT Act of 2001 and other anti-money laundering laws and regulations, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control.

If the policies, procedures or systems which we have adopted to comply with these laws and regulations are found by any regulatory or other government agencies to be deficient or we fail to comply with any of these banking laws or regulations, we could be subject to penalties and regulatory actions that may lead to the imposition of restrictions on our ability to grow our banking business. Additionally, a failure to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious reputational consequences for us. Due, moreover, to the complex and technical nature of many of these laws and government regulations, inadvertent violations may and sometimes do occur. In such an event, we would be required to correct and, depending on the nature and seriousness of the violation, we could be required implement measures to prevent a recurrence of such violations, which could increase our operating costs. If more serious violations were to occur or recur, our banking regulators could limit our activities or growth, fine us, or ultimately put FFB out of business if it was to encounter severe liquidity problems or a significant erosion of capital below the minimum amounts required under applicable regulatory capital guidelines. Any of these occurrences could have a material adverse effect on our business, financial condition, results of operations or future prospects.

The enactment of the Dodd-Frank Act, and the adoption of the new Basel III capital rules that became effective on January 1, 2015, pose uncertainties for our business and are likely to increase the costs of doing business in the future.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, has significantly changed the U.S. banking laws and regulations that apply to banks and other financial services organizations. Those changes include, among others: (i) the establishment of new requirements and restrictions on derivative and investment activities by banking organizations; (ii) the repeal of the prohibition on the payment of interest on business checking deposits, (iii) the imposition of limitations on debit card interchange fees, (iv) the promulgation of enhanced financial institution safety and soundness regulations that are applicable to FDIC-insured banks and to their bank holding companies, (v) increases in FDIC deposit insurance coverage and in FDIC insurance premiums that FDIC insured depository institutions are required to pay into the FDIC Deposit Insurance Fund, and (vi) the establishment of new banking and financial services regulatory bodies, such as the Bureau of Consumer Financial Protection, or 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. We expect that the Dodd-Frank Act and its implementing regulations will increase our costs of doing business as well for other banking institutions. We also expect that the repeal of the prohibition on the payment by banks of interest on business checking 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 income and earnings in the future.

In July 2013, the FRB and the FDIC 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”). The rules implement the Basel Committee’s December 2010 framework for strengthening international capital standards and also certain provisions of the Dodd-Frank Act. The New Capital Rules became effective for FFI and FFB on January 1, 2015 (subject in the case of certain of those rules to phase-in periods). The New Capital Rules have substantially revised and heightened the risk-based capital requirements applicable to U.S. banking organizations, including FFI and FFB, from the U.S. risk-based capital rules that were in effect prior to January 1, 2015 and instituted a new and more risk-sensitive approach for risk-weighting a banking organization’s assets which could have the practical effect of making it more difficult for banks and bank holding companies to meet the new risk-based capital requirements. These new Capital Rules will increase the amount of capital which both FFI and FFB, as well as other banks and bank holding companies in the United States, will have to maintain and it is expected that the new rules will also increase the costs of capital for bank holding companies and banks in the United States. See “BUSINESS Supervision and Regulation—First Foundation Bank—New Basel III Capital Requirements” above in this report for additional information regarding these new capital requirements.

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

As of December 31, 2014, the fair value of our investment securities portfolio was $138.3 million. Factors beyond our control can significantly influence and cause adverse changes to occur in the fair values of securities in that portfolio. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuers of the securities, concerns with respect to the enforceability of the payment or other key terms of the securities, changes in market interest rates and continued instability in the capital markets. Any of these factors, as well as others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could materially and adversely affect our business, results of operations, financial condition and prospects. In addition, the process for determining whether an impairment of a security is other-than-temporary usually requires complex, subjective judgments, which could subsequently prove to have been wrong, regarding the future financial performance and liquidity of the issuer of the security, the fair value of any collateral underlying the security and whether and the extent to which the principal of and interest on the security will ultimately be paid in accordance with its payment terms.

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 FDIC-insured depository institutions. As a result of (i) increases in bank failures during the three years ended December 31, 2010 which caused the DIF to fall below the minimum balance required by law, and (ii) an increase, mandated by the Dodd-Frank Act, in the minimum balance required to be maintained in the DIF, the FDIC has raised 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 such premiums. In addition, our FDIC insurance premiums will increase as and to the extent that our banking business grows. Such increases in FDIC insurance premiums would increase our costs of doing business and, therefore, could adversely affect our results of operations and earnings 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 and to compete with other financial services organizations which have successfully implemented new technologies. The costs of implementing technological changes, new product development and marketing costs may increase our operating expenses without a commensurate increase in our business or revenues, in which event our business, financial condition, results of operations and prospects could be materially and adversely affected.

The occurrence of fraudulent activity, breaches of our information security, and cyber-security attacks could have a material adverse effect on our business, financial condition, results of operations or future prospects.

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

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

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

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

Our ability to attract and retain clients and key 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 deficiencies or errors; money-laundering; potential conflicts of interest and ethical issues. Moreover, any failure to appropriately address any issues of this nature could give rise to additional regulatory restrictions, and legal risks, which could lead to costly litigation or subject us to enforcement actions, fines, or penalties and cause us to incur related costs and expenses. In addition, our banking, investment advisory and wealth management businesses are dependent on the integrity of our banking personnel and our investment advisory and wealth managers. Lapses in integrity could cause reputational harm to our businesses that could lead to the loss of existing clients and make it more difficult for us to attract new clients and, therefore, could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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 “Real Estate Owned” or “REO”). As an owner of such properties, we could become subject to environmental liabilities and incur substantial costs for any property damage, personal injury, investigation and clean-up that may be required due to any environmental contamination that may be found to exist at any of those properties, even if we did not engage in the activities that led to such contamination and those activities took place prior to our ownership of the properties. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties seeking damages for environmental contamination emanating from the site. If we were to become subject to significant environmental liabilities or costs, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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

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

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

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

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

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

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

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

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 restrictions on the marketing of certain investment products. Recently, the Obama Administration directed the U.S. Department of Labor to adopt new rules that would require some financial advisors to act as "fiduciaries" for their clients in connection with the management of 401-K retirement plan and IRA investments, which is a higher standard than currently applies to investment managers and brokers when managing investments in 401-K retirement plans and IRAs. We cannot predict whether these new rules will be adopted and we do not have enough information at this time to determine whether these proposed new rules, if adopted, will apply to FFA or will have an impact on FFA's business or operating results. However, we expect that these rules, if adopted, would apply primarily to investment advisors and brokers who receive commissions from the issuers of investment securities that are purchased, based on the advice of such advisors or brokers, for the accounts of their clients. FFA, by contrast, is compensated for its services primarily by investment advisory fees paid directly by its clients based on the market value of the investment securities that are managed by FFA for them and not by commissions paid by issuers of those investment securities.

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

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

Risks related to Ownership of our Common Stock

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

In order to support and fund the growth of our banking business, it is our policy to retain cash rather than pay dividends. As a result, we have not paid any cash dividends since FFB commenced its banking operations in October 2007 and we have no plans to pay cash dividends at least for the foreseeable future. Additionally, our ability to pay dividends to our shareholders is restricted by California and federal law and the policies and regulations of the Federal Reserve, which is our federal banking regulator. Moreover, the agreement governing the $30.0 million term loan that we obtained from an unaffiliated bank lender, prohibits us from paying cash dividends to our shareholders without the lender's prior written consent. See the section of this report below, entitled "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 to shareholders is also dependent on the payment to us of cash dividends by FFA and FFB. FFA and FFB are corporations that are separate and distinct from us and, as a result, they are subject to separate statutory or regulatory dividend restrictions that can affect their ability to pay cash dividends to us. FFA's ability to pay cash dividends to us is restricted under California corporate law. FFB's ability to pay dividends to us is limited by various banking statutes and regulations. Moreover, based on their assessment of the financial condition of FFB or other factors, the FDIC or the California DBO could find that payment of cash dividends by FFB to us would constitute an unsafe or unsound banking practice, in which event they could restrict FFB from paying cash dividends, even if FFB meets the statutory requirements to do so. See the section entitled "Dividend Policy and Restrictions on the Payment of Dividends" in Item 5 of this report below for additional information about our dividend policy and the dividend restrictions that apply to us and to FFB and FFA.

The Company's shares have been limited and there is no assurance that a more active trading market for our shares will develop in the future. As a result, shareholders may not be able to sell their shares of our common stock at attractive prices if and when they need or desire to do so.

On November 3, 2014, our common stock was listed and commenced trading on the NASDAQ Global Stock Market, under the ticker symbol "FFWM". However, the trading volume in our common stock has been limited. For example, the average daily trading volume of our shares on NASDAQ during the month of February 2015 was approximately 12,410 shares. There can be no assurance that a more active trading market for our shares will develop or can be sustained in the future. If a more active trading market does not develop, or cannot be sustained, our shareholders may have difficulty selling their shares at attractive prices when they need or desire to do so. Additionally, the lack of an active trading market for our shares may make it more difficult for us to sell shares in the future to raise additional capital and to offer our shares as consideration for acquisitions of other banks or investment management or other financial services businesses, without diluting our existing shareholders.

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

Even if an active 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 in the quality of our earnings or assets;
operating results that differ from the expectations of management, securities analysts and investors;
changes in expectations as to our future financial performance;
the operating and securities price performance of other companies that investors believe are comparable to us;
the implementation of our growth strategy and performance of acquired businesses that vary from the expectations of securities analysts and investors;
the enactment of new more costly government regulations that are applicable to our businesses or the imposition of regulatory restrictions on us;
our dividend policy and any changes that might occur to that policy in the future;
future sales of by us of our common stock or any other of our equity securities;
changes in global financial markets and global economies and general market conditions, such as changes in interest rates or fluctuations in stock, commodity or real estate valuations; and
announcements of strategic developments, material acquisitions and other material events in our business or in the businesses of our competitors.

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

As of February 27, 2015, our executive officers and directors owned, in the aggregate, approximately 34% 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, FFI, 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 FFI's officers have change of control agreements which could increase the costs and, therefore, lessen the attractiveness of an acquisition of FFI to a potential acquiring party. For additional information regarding these change of control agreements, see the Item 11, entitled "Executive Compensation" below in this report.

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

Our Board of Directors, or Board, has the power under our articles of incorporation to issue additional shares of common stock and create and authorize the sale of one or more series of preferred stock without having to obtain shareholder approval for such action. As a result, our 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 FFI. In addition, our charter documents:

- enable our Board to fill any vacancy on the Board, unless the vacancy was created by the removal of a director;
- enable our Board to amend our bylaws without shareholder approval, subject to certain exceptions; and
- require compliance with an advance notice procedure with regard to any business that is to be brought by a shareholder before an annual or special meeting of shareholders and with regard to the nomination by shareholders of candidates for election as directors.

Furthermore, federal and state banking laws and regulations applicable to us require anyone seeking to acquire more than 10% of our outstanding shares or otherwise effectuate a change of control of the Company or of FFB, to file an application with, and to receive approval from, the Federal Reserve and the FDIC to do so. These laws and regulations may discourage potential acquisition proposals and could delay or prevent a change of control of the Company, including by means of a transaction in which our shareholders might receive a premium over the market price of our common stock.

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 alone. Accordingly, if we were to sell additional shares in the future, our shareholders could suffer dilution in their investment in their shares of our common stock and in their percentage ownership of the Company.

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

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

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

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

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

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

We may remain an emerging growth company for the period ending in December 2018, although we may cease to be an emerging growth company earlier under certain circumstances, including if, before the end of that period, it is determined that we have become a large accelerated filer under the rules of the SEC (which depends on, among other things, having a market value of common stock held by non-affiliates in excess of $700 million).

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

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

Although, as an emerging growth company, we are not required to obtain or include in our annual reports on Form 10-K an attestation report from their independent registered accountants with respect to the effectiveness of our internal control over financial reporting, like all other public companies, our Chief Executive Officer and our Chief Financial Officer are required, annually, to assess, and disclose their findings in our annual reports on Form 10-K with respect to, the effectiveness of our internal control over financial reporting in a manner that meets the requirements of Section 404(a) of the Sarbanes-Oxley Act. The rules governing the standards that must be met for our Chief Executive and Chief Financial Officers to assess and report on the effectiveness of our internal control over financial reporting are complex and require significant documentation, testing and possible remediation, which could significantly increase our operating expenses. See Item 9A of this report below, entitled "Controls and Procedures" to review the attestation report of our Chief Executive Officer and Chief Financial Officer regarding the effectiveness of our internal control over financial reporting as of December 31, 2014.

Additionally, If we are unable to maintain the effectiveness of our internal control over financial reporting in the future, we may be unable to report our financial results accurately and on a timely basis. In such an event, investors and clients may lose confidence in the accuracy and completeness of our financial statements, as a result of which our liquidity, access to capital markets, and perceptions of our creditworthiness could be adversely affected and the market prices of our common stock could decline. In addition, we could become subject to investigations by NASDAQ, the

SEC, or the Federal Reserve, or other regulatory authorities, which could require us to expend additional financial and management resources. As a result, an inability to maintain the effectiveness of our internal control over financial reporting in the future could have a material adverse effect on our business, financial condition, results of operations and prospects.

Other Risks and Uncertainties.

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

Item 1B. Unresolved Staff Comments.
Not applicable.

Item 2. Properties.
Our headquarters and administrative offices are located at 18101 Von Karman Avenue, Suite 700, Irvine, California 92612. In addition, we operate seven wealth management offices located, respectively, in Newport Beach, Pasadena, West Los Angeles, Palm Desert, El Centro and San Diego, California and Las Vegas, Nevada. All of these offices are leased pursuant to non-cancelable operating leases that will expire between 2015 and 2020.

Item 3. Legal Proceedings.
In the ordinary course of business, we are subject to claims, counter claims, suits and other litigation of the type that generally arise from the conduct of financial services businesses. We are not aware of any threatened or pending litigation that we expect will have a material adverse effect on our business operations, financial condition or results of operations.

Item 4. Mine Safety Disclosures.
Not applicable.

PART II

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

Market Information

Prior to November 3, 2014, there was no public trading market or ANY publicly available quotations for our common stock. On November 3, 2014, our common stock became listed and commenced trading on the NASDAQ Global Stock Market under the trading symbol "FFWM". The following table shows the high and low sales prices of our shares for the respective periods set forth below, as reported on the NASDAQ Global Stock Market:

Quarter Ended	High	Low
2014:		
December 31 (November 3 to December 31)	$23.00	$17.50

The closing per share sales price of our common stock, as reported by NASDAQ, on March 12, 2015 was $18.30. As of the same date, a total of 7,878,597 shares of our common stock were issued and outstanding which were held of record by approximately 1,435 shareholders.

Dividend Policy and Restrictions on the Payment of Dividends

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

Additionally, our ability to pay dividends to our shareholders is subject to the restrictions set forth in the California General Corporation Law (the "CGCL"). The CGCL provides that a corporation may pay a dividend to its shareholders if the amount of the corporation's retained earnings immediately prior to the dividend, equals or exceeds the amount of the proposed dividend plus, if the corporation has shares of preferred stock outstanding, the amount of the unpaid accumulated dividends on those preferred shares. The CGCL further provides that, in the event that sufficient retained earnings are not available for the proposed dividend, a corporation may nevertheless pay a dividend to its shareholders if, immediately after the dividend, the value of its assets would equal or exceed the sum of its total liabilities plus, if the corporation has shares of preferred stock outstanding, the amount of the unpaid accumulated dividends on those preferred shares. In addition, since we are a bank holding company subject to regulation by the Federal Reserve Board, it may become necessary for us to obtain the approval of the FRB before we can pay cash dividends to our shareholders. In addition, the loan agreement governing our $20.1 million term loan requires us to obtain the prior approval of the lender for the payment by us of any dividends to our shareholders.

Cash dividends from our two wholly-owned subsidiaries, First Foundation Bank and First Foundation Advisors, represent the principal source of funds available to us, which we might use to pay cash dividends to our shareholders or for other corporate purposes. Since FFA is a California corporation, the same dividend payment restrictions, described above, that apply to us under the CGCL also apply to FFA. In addition the laws of the State of California, as they pertain to the payment of cash dividends by California state chartered banks, limit the amount of funds that FFB would be permitted to dividend to us more strictly than does the CGCL. In particular, under California law, cash dividends by a California state chartered bank may not exceed, in any calendar year, the lesser of (i) the sum of its net income for the year and its retained net income from the preceding two years (after deducting all dividends paid during the period), or (ii) the amount of its retained earnings.

