

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2021

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)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

200 Crescent Court, Suite 1400  
Dallas, Texas

(Address of principal executive offices)

20-8639702  
(I.R.S. Employer  
Identification No.)

75201  
(Zip Code)

(469) 638-9636

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	FFWM	NASDAQ Global Stock Market

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 ☐.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒.

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 ☒ No ☐.

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐.

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

As of June 30, 2021, the aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the average high and low sales prices on the NASDAQ Global Stock Market as of the close of business on June 30, 2021, was approximately \$888 million.

As of February 23, 2022, there were 56,434,070 shares of registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Except as otherwise stated herein, Part III of the Form 10-K is incorporated by reference from the Registrant's Definitive Proxy Statement for its 2022 Annual Meeting of Stockholders, which is expected to be filed with the Commission on or before April 30, 2022.

**FIRST FOUNDATION INC.**  
**ANNUAL REPORT ON FORM 10-K**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

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## FORWARD-LOOKING STATEMENTS

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

The COVID-19 pandemic has created economic and financial disruptions that have adversely affected, and may continue to adversely affect, our business, operations, financial performance and prospects. Even after the COVID-19 pandemic subsides, it is possible that the U.S. and other major economies experience or continue to experience a prolonged recession, which could materially and adversely affect our business, operations, financial performance and prospects. Statements about the effects of the COVID-19 pandemic on our business, operations, financial performance and prospects may constitute forward-looking statements and are subject to the risk that the actual impacts may differ, possibly materially, from what is reflected in those forward-looking statements due to factors and future developments that are uncertain, unpredictable and in many cases beyond our control, including the scope and duration of the pandemic, actions taken by governmental authorities in response to the pandemic, and the direct and indirect impact of the pandemic on our customers, third parties and us.

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

## PART I

### Item 1. Business

#### Overview

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

We are a financial services company that provides a comprehensive platform of financial services to individuals, businesses and other organizations. We currently conduct our operations in California, Nevada, Florida, and Hawaii. Our integrated platform provides banking products and services, investment advisory and wealth management services and trust services to effectively and efficiently meet the financial needs of our clients. We provide business banking products and services to small to moderate-sized businesses and professional firms, and consumer banking products and services to individuals and families. As of December 31, 2021, we had \$10.2 billion of total assets, \$6.9 billion of loans, \$0.5 billion of loans held for sale, \$8.8 billion of deposits, \$5.7 billion of assets under management (“AUM”), and \$1.3 billion of trust assets under advisement (“AUA”). Our investment advisory and wealth management and trust services provide us with substantial, fee-based, recurring revenues, such that in 2021, our non-interest income was 23% of our total revenues.

Our operating strategy is to build strong and stable long-term client relationships, one at a time, by delivering high quality banking and trust products and services and investment advisory and wealth management services. The primary role of our bankers, relationship managers and loan officers, 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 take a team approach to delivering our platform of services to our clients. Our bankers, relationship managers and loan officers work as a team to deliver our products and services, with each member of the team responsible for managing the delivery of products and services in their area of expertise. This allows us to provide more tailored solutions while operating in a safe and sound manner. We have created compensation structures that encourage and reward our bankers, relationship managers and loan officers to work together as a team to provide the client with the products and services they desire. We believe we will be able to maintain a client-focused approach by recruiting and retaining experienced and qualified staff.

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

Our broad range of financial products, services, and digital delivery 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 community banks and boutique investment advisory and wealth management firms. We believe this combination of an integrated platform of comprehensive financial services and products and personalized and responsive service, coupled with our continual enhancements of our digital platform, differentiates us from many of our competitors and has contributed to the growth of our client base and our business.

FFI is a bank holding company incorporated in Delaware. As a bank holding company, we are subject to regulation and examination by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board” or “FRB”) and the Federal Reserve Bank of Dallas (“FRBD”) under delegated authority from the FRB. FFB is a California state chartered bank and is subject to regulation and examination by the Federal Deposit Insurance Corporation (“FDIC”) and the California Department of Financial Protection & Innovation (“DFPI”). FFB also is a member of the Federal Home Loan Bank of San Francisco (“FHLB”), which provides it with a source of funds in the form of short-term and long-term borrowings. FFA is a California corporation that began operating as a fee-based registered investment advisor under the

Investment Advisers Act of 1940 (“Investment Advisers Act”) in 1990, and is subject to regulation by the Securities and Exchange Commission, (“SEC”), under that Act.

### ***Overview of Our Banking Business***

Through FFB, we offer a wide range of loan products, deposit products, treasury management products and services, and trust services. 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.

We also provide trust services to clients using our California, Nevada, and Florida trust powers. Those services, which consist primarily of the management of trust assets, complement the investment and wealth management services that FFA offers to our clients. Additionally, trust service fees provide additional sources of noninterest income for us.

FFB’s operations comprise the banking and trust segments of our business. At December 31, 2021, FFB had \$10.2 billion of total assets, \$6.9 billion of loans, \$0.5 billion of loans held for sale, \$8.8 billion of deposits and \$1.3 billion of trust AUA.

### ***Overview of Our Investment Advisory and Wealth Management Business***

FFA is a fee-based investment advisor which provides investment advisory and wealth management services primarily to high net-worth individuals, their families and their family businesses, and other affiliated organizations. FFA strives to provide its clients with a high level of personalized service by its staff of experienced relationship managers. FFA’s operations comprise the investment advisory and wealth management segment of our business. As of December 31, 2021, FFA had \$5.7 billion of AUM.

### ***Banking Products and Services***

Through FFB, we offer a wide range of loan products, deposit products, treasury management products and 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. Our lending products are the primary drivers of revenues and earnings for the consolidated entity. As such, we are committed to offering market competitive lending products that: meet the needs of our clients; are underwritten in a prudent manner; and provide an adequate return based on their size and credit risk. Deposits represent our principal source of funds for making loans and acquiring other interest-earning assets.

We maintain a client-focused approach by recruiting and retaining experienced and qualified banking personnel, who are described as relationship bankers, commercial bankers, small business bankers, regional directors of loan production for multifamily and non-owner occupied commercial real estate, specialty deposit bankers, and branch managers. FFB has bankers in each location across the platform sourcing loan and deposit business to cultivate and develop quality banking relationships from existing and potential clients, as well as a digital bank platform that attracts new deposit clients across the country. FFB’s banking platform is focused on program-specific products and clients, with an emphasis on digital delivery.

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

<i>(dollars in thousands)</i>	2021		2020	
	Balance	% of Total	Balance	% of Total
Recorded Investment balance:				
Loans secured by real estate:				
Residential properties:				
Multifamily	\$ 2,886,055	41.8 %	\$ 2,247,542	46.8 %
Single family	933,445	13.5 %	806,014	16.8 %
Total loans secured by residential properties	3,819,500	55.3 %	3,053,556	63.6 %
Commercial properties	1,309,200	19.0 %	747,807	15.6 %
Land	156,028	2.3 %	55,832	1.2 %
Total real estate loans	5,284,728	76.6 %	3,857,195	80.4 %
Commercial and industrial loans	1,598,422	23.2 %	918,676	19.2 %
Consumer loans	10,834	0.2 %	18,888	0.4 %
Total loans	6,893,984	100.0 %	4,794,759	100.0 %
Premiums, discounts and deferred fees and expenses	12,744		9,040	
Total	<u>\$ 6,906,728</u>		<u>\$ 4,803,799</u>	

We have established a lending platform that provides financing solutions to our strong and stable client relationships, including individuals, entities and businesses. The primary objective of each of the lending channels is to provide exceptional client service to differentiate us from our competitors. Each lending channel features standardized pricing, uniform sizing and a streamlined process resulting in a high through-put application-to-funding ratio. Each of our office locations are focused on serving the businesses and clients within their market area. Our lending activities serve the credit needs of individuals, owners of multifamily and commercial real estate properties, small to moderate size businesses and professional firms in our market areas. As a result we offer a variety of loan products consisting of multifamily and single family residential real estate loans, commercial real estate loans, commercial term loans and lines of credit, and consumer loans.

We have a lending platform focused on three primary channels: 1) Commercial Real Estate (“CRE”), defined as multifamily residential, non-owner occupied commercial real estate, construction and land; 2) Commercial and Industrial (“C&I”) defined as term and revolving credit/lines of credit for small to moderate-sized businesses and professional firms, owner occupied commercial real estate; and 3) Consumer defined as loan products to individuals, including single family residential real estate loans and home equity lines of credit and other consumer-related loans focused on the current and prospective clients of our platform.

**CRE Loan Channel:** Loans originated under the CRE loan channel are supported by the underlying cash flow from operations of the related real estate collateral. The loan types under this channel consist of multifamily residential, non-owner occupied CRE and construction and land.

*Residential Mortgage Loans – Multi-family:* We make multi-family residential mortgage loans for terms up to 30 years for 5+ unit properties. These loans generally are adjustable rate loans with interest rates tied to a variety of independent indexes; although in many cases these loans have initial fixed rate periods ranging from 3 to 10 years and adjust thereafter based on an applicable index. These loans generally have interest rate floors, payment caps, and prepayment penalties. The loans are underwritten based on a variety of underwriting criteria, including an evaluation of the subject real estate collateral cash flow, 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 rental rates, values and vacancy rates. We typically require full or limited recourse from the owners of the entities to which we make such loans.

*CRE Loans – Non-owner Occupied:* Our commercial real estate loans are secured by first trust deeds on nonresidential real property with terms generally up to 10 years. We typically focus on multi-tenant industrial, office and

retail real estate collateral with strong, stable tenancy, strong, stable historical cash flow and located in stable, strong demand submarket locations. We will consider special purpose lending on a limited basis for our existing client base. These loans generally are adjustable rate loans with interest rates tied to a variety of independent indexes; although in many cases these loans have initial fixed rate periods ranging from 3 to 10 years and adjust thereafter based on an applicable index. These loans generally have interest rate floors, payment caps, and prepayment penalties. The loans are underwritten based on a variety of underwriting criteria, including an evaluation of the subject real estate collateral cash flow, 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 full recourse from the owners of the entities to which we make such loans.

*Construction and Land Loans:* Construction and land loans are provided to borrowers with extensive construction experience and as an accommodation to existing or potential clients of the platform; or were obtained through acquisition of other banks. There is not a separate sales effort to generate construction and land loans. These loans are custom tailored to fit the individual needs of each specific request. We typically consider construction loan requests for urban infill multifamily properties and owner-occupied single family primary residences in the submarket locations where we have experience and offer permanent real estate loans. Construction and land loans are secured by first trust deeds on real property. These loans generally are adjustable rate loans with interest rates tied to a variety of independent indexes; although in some rare cases these loans have fixed interest rates for short periods 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 full recourse from the owners of the entities to which we make such loans.

**C&I Loan Channel:** Loans originated under the C&I loan channel are generally supported by the cash flows generated from the business operations of the entity to which the loan is made, and, except for loans secured by owner occupied CRE, are generally secured by non-real estate assets, such as equipment, inventories or accounts receivable. The C&I loan channel is focused on developing quality full service business banking relationships, including loans and deposits, by offering commercial products for small to moderate-sized businesses across the banking platform. This allows us to provide support for small to mid-sized businesses in our market areas. The typical C&I loan client utilizes more than one element of our platform, including almost all such clients using our deposit products and services. We typically focus on C&I clients that are manufacturers, distributors, wholesalers, importers and professional service companies.

*Commercial Real Estate Loans - Owner Occupied:* Owner occupied CRE loans are generally made to businesses that have demonstrated a history of profitable operations. To qualify for such loans, prospective borrowers generally must have operating cash flow sufficient to meet their obligations as they become due, good payment histories, proper balance sheet management of key cash flow drivers, and experienced management. Our commercial real estate loans are secured by first trust deeds on nonresidential real property, typically office, industrial or warehouse. 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 15 years and adjust thereafter based on an applicable indices and terms. 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 and the trends in balance sheet and income statement management. 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 full recourse 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, good payment histories, proper balance sheet management of key cash flow drivers, and experienced management. 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 seven years subject to the useful life of the asset financed. 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 possible requirements that the borrower reduce its credit line borrowings to zero for specified time periods during the term of the line of credit, maintains liquidity requirements with advances tied to periodic reviews and approved based upon a percentage of accounts receivable, and inventory or unmonitored lines for very small lines or credit or those with significant financial strength and liquidity. Commercial 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, and the trends in income and balance sheet management. 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 full recourse from the owners of the entities to which we make such loans.

*Equipment Financing:* We offer equipment financing to provide financing solutions, including equipment finance agreements and leases for a full range of business equipment, and sourcing the business through third party originators, including equipment brokers, lessors and other referral sources. The majority of the equipment financing business will be for acquiring machines, tools, vehicles, furniture, tenant improvement remodeling/expansion/upgrade and computers. The typical equipment finance loan will be smaller in size, typically less than \$100,000; will have terms ranging from 3 to 7 years; will carry fixed rates; and will be secured by the underlying equipment and other assets of the borrower.

*Shared National Credits Lending:* We will participate in multi-bank transactions referred to as Shared National Credits or Participations where an individual loan is too large to be made by a single institution. These loans are typically originated and led by other larger banks and FFB will be a participant in the transaction. The loans are sourced through relationships with originating lenders as well as through purchase of loans in the secondary market. These 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, good payment histories, proper balance sheet management of key cash flow drivers, and experienced management. Syndicated/Participated term loans are either fixed rate loans or adjustable rate loans with interest rates tied to a variety of independent indexes and are generally made for terms ranging from one to seven years subject to the useful life of the asset financed. Lines of credit are adjustable rate loans with interest rates tied to a variety of independent indexes and are generally made with terms from one to five years, and contain various covenants, including possible requirements that the borrower maintain liquidity requirements with advances tied to periodic reviews. These loans are underwritten independently by us based on a variety of underwriting criteria, including an evaluation of the character and creditworthiness of the borrower, debt service coverage ratios, historical and projected client income, borrower liquidity and credit history, and the trends in income and balance sheet management. 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 do not require full recourse from the owners of the entities to which we make such loans.

*Small Business Lending and USDA Lending:* The Bank is approved as a Small Business Administration ("SBA") lender and as a United States Department of Agriculture ("USDA") lender. We are committed to our small business commercial lending to serve our communities and small businesses that operate in our network of retail branch locations. As government guaranteed programs, we need to comply with underwriting guidelines, servicing and monitoring requirements, and terms and conditions set forth under the related programs standard operating procedures. SBA loans follow our underwriting guidelines established for non-SBA commercial and industrial loans and meet the underwriting criteria set forth by the SBA. We have also established a small balance portfolio loan program, up to a maximum loan amount of \$250,000, to meet the requirements of our small business clients through a streamlined underwriting process.

**Consumer Channel:** The Consumer channel for FFB offers single family residential loans, home equity lines of credit, personal lines of credit and other consumer related products. We do not have a separate marketing program for this channel, rather this channel is directed to a limited amount of fully-vetted broker relationships and as an accommodation for clients or prospective clients of our platform. We expect single family loans to comprise a substantial majority of the balances in this channel.

*Residential Mortgage Loans – Single-family:* We offer single family residential mortgage loans that in most cases take the form of non-conforming jumbo and super-jumbo loans. We do not currently sell or securitize any of our single



family residential mortgage loan originations. We do not originate loans defined as high cost by state or federal banking regulators. The majority of our single family residential loan originations are collateralized by first mortgages on real properties located in Southern California and in southwest Florida. These loans are generally adjustable rate loans with initial fixed rate periods ranging from 3 to 10 year terms and terms of the loan not exceeding 30 years. These loans generally have interest rate floors and payment caps. The loans are underwritten based on a variety of underwriting criteria, including an evaluation of the character and creditworthiness of the borrower and guarantors, loan-to-value and debt to income ratios, borrower liquidity, income verification and credit history. In addition, we perform stress testing for changes in interest rates and other factors and review general economic trends such as market values.

*Consumer Loans:* We offer consumer loans and line of credit products as an accommodation to clients of our primary business lines, 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. Historically, a high percentage of home equity lines of credit originated by FFB have been in first trust deed position. Repayment of consumer loans are largely 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 primary, secondary and tertiary sources of repayment, which include the subject real estate collateral cash flow, the business/borrower's ability to repay and value of the subject collateral securing the loan. 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' borrowing needs. We handle substantially all of our loan processing, underwriting and servicing at our administrative office in Irvine, California.