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

Furthermore, the Loan Agreement governing the $30.0 million term loan that we obtained from NexBank SSB requires us to obtain its prior approval for the payment by us of any dividends to our shareholders. See Item 7, entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments and Overview" below in this report.

Restrictions on Intercompany Transactions

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

Equity Compensation Plans

Certain information with respect to our equity compensation plans, as of December 31, 2014, is set forth in Item 12, in Part III of this Report and is incorporated herein by this reference.

Recent Sales of Unregistered Securities

During 2013, we sold the following securities in transactions that were exempt from the registration requirements under the Securities Act of 1933, as amended (or Securities Act):

Sales of Common Stock:

In March 2013, we sold an aggregate of 38,734 shares of our common stock in a private offering to a total of 6 accredited investors at a price of $15.00 per share in cash, which generated gross proceeds to us of $0.6 million.
In December 2013, we sold issued an aggregate 318,987 shares of our common stock in a private offering to a total of 32 accredited investors at a price of $18.00 per share in cash, which generated gross proceeds to us of $5.7 million.
The sales of these shares were made in reliance on the exemptions from registration under Section 4(2) of, and Regulation D and Rule 506 promulgated under, the Securities Act. The sales were made solely to accredited investors exclusively by officers of FFI, for which they did not receive any compensation (other than reimbursement for out-of-pocket expenses in accordance with FFI's expense reimbursement policies), and no general advertising or solicitations were employed in connection with the offer or sale of the shares. The purchasers of these shares represented their intention to acquire the shares for investment only, and not with a view to offer or sell any such shares in connection with any distribution of the shares, and appropriate restrictive legends were set forth in the stock purchase agreements entered into by the investors, and on the share certificates issued, in such transactions.

Grants of Stock Options and Restricted Stock. During 2013, we granted options to purchase up to 19,000 shares of our common stock at an exercise price of $15.00 per share, and up to 5,000 shares of our common stock at an exercise price of $18.00 per share and awarded 6,666 shares of restricted shares of our common stock, the vesting of which is contingent on the continued service with the Company of the recipient over a period of three years from the date of grant.

The issuance of shares on exercise of options and the issuances of restricted shares were deemed to be exempt from registration under the Securities Act in reliance on either Section 4(2) of the Securities Act, including in some cases, Regulation D and Rule 506 promulgated thereunder, or Rule 701 promulgated under Section 3(b) of the Securities Act, as transactions by an issuer not involving a public offering or transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The purchasers of securities in each such transaction represented their intention to acquire the shares for investment only and not with a view to offer or sell any such shares in connection with any distribution of the securities, and appropriate legends were affixed to the share certificates and instruments issued in such transactions.

In January 2014, we filed a registration statement on Form S-8 to register, under the Securities Act, the shares of common stock issuable under our Equity Incentive Plans, including the shares subject to the options and the restricted shares granted in 2013.

Item 6. Selected Financial Data

With the exception of the certain items included in the selected performance and capital ratios, the following selected consolidated financial information as of and for the years ended December 31, 2014, 2013, and 2012 have been derived from our audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K, and the selected consolidated financial information as of and for the years ended December 31, 2011 and 2010 have been derived from our audited consolidated financial statements not appearing in this Annual Report on Form 10-K.

You should read the following selected financial and operating data in conjunction with other information contained in this Annual Report on Form 10-K, including the information set forth in the sections entitled "Capitalization" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", as well as our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. The average balances used in computing certain ratios, have been computed using daily averages, except for average equity, which is computed using the average of beginning and end of month balances. Our historical results as set forth below are not necessarily indicative of results to be expected in any future period. In addition, as described elsewhere in this Annual Report on Form 10-K, on August 15, 2012 we consummated the acquisition of DCB. The results of operations and other financial data of DCB for all periods prior to the date of its acquisition are not included in the table below and, therefore, our results and other financial data for these prior periods are not comparable in all respects to those for the periods subsequent to that acquisition. In addition, the income statement data set forth below may not be predictive of our future operating results.

	As of and for the Year Ended December 31,				
(In thousands, except share and per share data)	2014	2013	2012[1]	2011	2010
Selected Income Statement Data:					
Net interest income	$42,814	$35,674	$27,729	$20,141	$ 11,933
Provision for loan losses	235	2,395	2,065	2,297	1,700
Noninterest Income:					
Asset management, consulting and other fees	21,798	18,240	15,326	13,211	11,267
Other[2]	2,951	1,584	1,294	4,489	380
Noninterest expense	52,507	43,622	34,476	26,446	22,409
Income before taxes	14,821	9,481	7,808	9,098	(529)
Net income	8,394	7,851	5,801	9,098	(529)
Share and Per Share Data:					
Net income per share:					
Basic	$1.08	$1.06	$0.88	$1.48	$ (0.09)
Diluted	1.03	1.01	0.85	1.42	(0.09)
Shares used in computation:					
Basic	7,737,036	7,424,210	6,603,533	6,164,283	5,881,852
Diluted	8,166,343	7,742,215	6,831,955	6,393,713	5,881,852
Tangible book value per share[3]	$12.66	$11.18	$9.94	$7.98	$ 6.41
Shares outstanding at end of period[4]	7,845,182	7,733,514	7,366,126	6,166,574	6,145,407
Selected Balance Sheet Data:					
Cash and cash equivalents	$29,692	$56,954	$63,108	$10,098	$ 55,954
Loans, net of deferred fees	1,166,392	903,645	743,627	524,103	337,180
Allowance for loan and lease losses ("ALLL")	(10,150)	(9,915)	(8,340)	(6,550)	(4,210)
Total assets	1,355,424	1,037,360	830,509	551,584	406,825
Noninterest-bearing deposits	246,137	217,782	131,827	66,383	42,803
Interest-bearing deposits	716,817	584,255	517,914	340,443	240,467
Borrowings[5]	282,886	141,603	100,000	91,000	80,000
Shareholders' equity[4]	99,496	86,762	73,580	49,197	39,407
Selected Performance and Capital Ratios:					
Return on average assets	0.71 %	0.86 %	0.80 %	1.91 %	(0.18) %

Return on average equity	9.10	%	10.2	%	9.9	%	20.7	%	(1.5)	%
Net yield on interest-earning assets	3.70	%	4.06	%	4.20	%	4.43	%	4.29	%
Efficiency ratio(6)	76.0	%	78.6	%	77.7	%	77.4	%	86.9	%
Noninterest income as a % of total revenues	36.6	%	35.7	%	37.5	%	46.8	%	49.4	%
Tangible common equity to tangible assets(3)	7.33	%	8.34	%	8.82	%	8.92	%	9.69	%
Tier 1 leverage ratio	7.32	%	8.67	%	9.19	%	8.92	%	8.04	%
Tier 1 risk-based capital ratio	11.01	%	13.04	%	13.60	%	13.54	%	12.18	%
Total risk-based capital ratio	12.26	%	14.30	%	14.85	%	14.80	%	13.43	%
Other Information:										
Assets under management (end of period)	$3,221,674		$2,594,961		$2,229,116		$1,827,436		$ 1,558,650	
NPAs to total assets	0.11	%	0.32	%	0.17	%	0.00	%	0.00	%
Charge-offs to average loans	0.00	%	0.10	%	0.04	%	0.05	%	0.00	%
Ratio of ALLL to loans(7)	0.87	%	1.16	%	1.25	%	1.25	%	1.25	%
Number of wealth management offices	7		7		6		4		2	

(1) Includes the results of operations of DCB for the period from the date of its acquisition on August 15, 2012 to December 31, 2012.

(2) Amounts include $1.0 million and $3.7 million of gains on sale of REO in 2014 and 2011, respectively.
(3) Tangible common equity, (also referred to as tangible book value) and tangible assets, are equal to common equity and assets, respectively, less $0.2 million of intangible assets as of December 31, 2014, and less $0.3 million of intangible assets as of December 31, 2013 and December 31, 2012.
(4) As a result of private offerings, we sold and issued shares of our common stock, (i) in 2013, 318,987 shares at a price of $18.00 per share, and 38,734 shares at a price of $15.00 per share; (ii) in 2012, 374,438 shares at a price of $15.00 per share; and (iii) in 2010, 586,572 shares at a price of $15.00 per share. As a result of our acquisition of DCB, in 2012 we issued to the former DCB shareholders a total of 815,447 shares of our common stock, valued at $15.00 per share, in exchange for all of the outstanding shares of DCB, and in 2014, we issued 23,580 shares, valued at $15.00 per share, to the former DCB shareholders as part of a contingent payout. In 2014, we issued 84,866 shares as a result of the exercise of stock options at an average exercise price of $11.19 per share.
(5) Borrowings consist primarily of overnight and short-term advances obtained by FFB from the Federal Home Loan Bank.
(6) The efficiency ratio is the ratio of noninterest expense to the sum of net interest income and noninterest income. The efficiency ratio excludes (i) gains on sale of REO of $1.0 million and $3.7 million in 2014 and 2011, respectively; (ii) in 2014, $1.0 million of costs related to a cancelled initial public offering and $1.0 million of contingent payout expense related to the acquisition of DCB; and (iii) in 2010, a $1.9 million provision for REO losses.
(7) This ratio excludes loans acquired in our acquisition of DCB, as generally accepted accounting principles in the United States, or GAAP, requires estimated credit losses for acquired loans to be recorded as discounts to those loans.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
The following discussion and analysis is intended to facilitate the understanding and assessment of significant changes and trends in our businesses that accounted for the changes in our results of operations in the year ended December 31, 2014, as compared to our results of operation in the year ended December 31, 2013; in our results of operations in the year ended December 31, 2013, as compared to our results of operations in the year ended December 31, 2012, and our financial condition at December 31, 2014 as compared to our financial condition at December 31, 2013. This discussion and analysis is based on and should be read in conjunction with our consolidated financial statements and the accompanying notes thereto contained elsewhere in this Annual Report on Form 10-K. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations. Some of the factors that could cause results to differ materially from expectations are discussed in the sections entitled "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" contained elsewhere in this Annual Report on Form 10-K.

Critical Accounting Policies

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

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

Allowance for Loan and Lease Losses. Our ALLL is established through a provision for loan losses charged to expense and may be reduced by a recapture of previously established loss reserves, which are also reflected in the statement of income. Loans are charged against the ALLL when management believes that collectability of the principal is unlikely. The ALLL is an amount that management believes will be adequate to absorb estimated losses on existing loans that may become uncollectible based on an evaluation of the collectability of loans and prior loan loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions and certain other subjective factors that may affect the borrower's ability to pay. While we use the best information available to make this evaluation, future adjustments to our ALLL may be necessary if there are significant changes in economic or other conditions that can affect the collectability in full of loans in our loan portfolio.

Adoption of new or revised accounting standards. We have elected to take advantage of the extended transition period afforded by the JOBS Act, for the implementation of new or revised accounting standards. As a result, we 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 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 November 25, 2014, the Company and the Bank entered into an merger agreement with Pacific Rim Bank, or Pacific Rim, which provides for a merger pursuant to which (i) Pacific Rim will be merged with and into the Bank, which will be the surviving bank in the merger (ii) the Bank will succeed to all of Pacific Rim’s assets and liabilities, and the separate existence of Pacific Rim will cease, and (iii) each share of Pacific Rim common stock (other than any dissenting shares) will be converted into a right to receive 0.395 of a share of FFI common stock. Based on the number of Pacific Rim shares that were outstanding as of December 31, 2014, it is expected that in the merger FFI will issue a total of 650,012 shares of its common stock to the former Pacific Rim shareholders. Pacific Rim’s headquarters office and banking office are located in Honolulu, Hawaii. As of December 31, 2014, Pacific Rim Bank reported total assets and tangible capital of approximately $126.4 million and $9.7 million, respectively. Consummation of the transaction is subject to the satisfaction of certain conditions, including the approval of federal and state banking regulators, the California DBO, and Pacific Rim’s shareholders. The merger is expected to be consummated in the second quarter of 2015. However, there is no assurance that the required approvals from the bank regulatory agencies and Pacific Rim’s shareholders will be obtained. The foregoing summary of the terms of the merger agreement is not intended to be complete and is qualified in its entirety by reference to that agreement, which was attached as Exhibit 2.1 to the Company’s Current Report on Form 8-K filed with the SEC on December 1, 2014.

In the second quarter of 2013, we entered into a secured loan agreement with an unaffiliated lender to borrow $7.5 million for a term of five years. In the first quarter of 2014, we entered into an amendment to this loan agreement pursuant to which we obtained an additional $15.0 million of borrowings. This amendment did not alter any of the terms of the loan agreement or the loan, other than to increase the principal amount and to correspondingly increase the amount of the monthly installments of principal and interest payable on the loan. In the first quarter of 2015, we entered into a second amendment to this loan agreement pursuant to which, we obtained an additional $10.3 million of borrowings, bringing the outstanding balance of this loan to $30.0 million as of February 28, 2015. This second amendment also reduced the interest rate on this loan to 3.75% over ninety day LIBOR from 4.00% over ninety day LIBOR, extended the maturity date of this loan to May 1, 2022 and made corresponding changes to the amount of the principal payments required to be made by us on this loan. This loan, as amended, is payable by us in 96 monthly installments of principal, each in the amount of $0.25 million, plus accrued and unpaid interest, commencing on April 1, 2015 and continuing to and including April 1, 2022, with a final installment in the amount of $8.75 million, plus all remaining accrued but unpaid interest, due and payable on May 1, 2022. We have the right, however, to prepay the principal amount of the Term Loan, at any time in whole or from time to time in part, without our having to pay any premium or penalty. 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 FFB to the lender. See “Financial Condition—Term Loan” below for additional information regarding this loan.

We have continued to grow both our Banking and Wealth Management operations. Comparing 2014 to 2013, we have increased our revenues (net interest income and noninterest income) by 22%. This growth in revenues is the result of the growth in Banking’s total interest-earning assets and the growth in Wealth Management’s assets under management (or “AUM”). During 2014, total loans and total deposits in Banking increased 29% and 20%, respectively, while the AUM in Wealth Management increased by $627 million or 24% and totaled $3.2 billion as of December 31, 2014. The growth in AUM includes the addition of $663 million of new accounts and $125 million of gains realized in client accounts during 2014.

The results of operations for Banking and Wealth Management reflect the benefits of this growth. Income before taxes for Banking increased $6.0 million from $12.7 million in 2013 to $18.7 million in 2014. Income before taxes for Wealth Management increased $2.1 million from a loss before taxes of $0.7 million in 2013 to income before taxes of $1.4 million in 2014. On a consolidated basis, our earnings before taxes increased $5.3 million from $9.5 million in 2013 to $14.8 million in 2014. During the second quarter of 2014, we expensed $1.0 million of costs related to an initial public offering ("IPO") that we cancelled. If that IPO had been completed, rather than cancelled, these costs would have been netted against the gross proceeds of the offering and not recorded as an expense.

Results of Operations

Years Ended December 31, 2014 and 2013.

Our net income for 2014 was $8.4 million, as compared to $7.9 million for 2013. The proportional increase in net income was less than the proportional increase in income before taxes because of an increase in our effective tax rate from 17% in 2013 to 43% in 2014. In 2013, the valuation allowance for deferred taxes was reduced by $2.4 million and certain credits under California tax laws were eliminated at the beginning of 2014 resulting in a higher effective tax rate in 2014.

The primary sources of revenue for Banking are net interest income, fees from its deposits, trust and insurance services, certain loan fees, and, beginning in the second half of 2014, fees charged for consulting and administrative services. The primary sources of revenue for Wealth Management are asset management fees assessed on the balance of AUM and, up through the first half of 2014, fees charged for consulting and administrative services. Compensation and benefit costs, which represent the largest component of noninterest expense accounted for 61% and 77%, respectively, of the total noninterest expense for Banking and Wealth Management in 2014.

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

(dollars in thousands)	Banking	Wealth Management	Other	Total
2014:				
Interest income	$47,398	$ —	$—	$47,398
Interest expense	3,844	—	740	4,584
Net interest income	43,554	—	(740)	42,814
Provision for loan losses	235	—	—	235
Noninterest income	5,866	19,422	(539)	24,749
Noninterest expense	30,509	17,979	4,019	52,507
Income (loss) before taxes on income	$18,676	$ 1,443	$(5,298)	$14,821
2013:				
Interest income	$39,181	$ —	$—	$39,181
Interest expense	3,288	—	219	3,507
Net interest income	35,893	—	(219)	35,674
Provision for loan losses	2,395	—	—	2,395
Noninterest income	3,514	16,715	(405)	19,824
Noninterest expense	24,302	17,400	1,920	43,622
Income (loss) before taxes on income	$12,710	$ (685)	$(2,544)	$9,481

General. Income before taxes was $14.8 million in 2014 as compared to $9.5 million in 2013. This increase was due to increases in income before taxes for Banking and Wealth Management of $6.0 million and $2.1 million, respectively, which were partially offset by a $2.8 million increase in corporate interest and noninterest expenses. The $6.0 million increase in income before taxes for Banking in 2014 as compared to 2013 was due to higher net interest income, higher noninterest income and a lower provision for loan losses, which were partially offset by higher noninterest expenses. For Wealth Management, a $0.7 million loss before taxes in 2013 improved to income before taxes of $1.4 million in 2014 due to higher noninterest income which was partially offset by higher noninterest expenses.

The increase in corporate interest and noninterest expenses in 2014 as compared to 2013 was primarily due to a $0.5 million increase in interest costs related to the higher balance of the term loan, the expensing of $1.0 million in IPO costs, $0.3 million of increased allocations of executive compensation related to the time spent on the IPO by management employees of the Bank and $0.3 million of costs related to the implementation of a new firm-wide client relationship management system.

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 year ended December 31:

(dollars in thousands)	2014 Average Balances	Interest	Average Yield /Rate		2013 Average Balances	Interest	Average Yield /Rate	
Interest-earning assets:								
Loans	$1,016,374	$44,140	4.34	%	$803,808	$37,918	4.69	%
Securities	105,755	2,545	2.41	%	37,325	864	2.31	%
FHLB stock, fed funds and deposits	33,749	713	2.11	%	37,918	399	1.05	%
Total interest-earning assets	1,155,878	47,398	4.10	%	879,051	39,181	4.43	%
Noninterest-earning assets:								
Nonperforming assets	3,581				2,778			
Other	16,116				18,875			
Total assets	$1,175,575				$900,704			
Interest-bearing liabilities:								
Demand deposits	$245,969	1,248	0.51	%	$165,736	856	0.52	%
Money market and savings	148,541	841	0.57	%	99,826	434	0.44	%
Certificates of deposit	262,070	1,497	0.57	%	279,470	1,876	0.67	%
Total interest-bearing deposits	656,580	3,586	0.55	%	545,032	3,167	0.58	%
Borrowings	192,768	998	0.52	%	84,409	340	0.40	%
Total interest-bearing liabilities	849,348	4,584	0.54	%	629,441	3,507	0.56	%
Noninterest-bearing liabilities:								
Demand deposits	226,367				186,760			
Other liabilities	8,484				7,813			
Total liabilities	1,084,199				824,014			
Stockholders’ equity	91,376				76,690			
Total liabilities and equity	$1,175,575				$900,704			
Net Interest Income		$42,814				$35,674		
Net Interest Rate Spread			3.56	%			3.87	%
Net Yield on Interest-earning Assets			3.70	%			4.04	%

Net interest income is impacted by the volume (changes in volume multiplied by prior rate), interest rate (changes in rate multiplied by prior volume) and mix of interest-earning assets and interest-bearing liabilities. The following table provides a breakdown of the changes in net interest income due to volume and rate changes between 2014 as compared to 2013.

(dollars in thousands)	Increase (Decrease) due to Volume	Rate		Net Increase (Decrease)
Interest earned on:				
Loans	$ 9,178	$ (2,956	)	$ 6,222
Securities	1,646	35		1,681
FHLB stock, fed funds and deposits	(48)	362		314
Total interest-earning assets	10,776	(2,559	)	8,217

Interest paid on:			
Demand deposits	408	(17)	391
Money market and savings	252	155	407
Certificates of deposit	(111)	(268)	(379)
Borrowings	538	120	658
Total interest-bearing liabilities	1,087	(10)	1,077
Net interest income	$ 9,689	$ (2,549)	$ 7,140

Net interest income increased 21% from $34.8 million in 2013, to $42.3 million in 2014 because of a 31% increase in interest-earning assets, which was partially offset by a decrease in our net interest rate spread. The decrease in the net interest rate spread from 3.87% for 2013 to 3.56% for 2014 was due to a decrease in yield on total interest earning assets which was partially offset by a decrease in rates paid on interest bearing liabilities. The yield on interest earning assets decreased from 4.43% to 4.10% due to an increase in the proportion of lower yielding securities to total interest earning assets and a decrease in the yield on loans. The decrease in yield on loans was due to prepayments of higher yielding loans and the addition of loans at current market rates which are lower than the current yield on our loan portfolio. The rate on interest bearing liabilities decreased as a decrease in the rate on interest bearing deposits was partially offset by an increase in the rate on borrowings. The decrease in rates paid on deposits was due to lower market rates while the increase in the rates paid on borrowings was primarily due to the higher proportion of borrowings being from the term loan which bears interest at ninety day Libor plus 4.0% per annum as compared to the FHLB weighted average borrowing rate of 0.15% during 2014. We realized $1.3 million and $1.1 million on the net recovery of mark to mark adjustments related to payoffs of acquired loans in 2014 and 2013, respectively.

Provision for loan losses. The provision for loan losses represents our determination of the amount necessary to be charged against the current period's earnings to maintain the ALLL at a level that is considered adequate in relation to the estimated losses inherent in the loan portfolio. The provision for loan losses is impacted by changes in loan balances as well as changes in estimated loss assumptions and charge-offs and recoveries. The amount of our provision also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions and certain other subjective factors that may affect the ability of borrowers to meet their repayment obligations to us. The provision for loan losses was $0.2 million for 2014 and $2.4 million for 2013. The lower provision for loan losses in 2014 as compared to 2013 reflects reductions in estimated loss assumptions and the lower amount of chargeoffs. We did not recognize any chargeoffs in the 2014, as compared to $0.8 million of chargeoffs recognized in 2013.

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

(dollars in thousands)	2014	2013
Trust fees	$2,153	$1,785
Consulting fees	576	—
Deposit charges	397	366
Gain on sale of REO	1,038	—
Prepayment fees	903	846
Other	799	517
Total noninterest income	$5,866	$3,514

The $2.4 million increase in noninterest income for Banking in 2014 as compared to 2013 was due primarily to the $1.0 million gain on sale of REO, $0.6 million of consulting fees, a $0.4 million increase in trust fees and a $0.2 million increase in insurance commissions. In June of 2014, the foundation and family consulting activities were transferred from Wealth Management to Banking and, as a result, the related revenues are now recognized under Banking. The increase in trust fees is due to a 22% increase in trust AUM during 2014 and the increase in insurance commissions reflects a higher level of large dollar cases closed in 2014 as compared to 2013

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

(dollars in thousands)	2014	2013
Asset management fees	$18,904	$15,560
Consulting and administration fees	533	1,164
Other	(15)	(9)
Total noninterest income	$19,422	$16,715

The $2.7 million increase in noninterest income in Wealth Management in 2014 as compared to 2013 was primarily due to increases in asset management fees of 21% which was partially offset by a decrease in consulting and administration fees. The increases in asset management fees were primarily due to a 22% increase in the AUM balances used for computing the asset management fees in 2014, as compared to AUM balances used for computing the asset management fees in 2013. In June of 2014, the foundation and family consulting activities were transferred from Wealth Management to Banking and, as a result, the related revenues are now recognized under Banking.

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

	Banking		Wealth Management	
(dollars in thousands)	2014	2013	2014	2013
Compensation and benefits	$18,694	$14,971	$13,760	$13,176
Occupancy and depreciation	5,366	4,568	1,818	1,922
Professional services and marketing	2,420	1,752	1,645	1,536
Other expenses	4,029	3,011	756	766
Total noninterest expense	$30,509	$24,302	$17,979	$17,400

The $6.2 million increase in noninterest expense in Banking in 2014 as compared to 2013 was due primarily to increases in staffing and costs associated with the Bank’s higher balances of loans and deposits and our continuing expansion and a $1.0 million provision related to contingent consideration to be paid to the former shareholders of DCB. Compensation and benefits for Banking increased $3.7 million during 2014 as compared to 2013 as the number of FTE in Banking increased to 144.5 during 2014 from 123.1 during 2013 and the Bank recorded $0.5 million of severance costs. The $0.8 million increase in occupancy and depreciation costs for Banking in 2014 as compared to 2013 was due to an office opening and the expansion into additional space at the administrative office in the second quarter of 2013. The $0.7 million increase in professional services and marketing was due primarily to higher legal costs related to ongoing litigation matters and increased management fees related to the increased trust AUM. The $1.0 million increase in other expenses in 2014 as compared to 2013 was primarily due to the $1.0 million provision related to contingent consideration to be paid to the former shareholders of DCB.

Noninterest expenses in Wealth Management increased $0.6 million in 2014 as compared to 2013 primarily due to increases in compensation and benefits. The increase in compensation and benefits reflects increased incentive compensation incurred as a result of the increase in AUM.

Years Ended December 31, 2013 and 2012.

Our net income for 2013 was $7.9 million, as compared to $5.8 million for 2012. The proportional increase in net income was more than the proportional increase in income before taxes because of a decrease in our effective tax rate from 26% in 2012 to 17% in 2013. In 2013 and 2012, the valuation allowance for deferred taxes was reduced by $2.4 million and $1.0 million, respectively, resulting in lower effective tax rates as compared to a normalized income tax provision of 42%.

Income before taxes was $9.5 million in 2013 as compared to $7.8 million in 2012. The following is a comparison of our income before taxes between 2013 and 2012. The following tables show key operating results for each of our business segments for the years ended December 31:

(dollars in thousands)	Banking	Wealth Management	Other	Total
2013:				
Interest income	$39,181	$ —	$—	$39,181
Interest expense	3,288	—	219	3,507
Net interest income	35,893	—	(219)	35,674
Provision for loan losses	2,395	—	—	2,395
Noninterest income	3,514	16,715	(405)	19,824
Noninterest expense	24,302	17,400	1,920	43,622
Income (loss) before taxes on income	$12,710	$ (685)	$(2,544)	$9,481
2012:				
Interest income	$30,874	$ —	$—	$30,874
Interest expense	3,145	—	—	3,145
Net interest income	27,729	—	—	27,729
Provision for loan losses	2,065	—	—	2,065
Noninterest income	2,599	14,250	(229)	16,620
Noninterest expense	18,280	14,896	1,300	34,476
Income (loss) before taxes on income	$9,983	$ (646)	$(1,529)	$7,808

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, which represent the largest component of noninterest expense accounted for 62% and 76%, respectively, of the total noninterest expense for Banking and Wealth Management in 2013.

General: As a result of an increase in income before taxes for Banking, which was partially offset by an increase in corporate expenses, consolidated income before taxes increased $1.7 million in 2013 as compared to 2012. Income before taxes in Banking was $2.7 million higher in 2013 as compared to 2012 as higher net interest income and higher noninterest income was partially offset by a higher noninterest expenses. The loss before taxes for Wealth Management for 2013 was comparable to the loss for 2012 as increases in noninterest income were offset by increases in noninterest expenses. Our operating losses in Wealth Management are due in part to our continued investment in new relationship managers which are a key component in growing our revenues. Typically, it takes up to three years to realize enough revenues to cover the costs associated with hiring and retaining a new relationship manager. Corporate expenses were $1.0 million higher in 2013 as compared to 2012 due to increased sales and marketing activities, increased allocations of compensation costs from FFB and interest costs on the term loan.

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

(dollars in thousands)	2013 Average Balances	Interest	Average Yield /Rate	2012 Average Balances	Interest	Average Yield /Rate
Interest-earning assets:						
Loans	$803,808	$37,918	4.69 %	$626,866	$30,552	4.87 %
Securities	37,325	864	2.31 %	16,047	193	1.20 %
FHLB stock, fed funds and deposits	37,918	399	1.05 %	17,346	129	0.75 %
Total interest-earning assets	879,051	39,181	4.43 %	660,259	30,874	4.68 %
Noninterest-earning assets:						
Nonperforming assets	2,778			1,232		
Other	18,875			12,631		
Total assets	$900,704			$674,122		
Interest-bearing liabilities:						
Demand deposits	$165,736	856	0.52 %	$43,776	251	0.58 %
Money market and savings	99,826	434	0.44 %	92,404	516	0.56 %
Certificates of deposit	279,470	1,877	0.67 %	283,677	2,151	0.76 %
Total interest-bearing deposits	545,032	3,167	0.58 %	419,857	2,918	0.70 %
Borrowings	84,409	340	0.40 %	99,257	227	0.23 %
Total interest-bearing liabilities	629,441	3,507	0.56 %	519,114	3,145	0.61 %
Noninterest-bearing liabilities:						
Demand deposits	186,760			92,641		
Other liabilities	7,813			4,970		
Total liabilities	824,014			616,725		
Stockholders’ equity	76,690			57,397		
Total liabilities and equity	$900,704			$674,122		
Net Interest Income		$35,674			$27,729	
Net Interest Rate Spread			3.87 %			4.07 %
Net Yield on Interest-earning Assets			4.04 %			4.20 %

Net interest income is impacted by the volume (changes in volume multiplied by prior rate), interest rate (changes in rate multiplied by prior volume) and mix of interest-earning assets and interest-bearing liabilities. The following table provides a breakdown of the changes in net interest income due to volume and rate changes between 2013 as compared to corresponding period in 2012.

(dollars in thousands)	Increase (Decrease) due to Volume	Rate	Net Increase (Decrease)
Interest earned on:			
Loans	$ 8,373	$ (1,007)	$ 7,366
Securities	396	275	671
FHLB stock, fed funds and deposits	201	69	270
Total interest-earning assets	8,970	(663)	8,307

Interest paid on:			
Demand deposits	634	(29)	605
Money market and savings	39	(121)	(82)
Certificates of deposit	(32)	(242)	(274)
Borrowings	(38)	151	113
Total interest-bearing liabilities	603	(241)	362
Net interest income	$ 8,367	$ (422)	$ 7,945

Net interest income increased 29% from $27.7 million in 2012 to $35.7 million in 2013 because of a 33% increase in interest-earning assets and because we realized $1.1 million of interest income in 2013 on the net recovery of mark to market adjustments related to payoffs of acquired loans, which were partially offset by a decrease in our net interest rate spread. Excluding this net recovery, the yield on total interest-earning assets would have been 4.34%, the net interest rate spread would have been 3.78% and the net yield on interest-earning assets would have been 3.94% in 2013. Excluding the net recovery on acquired loans, the decrease in the net interest rate spread from 4.07% in 2012 to 3.94% in 2013 was due to a decrease in yield on total interest-earning assets which was partially offset by a decrease in rates paid on interest-bearing liabilities. The decrease in yield on interest-earning assets reflected the decrease in interest rates in the overall market, prepayments of higher yielding loans, and an increase in the proportion of lower yielding securities and deposits to total interest-earning assets. The decrease in rates on interest-bearing liabilities from 0.61% in 2012 to 0.56% in 2013 was due to decreases in market interest rates on deposits which were partially offset by increased borrowing costs related to interest on the FFI term loan.

Provision for loan losses: The provision for loan losses represents our determination of the amount necessary to be charged against the current period's earnings to maintain the ALLL at a level that is considered adequate in relation to the estimated losses inherent in the loan portfolio. The provision for loan losses is impacted by changes in loan balances as well as changes in estimated loss assumptions and charge-offs and recoveries. The amount of our provision also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions and certain other subjective factors that may affect the ability of borrowers to meet their repayment obligations to us. The provision for loan losses was $2.4 million for 2013 and $2.1 million for 2012. The increase in the provision for loan losses in 2013 as compared to 2012 was the result of higher loan balances and a $0.5 million increase in charge-offs which were partially offset by reductions in estimated loss assumptions.