## Deposit Products and Services

The following table sets forth information regarding the type of deposits which our clients maintained with us and the average interest rates on those deposits as of December 31:

(dollars in thousands)	2021			2020		
	Amount	% of Total	Weighted Average Rate	Amount	% of Total	Weighted Average Rate
Demand deposits:						
Noninterest-bearing	\$ 3,280,455	37.2 %	—	\$ 1,655,847	28.0 %	—
Interest-bearing	2,242,684	25.5 %	0.070 %	871,289	14.7 %	0.372 %
Money market and savings	2,620,336	29.7 %	0.275 %	2,407,401	40.7 %	0.549 %
Certificates of deposits	668,485	7.6 %	0.145 %	978,896	16.6 %	0.591 %
Total	<u>\$ 8,811,960</u>	<u>100.0 %</u>	<u>0.111 %</u>	<u>\$ 5,913,433</u>	<u>100.0 %</u>	<u>0.376 %</u>

*Deposit Products:* We offer a wide range of deposit products, including personal and business checking, savings accounts, interest-bearing demand deposit accounts, money market accounts and time certificates of deposit. Our pricing strategy is to maintain deposit pricing at levels consistent with our competitors. This generally allows us to maintain our current deposit relationships. From time to time, we will offer promotional rates to attract new clients to our platform. Our pricing strategy is intended to complement our other products and services so that we can attract and retain clients without always paying the highest rates. As of December 31, 2021, our seven largest bank depositors accounted for, in the aggregate, 22% of our total deposits. See *Item 1A—Risk Factors*.

*Deposit Services:* Our deposits services include the following:

- **Treasury Management:** Our comprehensive suite of Treasury Management (“TM”) products and services provide our customers the tools to bank with us conveniently without having the need to visit one of our offices and are necessary to attract complex commercial and specialty deposit clients. These products and services include bill pay, check/payee/ACH positive pay, wire origination, internal and external transfers, account reconciliation reporting, remote deposit capture, mobile banking, mobile deposit, lockbox, cash vault services and merchant processing.
- **Online Banking:** FFB offers Online Banking and Mobile Banking services to consumer, small business and commercial clients. The consumer online platform offers account management, internal and external transfers, consumer loan payments, electronic documents, bill pay, real-time alerts, P2P payments and requests, credit score reporting and debit card management. The business online platform allows our business clients to be more productive by offering ease of access to account information, electronic documents, transfer and funds management, real-time alerts, user administration, and reporting tools. These clients can also leverage most TM services as integrated solutions through business online.
- **Online Account Opening:** FFB utilizes a platform for online account acquisition. The bank offers checking, savings, and CDs, as well as complementary products such as ATM/debit cards and eStatements through the system.

*Deposit Delivery Channels:* Our deposit products and services are delivered through the following delivery channels:

- **Retail Banking:** The retail banking delivery channel is made up of 28 banking offices located throughout our market areas. We attempt to place our banking offices in strategic locations to establish a presence in our target markets, rather than saturating a market with numerous banking offices. The sales activities at our banking offices are led by the bankers and branch managers located at the offices. In addition to a branch manager, each banking office has a strong operations manager and staff to serve the clients of the office, to provide support to the bankers and branch managers in their sales efforts and to maintain the operational integrity of their offices. In addition to the sales activities of the bankers and branch managers, we provide marketing support through periodic deposit campaigns and targeted marketing programs tailored to the region in which the banking office is located.
- **Specialty Deposits:** The specialty deposits channel focuses on banking large complex commercial customers and fiduciaries who manage intricate deposit relationships. This team consists of bankers with industry expertise in our targeted specialty niches, which include, but are not limited to escrow, title, 1031 exchange accommodators, contractor retention escrows, commercial property management and homeowners associations as well as financial institutions and mortgage servicers, commercial borrowers, EB-5 projects, and political treasurers. The nature of the specialty deposit customer is generally complex and typically requires a larger volume of transactional servicing needs and reporting requirements. These customers are supported exclusively by the experts in our commercial client services team. This team is responsible for establishing new accounts, maintenance of existing accounts, monitoring accounts, account reporting, review and acceptance of depository agreements and other account related contracts. This team possesses a thorough understanding of legal documentation for complex organizations and legal and regulatory banking requirements for niche industries, balance bank control accounts, ledger posting, and funds disbursement.
- **Digital Bank:** The digital bank channel offers consumers high-yield savings accounts, low cost checking accounts, and certificates of deposits through our online account opening. These digital bank products are offered to consumers across all 50 states and enables FFB to target Millennial, Gen Z, and more digitally savvy prospects with increased efficiency and is supported by a dedicated digital bank operations team.

*Trust Services:* FFB is licensed to provide trust services to clients in California, Florida, Nevada and Hawaii. Those services, which consist primarily of the management of trust assets, complement the investment advisory and wealth management services that FFA offers to our clients and, as a result, provide us with cross-selling opportunities. At December 31, 2021, trust AUA totaled \$1.3 billion.

### ***Wealth Management Products and Services***

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

Our investment advisory and wealth management team strives to create diversified investment portfolios for its clients that are individually designed, monitored and adjusted based on the discipline of fundamental investment analysis. We focus on creating investment portfolios that are commensurate with a client's objectives, risk tolerance and time horizon, using traditional investments such as individual stocks and bonds and mutual funds. We also provide comprehensive and ongoing advice and coordination regarding estate planning, retirement planning and charitable and business ownership issues.

AUM at FFA has grown at a compound annual growth rate of 10% over the four year period ending December 31, 2021. 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.

We do not provide custodial services for our clients through FFA. Instead, client investment accounts are maintained under custodial arrangements with large, well established brokerage firms, either directly or through FFB. However, we notify our 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. We have 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 wealth warrants the more personalized and expansive breadth of financial services that we are able to provide in exchange for a fee. This fee is either a percentage of the fees we charge to the client or a percentage of the AUM of the client. The asset custodial firms are entitled to continue to receive these fees for as long as we continue to provide services to the referral client. These referral agreements do not require the client to maintain their assets at the custodial firm and are fully disclosed to the client prior to our providing services to them.

### **Competition**

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

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

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

### **Mergers and Acquisitions**

Acquisitions have been a key component of our growth strategy. We have completed six acquisitions since 2012. In December 2021, we completed the acquisition of TGR Financial Inc. (“TGRF”), the holding company for First Florida Integrity Bank. In June 2018, we completed the acquisition of PBB Bancorp, the holding company for Premier Business Bank (“PBB”). In November 2017, we completed the acquisition of Community 1st Bancorp, the holding company for Community 1st Bank. In December 2016, we completed the acquisition of two branches located in Orange County, California from Pacific Western Bank. In June 2015, we completed the acquisition of Pacific Rim Bank. In August 2012, we completed the acquisition of Desert Commercial Bank.

### **Supervision and Regulation**

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

#### ***Bank Holding Company Regulation***

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

As a bank holding company, we are allowed to engage, directly or indirectly, only in banking and other activities that the Federal Reserve has determined, or in the future may deem, to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Business activities that the Federal Reserve has designated as being closely related to banking include the provision of investment advisory, securities brokerage, insurance agency and data processing services, among others. A bank holding company meeting certain eligibility requirements may elect to qualify as a “financial holding company,” allowing it and its non-bank affiliated companies to engage in a broader range of financial activities including securities underwriting, dealing and market making; sponsoring mutual funds and investment

companies; engaging in insurance underwriting; and engaging in merchant banking activities. We have not elected to be a financial holding company.

Under Federal Reserve regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve's policy that a bank holding company, in serving as a source of strength to its subsidiary banks, should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. For that reason, among others, the Federal Reserve requires all bank holding companies to maintain capital at or above certain prescribed levels. A bank holding company's failure to meet these requirements will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of the Federal Reserve's regulations or both, which could lead to the imposition of restrictions (including restrictions on growth) on, or a regulatory enforcement order against, the bank holding company.

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

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

### ***Regulation of First Foundation Bank***

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

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

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

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

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

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

### ***Capital Requirements Applicable to Banks and Bank Holding Companies***

The federal bank regulatory agencies have adopted rules establishing a comprehensive capital framework for U.S. banking organizations (the “Capital Rules”) based on 2010 guidelines issued by the International Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”). The Capital Rules apply to the Company on a consolidated basis and FFB.

Under the Capital Rules, specific categories of assets and off-balance-sheet activities such as letters of credit are assigned risk weights, depending on the nature of assets, generally ranging from 0% for U.S. Government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. These risk weights are multiplied by corresponding asset balances to determine a “risk weighted” asset base, which is then measured against various forms of capital to produce capital ratios.

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

The Capital Rules implement a “capital conservation buffer” that is designed to absorb losses during periods of economic stress. If a banking organization does not maintain a capital conservation buffer consisting of an additional 2.5% of CET-1 on top of the minimum risk-weighted asset ratios, it faces constraints on dividends, equity repurchases and executive compensation, depending on the amount of the shortfall.

The Capital Rules provide for a number of deductions from and adjustments to CET-1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income, and significant investments in common equity issued by nonconsolidated financial entities, be deducted from CET-1 to the extent that any one such category exceeds 10% of CET-1 or all such categories, in the aggregate, exceed 15% of CET-1. While the Capital Rules require the impact of certain items of Accumulated Other Comprehensive Income (“AOCI”) to be included in capital for purposes of determining regulatory capital ratios, most banking organizations, including FFI and FFB, were entitled to make a one-time permanent election to continue to exclude these items from capital. In 2015, we elected to continue this exclusion.

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

### ***Prompt Corrective Action***

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

adequacy standards, including requiring the prompt submission by that bank of an acceptable capital restoration plan if its bank regulator has concluded that it needs additional capital.

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

FDICIA regulations implementing the prompt corrective action framework, establish minimum capital thresholds for five capital categories based on the Capital Rules. An insured depository institution's capital category depends upon whether its capital levels meet these capital thresholds and potentially other determinations of the institution's primary federal banking regulator. These regulations provide that a bank would be classified as: "well capitalized" if it had a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a CET-1 ratio of 6.5% or greater, and a Tier 1 leverage ratio of 5.0% or greater, and was not subject to any order or written directive by any such regulatory agency to meet and maintain a specific capital level for any capital measure; "adequately capitalized" if it had a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a CET-1 ratio of 4.5% or greater and a Tier 1 leverage ratio of 4.0% or greater; "undercapitalized" if it had a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a CET-1 ratio of less than 4.5% and a Tier 1 leverage ratio of less than 4.0%; "significantly undercapitalized" if it had a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a CET-1 ratio of less than 3.0% or a Tier 1 leverage ratio of less than 3.0%; and "critically undercapitalized" if its tangible equity was equal to or less than 2.0% of average quarterly tangible assets. A bank that is classified as well-capitalized, adequately capitalized or undercapitalized based on its capital levels may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for a hearing, determines that an unsafe or unsound condition or practice warrants such treatment.

A bank's capital classification affects the frequency of examinations of the bank by its primary federal bank regulatory agency, the ability of the bank to engage in certain activities and 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 with more than \$3.0 billion in assets at least once every 12 months.

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

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



### ***Safety and Soundness Standards***

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

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

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

### ***Potential Regulatory Enforcement Actions***

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

### ***Dividends and Stock Repurchases***

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

Cash dividends from FFB are one of the principal sources of cash (in addition to any cash dividends that might be paid to the Company by FFA) that is available to the Company for its operations and to fund any cash dividends or stock repurchases that the Company's board of directors might declare or approve in the future. The Company is a legal entity separate and distinct from FFB and FFB is subject to various statutory and regulatory restrictions on its ability to



pay cash dividends to the Company. Under the California law, a bank's ability to pay cash dividends is limited to the lesser of: (i) the bank's retained earnings or (ii) the bank's income for its last three fiscal years (less any distributions to shareholders made during such period). However, with the prior approval of the DFPI, a bank may pay cash dividends in an amount not to exceed the greatest of the: (1) retained earnings of the bank; (2) net income of the bank for its last fiscal year; or (3) net income of the bank for its current fiscal year. In addition, under FDIC regulations, FFB is generally prohibited from paying cash dividends in amounts that would cause FFB to become undercapitalized. Additionally, the FDIC and the DFPI have the authority to prohibit FFB from paying cash dividends, if either of those agencies deems the payment of dividends by FFB to be an unsafe or unsound practice.

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

### ***Single Borrower Loan Limitations***

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

### ***Deposit Insurance***

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

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

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

### ***Executive Compensation Restrictions***

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

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

The Company has adopted an incentive compensation clawback policy that provides, among other things, that if any of the Company's previously published financial statements are restated due to 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 that the Company's audit committee determines would have been paid to such executive officer had such compensation been determined on the basis of the restated financial statements.

#### ***Federal Home Loan Bank System***

FFB is a member of the FHLB. Among other benefits, each regional Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its member banks. Each regional Federal Home Loan Bank is financed primarily from the sale of consolidated obligations of the overall Federal Home Loan Bank system. As an FHLB member, FFB is required to own a certain amount of capital stock in the FHLB. At December 31, 2021, FFB was in compliance with the FHLB's stock ownership requirement. Historically, the FHLB has paid dividends on its capital stock to its members.

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

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

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

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.

#### ***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 (i) to implement heightened risk assessment and risk management practices, including board and management oversight and strategic planning, (ii) 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 (iii) if determined to be necessary on the basis of the results of such stress tests, to increase its allowance for credit losses and its capital.

### ***Technology Risk Management and Consumer Privacy***

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

Pursuant to the Gramm-Leach-Bliley Act ("GLBA"), the federal banking agencies have adopted rules and established standards to be followed in implementing safeguards that are designed to ensure the security and confidentiality of customer records and information, protection against any anticipated threats or hazards to the security or integrity of such records and protection against unauthorized access to or use of such records or information in a way that could result in substantial harm or inconvenience to a customer. Among other requirements, these rules require each banking organization to implement a comprehensive written information security program that includes administrative, technical and physical safeguards relating to customer information. GLBA also requires banking organizations to provide each of their customers with a notice of their privacy policies and practices and prohibits a banking organization from disclosing nonpublic personal information about a customer to nonaffiliated third parties unless the banking organization satisfies various notice and "opt-out" requirements and the customer has not chosen to opt out of the disclosure. Additionally, the federal banking agencies are authorized to issue regulations as necessary to implement those notice requirements and non-disclosure restrictions.

### ***Community Reinvestment Act***

The Community Reinvestment Act ("CRA") requires the federal banking regulatory agencies to evaluate the record of a bank in meeting the credit needs of its local communities, including those of low and moderate income neighborhoods in its service area. A bank's compliance with its CRA obligations is based on a performance-based evaluation system which determines the bank's CRA ratings on the basis of its community lending and community development performance. A bank may have substantial penalties imposed on it and generally will be required to take corrective measures in the event it fails to meet its obligations under CRA. Federal banking agencies also may take compliance with CRA and other fair lending laws into account when regulating and supervising other activities of a bank or its bank holding company. Moreover, when a bank or bank holding company files an application for approval to acquire a bank or another bank holding company, the federal banking regulatory agency reviewing the application will consider CRA assessment of the subsidiary bank or banks of the applicant bank holding company. A lower CRA rating may be the basis for requiring the applicant's bank subsidiary to take corrective actions to improve its CRA performance as a condition to the approval of the acquisition or as a basis for denying the application altogether.

### ***Bank Secrecy Act and USA Patriot Act***

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

The Anti-Money Laundering Act of 2020 (“AMLA”), which amends the Bank Secrecy Act, was enacted in January 2021. The AMLA is a comprehensive reform and modernization to U.S. bank secrecy and anti-money laundering laws. Among other things, it codifies a risk-based approach to anti-money laundering compliance for financial institutions; requires the development of standards for evaluating technology and internal processes for Bank Secrecy Act compliance; and expands enforcement and investigative authority, including increasing available sanctions for certain Bank Secrecy Act violations and instituting Bank Secrecy Act whistleblower incentives and protections.

### ***Consumer Laws and Regulations***

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

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

The Dodd-Frank Act also contains a variety of provisions intended to reform consumer mortgage practices. The provisions include (1) a requirement that lenders make a determination that at the time a residential mortgage loan is consummated the consumer has a reasonable ability to repay the loan and related costs, (2) a ban on loan originator compensation based on the interest rate or other terms of the loan (other than the amount of the principal), (3) a ban on prepayment penalties for certain types of loans, (4) bans on arbitration provisions in mortgage loans and (5) requirements for enhanced disclosures in connection with the making of a loan. The Dodd-Frank Act also imposes a variety of requirements on entities that service mortgage loans.

### ***Consumer Financial Protection Bureau***

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

### ***Volcker Rule***

In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of the Dodd-Frank Act commonly referred to as the “Volcker Rule.” Under these rules and subject to certain exceptions, banking entities are restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered “covered funds.” These rules became effective on April 1, 2014, although certain provisions are subject to delayed effectiveness under rules promulgated by the FRB. These new rules may require us to conduct certain internal analysis and reporting to ensure continued compliance. In 2019, the federal bank regulatory agencies adopted a rule excluding from the Volcker Rule community banks with \$10 billion or less in assets and total trading assets and liabilities of five percent or less of total consolidated assets. The Company held no investment positions at December 31, 2021 which were subject to the Volcker rule.

### ***Regulation of First Foundation Advisors***

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

### ***Future Legislation***

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

efficiency of our internal business processes, require us to increase our regulatory capital or modify our business strategy, limit our ability to pursue business opportunities or activities or alter the competitive balance between banks and non-bank financial service providers.

## **Human Capital Resources**

As of December 31, 2021, the Company had approximately 674 full-time employees. None of our employees are covered by a collective bargaining agreement. We believe relations with our employees are good.

To compete with other financial institutions, our business strategy emphasizes customer relationships and personalized service. To a large degree, our success therefore depends on the personal relationships of our employees and the quality of service they provide. We strive to attract, develop and retain employees who can further our business strategy and build long-term stockholder value. To do so, we offer compensation, benefits, and training designed to attract, develop and retain employees. While we expect to hire employees as we grow, as a result of attrition and as opportunities to recruit talent may arise, in general, we believe our human capital resources are adequate for our current needs.

## **Available Information**

The Company's annual reports on Form 10-K, proxy statements, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are accessible for free at the Investor Relations section of our website at [www.ff-inc.com](http://www.ff-inc.com) as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. All website addresses given in this report are for information only and are not intended to be an active link or to incorporate any website information into this report.

## **Item 1A. Risk Factors**

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

### **Risks Related to the COVID-19 Pandemic**

**The COVID-19 pandemic and measures intended to prevent its spread are adversely affecting us and our customers, employees and third-party service providers, and the ultimate extent of the impacts on our business, financial condition, results of operations, liquidity and prospects is uncertain.**

Over the past two years, the COVID-19 pandemic and related government actions taken to reduce the spread of the virus have created significant economic uncertainty and reduced economic activity, including within our market areas. Governmental authorities implemented measures such as travel bans and restrictions, quarantines, "stay at home" orders and business limitations and shutdowns. These measures caused significant unemployment and negatively impacted consumer and business spending. Other governmental and regulatory actions in response to COVID-19 could affect us in substantial and unpredictable ways, such as the potential adverse impact of state and local moratoriums on evictions and our implementation of loan modifications and deferral programs consistent with recent regulatory guidance. While some of these measures have expired or been lifted, they could be implemented again. These measures have adversely affected our business, operations and financial condition, as well as the business, operations and financial conditions of our customers and business partners and may continue to do so.

Our business depends on the willingness and ability of our customers and employees to conduct banking and other financial transactions. Disruptions to our customers caused by the COVID-19 pandemic could result in increased risk of delinquencies, defaults, foreclosures and losses on our loans, as well as reductions in loan demand, the liquidity of loan guarantors, loan collateral values (particularly in real estate), loan originations, interest and noninterest income and

deposit availability. These factors may remain prevalent for a significant period of time and may continue to adversely affect our business, results of operations and financial condition even after the COVID-19 pandemic has subsided. We also could be adversely affected if key personnel or a significant number of employees were to become unavailable due to the effects and restrictions of the COVID-19 pandemic in our market areas. Although we have business continuity plans and other safeguards in place, there is no assurance that such plans and safeguards will be effective. In addition, we rely upon our third-party vendors to conduct business and to process, record, and monitor transactions. If any of these vendors are unable to continue to provide us with these services, it could negatively impact our ability to serve our customers.

Given the ongoing and dynamic nature of the COVID-19 pandemic, we do not yet know the full extent of its impacts on our business, our operations or the economy as a whole. However, the effects could have a material impact on our results of operations and heighten many of the other risks factors described in this report.

**Our participation in the Payroll Protection Program (“PPP”) exposes us to risks related to noncompliance with the PPP, which could have a material adverse impact on our business, financial condition and results of operations.**

We are a participating lender in the PPP, a loan program administered through the SBA, that was created to help eligible businesses, organizations and self-employed persons fund their operational costs during the COVID-19 pandemic. Under this program, the SBA guarantees 100% of the amounts loaned under the PPP. We may, however, be exposed to credit risk on PPP loans if a determination is made by the SBA that there was a deficiency in the manner in which the loan was originated, funded, or serviced. If a deficiency is identified, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from us.

#### **Risks Related to Our Financial Services Business**

**We could incur losses on the loans we make.**

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

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

In accordance with regulatory requirements and generally accepted accounting principles (“GAAP”) in the United States, we maintain an allowance for credit losses (“ACL”) to provide for loan and lease defaults and non-performance, and an ACL on securities. Our ACL may not be adequate to absorb our actual or expected credit losses and future provisions for ACL could reduce our net income and materially and adversely affect our operating results.

The amount of future losses may also vary depending on changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates. We determine the amount of our ACL in accordance with the Current Expected Credit Loss (“CECL”) model under the FASB’s ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which became effective for our fiscal year beginning January 1, 2020. CECL requires, among other things, that we determine periodic estimates of lifetime expected future credit losses on loans in the provision for credit losses in the period when the loans are booked, which considers reasonable and supportable forecasts of future economic conditions in addition to information about past events and current conditions. The standard provides significant flexibility and requires a high degree of judgment. CECL’s impact on our business will be significantly influenced by the composition,



characteristics and quality of our loan portfolio and other assets impacted by CECL, as well as the prevailing economic conditions and forecasts utilized. As these factors change, CECL may require us to increase or decrease our ACL in future periods, decreasing or increasing our reported income, and introducing additional volatility into our reported earnings, possibly significantly. Federal and state regulators, as an integral part of their examination process, review our loans and leases and ACL. In addition, regulators may impose additional capital buffers to absorb this volatility.

While we believe our ACL is appropriate for the risk identified in our loan and lease portfolio, we cannot provide assurance that we will not further increase the ACL, that it will be sufficient to address losses, or that regulators will not require us to increase this allowance. Any of these occurrences could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Our banking business and operations, which primarily consist of lending money to customers in the form of loans, borrowing money from customers in the form of deposits, investing in securities and investment management, are sensitive to general business and economic conditions in the United States. The COVID-19 pandemic has caused and may continue to cause severe disruptions in the U.S. economy at large, and for small businesses in particular, and has resulted and may continue to result in disruptions to our customers' businesses, and a decrease in consumer confidence and business generally. If the United States economy weakens or does not improve, our growth and profitability from our lending, deposit and investment operations could be constrained. Uncertainty about the federal fiscal policymaking process, the fiscal outlook of the federal government, and future tax rates is a concern for businesses, consumers and investors in the United States. Interest rates remain at historically low levels, which impacts our ability to attract deposits and to generate attractive earnings through our investment portfolio.

Our financial advisory business may also be adversely affected by economic conditions. A decline 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.

All of these factors are detrimental to our business, and the interplay between these factors can be complex and unpredictable. Adverse economic conditions and government policy responses to such conditions could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Our business activities and credit exposure, including real estate collateral for many of our loans, are concentrated in California, Florida, Nevada and Hawaii. As of December 31, 2021, approximately 93% of the loans in our loan portfolio were made to borrowers who live and/or conduct business in California (74%), Florida (15%), Texas (2%), Nevada (1%) and Hawaii (1%). This geographic concentration imposes risks from lack of geographic diversification. Difficult economic conditions in any of the markets where we operate could, among other things, affect the volume of loan originations, increase the level of nonperforming assets, increase the rate of foreclosure losses on loans and reduce the value of our loans and loan servicing portfolio, adversely affecting our business, financial condition, results of operations and future prospects. Any regional or local economic downturn that affects California, Florida, Texas, Nevada or Hawaii or existing or prospective borrowers or property values in such states may affect us and our profitability more significantly and more adversely than our competitors whose operations are less geographically concentrated.

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

Income and cash flows from our banking operations depend to a great extent on the difference or "spread" between the interest we earn on interest-earning assets, such as loans and investment securities, and the rates at which we



pay interest on interest-bearing liabilities, such as deposits and borrowings. Interest rates are highly sensitive to many factors that are beyond our control, including economic conditions, the monetary policies of the Federal Reserve Board, bank regulatory requirements, competition from other banks and financial institutions and a change over time in the mix of our loans, investment securities, on the one hand, and on our deposits and other liabilities, on the other hand. Changes in monetary policy will, in particular, influence the origination and market value of and the yields we can realize on loans and investment securities and the interest we pay on deposits. Our net interest margins and earnings also could be adversely affected if we are unable to adjust our interest rates on loans and deposits on a timely basis in response to changes in economic conditions or monetary policies. For example, if the rates of interest we pay on deposits, borrowings and other interest-bearing liabilities increase faster than we are able to increase the rates of interest we charge on loans or the yields we realize on investments and other interest-earning assets, our net interest income and, therefore, our earnings will decrease. In particular, the rates of interest we charge on loans may be subject to longer fixed interest periods compared to the interest we must pay on deposits. On the other hand, increasing interest rates generally lead to increases in net interest income; however, such increases also may result in a reduction in loan originations, declines in loan prepayment rates and reductions in the ability of borrowers to repay their current loan obligations, which could result in increased loan defaults and chargeoffs and could require increases to our ACL, 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.

**We may be adversely impacted by the transition from LIBOR as a reference rate.**

The United Kingdom’s Financial Conduct Authority announced that the publication of the most commonly used U.S. dollar London Interbank Offered Rate (“LIBOR”) settings will cease to be published or cease to be representative after June 30, 2023. The publication of all other LIBOR settings ceased to be published as of December 31, 2021. In response, the U.S. federal bank regulatory agencies have indicated that entering into new contracts that use LIBOR as a reference rate after December 31, 2021 would create safety and soundness risks. With LIBOR’s discontinuance, there is uncertainty as to what rate or rates may become accepted alternatives to LIBOR, or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-indexed financial instruments. In response, the Alternative Reference Rates Committee (“ARRC”) was convened in the U.S. to explore alternative reference rates and supporting processes. The ARRC identified a potential successor rate to LIBOR in the Secured Overnight Financing Rate (“SOFR”) and crafted the Paced Transition Plan to facilitate the transition. However, there are conceptual and technical differences between LIBOR and SOFR that remain unresolved at this time.

We have a significant number of loans with attributes that are either directly or indirectly dependent on LIBOR and the transition from LIBOR could create considerable costs and additional risk. The uncertainty as to the nature and effect of the discontinuance of LIBOR may adversely affect the value of, the return on our loans that are based on or are linked to LIBOR, may require extensive changes to the contracts that govern these LIBOR-based products as well as our systems and processes, and could impact our pricing and interest rate risk models, our loan product structures, our valuation tools and result in increased compliance and operational costs. In addition, the market transition away from LIBOR to an alternative reference rate could prompt inquiries or other actions from regulators in respect of our readiness for the replacement of LIBOR or result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based financial instruments. Our failure to adequately manage this transition process with our customers could adversely impact our reputation.

Although we are currently unable to assess the ultimate impact of the transition from LIBOR, the failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

**Changes in interest rates could increase our operating expenses.**

Customer service costs, which are reimbursements of costs incurred by our clients and are related primarily to our noninterest bearing demand deposits, are impacted by changes in interest rates. In a rising interest rate environment,

the amounts we make available for reimbursement to our clients increases, resulting in higher costs to us. The amount of the reimbursement and the impact of interest rate increases may vary by client.

**We may incur significant losses as a result of ineffective hedging of interest rate risk.**

From time to time, we may utilize financial derivative instruments to hedge the value of our multifamily loans held for sale. Hedging is a complex process, requiring sophisticated models, experienced and skilled personnel and continual monitoring. Changes in the value of our hedging instruments may not correlate with changes in the value of our multifamily loans held for sale, and our hedging activities may be impacted by unforeseen or unexpected changes in market conditions. Further, in times of significant financial disruption, as in 2008, hedging counterparties have been known to default on their obligations.

**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, 2021, loans secured by multifamily and commercial real estate represented approximately 61% of our outstanding loans. The repayment of such loans is highly dependent on the ability of the borrowers to meet their loan repayment obligations to us, which can be adversely affected by economic downturns that can lead to (i) declines in the rents and, therefore, in the cash flows generated by those real properties on which the borrowers depend to fund their loan payments to us, and (ii) decreases in the values of those real properties, which make it more difficult for the borrowers to sell those real properties for amounts sufficient to repay their loans in full. As a result, our operating results are more vulnerable to adverse changes in the real estate market than other financial institutions with more diversified loan portfolios and we could incur losses in the event of changes in economic conditions that disproportionately affect the real estate markets.

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

Liquidity is essential to our banking business, as we use cash to make loans and purchase investment securities and other interest-earning assets and to fund deposit withdrawals that occur in the ordinary course of our business. Our principal sources of liquidity include earnings, deposits, FHLB borrowings, sales of loans or investment securities held for sale, repayments by clients of loans we have made to them, and the proceeds from sales by us of our equity securities or from borrowings that we may obtain. If our ability to obtain funds from these sources becomes limited or the costs of those funds increase, whether due to factors that affect us specifically, including our financial performance, or due to factors that affect the financial services industry in general, including weakening economic conditions or negative views and expectations about the prospects for the financial services industry as a whole, then our ability to grow our banking and investment advisory and wealth management businesses would be harmed, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

We depend on checking, savings and money market deposit account balances and other forms of customer deposits as our primary source of funding for our lending activities. Future growth in our banking business will largely depend on our ability to maintain and grow a strong deposit base. There is no assurance that we will be able to grow and maintain our deposit base. The account and deposit balances can decrease when customers perceive alternative investments, such as the stock market or real estate, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into investments (or similar deposit products at other institutions that may provide a higher rate of return), we could lose a relatively low cost source of funds, increasing our funding costs and reducing our net interest income and net income. Additionally, any such loss of funds could result in lower loan originations, which could materially negatively impact our growth strategy.

**Our high concentration of large depositors may increase our liquidity risk, and the loss of any large depositor may negatively impact our net interest margin.**

As of December 31, 2021, our seven largest bank depositors accounted for, in the aggregate, 22% of our total deposits. As a result, a material decrease in the volume of those deposits by a relatively small number of our depositors could reduce our liquidity, in which event it could become necessary for us to replace those deposits with higher-cost deposits, the sale of securities or FHLB borrowings, which would adversely affect our net interest income and, therefore, our results of operations.

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

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

**Our acquisition strategy subjects us to risks.**

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

Acquiring other banks, businesses, or branches involves various other risks commonly associated with acquisitions, including, among other things, potential disruptions to our business, potential diversion of our management's time and attention, difficulty in estimating the value of the target company and potential changes in banking or tax laws or regulations that may affect the target company.

Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our business, financial condition and results of operations.