Noninterest income: The following table provides a breakdown of noninterest income for Banking for the years ended December 31:

(dollars in thousands)	2013	2012
Trust fees	$1,785	$1,170
Deposit charges	366	143
Prepayment fees	846	779
Other	517	507
Total noninterest income	$3,514	$2,599

The $0.9 million increase in noninterest income for Banking in 2013, as compared to 2012 was due primarily to higher trust fees. The increase in trust fees reflects the continuing growth of the trust operations as evidenced by the higher level of trust AUM, which has increased to $341 million as of December 31, 2013.

Noninterest income for Wealth Management includes fees charged to high net-worth clients for managing their assets and for providing financial planning consulting services, as well as fees for administration services provided to family foundations and private charitable organizations. The following table provides a breakdown of noninterest income for Wealth Management for the years ended December 31:

The following table provides a breakdown of noninterest income for Wealth Management for the years ended December 31:

(dollars in thousands)	2013	2012
Asset management fees	$ 15,560	$ 12,983
Consulting and administration fees	1,164	1,341
Other	(9)	(74)
Total noninterest income	$ 16,715	$ 14,250

The $2.5 million increase in noninterest income in Wealth Management in 2013, as compared to 2012 was primarily due to increases in asset management fees of 20%. That increase was primarily due to the 19% increase in the AUM balances used for computing the asset management fees in 2013 as compared to 2012.

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

	Banking		Wealth Management	
(dollars in thousands)	2013	2012	2013	2012
Compensation and benefits	$14,971	$11,208	$13,176	$11,673
Occupancy and depreciation	4,568	3,656	1,922	1,393
Professional services and marketing	1,752	1,000	1,536	1,179
Other expenses	3,011	2,416	766	651
Total noninterest expense	$24,302	$18,280	$17,400	$14,896

The $6.0 million increase in noninterest expense in Banking during 2013 as compared to 2012 was due primarily to increases in staffing and costs associated with FFB's higher balances of loans and deposits and our continuing expansion, including the DCB Acquisition in August 2012. Compensation and benefits for Banking increased $3.8 million during 2013 as compared 2012 as the number of full-time equivalent employees, ("FTE") in Banking increased to 123.1 during 2013 from 87.9 during 2012. The $0.9 million increase in occupancy and depreciation costs for Banking during 2013 as compared to 2012 was due to the four additional offices being open at some time during 2013 as compared to 2012 and the expansion into additional space at the administrative office in the second quarter of 2013. Those increases were partially offset by reduced operating system costs relating to $0.6 million of costs incurred in 2012 as part of FFB's conversion to a new core processing system. Professional services and marketing for Banking, which includes costs for legal, accounting, consulting and information technology services, as well as management fees paid to FFA for providing asset management services for FFB's trust clients, increased $0.8 million during 2013 as compared to 2012. This increase was due primarily to additional consulting and legal costs incurred in relation to strategic activities of FFB and an increase in asset management fees related to trust clients. Other expenses for Banking, which include office related costs, FDIC and other regulatory assessments, director fees, insurance costs, loan related expenses, employee reimbursements and REO expenses, increased 0.6 million during 2013 as compared to 2012. This increase was primarily due to a $0.3 million charge to REO reserves in 2013 and $0.1 million increases in employee reimbursements and in loan related expenses, both of which were related to our continued growth.

The $2.5 million increase in noninterest expense in Wealth Management during 2013 as compared to 2012 was primarily due to increases in staffing and costs associated with our continuing expansion and growth. Compensation and benefits for Wealth Management increased $1.5 million during 2013 as compared to 2012 as the number of FTE in Wealth Management increased to 53.4 during 2013 from 44.7 during 2012. The $0.5 million increase in occupancy and depreciation costs for Wealth Management during 2013 as compared to 2012 was due to additional offices being open during all or a portion of 2013 as compared to 2012 and $0.2 million of costs incurred related to an upgrade of our asset management operating system. Professional services and marketing for Wealth Management, which includes costs for legal, accounting and information technology services, as well as recurring referral fees paid to third parties, increased $0.4 million during 2013 as compared to 2012. This $0.4 million increase was due primarily to higher referral fees related to the increased asset management fees and higher recruiting fees paid related to the increase in staffing during 2013. Other expenses for Wealth Management, which include office related costs, insurance costs and employee reimbursements did not change significantly in 2013 as compared to 2012.

Financial Condition

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

(dollars in thousands)	Banking	Wealth Management	Other and Eliminations	Total
2014:				
Cash and cash equivalents	$29,585	$ 3,750	$ (3,643)	$29,692
Securities AFS	138,270	—	—	138,270
Loans, net	1,156,021	221	—	1,156,242
Premises and equipment	1,539	548	100	2,187
FHLB Stock	12,361	—	—	12,361
Deferred taxes	9,196	601	(49)	9,748
REO	334	—	—	334
Other assets	4,827	500	1,263	6,590
Total assets	$1,352,133	$ 5,620	$ (2,329)	$1,355,424
Deposits	$972,319	$ —	$ (9,365)	$962,954
Borrowings	263,000	—	19,886	282,886
Intercompany balances	1,287	73	(1,360)	—
Other liabilities	6,352	2,486	1,250	10,088
Shareholders' equity	109,175	3,061	(12,740)	99,496
Total liabilities and equity	$1,352,133	$ 5,620	$ (2,329)	$1,355,424
2013:				
Cash and cash equivalents	$56,795	$ 2,134	$ (1,975)	$56,954
Securities AFS	59,111	—	—	59,111
Loans, net	893,364	366	—	893,730
Premises and equipment	2,286	863	100	3,249
FHLB Stock	6,721	—	—	6,721
Deferred taxes	11,426	865	(239)	12,052
REO	375	—	—	375
Other assets	3,840	717	611	5,168
Total assets	$1,033,918	$ 4,945	$ (1,503)	$1,037,360
Deposits	$809,306	$ —	$ (7,269)	$802,037
Borrowings	134,000	—	7,063	141,063
Intercompany balances	857	248	(1,105)	—
Other liabilities	4,018	2,590	890	7,498
Shareholders' equity	85,737	2,107	(1,082)	86,762
Total liabilities and equity	$1,033,918	$ 4,945	$ (1,503)	$1,037,360
2012:				
Cash and cash equivalents	$62,965	$ 1,895	$ (1,752)	$63,108
Securities AFS	5,813	—	—	5,813
Loans, net	734,778	509	—	735,287
Premises and equipment	1,661	657	66	2,384
FHLB Stock	8,500	—	—	8,500
Deferred taxes	8,734	981	340	10,055
REO	650	—	—	650

Other assets	3,509	638	565	4,712
Total assets	$826,610	$ 4,680	$ (781)	$830,509
Deposits	$653,671	$ —	$ (3,930)	$649,741
Borrowings	100,000	—	—	100,000
Intercompany balances	1,451	205	(1,656)	—
Other liabilities	3,302	2,168	1,718	7,188
Shareholders’ equity	68,186	2,307	3,087	73,580
Total liabilities and equity	$826,610	$ 4,680	$ (781)	$830,509

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

During 2014, total assets for the Company and the Bank increased by $318 million. For the Bank, during 2014, loans increased by $263 million, deposits increased by $163 million, cash and cash equivalents decreased by $27 million, securities AFS increased by $79 million and FHLB advances increased by $129 million. Borrowings at FFI increased by $13 million during 2014. During 2013, total assets for the Company and FFB increased by $207 million. For FFB, during 2013, loans and deposits increased $160 million and $156 million, respectively, cash and cash equivalents decreased by $6 million, securities AFS increased by $53 million and FHLB advances increased by $34 million. Borrowings at FFI increased by $7 million during 2013.

Cash and cash equivalents, certificates of deposit and securities: Cash and cash equivalents, which primarily consist of funds held at the Federal Reserve Bank or at correspondent banks, including fed funds, decreased by $27 million during 2014. Changes in cash equivalents are primarily affected by the funding of loans, investments in securities, and changes in our sources of funding: deposits, FHLB advances and FFI borrowings. As the Company has increased its securities portfolio for liquidity purposes, it has been able to reduce the amount of cash held on its balance sheet.

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

	Amortized	Gross Unrealized		Estimated
(dollars in thousands)	Cost	Gains	Losses	Fair Value
2014:				
US Treasury security	$ 300	$—	$—	$ 300
FNMA and FHLB Agency notes	10,496	—	(219)	10,277
Agency mortgage-backed securities	125,944	1,881	(132)	127,693
Total	$ 136,740	$ 1,881	$ (351)	$ 138,270
2013:				
US Treasury Securities	$ 300	$—	$—	$ 300
FNMA and FHLB Agency notes	10,496	—	(716)	9,780
Agency mortgage-backed securities	50,983	30	(1,982)	49,031
Total	$ 61,779	$ 30	$ (2,698)	$ 59,111
2012:				
US Treasury Securities	$ 300	$—	$—	$ 300
FHLB Agency note	5,513	—	—	5,513
Agency mortgage-backed securities	—	—	—	—
Total	$ 5,813	$—	$—	$ 5,813

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

The $79 million increase in AFS Securities reflected our actions to increase our on-balance sheet sources of liquidity.

The scheduled maturities of securities AFS, other than agency mortgage backed securities, and the related weighted average yield is as follows as of December 31, 2014:

(dollars in thousands)	Less than 1 Year	1 Through 5 years	5 Through 10 Years	After 10 Years	Total
Amortized Cost:					
US Treasury securities	$ —	$ 300	$ —	$ —	$ 300
FNMA and FHLB Agency notes	—	—	10,496	—	10,496
Total	$ —	$ 300	$ 10,496	$ —	$ 10,796
Weighted average yield	0.00 %	0.45 %	1.78 %	0.00 %	1.74 %
Estimated Fair Value:					
US Treasury securities	$ —	$ 300	$ —	$ —	$ 300
FNMA and FHLB Agency notes	—	—	10,277	—	10,277
Total	$ —	$ 300	$ 10,277	$ —	$ 10,577

Agency mortgage backed securities are excluded from the above table because such securities are not due at a single maturity date. The weighted average yield of the agency mortgage backed securities as of December 31, 2014 was 2.48%.

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

(dollars in thousands)	2014	2013	2012	2011	2010
Recorded investment balance:					
Loans secured by real estate:					
Residential properties:					
Multifamily	$481,491	$405,984	$367,412	$320,053	$196,059
Single family	360,644	227,096	155,864	85,226	44,281
Total real estate loans secured by residential properties	842,135	633,080	523,276	405,279	240,340
Commercial properties	205,320	154,982	132,217	75,542	57,633
Land	4,309	3,794	7,575	—	—
Total real estate loans	1,051,764	791,856	663,068	480,821	297,973
Commercial and industrial loans	93,537	93,255	67,920	35,377	30,696
Consumer loans	21,125	18,484	12,585	8,012	8,582
Total loans	1,166,426	903,595	743,573	542,210	337,251
Premiums, discounts and deferred fees and expenses	(34)	50	54	(107)	(71)
Total	$1,166,392	$903,645	$743,627	$524,103	$337,180

The $263 million increase in loans during 2014 was the result of loan originations and funding of existing credit commitments of $504 million, offset by $241 million of payoffs and scheduled principal payments. The $160 million increase in loans during 2013 was the result of loan originations and funding of existing credit commitments of $353 million, offset by $193 million of payoffs and scheduled principal payments.

The scheduled maturities, as of December 31, 2014, of the performing loans categorized as land loans and as commercial and industrial loans, are as follows:

	Scheduled Maturity			Loans With a Scheduled Maturity After One Year	
(dollars in thousands)	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years	Loans With Fixed Rates	Loan With Adjustable Rates
Land loans	$653	$ —	$ 1,426	$ 645	$ 781
Commercial and industrial loans	$55,301	$ 20,826	$ 17,067	$ 29,768	$ 8,125

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

	2014		2013		2012	
(dollars in thousands)	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Demand deposits:						

Noninterest-bearing	$246,137	—		$217,782	—		$131,827		
Interest-bearing	291,509	0.502	%	217,129	0.504	%	103,085	0.558	%
Money market and savings	171,958	0.626	%	121,260	0.499	%	91,278	0.488	%
Certificates of deposits	253,350	0.619	%	245,866	0.606	%	323,551	0.732	%
Total	$962,954	0.427	%	$802,037	0.398	%	$649,741	0.522	%

The $163 million and $152 million increases in deposits during 2014 and 2013, respectively, reflects the organic growth of our Banking operations.

During 2014, deposit market rates, which were declining in prior years, have been stable. As a result, the weighted average rate of interest-bearing deposits, which had decreased from 0.65% at December 31, 2012 to 0.55% at December 31, 2013, increased slightly to 0.57%, while the weighted average interest rates of both interest-bearing and noninterest-bearing deposits, which decreased from 0.52% at December 31, 2012, to 0.40% at December 31, 2013, increased to 0.43% at December 31, 2014. As the company continues to grow, it has emphasized its money market products and has offered increased rates on promotional products to attract new deposit clients.

The maturities of our certificates of deposit of $100,000 or more were as follows as of December 31, 2014:

(dollars in thousands)	
3 months or less	$83,833
Over 3 months through 6 months	70,338
Over 6 months through 12 months	57,507
Over 12 months	28,385
Total	$240,063

FFB utilizes a third party program called CDARs which allows FFB to transfer funds of its clients in excess of the FDIC insurance limit (currently $250,000) to other institutions in exchange for an equal amount of funds from clients of these other institutions. This has allowed FFB to provide FDIC insurance coverage to its clients. As of December 31, 2014 FFB held $76.6 million of CDARs deposits. Under certain regulatory guidelines, these deposits are considered brokered deposits. As of December 31, 2014, FFB did not have any other brokered certificates of deposit.

Borrowings: At December 31, 2014, our borrowings consisted of $263 million of overnight FHLB advances at FFB and a $20 million term loan at FFI. At December 31, 2013, our borrowings consisted of $134 million of overnight FHLB advances at FFB and a $7 million term loan at FFI. These FHLB advances were paid in full in the early parts of January 2015 and January 2014, respectively. Because FFB utilizes overnight borrowings, the balance of outstanding borrowings fluctuates on a daily basis. The weighted average interest rate on these overnight borrowings was 0.15% for both 2014 and 2013. The average balance of overnight borrowings was $175 million during 2014, as compared to $79 million during 2013. The maximum amount of short-term FHLB advances outstanding at any month-end during 2014, and 2013, was $263 million, and $134 million, respectively.

Term Loan. In the second quarter of 2013, we entered into a secured loan agreement with an unaffiliated lender to borrow $7.5 million for a term of five years. In the first quarter of 2014, we entered into an amendment to this loan agreement pursuant to which we obtained an additional $15.0 million of borrowings. This amendment did not alter any of the terms of the loan agreement or the loan, other than to increase the principal amount and to correspondingly increase the amount of the monthly installments of principal and interest payable on the loan. In the first quarter of 2015, we entered into a second amendment to this loan agreement pursuant to which, we obtained an additional $10.3 million of borrowings, bringing the outstanding balance of this loan to $30.0 million as of February 28, 2015. This second amendment also reduced the interest rate on this loan to 3.75% over ninety day LIBOR from 4.00% over ninety day LIBOR, extended the maturity date of this loan to May 1, 2022 and made corresponding changes to the amount of the principal payments required to be made by us on this loan. This loan, as amended, is payable by us in 96 monthly installments of principal, each in the amount of $0.25 million, plus accrued and unpaid interest, commencing on April 1, 2015 and continuing to and including April 1, 2022, with a final installment in the amount of $8.75 million, plus all remaining accrued but unpaid interest, due and payable on May 1, 2022. We have the right, however, to prepay the principal amount of the Term Loan, at any time in whole or from time to time in part, without our having to pay any premium or penalty. We have pledged all of the common stock of FFB 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, including the following:

- a Tier 1 capital (leverage) ratio at FFB of at least 5.0% at the end of each calendar quarter;
- a total risk-based capital ratio at FFB of not less than 10.0% at the end of each calendar quarter;
- a ratio at FFB of nonperforming assets to net tangible capital, as adjusted, plus our ALLL, of not more than 40.0% at the end of each calendar quarter;
- a ratio at FFB of classified assets to tier 1 capital, plus our ALLL, of no more than 50.0% at the end of each calendar quarter;
- a consolidated fixed charge coverage ratio of not less than 1.50 to 1.0, measured quarterly for the immediately preceding 12 months; and
- minimum liquidity at all times of not less than $1.0 million.