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

Since we commenced our banking business in October 2007, we have grown our banking franchise and now have 28 branch offices and 3 loan production offices in California, Florida, Nevada, Texas, and Hawaii. We plan to continue to

grow our banking business both organically and through acquisitions of other banks or branches. However, the implementation of our growth strategy poses a number of risks for us, including:

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

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

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

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

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

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

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

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

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

We conduct our business operations in markets where the banking business is highly competitive and is dominated by large multi-state and in-state banks with operations and offices covering wide geographic areas. We also compete with other financial service businesses, including investment advisory and wealth management firms, mutual fund companies, financial technology companies, and securities brokerage and investment banking firms that offer competitive banking and financial products and services as well as products and services that we do not offer. Larger banks and many of those other financial service organizations have greater financial and marketing resources than we do that enable them to make significant investments in technology, to conduct extensive marketing campaigns and to shift resources to regions or activities of greater potential profitability. They also have substantially more capital and higher lending limits than we do, which enable them to attract larger clients and offer financial products and services that we are unable to offer, putting us at a disadvantage in competing with them for loans and deposits and investment management clients. If we are unable to compete effectively with those banking or other financial services businesses, we could find it more difficult to attract new and retain existing clients and our net interest margins, net interest income and investment management advisory fees could decline, which would materially adversely affect our business, results of operations and prospects, and could cause us to incur losses in the future.

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

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

We currently depend heavily on the contributions and services provided by Rick Keller, our Executive Chairman, Scott Kavanaugh, Chief Executive Officer of FFI and FFB, David DePillo, President of FFI and FFB, John Hakopian, President of FFA, and Kevin Thompson, 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 bankers, relationship managers and investment advisory personnel. Competition for such personnel is intense. If we are not successful in retaining and attracting key personnel, our ability to retain existing clients or attract new clients could be adversely affected and our business, financial condition, results of operations or prospects could be significantly harmed.

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

The preparation of our consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires our management to make significant estimates and assumptions that

affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of income and expense during the reporting periods. Critical estimates are made by management in determining, among other things, the allowance for credit losses, amounts of impairment of assets, and valuation of income taxes. Additionally, the adoption of CECL methodology for determining our allowance for credit losses in 2020 has increased the complexity, and associated risk, of the analysis and processes relying on management judgment. If our underlying estimates and assumptions prove to be incorrect, our financial condition and results of operations may be materially adversely affected.

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

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

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

We have sold multifamily loans through the securitization market from time to time and may seek to do so in the future. The securitization market, along with credit markets in general, experienced unprecedented disruptions during the economic downturn from 2008 to 2010. Although market conditions have since improved for a number of years following the economic downturn, certain issuers experienced increased risk premiums while there was a relatively lower level of investor demand for certain asset-backed securities (particularly those securities backed by nonprime collateral). In addition, the risk of volatility surrounding the global economic system and uncertainty surrounding regulatory reforms such as the Dodd-Frank Act continue to create uncertainty around access to the capital markets. As a result, there can be no assurance that we will continue to be successful in selling multifamily loans through the securitization market. Adverse changes in the securitization market generally could materially adversely affect our ability to securitize loans on a timely basis or upon terms acceptable to us. This could increase our cost of funding, reduce our margins or cause us to hold assets until investor demand improves.

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

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

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

As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our clients and that may result in financial losses or increased costs to us or our clients, disclosure or misuse of confidential information belonging to us or personal or confidential information belonging to our clients, misappropriation of assets, litigation, or damage to our reputation.

Fraudulent activity may take many forms, including check “kiting” or fraud, electronic fraud, wire fraud, “phishing” and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to data processing or data storage systems used by us or by our clients, denial or degradation of service attacks, ransomware attacks, malware or other cyber-attacks. In addition to exposing our own confidential and proprietary corporate information, a security breach may expose sensitive financial and other personal information of our customers and their employees or other third parties. Security breaches and cyber-attacks can cause significant increases in operating costs, including the costs of compensating 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. If we are unable to detect or prevent a security breach or cyber-attack from occurring, then we and our clients could incur losses or damages; and we could sustain damage to our reputation, lose clients and business, suffer disruptions to our business and incur increased operating costs, and be exposed to additional regulatory scrutiny or penalties and to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

**We could be subject to tax audits, challenges to our tax positions, or adverse changes or interpretations of tax laws.**

We are subject to federal and applicable state income tax laws and regulations. Income tax laws and regulations are often complex and require significant judgment in determining our effective tax rate and in evaluating our tax positions. Our determination of our tax liability is subject to review by applicable tax authorities. Any audits or challenges of such determinations may adversely affect our effective tax rate, tax payments or financial condition. Recently enacted U.S. tax legislation made significant changes to federal tax law, including the taxation of corporations, by, among other things, reducing the corporate income tax rate, disallowing certain deductions that had previously been allowed, and altering the expensing of capital expenditures. The implementation and evaluation of these changes may require significant judgment and substantial planning by us. These judgments and plans may require that we take new and different tax positions that if challenged could adversely affect our effective tax rate, tax payments or financial condition. In addition, we may consider the impact of tax laws and regulations when we make decisions about our business and we engage in certain strategies to minimize the impact of taxes. Consequently, any change in tax laws or regulations, or new interpretation of existing laws or regulations, could significantly alter the effectiveness of these decisions and strategies.

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

Our ability (and the ability of FFB and FFA) to attract and retain clients and key employees could be adversely affected if our reputation is harmed. Any actual or perceived failure to address various issues could cause reputational harm, including a failure to address any of the following types of issues: legal and regulatory requirements; cybersecurity and the proper maintenance or protection of the privacy of client and employee financial or other personal information; record keeping deficiencies or errors; money-laundering; and potential conflicts of interest and ethical issues. Moreover,



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

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

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

**A natural disaster could harm our business.**

Historically, California, in which a substantial portion of our business is located, has been susceptible to natural disasters, such as earthquakes, drought, floods and wild fires. In addition to these risks, Florida and Hawaii experience tropical storms and hurricanes. The nature and level of natural disasters cannot be predicted. These natural disasters could harm our operations through interference with communications, including the interruption or loss of our computer systems, which could prevent or impede us from gathering deposits, originating loans and processing and controlling our flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. Additionally, natural disasters could negatively impact the values of collateral securing our borrowers' loans and interrupt our borrowers' abilities to conduct their business in a manner to support their debt obligations, either of which could result in losses and increased provisions for loan losses for us.

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

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

**Our investment management clients are able to terminate their agreements with us without cause and on relatively short notice, making us vulnerable to short term declines in the performance of the securities under our management.**

Like most investment advisory and wealth management businesses, the investment advisory contracts we have with our clients are typically terminable by the client without cause upon less than 30 days' notice. As a result, even short term declines in the performance of the securities we manage, which can result from factors outside our control, such as adverse changes in market or economic condition or the poor performance of some of the investments we have recommended to our clients, could lead some of our clients to move assets under our management to other asset classes such as broad index funds or treasury securities, or to investment advisors which have investment product offerings or



investment strategies different than ours. Therefore, our operating results are heavily dependent on the financial performance of our investment portfolios and the investment strategies we employ in our investment advisory businesses and even short-term declines in the performance of the investment portfolios we manage for our clients, whatever the cause, could result in a decline in assets under management and a corresponding decline in investment management fees, which would adversely affect our results of operations.

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

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

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

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

### **Risks Related to Our Regulatory Environment**

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

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

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

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

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

**We are subject to stringent capital requirements.**

The federal banking agencies require that we meet minimum leverage and risk-based capital requirements applicable to bank holding companies and insured depository institutions. Our satisfaction of these requirements is subject to qualitative judgments by regulators that may differ materially from our management’s and that are subject to being determined retroactively for prior periods. Our failure to satisfy regulatory capital requirements could have a material adverse effect on our business, including damaging the confidence of customers in us, adversely impacting our reputation and competitive position and retention of key personnel. Our failure to meet regulatory capital requirements could also limit or suspend our ability to grow or expand our business, pay dividends, accept brokered deposits, access the Federal Reserve’s discount window, and obtain advances from the FHLB. A failure to meet regulatory capital standards may also result in higher FDIC assessments. Maintaining adequate capital levels could require that we raise additional capital, which could reduce our earnings and/or dilute our existing stockholders.

**We are or will become subject to increased regulation because we have more than \$10 billion in total consolidated assets.**

Federal law imposes heightened requirements on bank holding companies and depository institutions that exceed \$10 billion in total consolidated assets. An insured depository institution with \$10 billion or more in total assets is subject to supervision, examination, and enforcement with respect to consumer protection laws by the CFPB rather than its primary federal banking regulator. Under its current policies, the CFPB will assert jurisdiction in the first quarter after the insured depository institution’s call reports show total consolidated assets of \$10 billion or more for four consecutive quarters. FFB’s total consolidated assets exceeded this amount for the first time at December 31, 2021, so the CFPB, instead of the FDIC, may soon have primary examination and enforcement authority over FFB. As an independent bureau within the Federal Reserve Board focused solely on consumer financial protection, the CFPB may impose requirements more strictly or severely than the FDIC.

Additionally, other regulatory requirements apply to insured depository institution holding companies and insured depository institutions with \$10 billion or more in total consolidated assets, including the restrictions on proprietary trading and investment and sponsorship in hedge funds and private equity funds known as the Volcker Rule. Further, deposit insurance assessment rates are calculated differently, and may be higher, for insured depository institutions with \$10 billion or more in total consolidated assets.

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

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, the CFPB and other federal agencies are responsible for enforcing these laws and regulations. Federal banking regulators consider our performance under the Community Reinvestment Act when considering our applications to acquire other depository institutions, to establish branches or other expansionary activities and our failure to meet our obligations under the Community Reinvestment Act could adversely affect our expansionary activities. Our failure to comply with fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Any such actions could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

The federal Bank Secrecy Act, the USA PATRIOT Act of 2001 and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. If our anti-money laundering policies, procedures and systems are deemed deficient or the policies, procedures and systems of any financial institutions that we may acquire in the future are deemed deficient, we could be subject to liability, including fines, civil money penalties and regulatory actions such as restrictions on our ability to pay dividends, the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan or restrictions on our expansionary activities. Our failure to maintain and implement adequate anti-money laundering programs could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition, results of operations and prospects.

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

We are subject to various privacy, information security and data protection laws, including requirements concerning security breach notification, and we could be negatively impacted by these laws. Moreover, legislators and regulators in the United States and other countries are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on our current and planned privacy, data protection and information security-related practices, our collection, use, sharing, retention and safeguarding of consumer or employee information, and some of our current or planned business activities. Generally, these laws increase our costs of compliance and business operations and could reduce income from certain business initiatives as well as the risk that we could face enforcement actions from state or agencies agency or litigation brought by private parties. This includes increased risks of privacy-related enforcement activity at the federal level, by the Federal Trade Commission, as well as at the state level, such as with regard to mobile applications.

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

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

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

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

**We may reduce or discontinue the payment of dividends on common stock.**

Although we have declared and paid cash dividends on our common stock since the first quarter of 2019, we may reduce or eliminate our common stock dividend in the future. Our ability to pay dividends to our stockholders is restricted by Delaware and federal law and the policies and regulations of the Federal Reserve Board, which is our federal banking regulator. Our ability to pay dividends to stockholders is also dependent on the payment to us of cash dividends by our subsidiaries, FFA and FFB, which are the primary sources of cash for our payment of dividends. FFA and FFB are subject to separate statutory or regulatory dividend restrictions that can affect their ability to pay cash dividends to us. FFA’s ability to pay cash dividends to us is restricted under California corporate law. FFB’s ability to pay dividends to us is limited by various banking statutes and regulations and California law. Moreover, based on their assessment of the financial condition of FFB or other factors, the FDIC or the DFPI 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. A reduction or discontinuance of dividends on our common stock could have a material adverse effect on our business, including the market price of our common stock.

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

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

#### **General Risk Factors**

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

The market prices and trading volumes of our common stock may fluctuate or decline significantly. Many of the factors that could negatively affect the prices of our shares or result in fluctuations in are outside of our control, including actual or anticipated changes in interest rates, the strength of the economy, the operating and securities price performance

of other companies that investors believe are comparable to us, changes in global financial markets and general market conditions, and research and reports that securities or industry analysts may publish about us or our company or our industry.

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

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

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

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

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.

**Item 1B. Unresolved Staff Comments.**

Not applicable.

**Item 2. Properties.**

FFI's corporate headquarters is located in Dallas, Texas, at 200 Crescent Court, Suite 1400, Dallas, Texas 75201. The Company has 28 banking offices and 3 loan production offices in California, Nevada, Florida, Texas, and Hawaii. All of our offices, except for the offices in Auburn, California, Big Bear, California, and Running Springs, California, are leased pursuant to non-cancelable operating leases that will expire between 2022 and 2030.

The building for the office in Auburn, California is owned by us and is on land that is leased under a non-cancellable lease that expires in 2028. The building and land for the offices in Big Bear and Running Springs are owned by us. As a result of the TGRF acquisition, we also own seven buildings for the offices in Florida.

**Item 3. Legal Proceedings.**

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

**Item 4. Mine Safety Disclosures.**

Not applicable.

**PART II**

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

**Market Information**

On November 3, 2014, our common stock became listed and commenced trading on the NASDAQ Global Stock Market under the trading symbol "FFWM". As of February 23, 2022, a total of 56,434,070 shares of our common stock were issued and outstanding which were held of record by approximately 8,060 shareholders.

**Dividend Policy and Restrictions on the Payment of Dividends**

Since the first quarter of 2019, we have paid quarterly dividends and it is the current intention of the Company to continue to pay dividends on an ongoing basis.

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

Cash dividends from our two wholly-owned subsidiaries, FFB and FFA, represent the principal source of funds available to us, which we might use to pay cash dividends to our stockholders or for other corporate purposes. Since FFA and FFB are California corporations, they are subject to dividend payment restrictions under the California General Corporation Law (the "CGCL"). The laws of the State of California, as they pertain to the payment of cash dividends by California state chartered banks, limit the amount of funds that FFB would be permitted to dividend to us more strictly than does the CGCL. In particular, under California law, cash dividends by a California state chartered bank may not exceed, the lesser of (i) the sum of its net income for the last three fiscal years (after deducting all dividends paid during the period), or (ii) the amount of its retained earnings.

Also, because the payment of cash dividends has the effect of reducing capital, capital requirements imposed on FFB by the DFPI 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 DFPI 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.

Additionally, under the terms of the holding company line of credit agreement, FFI may only declare and pay a dividend if the total amount of dividends and stock repurchases during the current twelve months does not exceed 50% of FFI's net income for the same twelve month period.

#### **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).

#### **Repurchases of Common Stock**

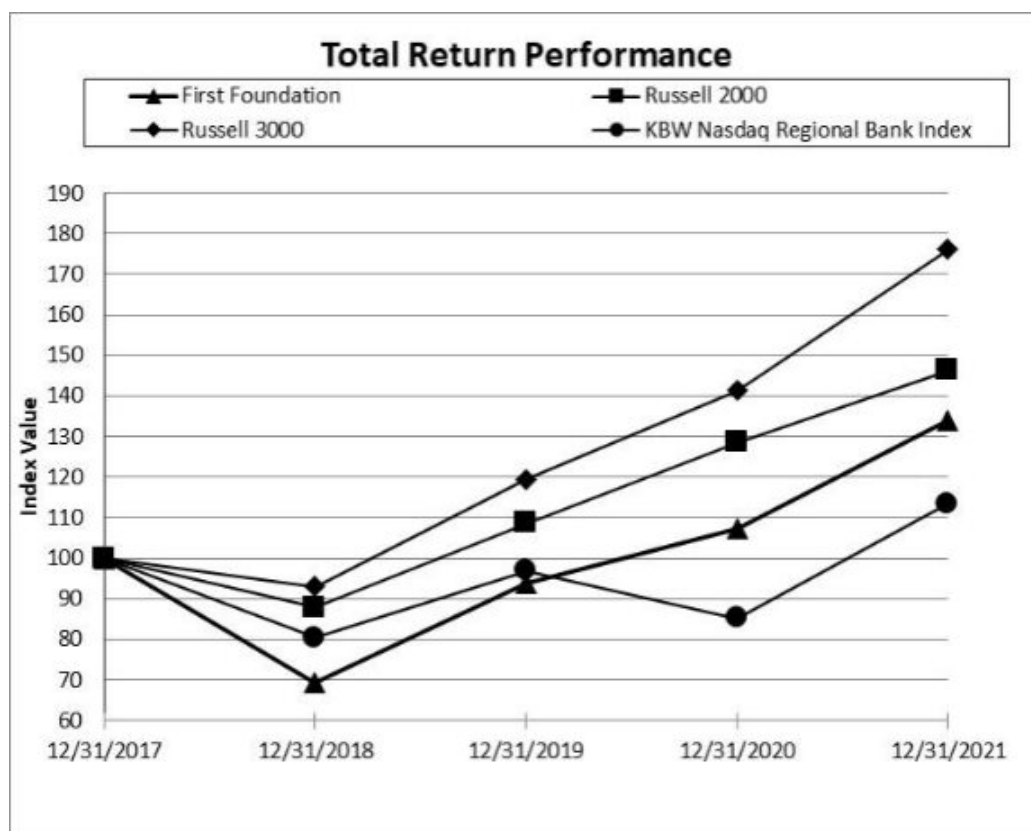
The Company adopted a stock repurchase plan on October 30, 2018 for the repurchase of up to 2,200,000 shares of its common stock from time to time as market conditions allow. This plan has no stated expiration date for the repurchases. The Company did not repurchase any shares during the year ended December 31, 2021. As of December 31, 2021, the maximum number of shares that may be purchased under the program was 1,938,600.



### Stock Performance Graph

The following graph shows a comparison from December 31, 2017 through December 31, 2021 of the cumulative total return for our common stock, compared against (i) the Russell 2000 Index, which measures the performance of the smallest 2,000 members, by market cap, (ii) the Russell 3000 Index, which measures the performance of the smallest 3,000 members, by market cap, of the Russell Index, and (iii) an index published by SNL Securities L.C. (“SNL”) and known as the KBW Nasdaq Regional Bank Index.

The stock performance graph assumes that \$100 was invested in Company common stock at the close of market on December 31, 2017, and, at that same date, in the Russell 2000 Index, the Russell 3000 Index and the KBW Nasdaq Regional Bank Index and that any dividends paid in the indicated periods were reinvested. Shareholder returns shown in the stock performance graph are not necessarily indicative of future stock price performance.



	Period Ending				
	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021
First Foundation Inc. (FFWM)	100.00	69.36	93.85	107.39	134.09
Russell 2000 Index	100.00	87.82	108.66	128.61	146.23
Russell 3000 Index	100.00	93.01	119.55	141.38	176.16
KBW Regional Bank Index	100.00	80.49	96.89	85.17	113.44

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

**Item 6. Reserved**

## **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, 2021, as compared to our results of operations in the year ended December 31, 2020; in our results of operations in the year ended December 31, 2020, as compared to our results of operations in the year ended December 31, 2019, and our financial condition at December 31, 2021 as compared to our financial condition at December 31, 2020. This discussion and analysis is based on and should be read in conjunction with our consolidated financial statements and the accompanying notes thereto contained elsewhere in this Annual Report on Form 10-K. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations. Some of the factors that could cause results to differ materially from expectations are discussed in the sections entitled "Risk Factors" and "Forward-Looking Statements" contained elsewhere in this Annual Report on Form 10-K.

### **Critical Accounting Policies**

Our consolidated financial statements are prepared in accordance with 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.

*Allowance for Credit Losses - Securities Available-for-Sale ("AFS")* - For securities AFS in an unrealized loss position, the Company first evaluates whether it intends to sell, or whether it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of these criteria regarding intent or requirement to sell is met, the security amortized cost basis is written down to fair value through income. If the criteria is not met, the Company is required to assess whether the decline in fair value has resulted from credit losses or noncredit-related factors. If the present value of expected cash flows to be collected is less than the amortized cost basis, a credit loss exists, and an allowance for credit loss is recorded through income as a component of provision for credit loss expense. If the assessment indicates that a credit loss does not exist, the Company records the decline in fair value through other comprehensive income, net of related income tax effects. The Company has made the election to exclude accrued interest receivable on securities from the estimate of credit losses and report accrued interest separately on the consolidated balance sheets. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of a security is confirmed or when either of the criteria regarding intent or requirement to sell is met. See "Note 4: Securities" for additional information related to the Company's allowance for credit losses on securities AFS.

*Allowance for Credit Losses - Loans.* Our ACL for loans and investments are established through a provision for credit 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 and investments are charged against the ACL when management believes that collectability of the principal is unlikely. The ACL for loans 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 ACL may be necessary if there are significant changes in economic or other conditions that can affect the collectability in full of loans and investments in our loan or investment

portfolios. See “Note 6: Allowance for Credit Losses”, for additional information related to the Company’s allowance for credit losses on loans.

*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.

*Business Combinations.* We account for business combinations under the acquisition method of accounting, as required by Accounting Standards Codification (“ASC”) 805, *Business Combinations*. The acquired assets, assumed liabilities and identifiable intangible assets are recorded at their respective acquisition date fair values. Goodwill is recorded based on the excess of the purchase over the fair value of the net assets and other identifiable intangible assets acquired. Goodwill generated from business combinations are not subject to amortization and instead are tested for impairment annually, unless a triggering event occurs, which would require an updated assessment. Certain costs associated with business combinations are expensed as incurred.

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

## **Overview and Recent Developments**

We continued strong growth during 2021, with loan originations of \$3.9 billion and deposit growth of \$2.0 billion. Total revenues (net interest income and noninterest income) in 2021 increased by 21% over 2020.

The results of operations for Banking reflect the benefits of this growth. Income before taxes for Banking increased \$29.8 million, from \$119.6 million in 2020, to \$149.4 million in 2021. On a consolidated basis, income before taxes increased \$33.0 million, from \$118.8 million in 2020, to \$151.8 million in 2021.

On December 17, 2021, we completed the acquisition of TGR Financial, Inc. (“TGRF”) and its wholly-owned subsidiary, First Florida Integrity Bank. At closing, TGRF had \$2.6 billion in total assets, \$1.1 billion in gross loans, and \$2.2 billion in total deposits and operated seven banking offices in the State of Florida. In connection with this acquisition, we issued 11,352,232 shares of FFI common stock with a fair value of \$24.93 per share.

On January 24, 2022, we completed a \$150 million offering of our 3.50% fixed-to-floating rate subordinated notes due 2032.

On January 31, 2022, the Board of Directors declared a quarterly cash dividend of \$0.11 per common share to be paid on February 17, 2022 to stockholders of record as of the close of business on February 10, 2022.

## Results of Operations

Years Ended December 31, 2021 and 2020.

The primary sources of revenue for Banking are net interest income, fees from its deposits and trust services, gains on sales of loans, certain loan fees, and consulting fees. The primary sources of revenue for Wealth Management are asset management fees assessed on the balance of AUM. Compensation and benefit costs, which represent the largest component of noninterest expense, accounted for 57% and 77%, respectively, of the total noninterest expense for Banking and Wealth Management in 2021.

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

<i>(dollars in thousands)</i>	<b>Banking</b>	<b>Wealth Management</b>	<b>Other</b>	<b>Total</b>
<b>2021:</b>				
Interest income	\$ 247,218	\$ —	\$ —	\$ 247,218
Interest expense	13,688	—	246	13,934
Net interest income	233,530	—	(246)	233,284
Provision for credit losses	3,866	—	—	3,866
Noninterest income	41,068	29,917	(532)	70,453
Noninterest expense	121,375	23,349	3,362	148,086
Income (loss) before taxes on income	<u>\$ 149,357</u>	<u>\$ 6,568</u>	<u>\$ (4,140)</u>	<u>\$ 151,785</u>
<b>2020:</b>				
Interest income	\$ 243,891	\$ —	\$ —	\$ 243,891
Interest expense	47,078	—	169	47,247
Net interest income	196,813	—	(169)	196,644
Provision for credit losses	6,746	—	—	6,746
Noninterest income	31,567	24,510	(1,430)	54,647
Noninterest expense	102,019	21,778	1,981	125,778
Income (loss) before taxes on income	<u>\$ 119,615</u>	<u>\$ 2,732</u>	<u>\$ (3,580)</u>	<u>\$ 118,767</u>

*General.* Our net income and income before taxes in 2021 were \$109.5 million and \$151.8 million, respectively, as compared to \$84.4 million and \$118.8 million, respectively, in 2020. The \$33.0 million increase in income before taxes was the result of a \$29.7 million increase in income before taxes for Banking, a \$3.8 million increase in income before taxes for Wealth Management, offset partially by a \$0.5 million increase in corporate expenses. The increase in Banking was due to higher net interest income and higher noninterest income. The increase in Wealth Management was due to higher noninterest income. The increase in corporate expenses was due to increases in interest expense and noninterest expenses. The increase in noninterest expenses was primarily due to merger costs associated with the acquisition.

Our effective tax rate for 2021 was 27.9% as compared to 29.0% for 2020 and as compared to our statutory tax rate of 29.0%.

*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 interest margin for the years ended December 31:

(dollars in thousands)	Year Ended December 31:					
	2021			2020		
	Average Balances	Interest	Average Yield /Rate	Average Balances	Interest	Average Yield /Rate
Interest-earning assets:						
Loans	\$ 5,846,315	\$ 224,823	3.85 %	\$ 5,333,968	\$ 216,798	4.06 %
Securities AFS	806,456	20,435	2.53 %	902,085	25,688	2.85 %
FHLB stock, fed funds, and deposits	756,658	1,960	0.26 %	262,090	1,405	0.54 %
Total interest-earning assets	7,409,429	247,218	3.34 %	6,498,143	243,891	3.76 %
Noninterest-earning assets:						
Nonperforming assets	17,338			14,606		
Other	220,367			180,678		
Total assets	<u>\$ 7,647,134</u>			<u>\$ 6,693,427</u>		
Interest-bearing liabilities:						
Demand deposits	\$ 1,010,452	2,347	0.23 %	\$ 447,988	2,085	0.47 %
Money market and savings	2,318,619	8,385	0.36 %	1,699,152	13,619	0.80 %
Certificates of deposit	710,176	2,721	0.38 %	1,628,540	23,728	1.46 %
Total interest-bearing deposits	4,039,247	13,453	0.33 %	3,775,680	39,432	1.04 %
Borrowings	63,681	481	0.75 %	612,583	7,815	1.28 %
Total interest-bearing liabilities	4,102,928	13,934	0.34 %	4,388,263	47,247	1.08 %
Noninterest-bearing liabilities:						
Demand deposits	2,725,631			1,595,669		
Other liabilities	75,112			67,348		
Total liabilities	6,903,671			6,051,280		
Shareholders' equity	743,463			642,147		
Total liabilities and equity	<u>\$ 7,647,134</u>			<u>\$ 6,693,427</u>		
Net Interest Income		<u>\$ 233,284</u>			<u>\$ 196,644</u>	
Net Interest Rate Spread			<u>3.00 %</u>			<u>2.68 %</u>
Net Interest Margin			<u>3.15 %</u>			<u>3.03 %</u>

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 2021 as compared to 2020.

<i>(dollars in thousands)</i>	<b>Increase (Decrease) due to</b>		<b>Net Increase (Decrease)</b>
	<b>Volume</b>	<b>Rate</b>	
Interest earned on:			
Loans	\$ 20,104	\$ (12,079)	\$ 8,025
Securities	(2,576)	(2,677)	(5,253)
Cash, FHLB stock, fed funds and deposits	1,576	(1,021)	555
Total interest-earning assets	19,104	(15,777)	3,327
Interest paid on:			
Demand deposits	1,680	(1,419)	261
Money market and savings	3,878	(9,112)	(5,234)
Certificates of deposit	(9,106)	(11,900)	(21,006)
Borrowings	(5,047)	(2,287)	(7,334)
Total interest-bearing liabilities	(8,595)	(24,718)	(33,313)
Net interest income	\$ 27,699	\$ 8,941	\$ 36,640

Net interest income for Banking increased from \$196.8 million in 2020, to \$233.5 million in 2021, due primarily to a 14% increase in interest-earning assets. On a consolidated basis, the net interest margin (“NIM”) increased 14 basis points to 3.15% in 2021 from 3.03% in 2020, as the current low interest rate environment continues to impact our NIM positively as our cost of funds have fallen faster than the yield on our earnings assets. The realization of net PPP fee income of \$3.3 million helped offset the decrease in interest income due to lower average loan rates during 2021. The decrease in the cost of interest-bearing liabilities was due to a decrease in costs of interest-bearing deposits and decreased costs of borrowings. The cost of interest-bearing deposits decreased from 1.04% in 2020 to 0.33% in 2021. The average rate on borrowings decreased from 1.28% in 2020 to 0.75% in 2021. The average balance outstanding under the holding company line of credit increased from \$3.9 million in 2020 to \$6.7 million in 2021, resulting in a \$0.1 million increase in corporate interest expense.

*Provision for credit losses.* The provision for credit losses represents our estimate of the amount necessary to be charged against the current period’s earnings to maintain the ACL for loans and investments at a level that we consider adequate in relation to the estimated losses inherent in the loan and investment portfolios. The provision for credit losses for loans is impacted by changes in loan balances as well as changes in estimated loss assumptions and chargeoffs and recoveries. The amount of the provision for loans also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions and certain other subjective factors that may affect the ability of borrowers to meet their repayment obligations to us. For 2021 and 2020, we recorded provisions for credit losses of \$3.9 million and \$6.7 million, respectively. The provision for credit losses in 2021 and 2020 were due to the TGRF acquisition and growth in loan balances and \$0.8 million of net chargeoffs in each year.



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

<i>(dollars in thousands)</i>	2021	2020
<b>Year Ended December 31:</b>		
Trust fees	\$ 7,161	\$ 5,645
Loan related fees	9,208	8,334
Deposit charges	1,714	1,236
Gain on sale of loans	21,459	15,140
Consulting fees	409	398
Other	1,117	814
Total noninterest income	<u>\$ 41,068</u>	<u>\$ 31,567</u>

Noninterest income in Banking in 2021 was \$9.5 million higher than 2020 primarily due to a higher gain on sale of loans, higher loan fees, and higher trust fees. The \$6.3 million higher gain on sale was due to the benefits of a declining interest rate environment in 2021. The \$0.9 million increase in loan fees was due primarily to higher prepayment fees and higher servicing fees. The \$1.5 million increase in trust fees was due to an increase in clients.

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 the amounts of noninterest income for Wealth Management for the years ended December 31:

<i>(dollars in thousands)</i>	2021	2020
Noninterest income	<u>\$ 29,917</u>	<u>\$ 24,510</u>

Noninterest income for Wealth Management increased in 2021 when compared to 2020, as the level of billable AUM increased by 21%.

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

<i>(dollars in thousands)</i>	Banking		Wealth Management	
	2021	2020	2021	2020
<b>Year Ended December 31, 2021:</b>				
Compensation and benefits	\$ 68,897	\$ 56,154	\$ 18,039	\$ 16,371
Occupancy and depreciation	23,018	21,433	1,958	2,347
Professional services and marketing	7,862	5,972	2,836	2,558
Customer service costs	8,775	7,445	—	—
Other expenses	12,823	11,015	516	502
Total noninterest expense	<u>\$ 121,375</u>	<u>\$ 102,019</u>	<u>\$ 23,349</u>	<u>\$ 21,778</u>

Noninterest expense in Banking increased to \$121.4 million in 2021 from \$102 million in 2020 due to increases in compensation and benefits, occupancy and depreciation, professional services and marketing, and customer service costs. Compensation and benefits for Banking increased \$12.7 million during 2021 as compared to 2020, due to salary increases and an increase in the FTE in Banking, which increased to 547.2 in 2021, from 436.8 in 2020, as a result of the increased staffing related to additional personnel added to support the growth in loans and deposits, and added personnel from the TGRF acquisition. The increase in occupancy and depreciation for Banking to \$23 million in 2021 from \$21.4 million in 2020 was due to higher core processing costs related to higher volumes and services added during 2021. The \$1.9 million increase in professional services and marketing was due to one-time costs related to the TGRF acquisition.

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Customer service costs for Banking increased to \$8.8 million in 2021 from \$7.4 million in 2020 due to increased earnings credits related to an increase in deposit balances.

Noninterest expenses for Wealth Management increased by \$1.6 million for 2021, when compared to the comparable period in 2020, primarily due to increased compensation costs related to higher commissions.

*Years Ended December 31, 2020 and 2019.*

The primary sources of revenue for Banking are net interest income, fees from its deposits and trust services, gains on sales of loans, certain loan fees, and consulting fees. The primary sources of revenue for Wealth Management are asset management fees assessed on the balance of AUM. Compensation and benefit costs, which represent the largest component of noninterest expense, accounted for 55% and 75%, respectively, of the total noninterest expense for Banking and Wealth Management in 2020.