As of December 31, 2014, we were in compliance with all of those financial covenants and we expect to be in compliance for the foreseeable future.

The loan agreement also prohibits FFI (but not FFB or FFA) from doing any of the following without the lender's prior approval: (i) paying any cash dividends to our shareholders, (ii) incurring any other indebtedness, (iii) granting any security interests or permitting the imposition of any liens, other than certain permitted liens, on any of FFI's assets, or (iv) entering into significant merger or acquisition transactions outside of our banking operations. The loan agreement provides that if we fail to pay principal or interest when due, or we commit a breach of any of our other obligations or covenants in the loan agreement, or certain events occur that adversely affect us, then, unless we are able to cure such a breach, we will be deemed to be in default of the loan agreement and the lender will become entitled to require us to immediately pay in full the then principal amount of and all unpaid interest on the loan. If in any such event we fail to repay the loan and all accrued but unpaid interest, then the lender would become entitled to sell our FFB shares which we pledged as security for the loan in order to recover the amounts owed to it.

Delinquent Loans, Nonperforming Assets and Provision for Credit Losses

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

	Past Due and Still Accruing						
(dollars in thousands)	30–59 Days	60-89 Days	90 Days or More	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
2014:							
Real estate loans:							
Residential properties	$—	$ —	$—	$ —	$ —	$842,135	$842,135
Commercial properties	—	805	200	596	1,601	203,719	205,320
Land	—	—	651	—	651	3,658	4,309
Commercial and industrial loans	2,092	289	700	342	3,423	90,114	93,537
Consumer loans	—	—	637	163	800	20,325	21,125
Total	$2,092	$ 1,094	$2,188	$ 1,101	$ 6,475	$1,159,951	$1,166,426
Percentage of total loans	0.18 %	0.09 %	0.19 %	0.09 %	0.56 %		
2013:							
Real estate loans:							
Residential properties	$—	$ —	$—	$ 1,820	$ 1,820	$631,260	$633,080
Commercial properties	—	—	417	598	1,015	153,967	154,982
Land	—	—	1,480	—	1,480	2,314	3,794
Commercial and industrial loans	—	2,744	1,315	344	4,403	88,852	93,255
Consumer loans	—	—	—	132	132	18,352	18,484
Total	$—	$ 2,744	$3,212	$ 2,894	$ 8,850	$894,745	$903,595

Percentage of total loans	0.00 %	0.30 %	0.36 %	0.32 %	0.98 %		
2012:							
Real estate loans:							
Residential properties	$—	$ —	$—	$ 146	$ 146	$523,130	$523,276
Commercial properties	2,012	—	—	—	2,012	130,205	132,217
Land	—	—	3,169	524	3,693	3,882	7,575
Commercial and industrial loans	1,188	1,113	11	97	2,409	65,511	67,920
Consumer loans	—	147	—	—	147	12,438	12,585
Total	$3,200	$ 1,260	$3,180	$ 767	$ 8,407	$735,166	$743,573
Percentage of total loans	0.43 %	0.17 %	0.43 %	0.10 %	1.13 %		

As of December 31, 2011, the Company had $0.5 million of loans 30 to 59 days past due which represented 0.10% of total loans outstanding. The Company did not have any loans over 60 days past due as of December 31, 2011. The Company did not have any loans over 30 days past due as of December 31, 2010.

The Company did not have any loans classified as nonaccrual as of December 31, 2011 and December 31, 2010.

The level of delinquent loans and nonaccrual loans have been adversely impacted by the loans acquired in an acquisition. As of December 31, 2014, of the $3.3 million in loans over 90 days past due, including loans on nonaccrual, $1.8 million, or 54% were loans acquired in an acquisition. As of December 31, 2014, the Company had two loans with a balance of $0.5 million classified as troubled debt restructurings ("TDR") and as of December 31, 2013, the Company had one loan with a balance of $0.1 million classified as a TDR, all of which are included as nonaccrual in the table above.

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

(dollars in thousands)	Pass	Special Mention	Substandard	Impaired	Total
2014:					
Real estate loans:					
Residential properties	$841,538	$554	$—	$43	$842,135
Commercial properties	198,112	1,266	200	5,742	205,320
Land	4,309	—	—	—	4,309
Commercial and industrial loans	81,067	5,276	1,559	5,635	93,537
Consumer loans	20,962	—	47	116	21,125
Total	$1,145,988	$7,096	$ 1,806	$11,536	$1,166,426
2013:					
Real estate loans:					
Residential properties	$630,832	$—	$—	$2,248	$633,080
Commercial properties	150,053	—	4,108	821	154,982
Land	2,314	—	1,480	—	3,794
Commercial and industrial loans	88,166	43	2,047	2,999	93,255
Consumer loans	18,309	—	175	—	18,484
Total	$889,674	$43	$ 7,810	$6,068	$903,595
2012:					
Real estate loans:					
Residential properties	$519,288	$—	$ 1,731	$2,257	$523,276
Commercial properties	127,803	—	4,414	—	132,217
Land	3,818	—	3,214	543	7,575
Commercial and industrial loans	62,000	889	2,295	2,736	67,920
Consumer loans	12,387	127	71	—	12,585
Total	$725,296	$1,016	$ 11,725	$5,536	$743,573
2011:					
Real estate loans:					
Residential properties	$402,630	$291	$—	$2,358	$405,279
Commercial properties	75,542	—	—	—	75,542
Commercial and industrial loans	31,627	3,750	—	—	35,377
Consumer loans	7,860	152	—	—	8,012
Total	$517,659	$4,193	$—	$2,358	$524,210
2010:					
Real estate loans:					
Residential properties	$240,340	$—	$—	$—	$240,340
Commercial properties	57,633	—	—	—	57,633
Commercial and industrial loans	26,743	3,721	—	232	30,696

Consumer loans	8,403	179	—	—	8,582
Total	$333,119	$ 3,900	$ —	$ 232	$337,251

We consider a loan to be impaired when, based upon current information and events, we believe that it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan. We measure impairment using either the present value of the expected future cash flows discounted at the loan's effective interest rate, or the fair value of the properties collateralizing the loan. Impairment losses are included in the allowance for loan losses through a charge to provision for loan losses. Adjustments to impairment losses due to changes in the fair value of the property collateralizing an impaired loan are considered in computing the provision for loan losses. Loans collectively reviewed for impairment include all loans except for loans which are individually reviewed based on specific criteria, such as delinquency, debt coverage, adequacy of collateral and condition of property collateralizing the loans. Impaired loans include nonaccrual loans (excluding those collectively reviewed for impairment), certain restructured loans and certain performing loans less than ninety days delinquent ("other impaired loans") which we believe are not likely to be collected in accordance with contractual terms of the loans.

In 2012, we purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of these purchased credit impaired loans is as follows at December 31:

(dollars in thousands)	2014	2013
Outstanding principal balance:		
Loans secured by real estate:		
Commercial properties	$206	$5,543
Land	—	2,331
Total real estate loans	206	7,874
Commercial and industrial loans	2002	2,489
Consumer loans	249	260
Total loans	2,457	10,623
Unaccreted discount on purchased credit impaired loans	(651)	(2,945)
Total	$1,806	$7,678

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Allowance for Loan Losses. The following table summarizes the activity in our ALLL for the year ended December 31:

(dollars in thousands)	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
2014:					
Real estate loans:					
Residential properties	$ 6,157	$ 429	$ —	$ —	$6,586
Commercial properties / land	1,440	86	—	—	1,526
Commercial and industrial loans	2,149	(252)	—	—	1,897
Consumer loans	169	(28)	—	—	141
Total	$ 9,915	$ 235	$ —	$ —	$10,150
2013:					
Real estate loans:					
Residential properties	$ 4,355	$ 1,802	$ —	$ —	$6,157
Commercial properties / land	936	561	(57)	—	1,440
Commercial and industrial loans	2,841	71	(763)	—	2,149
Consumer loans	208	(39)	—	—	169
Total	$ 8,340	$ 2,395	$ (820)	$ —	$9,915
2012:					
Real estate loans:					
Residential properties	$ 3,984	$ 646	$ (275)	$ —	$4,355
Commercial properties / land	1,218	(282)	—	—	936
Commercial and industrial loans	1,104	1,737	—	—	2,841
Consumer loans	244	(36)	—	—	208
Total	$ 6,550	$ 2,065	$ (275)	$ —	$8,340
2011:					
Real estate loans:					
Residential properties	$ 2,185	$ 1,524	$ —	$ 275	$3,984
Commercial properties	900	318	—	—	1,218
Commercial and industrial loans	955	381	(232)	—	1,104
Consumer loans	170	74	—	—	244
Total	$ 4,210	$ 2,297	$ (232)	$ 275	$6,550
2010:					
Real estate loans:					
Residential properties	$ 1,379	$ 806	$ —	$ —	$2,185
Commercial properties	333	567	—	—	900
Commercial and industrial loans	413	542	—	—	955
Consumer loans	385	(215)	—	—	170
Total	$ 2,510	$ 1,700	$ —	$ —	$4,210

Excluding the loans acquired in an Acquisition and any related allocated ALLL, our ALLL as a percentage of total loans was 0.87% and 1.16% as of December 31, 2014, and December 31, 2013, respectively.

The amount of the ALLL is adjusted periodically by charges to operations (referred to in our income statement as the "provision for loan losses") (i) to replenish the ALLL after it has been reduced due to loan write-downs or charge-offs, (ii) to reflect increases in the volume of outstanding loans, and (iii) to take account of changes in the risk of potential loan losses due to a deterioration in the condition of borrowers or in the value of property securing non–performing loans or adverse changes in economic conditions. The amounts of the provisions we make for loan losses are based on our estimate of losses in our loan portfolio. In estimating such losses, we use economic and loss migration models that are based on bank regulatory guidelines and industry standards, and our historical charge-off experience and loan delinquency rates, local and national economic conditions, a borrower's ability to repay its borrowings, and the value of any property collateralizing the loan, as well as a number of subjective factors. However, these determinations involve judgments about changes and trends in current economic conditions and other events that can affect the ability of borrowers to meet their loan obligations to us and a weighting among the quantitative and qualitative factors we consider in determining the sufficiency of the ALLL. Moreover, the duration and anticipated effects of prevailing economic conditions or trends can be uncertain and can be affected by a number of risks and circumstances that are outside of our control. If changes in economic or market conditions or unexpected subsequent events were to occur, or if changes were made to bank regulatory guidelines or industry standards that are used to assess the sufficiency of the ALLL, it could become necessary for us to incur additional, and possibly significant, charges to increase the ALLL, which would have the effect of reducing our income.

In addition, the FDIC and the DBO, as an integral part of their examination processes, periodically review the adequacy of our ALLL. These agencies may require us to make additional provisions for loan losses, over and above the provisions that we have already made, the effect of which would be to reduce our income.

The following table presents the balance in the ALLL and the recorded investment in loans by impairment method at December 31:

(dollars in thousands)	Allowance for Loan Losses Evaluated for Impairment				Unaccreted Credit Component
	Individually	Collectively	Purchased Impaired	Total	Other Loans
2014:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	$ —	$ 6,586	$ —	$ 6,586	$ 26
Commercial properties	26	1,500	—	1,526	193
Land	—	—	—	—	4
Commercial and industrial loans	686	1,211	—	1,897	45
Consumer loans	—	141	—	141	—
Total	$ 712	$ 9,438	$ —	$ 10,150	$ 268
Loans:					
Real estate loans:					
Residential properties	$ 43	$ 842,092	$ —	$ 842,135	$ 2,861
Commercial properties	5,742	199,378	200	205,320	21,126
Land	—	4,309	—	4,309	1,099
Commercial and industrial loans	5,635	86,343	1,559	93,537	5,893
Consumer loans	116	20,962	47	21,125	8
Total	$ 11,536	$ 1,153,084	$ 1,806	$ 1,166,426	$ 30,987
2013:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	$ —	$ 6,157	$ —	$ 6,157	$ 36
Commercial properties	190	1,250	—	1,440	290
Land	—	—	—	—	26
Commercial and industrial loans	925	1,224	—	2,149	126
Consumer loans	—	169	—	169	11
Total	$ 1,115	$ 8,800	$ —	$ 9,915	$ 489
Loans:					
Real estate loans:					
Residential properties	$ 2,248	$ 630,832	$ —	$ 633,080	$ 3,449
Commercial properties	821	150,053	4,108	154,982	23,968
Land	—	2,314	1,480	3,794	1,939
Commercial and industrial loans	2,999	88,209	2,047	93,255	10,354
Consumer loans	—	18,441	43	18,484	160
Total	$ 6,068	$ 889,849	$ 7,678	$ 903,595	$ 39,870

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(dollars in thousands)	Allowance for Loan Losses Evaluated for Impairment				Unaccreted Credit Component Other Loans
	Individually	Collectively	Purchased Impaired	Total	
2012:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	$ —	$ 4,355	$ —	$4,355	$ 62
Commercial properties	—	936	—	936	617
Land	—	—	—	—	129
Commercial and industrial loans	1,536	1,305	—	2,841	302
Consumer loans	—	208	—	208	19
Total	$ 1,536	$ 6,804	$ —	$8,340	$ 1,129
Loans:					
Real estate loans:					
Residential properties	$ 2,257	$ 519,288	$ 1,731	$523,276	$ 5,121
Commercial properties	—	128,035	4,182	132,217	39,862
Land	543	3,818	3,214	7,575	4,521
Commercial and industrial loans	2,736	62,989	2,195	67,920	16,512
Consumer loans	—	12,514	71	12,585	324
Total	$ 5,536	$ 726,644	$ 11,393	$743,573	$ 66,340
2011:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	$ —	$ 3,984	$ —	$3,984	$ —
Commercial properties	—	1,218	—	1,218	—
Commercial and industrial loans	—	1,104	—	1,104	—
Consumer loans	—	244	—	244	—
Total	$ —	$ 6,550	$ —	$6,550	$ —
Loans:					
Real estate loans:					
Residential properties	$ 2,358	$ 402,921	$ —	$405,279	$ —
Commercial properties	—	75,542	—	75,542	—
Commercial and industrial loans	—	35,377	—	35,377	—
Consumer loans	—	8,012	—	8,012	—
Total	$ 2,358	$ 521,852	$ —	$524,210	$ —
2010:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	$ —	$ 2,185	$ —	$2,185	$ —
Commercial properties	—	900	—	900	—
Commercial and industrial loans	232	723	—	955	—
Consumer loans	—	170	—	170	—
Total	$ 232	$ 3,978	$ —	$4,210	$ —
Loans:					
Real estate loans:					
Residential properties	$ —	$ 240,340	$ —	$240,340	$ —
Commercial properties	—	57,633	—	57,633	—
Commercial and industrial loans	232	30,464	—	30,696	—

Consumer loans	—	8,582	—	8,582	—
Total	$ 232	$ 337,019	$ —	$337,251	$ —

The column labeled "Unaccreted Credit Component Other Loans" represents the amount of unaccreted credit component discount for the other loans acquired in the DCB acquisition, and the stated principal balance of the related loans. The discount is equal to 0.86% and 1.23% of the stated principal balance of these loans as of December 31, 2014 and 2013, respectively. In addition to this unaccreted credit component discount, an additional $0.3 million and $0.2 million of the ALLL was provided for these loans as of December 31, 2014 and 2013, respectively.

Liquidity

Liquidity management focuses on our ability to generate, on a timely and cost-effective basis, cash sufficient to meet the funding needs of current loan demand, deposit withdrawals, principal and interest payments with respect to outstanding borrowings and to pay operating expenses. Our liquidity management is both a daily and long-term function of funds management. Liquid assets are generally invested in marketable securities or held as cash at the FRB or other financial institutions.

We monitor our liquidity in accordance with guidelines established by our Board of Directors and applicable regulatory requirements. Our need for liquidity is affected by our loan activity, net changes in deposit levels and the maturities of our borrowings. The principal sources of our liquidity consist of deposits, loan interest and principal payments and prepayments, investment management and consulting fees, FHLB advances and proceeds from borrowings and sales of shares by FFI. The remaining balances of the Company's lines of credit available to draw down totaled $289 million at December 31, 2014.

Cash Flows Provided by Operating Activities. During the year ended December 31, 2014 operating activities provided net cash of $9.4 million, comprised primarily of our net income of $8.4 million. In 2013, operating activities provided net cash of $8.0 million, comprised primarily of our net income of $7.9 million.