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

<i>(dollars in thousands)</i>	<b>Banking</b>	<b>Wealth Management</b>	<b>Other</b>	<b>Total</b>
<b>2020:</b>				
Interest income	\$ 243,891	\$ —	\$ —	\$ 243,891
Interest expense	47,078	—	169	47,247
Net interest income	196,813	—	(169)	196,644
Provision for credit losses	6,746	—	—	6,746
Noninterest income	31,567	24,510	(1,430)	54,647
Noninterest expense	102,019	21,778	1,981	125,778
Income (loss) before taxes on income	<u>\$ 119,615</u>	<u>\$ 2,732</u>	<u>\$ (3,580)</u>	<u>\$ 118,767</u>
<b>2019:</b>				
Interest income	\$ 248,760	\$ —	\$ —	\$ 248,760
Interest expense	78,450	—	356	78,806
Net interest income	170,310	—	(356)	169,954
Provision for credit losses	2,637	—	—	2,637
Noninterest income	18,844	24,136	(1,204)	41,776
Noninterest expense	104,367	21,931	3,296	129,594
Income (loss) before taxes on income	<u>\$ 82,150</u>	<u>\$ 2,205</u>	<u>\$ (4,856)</u>	<u>\$ 79,499</u>

*General.* Our net income and income before taxes in 2020 were \$84.4 million and \$118.8 million, respectively, as compared to \$56.2 million and \$79.5 million, respectively, in 2019. The \$39.3 million increase in income before taxes was the result of a \$37.5 million increase in income before taxes for Banking, a \$0.5 million increase in income before taxes for Wealth Management and a \$1.3 million decrease in corporate expenses. The increase in Banking was due to higher net interest income, higher noninterest income, and lower noninterest expenses. The increase in Wealth Management was due to higher billable AUM and lower noninterest expenses. The decrease in corporate expenses was due to decreases in interest expense and noninterest expenses.

Our effective tax rate for 2020 was 29.0% as compared to 29.3% for 2019 and as compared to our statutory tax rate of 29.0%.

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*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 interest margin for the years ended December 31:

<i>(dollars in thousands)</i>	2020			2019		
	Average Balances	Interest	Average Yield /Rate	Average Balances	Interest	Average Yield /Rate
Interest-earning assets:						
Loans	\$ 5,333,968	\$ 216,798	4.06 %	\$ 5,032,447	\$ 220,951	4.39 %
Securities	902,085	25,688	2.85 %	805,724	25,004	3.10 %
FHLB stock, fed funds and deposits	262,090	1,405	0.54 %	83,155	2,805	3.37 %
Total interest-earning assets	6,498,143	243,891	3.76 %	5,921,326	248,760	4.20 %
Noninterest-earning assets:						
Nonperforming assets	14,606			16,517		
Other	180,678			188,143		
Total assets	\$ 6,693,427			\$ 6,125,986		
Interest-bearing liabilities:						
Demand deposits	\$ 447,988	2,085	0.47 %	\$ 342,927	3,183	0.93 %
Money market and savings	1,699,152	13,619	0.80 %	1,215,410	15,427	1.27 %
Certificates of deposit	1,628,540	23,728	1.46 %	1,986,009	45,572	2.29 %
Total interest-bearing deposits	3,775,680	39,432	1.04 %	3,544,346	64,182	1.81 %
Borrowings	612,583	7,815	1.28 %	625,948	14,624	2.34 %
Total interest-bearing liabilities	4,388,263	47,247	1.08 %	4,170,294	78,806	1.89 %
Noninterest-bearing liabilities:						
Demand deposits	1,595,669			1,314,296		
Other liabilities	67,348			60,023		
Total liabilities	6,051,280			5,544,613		
Stockholders' equity	642,147			581,373		
Total liabilities and equity	\$ 6,693,427			\$ 6,125,986		
Net Interest Income		\$ 196,644			\$ 169,954	
Net Interest Rate Spread			2.68 %			2.31 %
Net Interest Margin			3.03 %			2.87 %

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 2020 as compared to 2019.

<i>(dollars in thousands)</i>	Increase (Decrease) due to		Net Increase (Decrease)
	Volume	Rate	
Interest earned on:			
Loans	\$ 12,802	\$ (16,955)	\$ (4,153)
Securities	2,844	(2,160)	684
FHLB stock, fed funds and deposits	2,386	(3,786)	(1,400)
Total interest-earning assets	18,032	(22,901)	(4,869)
Interest paid on:			
Demand deposits	790	(1,888)	(1,098)
Money market and savings	4,965	(6,773)	(1,808)
Certificates of deposit	(7,213)	(14,631)	(21,844)
Borrowings	(307)	(6,502)	(6,809)
Total interest-bearing liabilities	(1,765)	(29,794)	(31,559)
Net interest income	\$ 19,797	\$ 6,893	\$ 26,690

Net interest income for Banking increased from \$170.3 million in 2019, to \$196.8 million in 2020 due primarily to a 9% increase in interest-earning assets. On a consolidated basis, the net interest margin (“NIM”) increased 16 basis points to 3.03% in 2020 from 2.87% in 2019, as the current low interest rate environment continues to impact our NIM positively as our cost of funds have fallen faster than the yield on our earnings assets. The realization of net PPP fee income of \$1.9 million helped offset the decrease in interest income due to lower average loan rates during 2020. The decrease in the cost of interest-bearing liabilities was due to a decrease in costs of interest-bearing deposits and decreased costs of borrowings. The cost of interest-bearing deposits decreased from 1.81% in 2019 to 1.04% in 2020. The average rate on borrowings decreased from 2.34% in 2019 to 1.28% in 2020. The average balance outstanding under the holding company line of credit decreased from \$6.1 million in 2019 to \$3.9 million in 2020, resulting in a \$0.2 million decrease in corporate interest expense.

*Provision for credit losses.* The provision for credit losses represents our estimate of the amount necessary to be charged against the current period’s earnings to maintain the ACL for loans and investments at a level that we consider adequate in relation to the estimated losses inherent in the loan and investment portfolios. The provision for credit losses for loans is impacted by changes in loan balances as well as changes in estimated loss assumptions and chargeoffs and recoveries. The amount of the provision for loans also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions and certain other subjective factors that may affect the ability of borrowers to meet their repayment obligations to us. For 2020 and 2019, we recorded provisions for credit losses of \$6.7 million and \$2.6 million, respectively. The provision for credit losses in 2020 and 2019 were due to the growth in loan balances and \$0.8 million of net chargeoffs in each year.

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

<i>(dollars in thousands)</i>		2020	2019
Trust fees	\$	5,645	\$ 5,124
Consulting fees		398	401
Deposit charges		1,236	1,070
Gain on sale of loans		15,140	4,218
Loan related fees		8,334	6,667
Other		814	1,364
Total noninterest income	\$	31,567	\$ 18,844

Noninterest income in Banking in 2020 was \$12.7 million higher than 2019 due to a higher gain on sale of loans, higher loan fees, and higher trust fees, which were partially offset by a decrease in other expenses. The \$10.9 million higher gain on sale was due to the benefits of a declining interest rate environment in 2020. The \$1.7 million increase in loan fees was due primarily to higher prepayment fees and higher servicing fees. The \$0.5 million increase in trust fees relates primarily to new clients.

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 the amounts of noninterest income for Wealth Management for the years ended December 31:

<i>(dollars in thousands)</i>		2020	2019
Noninterest income	\$	24,510	\$ 24,136

Noninterest income for Wealth Management increased slightly in 2020 when compared to 2019, as the level of billable AUM remained the same in both years.

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

<i>(dollars in thousands)</i>	<b>Banking</b>		<b>Wealth Management</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Compensation and benefits	\$ 56,154	\$ 51,754	\$ 16,371	\$ 16,662
Occupancy and depreciation	21,433	18,439	2,347	2,288
Professional services and marketing	5,972	4,603	2,558	2,258
Customer Service Costs	7,445	17,858	—	—
Other expenses	11,015	11,713	502	723
Total noninterest expense	<u>\$ 102,019</u>	<u>\$ 104,367</u>	<u>\$ 21,778</u>	<u>\$ 21,931</u>

Noninterest expense in Banking decreased to \$102 million in 2020 from \$104.4 million in 2019 due to a decrease in customer service costs, offset partially by increases in compensation and benefits, occupancy and depreciation, and professional services and marketing. Customer service costs for Banking decreased to \$7.4 in 2020 from \$17.9 million in 2019 due to decreases in the earnings credit rates paid on the related deposit balances, as interest rates declined during 2020. Compensation and benefits for Banking increased \$4.4 million during 2020 as compared to 2019, due to salary increases and an increase in the FTE in Banking, which increased to 436.8 in 2020, from 410.4 in 2019, as a result of the increased staffing related to additional personnel added to support the growth in loans and deposits. The increase in occupancy and depreciation for Banking to \$21.4 million in 2020 from \$18.4 million in 2019 was due to higher core processing costs related to higher volumes and services added during 2019.

Noninterest expenses for Wealth Management decreased by \$0.2 million for 2020, when compared to the comparable period in 2019, due to decreased compensation costs.

## Financial Condition

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

<i>(dollars in thousands)</i>	<b>Banking</b>	<b>Wealth Management</b>	<b>Other and Eliminations</b>	<b>Total</b>
<b>2021:</b>				
Cash and cash equivalents	\$ 1,121,089	\$ 3,195	\$ (2,527)	\$ 1,121,757
Securities AFS, net	1,191,378	—	—	1,191,378
Loans Held For Sale	501,436	—	—	501,436
Loans, net	6,872,952	—	—	6,872,952
Premises and equipment	37,373	411	136	37,920
FHLB Stock	18,249	—	—	18,249
Deferred taxes	20,745	138	(48)	20,835
REO	6,210	—	—	6,210
Goodwill and Intangibles	222,125	—	—	222,125
Other assets	179,385	365	23,592	203,342
Total assets	\$ 10,170,942	\$ 4,109	\$ 21,153	\$ 10,196,204
Deposits	\$ 8,836,250	\$ —	\$ (24,290)	\$ 8,811,960
Borrowings	165,930	—	44,197	210,127
Intercompany balances	4,605	(8,204)	3,599	—
Other liabilities	92,500	4,381	13,185	110,066
Shareholders' equity	1,071,657	7,932	(15,538)	1,064,051
Total liabilities and equity	\$ 10,170,942	\$ 4,109	\$ 21,153	\$ 10,196,204
<b>2020:</b>				
Cash and cash equivalents	\$ 629,066	\$ 1,671	\$ (1,030)	\$ 629,707
Securities AFS	807,426	—	—	807,426
Loans Held For Sale	505,404	—	—	505,404
Loans, net	4,779,599	—	—	4,779,599
Premises and equipment	7,313	563	136	8,012
FHLB Stock	17,250	—	—	17,250
Deferred taxes	8,663	186	(246)	8,603
Goodwill and Intangibles	95,296	—	—	95,296
Other assets	91,702	314	13,847	105,863
Total assets	\$ 6,941,719	\$ 2,734	\$ 12,707	\$ 6,957,160
Deposits	\$ 5,919,155	\$ —	\$ (5,722)	\$ 5,913,433
Borrowings	255,000	—	14,000	269,000
Intercompany balances	4,493	(3,519)	(974)	—
Other liabilities	65,423	3,808	9,785	79,016
Shareholders' equity	697,648	2,445	(4,382)	695,711
Total liabilities and equity	\$ 6,941,719	\$ 2,734	\$ 12,707	\$ 6,957,160
<b>2019:</b>				
Cash and cash equivalents	\$ 65,083	\$ 5,054	\$ (4,750)	\$ 65,387
Securities AFS	1,014,966	—	—	1,014,966
Loans Held For Sale	503,036	—	—	503,036
Loans, net	4,526,833	—	—	4,526,833
Premises and equipment	7,561	658	136	8,355
FHLB Stock	21,519	—	—	21,519
Deferred taxes	10,778	133	168	11,079
Goodwill and Intangibles	97,191	—	—	97,191
Other assets	51,229	445	14,396	66,070
Total assets	\$ 6,298,196	\$ 6,290	\$ 9,950	\$ 6,314,436
Deposits	\$ 4,902,958	\$ —	\$ (11,814)	\$ 4,891,144
Borrowings	733,000	—	10,000	743,000
Intercompany balances	3,111	469	(3,580)	—
Other liabilities	48,159	3,400	14,864	66,423
Shareholders' equity	610,968	2,421	480	613,869
Total liabilities and equity	\$ 6,298,196	\$ 6,290	\$ 9,950	\$ 6,314,436

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 2021, total assets increased by \$3.2 billion primarily due to increases in cash and loans, including loans held for sale. Loans and loans held for sale increased \$2.1 billion in 2021 as a result of \$3.9 billion of originations and the addition of \$1.1 billion in loans from the TGRF acquisition, which were partially offset by the sale of \$559 million of loans and payoffs or scheduled payments of \$2.4 billion. The \$2.9 billion growth in deposits during 2021 included increases in branch deposits of \$2.5 billion and specialty deposits of \$759 million, offset by decreases in digital banking deposits of \$136 million and \$236 million decrease in wholesale deposits. The increase in deposits was also primarily due to the TGRF acquisition, which contributed \$2.2 billion of deposits. Borrowings decreased by \$59 million at December 31, 2021, from \$269 million at December 31, 2020. At December 31, 2021, the outstanding balance on the holding company line of credit was \$18.5 million.

*Cash and cash equivalents, certificates of deposit and securities:* Cash and cash equivalents, which primarily consist of funds held at the Federal Reserve Bank or at correspondent banks, including fed funds, increased by \$492 million during 2021. Changes in cash and cash equivalents are primarily affected by the funding of loans, investments in securities, and changes in our sources of funding: deposits, FHLB advances and FFI borrowings.

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

<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized		Allowance for Credit Losses	Estimated Fair Value
		Gains	Losses		
<b>2021:</b>					
Collateralized mortgage obligations	\$ 13,862	\$ —	\$ (37)	\$ —	\$ 13,825
Agency mortgage-backed securities	928,546	6,563	(6,120)	—	928,989
Municipal bonds	52,052	94	—	—	52,146
SBA securities	27,970	2	—	—	27,972
Beneficial interests in FHLMC securitization	21,606	373	—	(10,399)	11,580
Corporate bonds	154,027	2,441	(92)	—	156,376
U.S. Treasury	499	—	(9)	—	490
Total	<u>\$ 1,198,562</u>	<u>\$ 9,473</u>	<u>\$ (6,258)</u>	<u>\$ (10,399)</u>	<u>\$ 1,191,378</u>
<b>2020:</b>					
Agency mortgage-backed securities	\$ 705,752	\$ 18,243	\$ —	\$ —	\$ 723,995
Municipal bonds	1,012	95	—	—	1,107
Beneficial interest – FHLMC securitization	30,497	211	—	(7,245)	23,463
Corporate bonds	57,000	1,358	—	—	58,358
U.S. Treasury	500	3	—	—	503
Total	<u>\$ 794,761</u>	<u>\$ 19,910</u>	<u>\$ —</u>	<u>\$ (7,245)</u>	<u>\$ 807,426</u>
<b>2019:</b>					
Agency mortgage-backed securities	\$ 905,949	\$ 9,174	\$ (146)	\$ —	\$ 914,977
Municipal bonds	986	60	—	—	1,046
Beneficial interest – FHLMC securitization	47,586	1,801	(6,681)	—	42,706
Corporate bonds	54,000	1,834	—	—	55,834
U.S. Treasury	400	3	—	—	403
Total	<u>\$ 1,008,921</u>	<u>\$ 12,872</u>	<u>\$ (6,827)</u>	<u>\$ —</u>	<u>\$ 1,014,966</u>

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

Excluding allowance for credit losses, the \$387 million increase in AFS securities in 2021 was due primarily to \$454 million in security purchases and \$222 million in securities acquired from TGRF, offset partially by \$268 million in principal payments, and decreases in unrealized gains on securities. The \$200 million decrease in AFS securities in 2020 was due to primarily to \$270 million in principal payments, partially offset by \$56 million of securities purchased.



The table below indicates, as of December 31, 2021, 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.

<i>(dollars in thousands)</i>	Securities with Unrealized Loss at December 31, 2021					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Collateralized mortgage obligations	\$ 12,971	\$ (37)	\$ —	\$ —	\$ 12,971	\$ (37)
Agency mortgage-backed securities	434,973	(5,051)	36,136	(1,069)	471,109	(6,120)
Corporate bonds	47,880	(92)	—	—	47,880	(92)
U.S. Treasury	491	(9)	—	—	491	(9)
Total temporarily impaired securities	<u>\$ 496,315</u>	<u>\$ (5,189)</u>	<u>\$ 36,136</u>	<u>\$ (1,069)</u>	<u>\$ 532,451</u>	<u>\$ (6,258)</u>

The table below indicates, as of December 31, 2019, 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.

<i>(dollars in thousands)</i>	Securities with Unrealized Loss at December 31, 2019					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Agency mortgage-backed securities	\$ 5,488	\$ (2)	\$ 13,880	\$ (144)	\$ 19,368	\$ (146)
Beneficial interests in FHLMC securitization	20,609	(2,856)	3,220	(3,825)	23,829	(6,681)
Total temporarily impaired securities	<u>\$ 26,097</u>	<u>\$ (2,858)</u>	<u>\$ 17,100</u>	<u>\$ (3,969)</u>	<u>\$ 43,197</u>	<u>\$ (6,827)</u>

There were no securities with unrealized losses at December 31, 2020.

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

The scheduled maturities of securities AFS, other than agency mortgage backed securities, and the related weighted average yield is as follows as of December 31, 2021:

<i>(dollars in thousands)</i>	Less than 1 Year	1 Through 5 years	5 Through 10 Years	After 10 Years	Total
<b>Amortized Cost:</b>					
Corporate bonds	\$ 3,505	\$ 11,634	\$ 133,352	\$ 5,535	\$ 154,026
Other	—	1,846	35,080	15,625	52,551
Total	<u>\$ 3,505</u>	<u>\$ 13,480</u>	<u>\$ 168,432</u>	<u>\$ 21,160</u>	<u>\$ 206,577</u>
Weighted average yield	<u>(4.82)%</u>	<u>2.36 %</u>	<u>3.75 %</u>	<u>3.85 %</u>	<u>3.52 %</u>
<b>Estimated Fair Value:</b>					
Corporate bonds	\$ 3,505	\$ 11,624	\$ 135,653	\$ 5,594	\$ 156,376
Other	—	1,916	35,091	15,629	52,636
Total	<u>\$ 3,505</u>	<u>\$ 13,540</u>	<u>\$ 170,744</u>	<u>\$ 21,223</u>	<u>\$ 209,012</u>

Agency mortgage backed securities and beneficial interests in FHLMC securitizations are excluded from the above table because such securities are not due at a single maturity date. The weighted average yield of the agency mortgage backed securities and beneficial interests in FHLMC securitizations as of December 31, 2021 was 1.67%.

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

<i>(dollars in thousands)</i>	December 31, 2021	December 31, 2020
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties:		
Multifamily	\$ 2,886,055	\$ 2,247,542
Single family	933,445	806,014
Total real estate loans secured by residential properties	3,819,500	3,053,556
Commercial properties	1,309,200	747,807
Land and construction	156,028	55,832
Total real estate loans	5,284,728	3,857,195
Commercial and industrial loans	1,598,422	918,676
Consumer loans	10,834	18,888
Total loans	6,893,984	4,794,759
Premiums, discounts and deferred fees and expenses	12,744	9,040
Total	<u>\$ 6,906,728</u>	<u>\$ 4,803,799</u>

Loans and loans held for sale increased \$2.1 billion in 2021 as a result of \$3.9 billion of originations and \$1.1 billion of loans acquired from TGRF, which were partially offset by the sale of \$559 million of loans and payoffs or scheduled payments of \$2.4 billion.

The scheduled maturities, as of December 31, 2021, of the performing loans categorized as land and construction loans and as commercial and industrial loans, are as follows:

<i>(dollars in thousands)</i>	Scheduled Maturity			Loans With a Scheduled Maturity After One Year	
	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years	Loans With Fixed Rates	Loan With Adjustable Rates
Land and construction loans	\$ 80,281	\$ 35,490	\$ 40,257	\$ 47,309	\$ 28,438
Commercial and industrial loans	214,103	961,667	422,652	1,221,711	162,608

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

<i>(dollars in thousands)</i>	2021		2020		2019	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Demand deposits:						
Noninterest-bearing	\$ 3,280,455	—	\$ 1,655,847	—	\$ 1,192,481	—
Interest-bearing	2,242,684	0.070 %	871,289	0.372 %	386,276	0.635 %
Money market and savings	2,620,336	0.275 %	2,407,401	0.549 %	1,334,736	1.355 %
Certificates of deposits	668,485	0.145 %	978,896	0.591 %	1,977,651	1.971 %
Total	<u>\$ 8,811,960</u>	<u>0.111 %</u>	<u>\$ 5,913,433</u>	<u>0.376 %</u>	<u>\$ 4,891,144</u>	<u>1.217 %</u>

The \$2.9 billion increase in deposits during 2021 was due to increases in branch deposits of \$2.5 billion and specialty deposits of \$759 million, offset by decreases in digital banking deposits of \$136 million and \$236 million decrease in wholesale deposits. The increase in deposits was also primarily due to the TGRF acquisition, which contributed \$2.2 billion of deposits. The \$1 billion increase in deposits during 2020 was due to increases in branch deposits of \$736 million, specialty deposits of \$979 million, and digital bank deposits of \$402 million, offset partially by a \$1 billion decrease in wholesale deposits.

The weighted average rate of interest-bearing deposits decreased from 1.61% at December 31, 2019 to 0.52% at December 31, 2020, and decreased to 0.18% at December 31, 2021, while the weighted average interest rates of both

interest-bearing and noninterest-bearing deposits decreased from 1.22% at December 31, 2019, to 0.38% at December 31, 2020, and decreased to 0.15% at December 31, 2021. The financial impact of the increase in noninterest-bearing deposits is reflected in customer service costs, which are included in noninterest expenses.

The maturities of our certificates of deposit of \$100,000 or more were as follows as of December 31, 2021:

<i>(dollars in thousands)</i>	
3 months or less	\$ 215,680
Over 3 months through 6 months	133,711
Over 6 months through 12 months	133,469
Over 12 months	71,430
Total	<u>\$ 554,290</u>

From time to time, the Bank will utilize brokered deposits as a source of funding. As of December 31, 2021, the Bank held \$90 million of deposits which are classified as brokered deposits.

*Borrowings:* At December 31, 2021, our borrowings consisted of \$26 million in subordinated notes, \$166 million of repurchase agreements, and \$18.5 million of borrowings under a holding company line of credit. At December 31, 2020, our borrowings consisted of \$255 million in FHLB term advances at the Bank, and \$14 million of borrowings under a company line of credit. The subordinated notes mature in June 2030 and bear a fixed interest rate of 6.0%, until June 30, 2025, at which time they will convert to a floating rate based on three month Secured Overnight Financing Rate ("SOFR"), plus 590 basis points (5.90%), until maturity. The average balance of borrowings at the Bank during 2021 was \$57 million, as compared to \$609 million during 2020. The weighted average interest rate on these borrowings was 0.41% during 2021, as compared to 1.26% during 2020. The maximum amount of short-term FHLB advances outstanding at any month-end during 2021 and 2020, was \$255 million and \$860 million, respectively.

#### **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

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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
2021:							
Real estate loans:							
Residential properties	\$ 1,519	\$ 310	\$ —	\$ 3,281	\$ 5,110	\$ 3,827,385	\$ 3,832,495
Commercial properties	2,934	—	—	1,529	4,463	1,305,112	1,309,575
Land and construction	—	—	—	—	—	155,926	155,926
Commercial and industrial loans	303	260	—	3,520	4,083	1,593,782	1,597,865
Consumer loans	—	—	—	—	—	10,867	10,867
Total	<u>\$ 4,756</u>	<u>\$ 570</u>	<u>\$ —</u>	<u>\$ 8,330</u>	<u>\$ 13,656</u>	<u>\$ 6,893,072</u>	<u>\$ 6,906,728</u>
Percentage of total loans	0.07 %	0.01 %	— %	0.12 %	0.20 %		
2020:							
Real estate loans:							
Residential properties	\$ 35	\$ —	\$ —	\$ 10,947	\$ 10,982	\$ 3,042,574	\$ 3,053,556
Commercial properties	951	240	—	4,544	5,735	742,072	747,807
Land and construction	—	—	—	—	—	55,832	55,832
Commercial and industrial loans	1,013	411	152	5,137	6,713	911,963	918,676
Consumer loans	—	—	—	—	—	18,888	18,888
Total	<u>\$ 1,999</u>	<u>\$ 651</u>	<u>\$ 152</u>	<u>\$ 20,628</u>	<u>\$ 23,430</u>	<u>\$ 4,771,329</u>	<u>\$ 4,794,759</u>
Percentage of total loans	0.04 %	0.01 %	0.00 %	0.43 %	0.49 %		
2019:							
Real estate loans:							
Residential properties	\$ 89	\$ 13	\$ —	\$ 1,743	\$ 1,845	\$ 3,013,255	\$ 3,015,100
Commercial properties	7,586	—	403	2,410	10,399	823,643	834,042
Land and construction	—	—	—	—	—	70,257	70,257
Commercial and industrial loans	695	2,007	—	8,714	11,416	588,797	600,213
Consumer loans	22	3	—	—	25	16,248	16,273
Total	<u>\$ 8,392</u>	<u>\$ 2,023</u>	<u>\$ 403</u>	<u>\$ 12,867</u>	<u>\$ 23,685</u>	<u>\$ 4,512,200</u>	<u>\$ 4,535,885</u>
Percentage of total loans	0.19 %	0.04 %	0.01 %	0.27 %	0.52 %		

The following table summarizes our nonaccrual loans as of:

(dollars in thousands)	Nonaccrual with Allowance for Credit Losses	Nonaccrual with no Allowance for Credit Losses
<b>December 31, 2021</b>		
Real estate loans:		
Residential properties	\$ —	\$ 3,281
Commercial properties	—	1,529
Commercial and industrial loans	1,733	1,788
Total	<u>\$ 1,733</u>	<u>\$ 6,598</u>
<b>December 31, 2020</b>		
Real estate loans:		
Residential properties	\$ 2,987	\$ 7,959
Commercial properties	—	4,544
Commercial and industrial loans	2,581	2,557
Total	<u>\$ 5,568</u>	<u>\$ 15,060</u>

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

(dollars in thousands)	December 31, 2021			December 31, 2020		
	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Residential real estate loans	\$ 1,200	\$ —	\$ 1,200	\$ 1,200	\$ —	\$ 1,200
Commercial real estate loans	1,021	1,174	2,195	1,107	1,277	2,384
Commercial and industrial loans	493	2,030	2,523	1,041	2,832	3,873
Total	\$ 2,714	\$ 3,204	\$ 5,918	\$ 3,348	\$ 4,109	\$ 7,457

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

*Allowance for Credit Losses.* The following table summarizes the activity in our ACL related to loans for the year ended December 31:

(dollars in thousands)	Beginning Balance	Adoption of ASC 326	Provision for Credit Losses	Allowance on Acquired PCD Loans	Chargeoffs	Recoveries	Ending Balance
<b>2021:</b>							
Real estate loans:							
Residential properties	\$ 5,115	\$ —	\$ (1,453)	\$ 93	\$ (1,118)	\$ —	\$ 2,637
Commercial properties	8,711	—	774	7,564	—	—	17,049
Land and construction	892	—	1,051	52	—	—	1,995
Commercial and industrial loans	9,249	—	614	1,836	(706)	999	11,992
Consumer loans	233	—	(130)	—	—	—	103
Total	\$ 24,200	\$ —	\$ 856	\$ 9,545	\$ (1,824)	\$ 999	\$ 33,776
<b>2020:</b>							
Real estate loans:							
Residential properties	\$ 8,423	\$ 363	\$ (3,671)	\$ —	\$ —	\$ —	\$ 5,115
Commercial properties	4,166	3,760	785	—	—	—	8,711
Land and construction	573	92	227	—	—	—	892
Commercial and industrial loans	7,448	—	2,642	—	(1,844)	1,003	9,249
Consumer loans	190	—	43	—	—	—	233
Total	\$ 20,800	\$ 4,215	\$ 26	\$ —	\$ (1,844)	\$ 1,003	\$ 24,200
<b>2019:</b>							
Real estate loans:							
Residential properties	\$ 9,216	\$ —	\$ (793)	\$ —	\$ —	\$ —	\$ 8,423
Commercial properties	4,547	—	(381)	—	—	—	4,166
Land and construction	391	—	182	—	—	—	573
Commercial and industrial loans	4,628	—	3,653	—	(2,687)	1,854	7,448
Consumer loans	218	—	(24)	—	(5)	1	190
Total	\$ 19,000	\$ —	\$ 2,637	\$ —	\$ (2,692)	\$ 1,855	\$ 20,800
<b>2018:</b>							
Real estate loans:							
Residential properties	\$ 9,715	\$ —	\$ (499)	\$ —	\$ —	\$ —	\$ 9,216
Commercial properties	4,399	—	359	—	(211)	—	4,547
Land and construction	395	—	(4)	—	—	—	391
Commercial and industrial loans	3,624	—	4,413	—	(3,978)	569	4,628
Consumer loans	267	—	(49)	—	—	—	218
Total	\$ 18,400	\$ —	\$ 4,220	\$ —	\$ (4,189)	\$ 569	\$ 19,000
<b>2017:</b>							
Real estate loans:							
Residential properties	\$ 6,669	\$ —	\$ 3,046	\$ —	\$ —	\$ —	\$ 9,715
Commercial properties	2,983	—	1,416	—	—	—	4,399
Land and construction	233	—	162	—	—	—	395
Commercial and industrial loans	5,227	—	(1,841)	—	—	238	3,624
Consumer loans	288	—	(21)	—	—	—	267
Total	\$ 15,400	\$ —	\$ 2,762	\$ —	\$ —	\$ 238	\$ 18,400

Excluding the loans acquired in an acquisition and any related allocated ACL for loans, our ACL related to loans represented 0.49% and 0.50% of total loans outstanding as of December 31, 2021, and December 31, 2020, respectively.

The amount of the ACL for loans is adjusted periodically by charges to operations (referred to in our income statement as the “provision for credit losses”) (i) to replenish the ACL after it has been reduced due to loan write-downs or chargeoffs, (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 chargeoff 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 ACL. 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 ACL, it could become necessary for us to incur additional, and possibly significant, charges to increase the ACL, which would have the effect of reducing our income.

In addition, the FDIC and the DFPI, as an integral part of their examination processes, periodically review the adequacy of our ACL. 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.

On January 1, 2020, we adopted a new accounting standard which replaces the “incurred loss” model for measuring credit losses discussed above with a new “expected loss” model. See “Note 1: Summary of Significant Accounting Policies—New Accounting Pronouncements” for additional details.