Cash Flows Used in Investing Activities. During the year ended December 31, 2014, investing activities used net cash of $340.3 million, primarily to fund a $262.3 million net increase in loans and a $83.5 million net increase in securities AFS. In 2013, investing activities used net cash of $213.8 million, primarily to fund a $157.6 million net increase in loans and a $62.7 million net increase in securities AFS.

Cash Flow Provided by Financing Activities. During the year ended December 31, 2014, financing activities provided net cash of $303.7 million, consisting primarily of a net increase of $160.9 million in deposits and a net increase of $141.8 million in borrowings. In 2013, financing activities provided net cash of $199.7 million, consisting primarily of a net increase of $152.3 million in deposits, a net increase of $41.1 million in borrowings and $6.3 million received from the sale of shares in a private offering.

Ratio of Loans to Deposits. The relationship between gross loans and total deposits can provide a useful measure of a bank's liquidity. Since repayment of loans tends to be less predictable than the maturity of investments and other liquid resources, the higher the loan-to-deposit ratio the less liquid are our assets. On the other hand, since we realize greater yields on loans than we do on other interest-earning assets, a lower loan-to-deposit ratio can adversely affect interest income and earnings. As a result, our goal is to achieve a loan-to-deposit ratio that appropriately balances the requirements of liquidity and the need to generate a fair return on our assets. At December 31, 2014 and December 31, 2013, the loan-to-deposit ratios at FFB were 118.9%, and 110.4%, respectively.

Off-Balance Sheet Arrangements

The following table provides the off-balance sheet arrangements of the Company as of December 31, 2014:

(dollars in thousands)	
Commitments to fund new loans	$18,217
Commitments to fund under existing loans, lines of credit	106,060
Commitments under standby letters of credit	4,223

Some of the commitments to fund existing loans, lines of credit and letters of credit are expected to expire without being drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. As of December 31, 2014, FFB was obligated on $68.5 million of letters of credit to the FHLB which were being used as collateral for public fund deposits, including $56.0 million of deposits from the State of California.

Asset and Liability Management: Interest Rate Risk

Interest rate risk is inherent in financial services businesses. Management of interest-earning assets and interest-bearing liabilities in terms of rate and maturity has an important effect on our liquidity and net interest margin. Interest rate risk results from interest-earning assets and interest-bearing liabilities maturing or repricing at different times, on a different basis or in unequal amounts. The Board of Directors of FFB approves policies and limits governing the management of interest rate risk. The asset / liability committee formed by these policies is responsible for monitoring our interest rate risk and providing periodic reports to the Board of Directors regarding our compliance with these policies and limits. We have established three primary measurement processes to quantify and manage our interest rate risk. These include: (i) gap analysis which measures the repricing mismatches of asset and liability cash flows; (ii) net interest income simulations which are used to measure the impact of instantaneous changes in interest rates on net interest income over a 12 month forecast period; and (iii) economic value of equity calculations which measure the sensitivity of our economic value of equity to simultaneous changes in interest rates.

Gap Analysis. Under this analysis, rate sensitivity is measured by the extent to which our interest-earning assets and interest-bearing liabilities reprice or mature at different times. Rate sensitivity gaps in which the repricing of interest-earning assets exceed the repricing of interest-bearing liabilities tend to produce an expanded net yield on interest-earning assets in rising interest rate environments and a reduced net yield on interest-earning assets in declining interest rate environments. Conversely, when the repricing of interest-bearing liabilities exceed the repricing of interest-earning assets, the net yield on interest-earning assets generally declines in rising interest rate environments and increases in declining interest rate environments. The following table sets forth the interest-earning assets and interest-bearing liabilities on the basis of when they reprice or mature as of December 31, 2014:

(dollars in thousands)	Less than 1 year	From 1 to 3 Years	From 3 to 5 Years	Over 5 Years	Total
Interest-earnings assets:					
Cash equivalents	$24,049	$—	$—	$—	$24,049
Securities, FHLB stock	30,857	30,094	23,180	65,160	149,291
Loans	166,598	211,590	456,168	331,328	1,165,684
Interest-bearing liabilities:					
Deposits:					
Interest-bearing checking	(291,509)	—	—	—	(291,509)
Money market and savings	(171,958)	—	—	—	(171,958)
Certificates of deposit	(223,948)	(29,402)	—	—	(253,350)
Borrowings	(282,886)	—	—	—	(282,886)
Net: Current Period	$(748,797)	$212,282	$479,348	$396,488	$339,321
Net: Cumulative	$(748,797)	$(536,515)	$(57,167)	$339,321	

The cumulative positive total of $339 million reflects the funding provided by noninterest-bearing deposits and equity. Because we had a $749 million net negative position at December 31, 2014 for the repricing period of less than one year, the result of this analysis indicate that we would be adversely impacted by a short term increase in interest rates and would benefit from a short term decrease in interest rates.

However, the extent to which our net interest margin will be impacted by changes in prevailing interest rates will depend on a number of factors, including how quickly interest-earning assets and interest-bearing liabilities react to interest rate changes. It is not uncommon for rates on certain assets or liabilities to lag behind changes in the market rates of interest. Additionally, prepayments of loans and early withdrawals of certificates of deposit could cause interest sensitivities to vary. As a result, the relationship or “gap” between interest-earning assets and interest-bearing liabilities, as shown in the above table, is only a general indicator of interest rate sensitivity and the effect of changing rates of interest on our net interest income is likely to be different from that predicted solely on the basis of the interest rate sensitivity analysis set forth in the above table.

Net Interest Income Simulations (or NII). Under this analysis, we use a simulation model to measure and evaluate potential changes in our net interest income resulting from changes in interest rates. This model measures the impact of instantaneous shocks of 100, 200, 300 and 400 basis points on our net interest income over a 12 month forecast period. The computed changes to our net interest income between hypothetical rising and declining rate scenarios for the twelve month period beginning December 31, 2014 are as follows:

Assumed Instantaneous Change in Interest Rates	Estimated Increase (Decrease) in Net Interest Income	
+ 100 basis points	(7.37	)%
+ 200 basis points	(13.95	)%
+ 300 basis points	(20.81	)%
+ 400 basis points	(27.15	)%
- 100 basis points	1.09	%
- 200 basis points	0.94	%

We did not include scenarios below the minus 200 basis point scenario because we believe those scenarios are not meaningful based on current interest rate levels. The NII results indicate that we would be adversely impacted by a short term increase in interest rates and would benefit from a short term decrease in interest rates. The results of the NII are hypothetical, and a variety of factors might cause actual results to differ substantially from what is depicted. These could include non-parallel yield curve shifts, changes in market interest rate spreads and the actual reaction to changes in interest rate levels of interest-earning assets and interest-bearing liabilities. It is not uncommon for rates on certain assets or liabilities to lag behind changes in the market rates of interest. Additionally, prepayments of loans and early withdrawals of certificates of deposit could cause interest sensitivities to vary.

Economic Value of Equity Calculations (or EVE). The EVE measures the sensitivity of our market value equity to simultaneous changes in interest rates. EVE is derived by subtracting the economic value of FFB’s liabilities from the economic value of its assets, assuming current and hypothetical interest rate environments. EVE is based on all of the future cash flows expected to be generated by the FFB’s current balance sheet, discounted to derive the economic value of FFB’s assets & liabilities. These cash flows may change depending on the assumed interest rate environment and the resulting changes in other assumptions, such as prepayment speeds. The computed changes to our economic value of equity between hypothetical rising and declining rate scenarios as of December 31, 2014 are as follows:

Assumed Simultaneous Change in Interest Rates	Estimated Increase (Decrease) in Economic Value of Equity	
+ 100 basis points	(0.02	)%
+ 200 basis points	(4.46	)%
+ 300 basis points	(3.34	)%
+ 400 basis points	(2.49	)%
- 100 basis points	(12.16	)%
- 200 basis points	(18.13	)%

We did not include scenarios below the minus 200 basis point scenario because we believe those scenarios are not meaningful based on current interest rate levels. The EVE results indicate that we would be adversely impacted by a short term increase in interest rates and a short term decrease in interest rates. This differs from the NII results because, in the current interest rate environment, assumed interest rate floors for loans eliminates the benefit normally derived for loans in a declining interest rate environment. The results of the EVE are hypothetical, and a variety of factors might cause actual results to differ substantially from what is depicted. These could include non-parallel yield curve shifts, changes in market interest rate spreads and the actual reaction to changes in interest rate levels of interest-earning assets and interest-bearing liabilities. It is not uncommon for rates on certain assets or liabilities to lag behind changes in the market rates of interest. Additionally, prepayments of loans and early withdrawals of certificates of deposit could cause interest sensitivities to vary.

The results of these analyses and simulations do not contemplate all of the actions that we may undertake in response to changes in interest rates. In response to actual or anticipated changes in interest rates, we have various alternatives for managing and reducing FFB's exposure to interest rate risk, such as entering into hedges and obtaining long-term fixed rate FHLB advances. To date, we have not entered into any hedges or other derivative instruments for this or any other purpose and it is our policy not to use derivatives or other financial instruments for trading or other speculative purposes.

Capital Resources and Dividends

Under federal banking regulations that apply to all United States based bank holding companies and federally insured banks, the Company (on a consolidated basis) and FFB (on a stand-alone basis) must meet specific capital adequacy requirements that, for the most part, involve quantitative measures, primarily in terms of the ratios of their capital to their assets, liabilities, and certain off-balance sheet items, calculated under regulatory accounting practices. Under those regulations, which are based primarily on those quantitative measures, each bank holding company must meet a minimum capital ratio and each federally insured bank is determined by its primary federal bank regulatory agency to come within one of the following capital adequacy categories on the basis of its capital ratios: (i) well capitalized; (ii) adequately capitalized; (iii) undercapitalized; (iv) significantly undercapitalized; or (v) critically undercapitalized.

Certain qualitative assessments also are made by a banking institution's primary federal regulatory agency that could lead the agency to determine that the banking institution should be assigned to a lower capital category than the one indicated by the quantitative measures used to assess the institution's capital adequacy. At each successive lower capital category, a banking institution is subject to greater operating restrictions and increased regulatory supervision by its federal bank regulatory agency.

The following table sets forth the capital and capital ratios of FFI (on a consolidated basis) and FFB as of the respective dates indicated below, as compared to the respective regulatory requirements applicable to them:

(dollars in thousands)	Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
FFI						
December 31, 2014						
Tier 1 leverage ratio	$95,582	7.32 %	$ 52,200	4.00 %		
Tier 1 risk-based capital ratio	95,582	11.02 %	34,700	4.00 %		
Total risk-based capital ratio	106,132	12.23 %	69,399	8.00 %		
December 31, 2013						
Tier 1 leverage ratio	$85,268	8.67 %	$ 39,321	4.00 %		
Tier 1 risk-based capital ratio	85,268	13.04 %	26,150	4.00 %		
Total risk-based capital ratio	93,465	14.30 %	52,300	8.00 %		
December 31, 2012						
Tier 1 leverage ratio	$72,909	9.19 %	$ 31,730	4.00 %		
Tier 1 risk-based capital ratio	72,909	13.60 %	21,446	4.00 %		
Total risk-based capital ratio	79,636	14.85 %	42,891	8.00 %		
FFB						
December 31, 2014						
Tier 1 leverage ratio	$105,261	8.09 %	$ 52,036	4.00 %	$ 65,045	5.00 %
Tier 1 risk-based capital ratio	105,261	12.18 %	34,572	4.00 %	51,858	6.00 %
Total risk-based capital ratio	115,811	13,40 %	69,144	8.00 %	86,340	10.00 %
December 31, 2013						
Tier 1 (core) capital ratio	$84,243	8.61 %	$ 39,115	4.00 %	$ 48,894	5.00 %
Tier 1 risk-based capital ratio	84,243	12.95 %	26,017	4.00 %	39,025	6.00 %
Total risk-based capital ratio	92,399	14.21 %	52,034	8.00 %	65,042	10.00 %
December 31, 2012						

Tier 1 (core) capital ratio	$67,515	8.56 %	$ 31,563	4.00 %	$ 39,454	5.00 %
Tier 1 risk-based capital ratio	67,515	12.68 %	21,292	4.00 %	31,939	6.00 %
Total risk-based capital ratio	74,194	13,94 %	42,585	8.00 %	53,231	10.00 %

As of each of the dates set forth in the above table, the Company (on a consolidated basis) exceeded the minimum required capital ratios applicable to it and FFB (on a stand-alone basis) qualified as a well-capitalized depository institution under the capital adequacy guidelines described above.

As of December 31, 2014, the amount of capital at FFB in excess of amounts required to be Well Capitalized was $40.2 million for the Tier 1 Leverage Ratio, $53.4 million for the Tier 1 risk-based capital ratio and $29.5 million for the Total risk-based capital ratio.

During the years ended December 31, 2014 and 2013, FFI made capital contributions to FFB of $10.5 million and $8.5 million, respectively. As of December 31, 2014, FFI had $10.0 million of available capital and, therefore, has the ability and financial resources to contribute additional capital to FFB, if needed.

In July 2013, the Federal Reserve Board and the FDIC adopted new capital adequacy rules and established a new comprehensive capital framework for U.S. banking organizations (the "New Capital Rules"). Those new Rules are based on rules promulgated by the International Basel Committee on Banking Supervision (the "Basel Committee") and also are designed to meet certain requirements of the Dodd-Frank Act. The New Capital Rules (sometimes referred to as the "Basel III Rules") substantially revise the risk-based capital requirements applicable to U.S. banking organizations, including the Company and the Bank, from the U.S. risk-based capital rules that were in effect prior to January 1, 2015, redefined the components of capital and addressed 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 became effective for the Company and FFB on January 1, 2015 (subject, in the case of certain of those Rules, to phase-in periods). Among other things, the New Capital Rules will require bank holding companies and FDIC-insured banks, including FFI and the Bank, to maintain greater amounts of capital, which we expect will increase the costs of capital for bank holding companies and FDIC-insured banks. For additional information regarding these New Capital Rules, see "BUSINESS—Supervision and Regulation New Basel III Capital Rules" above in Item I of this report.

We did not pay dividends in 2014 or 2013 and we have no plans to pay dividends at least for the foreseeable future. Instead, it is our intention to retain internally generated cash flow to support our growth. Moreover, the payment of dividends is subject to certain regulatory restrictions, which are discussed in ITEM 1 – "Business—Supervision and Regulation—Dividends." included elsewhere in this Annual Report on Form 10-K. In addition, the agreement governing the term loan obtained by FFI in April 2012 provides that we must obtain the prior consent of the lender to pay dividends to our shareholders.

We had no material commitments for capital expenditures as of December 31, 2014. However, we intend to take advantage of opportunities that may arise in the future to grow our businesses, including by opening additional wealth management offices or acquiring complementary businesses that we believe will provide us with attractive risk-adjusted returns, although we do not have any immediate plans, arrangements or understandings relating to any material acquisition. As a result, we may seek to obtain additional borrowings and to sell additional shares of our common stock to raise funds which we might need for these purposes. There is no assurance, however, that, if required, we will succeed in obtaining additional borrowings or selling additional shares of our common stock on terms that are acceptable to us, if at all, as this will depend on market conditions and other factors outside of our control, as well as our future results of operations. See ITEM 1A – "RISK FACTORS. We may sell additional shares of common stock in the future which could result in dilution to our shareholders" for information regarding the impact that future sales of our common stock may have on the share ownership of our existing shareholders.

Item 8. Financial Statements and Supplementary Data
FIRST FOUNDATION INC

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

First Foundation Inc. and Subsidiaries

Irvine, California

We have audited the accompanying consolidated balance sheets of First Foundation Inc. and Subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Foundation Inc. and Subsidiaries as of December 31, 2014 and 2013 and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), First Foundation Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2015, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Laguna Hills, California

March 16, 2015

FIRST FOUNDATION INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	December 31, 2014	2013
ASSETS		
Cash and cash equivalents	$29,692	$56,954
Securities available-for-sale ("AFS")	138,270	59,111
Loans, net of deferred fees	1,166,392	903,645
Allowance for loan and lease losses ("ALLL")	(10,150)	(9,915)
Net loans	1,156,242	893,730
Premises and equipment, net	2,187	3,249
Investment in FHLB stock	12,361	6,721
Deferred taxes	9,748	12,052
Real estate owned ("REO")	334	375
Other assets	6,590	5,168
Total Assets	$1,355,424	$1,037,360
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$962,954	$802,037
Borrowings	282,886	141,063
Accounts payable and other liabilities	10,088	7,498
Total Liabilities	1,255,928	950,598
Commitments and contingencies	—	—
Shareholders' Equity		
Common Stock, par value $.001: 20,000,000 shares authorized; 7,845,182 and 7,733,514 shares issued and outstanding at December 31, 2014 and December 31, 2013, respectively	8	8
Additional paid-in-capital	78,204	76,334
Retained earnings	20,384	11,990
Accumulated other comprehensive income (loss), net of tax	900	(1,570)
Total Shareholders' Equity	99,496	86,762
Total Liabilities and Shareholders' Equity	$1,355,424	$1,037,360

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED INCOME STATEMENTS

(In thousands, except share and per share amounts)

	For the Year Ended December 31,		
	2014	2013	2012
Interest income:			
Loans	$44,140	$37,918	$30,552
Securities	2,545	864	193
FHLB stock, fed funds sold and interest-bearing deposits	713	399	129
Total interest income	47,398	39,181	30,874
Interest expense:			
Deposits	3,586	3,167	2,918
Borrowings	998	340	227
Total interest expense	4,584	3,507	3,145
Net interest income	42,814	35,674	27,729
Provision for loan losses	235	2,395	2,065
Net interest income after provision for loan losses	42,579	33,279	25,664
Noninterest income:			
Asset management, consulting and other fees	21,798	18,240	15,326
Other income	2,951	1,584	1,294
Total noninterest income	24,749	19,824	16,620
Noninterest expense:			
Compensation and benefits	33,550	28,760	23,267
Occupancy and depreciation	7,325	6,556	5,068
Professional services and marketing costs	5,995	4,003	2,720
Other expenses	5,637	4,303	3,421
Total noninterest expense	52,507	43,622	34,476
Income before taxes on income	14,821	9,481	7,808
Taxes on income	6,427	1,630	2,007
Net income	$8,394	$7,851	$5,801
Net income per share:			
Basic	$1.08	$1.06	$0.88
Diluted	$1.03	$1.01	$0.85
Shares used in computation:			
Basic	7,737,036	7,424,210	6,603,533
Diluted	8,166,343	7,742,215	6,831,955

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	For the Year Ended December 31,		
	2014	2013	2012
Net income	$ 8,394	$ 7,851	$ 5,801
Other comprehensive income (loss):			
Unrealized holding gains (losses) on securities arising during the period	4,198	(2,668)	14
Other comprehensive income (loss) before tax	4,198	(2,668)	14
Income tax (expense) benefit related to items of other comprehensive income	(1,728)	1,098	—
Other comprehensive income (loss)	2,470	(1,570)	14
Total comprehensive income	$ 10,864	$ 6,281	$ 5,815

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF CHANGES

IN SHAREHOLDERS' EQUITY

(In thousands, except share amounts)

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in-Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance: December 31, 2011	6,166,574	$ 6	$ 50,867	$ (1,662)	$ (14)	$ 49,197
Net income	—	—	—	5,801	—	5,801
Other comprehensive income	—	—	—	—	14	14
Issuance of restricted stock	9,667	—	—	—	—	—
Issuance of common stock:						
Under merger agreement	815,447	1	12,230	—	—	12,231
Capital raise	374,438	—	5,617	—	—	5,617
Stock-based compensation	—	—	720	—	—	720
Balance: December 31, 2012	7,366,126	7	69,434	4,139	—	73,580
Net income	—	—	—	7,851	—	7,851
Other comprehensive loss	—	—	—	—	(1,570)	(1,570)
Issuance of restricted stock	9,667	—	—	—	—	—
Issuance of common stock	357,721	1	6,321	—	—	6,322
Stock-based compensation	—	—	579	—	—	579
Balance: December 31, 2013	7,733,514	8	76,334	11,990	(1,570)	86,762
Net income	—	—	—	8,394	—	8,394
Other comprehensive income	—	—	—	—	2,470	2,470
Issuance of restricted stock	3,222	—	—	—	—	—
Issuance of common stock:						
Exercise of options	84,866	—	949	—	—	949
Payout of contingent consideration	23,580	—	354	—	—	354
Stock-based compensation	—	—	451	—	—	451
Tax windfall from exercise of stock options	—	—	116	—	—	116
Balance: December 31, 2014	7,845,182	$ 8	$ 78,204	$ 20,384	$ 900	$ 99,496

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Year Ended December 31,		
	2014	2013	2012
Cash Flows from Operating Activities:			
Net income	$8,394	$7,851	$5,801
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	235	2,395	2,065
Depreciation and amortization	1,231	1,040	591
Stock–based compensation expense	451	579	720
Deferred tax expense (benefit)	576	(1,267)	(2,051)
Amortization of discounts (premiums) on purchased loans - net	(2,310)	(3,219)	—
Gain on sale of REO	(1,038)	—	—
Provision for REO losses	—	250	—
Increase in other assets	(1,244)	(366)	(1,078)
Increase in accounts payable and other liabilities	3,060	703	2,378
Net cash provided by operating activities	9,355	7,966	8,426
Cash Flows from Investing Activities:			
Net increase in loans	(262,271)	(157,619)	(129,899)
Purchases of AFS securities	(83,527)	(62,664)	(19,100)
Maturities of AFS securities	8,388	6,608	32,486
Proceeds from sale of REO	4,198	—	—
Purchase of note on REO property	(1,285)	—	—
Cash from acquisition	—	—	34,891
Sale (purchase) of FHLB stock, net	(5,640)	1,779	(3,029)
Purchase of premises and equipment	(169)	(1,905)	(1,370)
Net cash used in investing activities	(340,306)	(213,801)	(86,021)
Cash Flows from Financing Activities:			
Increase in deposits	160,917	152,296	115,988
Net increase in FHLB advances	129,000	34,000	9,000
Term note - borrowings	15,000	7,500	—
Term note - payments	(2,177)	(437)	—
Proceeds from the sale of stock, net	949	6,322	5,617
Net cash provided by financing activities	303,689	199,681	130,605
Increase (decrease) in cash and cash equivalents	(27,262)	(6,154)	53,010
Cash and cash equivalents at beginning of year	56,954	63,108	10,098
Cash and cash equivalents at end of year	$29,692	$56,954	$63,108
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$4,585	$3,506	$3,032
Income taxes	$5,394	$3,490	$2,475
Noncash transactions:			

Chargeoffs against allowance for loans losses	$—	$820	$275
Transfer from loans to REO	$1,834	$—	$225

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2014 and 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

First Foundation Inc. ("FFI") is a financial services holding company whose operations are conducted through its wholly owned subsidiaries: First Foundation Advisors ("FFA") and First Foundation Bank ("FFB" or the "Bank"), and First Foundation Insurance Services ("FFIS"), a wholly owned subsidiary of FFB (collectively the "Company"). FFI also has two inactive wholly owned subsidiaries, First Foundation Consulting ("FFC") and First Foundation Advisors, LLC ("FFA LLC"). In addition, FFA has set up a limited liability company, which is not included in these consolidated financial statements, as a private investment fund to provide an investment vehicle for its clients. The corporate headquarters for all of the companies is located in Irvine, California. The Company has wealth management offices in California in Newport Beach, Palm Desert, Pasadena, El Centro, West Los Angeles and San Diego and in Las Vegas, Nevada.

FFA, established in 1985 and incorporated in the State of California, began operating in 1990 as a fee based registered investment advisor. FFA provides (i) investment management and financial planning services for high net-worth individuals, retirement plans, charitable institutions and private foundations; (ii) provides financial, investment and economic advisory and related services to high net-worth individuals and their families, family-owned businesses, and other related organizations; and (iii) provides support services involving the processing and transmission of financial and economic data for charitable organizations. At the end of 2014, these services were provided to approximately 1,300 clients, primarily located in Southern California, with an aggregate of $3.2 billion of assets under management.

The Bank commenced operations in 2007 and currently operates primarily in Southern California and in Nevada. The Bank offers a wide range of deposit instruments including personal and business checking and savings accounts, including interest-bearing negotiable order of withdrawal ("NOW") accounts, money market accounts, and time certificates of deposit ("CD") accounts. As a lender, the Bank originates, and retains for its portfolio, loans secured by real estate and commercial loans. Over 90% of the Bank's loans are to clients located in California. The Bank also offers a wide range of specialized services including trust services, on-line banking, remote deposit capture, merchant credit card services, ATM cards, Visa debit cards, business sweep accounts, and through FFIS, insurance brokerage services. The Bank has a state non-member bank charter and it is subject to continued examination by the California Department of Business Oversight and Federal Deposit Insurance Corporation.

At December 31, 2014, the Company employed 207.5 full-time equivalent employees.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Reclassifications

Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the 2014 presentation.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years Ended December 31, 2014 and 2013

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, certificates of deposits with maturities of less than ninety days, investment securities with original maturities of less than ninety days, money market mutual funds and Federal funds sold. At times, the Bank maintains cash at major financial institutions in excess of Federal Deposit Insurance Corporation ("FDIC") insured limits. However, as the Bank places these deposits with major well-capitalized financial institutions and monitors the financial condition of these institutions, management believes the risk of loss to be minimal. The Bank maintains most of its excess cash at the Federal Reserve Bank, with well-capitalized correspondent banks or with other depository institutions at amounts less than the FDIC insured limits. At December 31, 2014, included in cash and cash equivalents were $20.7 million in funds held at the Federal Reserve Bank.

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Bank was in compliance with its reserve requirements as of December 31, 2014.

Certificates of Deposit

From time to time, the Company may invest funds with other financial institutions through certificates of deposit. Certificates of deposit with maturities of less than ninety days are included as cash and cash equivalents. Certificates of deposit are carried at cost.

Investment Securities

Investment securities for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity. Investments not classified as trading securities nor as held-to-maturity securities are classified as available-for-sale securities and recorded at fair value. Unrealized gains or losses on available-for-sale securities are excluded from net income and reported as an amount net of taxes as a separate component of other comprehensive income included in shareholders' equity. Premiums or discounts on held-to-maturity and available-for-sale securities are amortized or accreted into income using the interest method.

Realized gains or losses on sales of held-to-maturity or available-for-sale securities are recorded using the specific identification method. Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are considered other-than-temporary impairment ("OTTI") result in write-downs of the individual securities to their fair value. The credit component of any OTTI related write-downs is charged against earnings.

Management evaluates securities for OTTI at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows; OTTI related to credit loss, which must be recognized in the income statement and; OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loan Origination Fees and Costs

Net loan origination fees and direct costs associated with lending are deferred and amortized to interest income as an adjustment to yield over the respective lives of the loans using the interest method. The amortization of deferred fees and costs is discontinued on loans that are placed on nonaccrual status. When a loan is paid off, any unamortized net loan origination fees are recognized in interest income.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years Ended December 31, 2014 and 2013

Purchased Credit Impaired Loans

The Company may purchase individual loans and groups of loans which have shown evidence of credit deterioration and are considered credit impaired. Purchased credit impaired loans are recorded at the amount paid and there is no carryover of the seller's allowance for loan losses.

Purchased credit impaired loans are accounted for individually or aggregated into pools of loans based on common risk characteristics such as, credit score, loan type, and date of origination. The Company estimates the amount and timing of expected cash flows for each loan or pool, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan's or pool's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference). Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded by an increase in the allowance for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Provisions for loan losses are charged to operations based on management's evaluation of the estimated losses in its loan portfolio. The major factors considered in evaluating losses are historical charge-off experience, delinquency rates, local and national economic conditions, the borrower's ability to repay the loan and timing of repayments, and the value of any related collateral. Management's estimate of fair value of the collateral considers current and anticipated future real estate market conditions, thereby causing these estimates to be particularly susceptible to changes that could result in a material adjustment to results of operations in the future. Recovery of the carrying value of such loans and related real estate is dependent, to a great extent, on economic, operating and other conditions that may be beyond the Bank's control.

The Bank's primary regulatory agencies periodically review the allowance for loan losses and such agencies may require the Bank to recognize additions to the allowance based on information and factors available to them at the time of their examinations. Accordingly, no assurance can be given that the Bank will not recognize additional provisions for loan losses with respect to its loan portfolio.

The allowance consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. Loan losses are charged against the allowance when management believes a loan balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The Bank considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Bank bases the measurement of loan impairment using either the present value of the expected future cash flows discounted at the loan's effective interest rate, or the fair value of the loan's collateral properties. Impairment losses are included in the allowance for loan losses through a charge to provision for loan losses. Adjustments to impairment losses due to changes in the fair value of impaired loans' collateral properties are included in the provision for loan losses. The Bank's impaired loans include nonaccrual loans (excluding those collectively reviewed for impairment), certain restructured loans and certain performing loans less than ninety days delinquent ("other impaired loans") that the Bank believes will likely not be collected in accordance with contractual terms of the loans. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are generally considered troubled debt restructurings and classified as impaired.

Commercial loans and loans secured by multifamily and commercial real estate are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan’s effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

General reserves cover non-impaired loans and are based on historical loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment’s historical loss experience. Because the Bank is relatively new and has not experienced any meaningful amount of losses in any of its current portfolio segments, the Bank calculates the historical loss rates on industry data, specifically loss rates published by the FDIC. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions, changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

Portfolio segments identified by the Bank include loans secured by residential real estate, including multifamily and single family properties, loans secured by commercial real estate, commercial and industrial loans and consumer loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and debt-to income, collateral type and loan-to-value ratios for consumer loans.

Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Real Estate Owned

REO represents the collateral acquired through foreclosure in full or partial satisfaction of the related loan. REO is recorded at the fair value less estimated selling costs at the date of foreclosure. Any write-down at the date of transfer is charged to the allowance for loan losses. The recognition of gains or losses on sales of REO is dependent upon various factors relating to the nature of the property being sold and the terms of sale. REO values are reviewed on an ongoing basis and any decline in value is recognized as foreclosed asset expense in the current period. The net operating results from these assets are included in the current period in noninterest expense as foreclosed asset expense (income).

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization, which is charged to expense on a straight-line basis over the estimated useful lives of 3 to 10 years. Premises under leasehold improvements are amortized on a straight-line basis over the term of the lease or the estimated useful life of the improvements, whichever is shorter. Expenditures for major renewals and betterments of premises and equipment are capitalized and those for maintenance and repairs are charged to expense as incurred. A valuation allowance is established for any impaired long-lived assets. The Company did not have impaired long-lived assets as of December 31, 2014 or 2013.

Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank (“FHLB”), the Bank is required to purchase FHLB stock in accordance with its advances, securities and deposit agreement. This stock, which is carried at cost, may be redeemed at par value. However, there are substantial restrictions regarding redemption and the Bank can only receive a full redemption in connection with the Bank surrendering its FHLB membership. At December 31, 2014, the Bank held $12.4 million of FHLB stock. The Company does not believe that this stock is currently impaired and no adjustments to its carrying value have been recorded.

Other Intangible Assets

Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Other intangible assets consist of core deposit intangible assets arising from whole bank acquisitions and are amortized on an accelerated method over their estimated useful lives, which range from 7 to 10 years.

Revenue Recognition

Interest on Loans: Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on loans is discontinued when reasonable doubt exists as to the full, timely collection of interest or principal and, generally, when a loan becomes contractually past due for ninety days or more with respect to principal or interest. The accrual of interest may be continued on a well-secured loan contractually past due ninety days or more with respect to principal or interest if the loan is in the process of collection or collection of the principal and interest is deemed probable.

When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period income. Interest on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Accrual of interest is resumed on loans only when, in the judgment of management, the loan is estimated to be fully collectible. The Bank continues to accrue interest on restructured loans since full payment of principal and interest is expected and such loans are performing or less than ninety days delinquent and, therefore, do not meet the criteria for nonaccrual status. Restructured loans that have been placed on nonaccrual status are returned to accrual status when the remaining loan balance, net of any charge-offs related to the restructure, is estimated to be fully collectible by management and performing in accordance with the applicable loan terms.

Other Fees: Asset management fees are billed on a monthly or quarterly basis based on the amount of assets under management and the applicable contractual fee percentage. Asset management fees are recognized as revenue in the period in which they are billed and earned. Financial planning fees are due and billed at the completion of the planning project and are recognized as revenue at that time.

Stock-Based Compensation

The Company recognizes the cost of employee services received in exchange for awards of stock options, or other equity instruments, based on the grant-date fair value of those awards. This cost is recognized over the period, which an employee is required to provide services in exchange for the award, generally the vesting period. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company’s common stock at the date of grant is used for stock awards.

Marketing Costs

The Company expenses marketing costs, including advertising, in the period incurred.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is established if it is “more likely than not” that all or a portion of the deferred tax asset will not be realized.

The tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Changes in unrealized gains and losses on available-for-sale securities and the related tax costs or benefits are the only components of other comprehensive income for the Company.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years Ended December 31, 2014 and 2013

Earnings Per Share (“EPS”)

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and restricted stock, which are determined using the treasury stock method, and stock to be issued as contingent consideration related to an acquisition that occurred in 2012.

Fair Value Measurement

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 660): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40).” The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2016. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the Company’s consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014-04, “Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.” The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Company’s Consolidated Financial Statements.

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FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years Ended December 31, 2014 and 2013

NOTE 2: ACQUISITIONS

August 15, 2012, the Company acquired all the assets and assumed all the liabilities of Desert Commercial Bank (‘DCB”) in exchange for stock and a minimal amount of cash for fractional shares. The Company issued 815,447 shares of its common stock with an agreed-upon fair value of $15.00 per share and paid $3,000 in cash. In addition, prior to the acquisition, the Company had acquired shares of DCB at a cost of $241,000. The primary reasons for acquiring DCB were to expand into the Coachella Valley and to grow our banking and investment management businesses within the Coachella Valley. As part of this acquisition, the Bank succeeded to DCB’s assets, liabilities and operations. As a result, the Bank acquired branches in Palm Desert and El Centro, California from DCB, and consolidated its existing branch in La Quinta, California into the Palm Desert branch.

Pro Forma Information (unaudited)

The following table presents unaudited pro forma information as if the DCB acquisition had occurred on January 1, 2012 after giving effect to certain adjustments. The unaudited pro forma information for the year ended December 31, 2012 includes adjustments for interest income on loans acquired, amortization of intangibles arising from the transaction, adjustments for interest expense on deposits acquired, and the related income tax effects of all these items. The net effect of these pro forma adjustments was a $1.1 million decrease in net income for the year ended December 31, 2012. The unaudited pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been effected on the assumed date.

Pro Forma Summarized Income Statement Data (Unaudited)

	Pro Forma Year Ended December 31, 2012
(dollars in thousands)	
Net interest income	$31,293
Provision for loan losses	2,670
Noninterest income	16,800
Noninterest expenses	38,801
Income before taxes	6,622
Taxes on income	1,967
Net income	$4,655

Net income per share:	
Basic	$0.65
Diluted	$0.63

The amount of revenues (net interest income and noninterest income) for the period from August 16, 2012 to December 31, 2012 related to the loans, deposits and operations acquired from DCB and included in the results of operations for the year ended December 31, 2012 was approximately $2.3 million. The earnings for the period from August 16, 2012 to December 31, 2012 related to the operations acquired from DCB and included in the results of operations for the year ended December 31, 2012 was approximately $0.5 million.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years Ended December 31, 2014 and 2013

NOTE 3: FAIR VALUE

Assets Measured at Fair Value on a Recurring Basis

The following tables show the recorded amounts of assets and liabilities measured at fair value on a recurring basis as of:

		Fair Value Measurement Level		
	Total	Level 1	Level 2	Level 3
(dollars in thousands)				
December 31, 2014:				
Investment securities available for sale				
US Treasury securities	$300	$300	$—	$ —
FNMA and FHLB Agency notes	10,277	—	10,277	—
Agency mortgage-backed securities	127,693	—	127,693	—
Total assets at fair value on a recurring basis	$138,270	$300	$137,970	$ —
December 31, 2013:				
Investment securities available for sale				
US Treasury securities	$300	$300	$—	$ —
FNMA and FHLB Agency notes	9,780	—	9,780	—
Agency mortgage-backed securities	49,031	—	49,031	—
Total assets at fair value on a recurring basis	$59,111	$300	$58,111	$ —

Fair Value of Financial Instruments

We have elected to use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale are measured at fair value on a recurring basis. Additionally, from time to time, we may be required to measure at fair value other assets on a nonrecurring basis, such as loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Fair value estimates are made at a discrete point in time based on relevant market information and other information about the financial instruments. Because no active market exists for a significant portion of our financial instruments, fair value estimates are based in large part on judgments we make primarily regarding current economic conditions, risk characteristics of various financial instruments, prepayment rates, and future expected loss experience. These estimates are subjective in nature and invariably involve some inherent uncertainties. Additionally, unexpected changes in events or circumstances can occur that could require us to make changes to our assumptions and which, in turn, could significantly affect and require us to make changes to our previous estimates of fair value.

In addition, the fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of existing and anticipated future customer relationships and the value of assets and liabilities that are not considered financial instruments, such as premises and equipment and other real estate owned.

The following methods and assumptions were used to estimate the fair value of financial instruments.

Cash and Cash Equivalents. The fair value of cash and cash equivalents approximates its carrying value.

Interest-Bearing Deposits with Financial Institutions. The fair values of interest-bearing deposits maturing within ninety days approximate their carrying values.

Investment Securities Available for Sale. Investment securities available-for-sale are measured at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as level 3 include asset-backed securities in less liquid markets.

Federal Home Loan Bank and Federal Reserve Bank Stock. The Bank is a member of the Federal Home Loan Bank (the "FHLB") and the Federal Reserve Bank of San Francisco (the "FRB"). As members, we are required to own stock of the FHLB and the FRB, the amount of which is based primarily on the level of our borrowings from those institutions. We also have the right to acquire additional shares of stock in either or both of the FHLB and the FRB; however, to date, we have not done so. The fair values of that stock are equal to their respective carrying amounts, are classified as restricted securities and are periodically evaluated for impairment based on our assessment of the ultimate recoverability of our investments in that stock. Any cash or stock dividends paid to us on such stock are reported as income.

Loans. The fair value for loans with variable interest rates is the carrying amount. The fair value of fixed rate loans is derived by calculating the discounted value of future cash flows expected to be received by the various homogeneous categories of loans. All loans have been adjusted to reflect changes in credit risk.

Impaired Loans. ASC 820-10 applies to loans measured for impairment in accordance with ASC 310-10, "Accounting by Creditors for Impairment of a Loan", including impaired loans measured at an observable market price (if available), and at the fair value of the loan's collateral (if the loan is collateral dependent) less selling cost. The fair value of an impaired loan is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. When the fair value of the collateral is based on an observable market price or a current appraised value, we measure the impaired loan at nonrecurring Level 2. When an appraised value is not available, or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price or a discounted cash flow has been used to determine the fair value, we measure the impaired loan at nonrecurring Level 3.

Deposits. The fair value of demand deposits, savings deposits, and money market deposits is defined as the amounts payable on demand at quarter-end. The fair value of fixed maturity certificates of deposit is estimated based on the discounted value of the future cash flows expected to be paid on the deposits.

Borrowings. The fair value of $263 million in borrowings is the carrying value of overnight FHLB advances that approximate fair value because of the short-term maturity of this instrument, resulting in a Level 2 classification. The fair value of term borrowings is derived by calculating the discounted value of future cash flows expected to be paid out by the Company. The $19.9 million term loan is a variable rate loan for which the rate adjusts quarterly, and as such, its fair value is based on its carrying value resulting in a Level 3 classification.

The following table sets forth the estimated fair values and related carrying amounts of our financial instruments as of:

(dollars in thousands)	Carrying Value	Fair Value Measurement Level 1	2	3	Total
December 31, 2014:					
Assets:					
Cash and cash equivalents	$29,692	$29,692	$—	$—	$29,692
Securities AFS	138,270	300	137,970	—	138,270
Loans	1,156,242	—	—	1,186,408	1,186,408
Investment in FHLB stock	12,361	12,361	—	—	12,361
Liabilities:					
Deposits	962,954	709,604	253,244	—	962,848
Borrowings	282,886	—	263,000	19,886	282,886

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years Ended December 31, 2014 and 2013

(dollars in thousands)	Carrying Value	Fair Value Measurement Level 1	2	3	Total
December 31, 2013:					
Assets:					
Cash and cash equivalents	$56,954	$56,954	$—	$—	$56,954
Securities AFS	59,111	300	58,811	—	59,111
Loans	893,730	—	—	933,695	933,695
Investment in FHLB stock	6,721	6,721	—	—	6,721
Liabilities:					
Deposits	802,037	556,171	245,920	—	802,091
Borrowings	141,063	—	134,000	7,063	141,063

NOTE 4: SECURITIES

The following table provides a summary of the Company’s AFS securities portfolio at December 31:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2014:				
US Treasury securities	$300	$—	$—	$300
FNMA and FHLB Agency notes	10,496	—	(219)	10,277
Agency mortgage-backed securities	125,944	1,881	(132)	127,693
Total	$136,740	$1,881	$(351)	$138,270
2013:				
US Treasury securities	$300	$—	$—	$300
FNMA and FHLB Agency notes	10,496	—	(716)	9,780
Agency mortgage-backed securities	50,983	30	(1,982)	49,031
Total	$61,779	$30	$(2,698)	$59,111

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

The table below indicates, as of December 31, 2014, the gross unrealized losses and fair values of our investments, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

Securities with Unrealized Loss at December 31, 2014

(dollars in thousands)	Less than 12 months Fair Value	Unrealized Loss	12 months or more Fair Value	Unrealized Loss	Total Fair Value	Unrealized Loss
FNMA and FHLB Agency notes	$—	$ —	$10,277	$ (219)	$10,277	$ (219)
Agency mortgage backed securities	4,878	(10)	12,789	(122)	17,667	(132)
Total temporarily impaired securities	$4,878	$ (10)	$23,066	$ (341)	$27,944	$ (351)

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

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years Ended December 31, 2014 and 2013

The scheduled maturities of securities AFS, other than agency mortgage backed securities, and the related weighted average yield is as follows as of December 31, 2014:

(dollars in thousands)	Less than 1 Year	1 Through 5 years	5 Through 10 Years	After 10 Years	Total
Amortized Cost:					
US Treasury securities	$ —	$ 300	$ —	$ —	$300
FNMA and FHLB Agency notes	—	—	10,496	—	10,496
Total	$ —	$ 300	$ 10,496	$ —	$10,796
Weighted average yield	0.00 %	0.45 %	1.78 %	0.00 %	1.74 %
Estimated Fair Value:					
US Treasury securities	$ —	$ 300	$ —	$ —	$300
FNMA and FHLB Agency notes	—	—	10,277	—	10,277
Total	$ —	$ 300	$ 10,277	$ —	$10,577

Agency mortgage backed securities are excluded from the above table because such securities are not due at a single maturity date. The weighted average yield of the agency mortgage backed securities as of December 31, 2014 was 2.48%.

NOTE 5: LOANS

The following is a summary of our loans as of December 31:

(dollars in thousands)	2014	2013
Recorded investment balance:		
Loans secured by real estate:		
Residential properties:		
Multifamily	$481,491	$405,984
Single family	360,644	227,096
Total real estate loans secured by residential properties	842,135	633,080
Commercial properties	205,320	154,982
Land	4,309	3,794
Total real estate loans	1,051,764	791,856
Commercial and industrial loans	93,537	93,255
Consumer loans	21,125	18,484
Total loans	1,166,426	903,595

Deferred fees and expenses	(34)	50
Total	$1,166,392	$903,645

As of December 31, 2014 and 2013, the principal balances shown above are net of unaccreted discount related to loans acquired in an acquisition of $0.8 million and $3.1 million, respectively.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years Ended December 31, 2014 and 2013

In 2012, the Company purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of these purchased credit impaired loans is as follows at December 31:

(dollars in thousands)	2014	2013
Outstanding principal balance:		
Loans secured by real estate:		
Commercial properties	$206	$5,543
Land	—	2,331
Total real estate loans	206	7,874
Commercial and industrial loans	2,002	2,489
Consumer loans	249	260
Total loans	2,457	10,623
Unaccreted discount on purchased credit impaired loans	(651)	(2,945)
Total	$1,806	$7,678

Accretable yield, or income expected to be collected on purchased credit impaired loans, is as follows at December 31:

(dollars in thousands)	2014	2013
Beginning balance	$2,349	$1,531
New loans purchased	—	—
Accretion of income	(1,076)	(730)
Reclassifications from nonaccretable difference	(391)	1,879
Disposals	(752)	(331)
Ending balance	$130	$2,349

During 2013, the unaccreted discount related to certain purchased credit impaired loans was increased by $72,000, and recorded as a charge to the ALLL to account for changes in the projected cash flows of these loans.

The following table summarizes our delinquent and nonaccrual loans as of December 31:

	Past Due and Still Accruing				Total Past		
(dollars in thousands)	30–59 Days	60-89 Days	90 Days or More	Nonaccrual	Due and Nonaccrual	Current	Total
2014:							
Real estate loans:							
Residential properties	$—	$ —	$—	$ —	$ —	$842,135	$842,135
Commercial properties	—	805	200	596	1,601	203,719	205,320

Land	—	—	651	—	651	3,658	4,309
Commercial and industrial loans	2,092	289	700	342	3,423	90,114	93,537
Consumer loans	—	—	637	163	800	20,325	21,125
Total	$2,092	$ 1,094	$2,188	$ 1,101	$ 6,475	$1,159,951	$1,166,426
Percentage of total loans	0.18 %	0.09 %	0.19 %	0.09 %	0.56 %		
2013:							
Real estate loans:							
Residential properties	$—	$ —	$—	$ 1,820	$ 1,820	$631,260	$633,080
Commercial properties	—	—	417	598	1,015	153,967	154,982
Land	—	—	1,480	—	1,480	2,314	3,794
Commercial and industrial loans	—	2,744	1,315	344	4,403	88,852	93,255
Consumer loans	—	—	—	132	132	18,352	18,484
Total	$—	$ 2,744	$3,212	$ 2,894	$ 8,850	$894,745	$903,595
Percentage of total loans	0.00 %	0.30 %	0.36 %	0.32 %	0.98 %		

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years Ended December 31, 2014 and 2013

The level of delinquent loans and nonaccrual loans have been adversely impacted by the loans acquired in an acquisition. As of December 31, 2014, of the $3.3 million in loans over 90 days past due, including loans on nonaccrual, $1.8 million, or 54% were loans acquired in an acquisition.

Accrual of interest on loans is discontinued when reasonable doubt exists as to the full, timely collection of interest or principal and, generally, when a loan becomes contractually past due for ninety days or more with respect to principal or interest. The accrual of interest may be continued on a well-secured loan contractually past due ninety days or more with respect to principal or interest if the loan is in the process of collection or collection of the principal and interest is deemed probable. The Bank considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. The determination of past due, nonaccrual or impairment status of loans acquired in an acquisition, other than loans deemed purchased impaired, is the same as loans we originate.

As of December 31, 2014, the Company had two loans with a balance of $0.5 million classified as troubled debt restructurings (“TDR”) which are included as nonaccrual in the table above. Both loans were classified as a TDR as a result of a reduction in required principal payments and an extension of the maturity date of the loans. As of December 31, 2013, the Company had one loan with a balance of $0.1 million classified as a troubled debt restructurings (“TDR”) which is included as nonaccrual in the table above. This loan was classified as a TDR as a result of a reduction in required principal payments and an extension of the maturity date of the loan.

NOTE 6: ALLOWANCE FOR LOAN LOSSES

The following is a rollforward of the Bank’s allowance for loan losses for the years ended December 31:

(dollars in thousands)	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
2014:					
Real estate loans:					
Residential properties	$ 6,157	$ 429	$ —	$ —	$6,586
Commercial properties	1,440	86	—	—	1,526
Commercial and industrial loans	2,149	(252)	—	—	1,897
Consumer loans	169	(28)	—	—	141
Total	$ 9,915	$ 235	$ —	$ —	$10,150
2013:					
Real estate loans:					
Residential properties	$ 4,355	$ 1,802	$ —	$ —	$6,157
Commercial properties	936	561	(57		