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

<i>(dollars in thousands)</i>	<b>Evaluated for Impairment</b>		<b>Total</b>
	<b>Individually</b>	<b>Collectively</b>	
<b>2021:</b>			
Allowance for credit losses:			
Real estate loans:			
Residential properties	\$ 111	\$ 2,526	\$ 2,637
Commercial properties	7,967	9,082	17,049
Land	52	1,943	1,995
Commercial and industrial loans	2,386	9,606	11,992
Consumer loans	—	103	103
Total	<u>\$ 10,516</u>	<u>\$ 23,260</u>	<u>\$ 33,776</u>
Loans:			
Real estate loans:			
Residential properties	\$ 9,593	\$ 3,822,902	\$ 3,832,495
Commercial properties	41,313	1,268,262	1,309,575
Land	694	155,232	155,926
Commercial and industrial loans	9,963	1,587,902	1,597,865
Consumer loans	—	10,867	10,867
Total	<u>\$ 61,563</u>	<u>\$ 6,845,165</u>	<u>\$ 6,906,728</u>
<b>2020:</b>			
Allowance for credit losses:			
Real estate loans:			
Residential properties	\$ 1,059	\$ 4,056	\$ 5,115
Commercial properties	374	8,337	8,711
Land	—	892	892
Commercial and industrial loans	956	8,293	9,249
Consumer loans	—	233	233
Total	<u>\$ 2,389</u>	<u>\$ 21,811</u>	<u>\$ 24,200</u>

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Loans:			
Real estate loans:			
Residential properties	\$ 12,414	\$ 3,041,142	\$ 3,053,556
Commercial properties	17,304	730,503	747,807
Land	—	55,832	55,832
Commercial and industrial loans	6,472	912,204	918,676
Consumer loans	—	18,888	18,888
Total	<u>\$ 36,190</u>	<u>\$ 4,758,569</u>	<u>\$ 4,794,759</u>
<b>2019:</b>			
Allowance for credit losses:			
Real estate loans:			
Residential properties	\$ —	\$ 8,423	\$ 8,423
Commercial properties	107	4,059	4,166
Land	—	573	573
Commercial and industrial loans	763	6,685	7,448
Consumer loans	—	190	190
Total	<u>\$ 870</u>	<u>\$ 19,930</u>	<u>\$ 20,800</u>
Loans:			
Real estate loans:			
Residential properties	\$ 2,897	\$ 3,012,203	\$ 3,015,100
Commercial properties	6,689	827,353	834,042
Land	—	70,257	70,257
Commercial and industrial loans	9,316	590,897	600,213
Consumer loans	—	16,273	16,273
Total	<u>\$ 18,902</u>	<u>\$ 4,516,983</u>	<u>\$ 4,535,885</u>
<b>2018:</b>			
Allowance for credit losses:			
Real estate loans:			
Residential properties	\$ —	\$ 9,216	\$ 9,216
Commercial properties	126	4,421	4,547
Land	—	391	391
Commercial and industrial loans	290	4,338	4,628
Consumer loans	—	218	218
Total	<u>\$ 416</u>	<u>\$ 18,584</u>	<u>\$ 19,000</u>
Loans:			
Real estate loans:			
Residential properties	\$ 651	\$ 2,861,112	\$ 2,861,763
Commercial properties	2,871	866,298	869,169
Land	697	79,490	80,187
Commercial and industrial loans	8,559	441,246	449,805
Consumer loans	—	22,699	22,699
Total	<u>\$ 12,778</u>	<u>\$ 4,270,845</u>	<u>\$ 4,283,623</u>
<b>2017:</b>			
Allowance for credit losses:			
Real estate loans:			
Residential properties	\$ —	\$ 9,715	\$ 9,715
Commercial properties	—	4,399	4,399
Land	—	395	395
Commercial and industrial loans	909	2,715	3,624
Consumer loans	—	267	267
Total	<u>\$ 909</u>	<u>\$ 17,491</u>	<u>\$ 18,400</u>
Loans:			
Real estate loans:			
Residential properties	\$ —	\$ 2,581,245	\$ 2,581,245
Commercial properties	4,037	692,711	696,748
Land	—	—	—
Commercial and industrial loans	9,399	301,380	310,779
Consumer loans	—	29,330	29,330
Total	<u>\$ 13,436</u>	<u>\$ 3,604,666</u>	<u>\$ 3,618,102</u>

## 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 FRBSF 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 FFI common stock. The remaining balances of the Company's lines of credit available to draw down totaled \$3.1 billion at December 31, 2021.

*Cash Flows Provided by Operating Activities.* During the year ended December 31, 2021, operating activities provided net cash of \$97 million, comprised primarily of our net income of \$110 million and \$23 million increase in other liabilities, offset partially by a \$39 million increase in other assets. During the year ended December 31, 2020, operating activities provided net cash of \$67 million, comprised primarily of our net income of \$84 million and \$13 million increase in other liabilities, offset partially by a \$39 million increase in other assets.

*Cash Flows Used in Investing Activities.* During the year ended December 31, 2021, investing activities used net cash of \$79 million, primarily to fund a \$1.6 billion net increase in loans and \$455 million in purchases of securities AFS, offset partially by \$1.1 billion in cash received from the TGRF acquisition, \$580 million in proceeds from loan sales, and \$268 million in principal collections of securities AFS. During the year ended December 31, 2020, investing activities used net cash of \$25 million, primarily to fund a \$794 million net increase in loans and \$56 million in purchases of securities AFS, offset partially by \$553 million in proceeds from loan sales, and \$270 million in principal collections of securities AFS.

*Cash Flow Provided by Financing Activities.* During the year ended December 31, 2021, financing activities provided net cash of \$474 million, consisting primarily of a net increase of \$728 million in deposits and a net \$17 million increase in our line of credit borrowing, offset partially by a \$255 million decrease in FHLB advances and \$16 million in dividends paid. During the year ended December 31, 2020, financing activities provided net cash of \$522 million, consisting primarily of a net increase of \$1.0 billion in deposits, offset partially by a \$478 million decrease in FHLB advances, \$12 million in dividends paid and \$12 million paid in swap settlements.

*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, 2021 and 2020, the loan-to-deposit ratios at FFB were 84%, and 90%, respectively.

## Contractual Obligations

The following table summarizes the indicated contractual obligations of the Company as of the December 31, 2021:

(dollars in thousands)	Payments Due by Period				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Subordinated notes	\$ 25,697	\$ —	\$ —	\$ —	\$ 25,697
FFI line of credit loan	18,500	—	18,500	—	—
Operating lease obligations	24,687	7,068	8,857	6,024	2,738
Total	<u>\$ 68,884</u>	<u>\$ 7,068</u>	<u>\$ 27,357</u>	<u>\$ 6,024</u>	<u>\$ 28,435</u>

## Off-Balance Sheet Arrangements

The following table provides the off-balance sheet arrangements of the Company as of December 31, 2021:

<i>(dollars in thousands)</i>	
Commitments to fund new loans	\$ 29,545
Commitments to fund under existing loans, lines of credit	881,605
Commitments under standby letters of credit	14,576

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, 2021, FFB was obligated on \$277 million of letters of credit to the FHLB which were being used as collateral for public fund deposits, including \$263 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: (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 parallel 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 parallel 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, 2021:

<i>(dollars in thousands)</i>	Less than 1 year	From 1 to 3 Years	From 3 to 5 Years	Over 5 Years	Total
<b>Interest-earning assets:</b>					
Cash equivalents	\$ 1,121,227	\$ —	\$ —	\$ —	\$ 1,121,227
Securities, FHLB stock	735,209	122,922	133,333	196,156	1,187,620
Loans	2,770,312	2,610,472	1,424,787	488,099	7,293,670
<b>Interest-bearing liabilities:</b>					
Deposits:					
Interest-bearing checking	(3,234,092)	—	—	—	(3,234,092)
Money market and savings	(2,626,475)	—	—	—	(2,626,475)
Certificates of deposit	(645,330)	(21,314)	(2,636)	(30)	(669,310)
Borrowings	(165,930)	—	—	—	(165,930)
Net: Current Period	\$ (2,045,079)	\$ 2,712,080	\$ 1,555,484	\$ 684,225	\$ 2,906,710
Net: Cumulative	\$ (2,045,079)	\$ 667,001	\$ 2,222,485	\$ 2,906,710	

The cumulative positive total of \$2.9 billion reflects the funding provided by noninterest-bearing deposits and equity. Because we had a \$2.0 billion net negative position at December 31, 2021 for the repricing period of less than

one year, the result of this analysis indicates 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 (“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, 2021 are as follows:

<b>Assumed Instantaneous Change in Interest Rates</b>	<b>Estimated Increase (Decrease) in Net Interest Income</b>
+ 100 basis points	(1.09)%
+ 200 basis points	(2.07)%
+ 300 basis points	(3.10)%
+ 400 basis points	(4.11)%
- 100 basis points	(0.05)%

The modeled one year NII results indicate that the Bank would be adversely impacted in the up rate shock scenarios of 100 through 400 basis points and in the down rate shock scenario of 100 basis points. We did not include rate shock scenarios below the down 100 basis points because we believe those scenarios are not meaningful for IRR modeling based on the current interest rate environment.

*Economic Value of Equity Calculations (“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, 2021 are as follows:

<b>Assumed Instantaneous Change in Interest Rates</b>	<b>Estimated Increase (Decrease) in Economic Value of Equity</b>
+ 100 basis points	7.00 %
+ 200 basis points	13.18 %
+ 300 basis points	18.22 %
+ 400 basis points	22.27 %
- 100 basis points	(10.97)%

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 benefit from a short term increase in interest rates and adversely impacted by 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 eliminate 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, but are not limited to, 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.

### **Capital Resources and Dividends**

The Capital Rules apply to United States based bank holding companies and federally insured depository institutions and require the Company (on a consolidated basis) and FFB (on a stand-alone basis) to 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. For additional information regarding these Capital Rules, see Item 1 "Business —Supervision and Regulation—Capital Requirements Applicable to Banks and Bank Holding Companies" in Part I above.

In addition, prompt correct action regulations place a federally insured depository institution, such as FFB, into one of five capital categories on the basis of its capital ratios: (i) well capitalized; (ii) adequately capitalized; (iii) undercapitalized; (iv) significantly undercapitalized; or (v) critically undercapitalized. A depository institution's primary federal regulatory agency may determine that, based on certain qualitative assessments, the depository institution should be assigned to a lower capital category than the one indicated by its capital ratios. At each successive lower capital category, a depository institution is subject to greater operating restrictions and increased regulatory supervision by its federal bank regulatory agency.

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

(dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>FFI</b>						
<b>December 31, 2021</b>						
CET1 capital ratio	\$ 846,515	11.34 %	\$ 335,801	4.50 %		
Tier 1 leverage ratio	846,515	8.43 %	401,645	4.00 %		
Tier 1 risk-based capital ratio	846,515	11.34 %	447,735	6.00 %		
Total risk-based capital ratio	887,821	11.90 %	596,980	8.00 %		
<b>December 31, 2020</b>						
CET1 capital ratio	\$ 589,276	11.55 %	\$ 229,490	4.50 %		
Tier 1 leverage ratio	589,276	8.93 %	263,986	4.00 %		
Tier 1 risk-based capital ratio	589,276	11.55 %	305,987	6.00 %		
Total risk-based capital ratio	620,700	12.17 %	407,982	8.00 %		
<b>December 31, 2019</b>						
CET1 capital ratio	\$ 513,083	10.65 %	\$ 216,782	4.50 %		
Tier 1 leverage ratio	513,083	8.25 %	248,798	4.00 %		
Tier 1 risk-based capital ratio	513,083	10.65 %	289,043	6.00 %		
Total risk-based capital ratio	537,048	11.15 %	385,390	8.00 %		
<b>FFB</b>						
<b>December 31, 2021</b>						
CET1 capital ratio	\$ 854,075	11.49 %	\$ 334,608	4.50 %	\$ 483,323	6.50 %
Tier 1 leverage ratio	854,075	8.53 %	400,616	4.00 %	500,770	5.00 %
Tier 1 risk-based capital ratio	854,075	11.49 %	446,144	6.00 %	594,859	8.00 %
Total risk-based capital ratio	895,381	12.04 %	594,859	8.00 %	743,574	10.00 %
<b>December 31, 2020</b>						
CET1 capital ratio	\$ 591,171	11.63 %	\$ 228,703	4.50 %	\$ 330,349	6.50 %
Tier 1 leverage ratio	591,171	8.98 %	263,330	4.00 %	329,162	5.00 %
Tier 1 risk-based capital ratio	591,171	11.63 %	304,938	6.00 %	406,583	8.00 %
Total risk-based capital ratio	622,595	12.25 %	406,583	8.00 %	508,229	10.00 %
<b>December 31, 2019</b>						
CET1 capital ratio	\$ 510,142	10.62 %	\$ 216,063	4.50 %	\$ 312,091	6.50 %
Tier 1 leverage ratio	510,142	8.22 %	248,119	4.00 %	310,148	5.00 %
Tier 1 risk-based capital ratio	510,142	10.62 %	288,084	6.00 %	384,112	8.00 %
Total risk-based capital ratio	534,107	11.12 %	384,112	8.00 %	480,140	10.00 %

As of each of the dates set forth in the above table, the Company exceeded the minimum required capital ratios applicable to it and FFB's capital ratios exceeded the minimums necessary to qualify as a well-capitalized depository institution under the prompt corrective action regulations. The required ratios for capital adequacy set forth in the above table do not include the Capital Rules' additional capital conservation buffer, though each of the Company and FFB maintained capital ratios necessary to satisfy the capital conservation buffer requirements as of the dates indicated.

As of December 31, 2021, the amount of capital at FFB in excess of amounts required to be well capitalized for purposes of the prompt corrective action regulations was \$371 million for the CET1 capital ratio, \$353 million for the Tier 1 Leverage Ratio, \$259 million for the Tier 1 risk-based capital ratio and \$152 million for the Total risk-based capital ratio.

During the year ended December 31, 2019, FFI made capital contributions to FFB of \$10 million. As of December 31, 2021, FFI had \$29.6 million of available capital and, therefore, has the ability and financial resources to contribute additional capital to FFB, if needed.

On January 31, 2022, the Board of Directors declared a quarterly cash dividend of \$0.11 per common share to be paid on February 17, 2022 to stockholders of record as of the close of business on February 10, 2022. It is our current intention to continue to pay quarterly dividends. The amount and declaration of future cash dividends are subject to approval by our Board of Directors and certain regulatory restrictions which are discussed in *Item 1 "Business—Supervision and Regulation—Dividends and Stock Repurchases"* in Part I above. Additionally, under the terms of the holding company line of credit agreement, FFI may only declare and pay a dividend if the total amount of dividends and

stock repurchases during the current twelve months does not exceed 50% of FFI's net income for the same twelve month period. We paid \$16.1 million (\$0.28 per share), \$12.5 million (\$0.28 per share) and \$8.9 million (\$0.20 per share) in dividends in 2021, 2020 and 2019, respectively.

We had no material commitments for capital expenditures as of December 31, 2021. However, we intend to take advantage of opportunities that may arise in the future to grow our businesses, which may include opening additional offices or acquiring complementary businesses that we believe will provide us with attractive risk-adjusted returns. 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"* in Part I above for information regarding the impact that future sales of our common stock may have on the share ownership of our existing stockholders.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

For quantitative and qualitative disclosures regarding market risk in the Company's portfolio, please see *Item 7 "Management's Discussion and Analysis—Asset and Liability Management: Interest Rate Risk"* in Part II above.

**Item 8. Financial Statements and Supplementary Data**

**FIRST FOUNDATION INC  
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and Board of Directors of First Foundation Inc.

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of First Foundation Inc. and subsidiaries (the “Company”) as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows, for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2022, expressed an unqualified opinion on the Company’s internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

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## Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### *Allowance for Credit Losses*

The Company has a gross loan portfolio of \$6.9 billion and related allowance for credit losses (ACL) of \$33.8 million as of December 31, 2021. As discussed in Notes 1 & 6 to the Company's consolidated financial statements, the ACL represents management's estimate of expected credit losses over the contractual life of the loan portfolio. The ACL is estimated using relevant available information relating to past events, current economic conditions, and reasonable and supportable forecasts, as well as qualitative adjustments applied on a portfolio segment basis. The qualitative adjustments are used to bring the ACL to the level management believes is appropriate based on factors that are otherwise unaccounted for in the quantitative process.

Auditing these complex judgments and assumptions involves especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters, including the extent of specialized skill or knowledge needed.

Our considerations and procedures performed to address this critical audit matter included:

- Obtaining an understanding of the Company's process for establishing the ACL, including the models selected by management to estimate quantitative components of the ACL and qualitative adjustments made to the ACL. This includes the process utilized by management to challenge the model results and determine the best estimate of the ACL as of the balance sheet date.
- Evaluating the design and testing the operating effectiveness of controls relating to the development and approval of the ACL methodology, management's identification and determination of the significant assumptions used in the Probability of Default (PD) and Loss Given Default (LGD) models, controls around the reliability and accuracy of the data used in the models, analysis of the ACL results and management's review and approval of the ACL.
- Evaluating the appropriateness of the model methodology used to incorporate a reasonable and supportable forecast period and reversion to historical loss rates by inspecting the model documentation and by comparing it to relevant industry practices.
- Determining whether the loan portfolio is segmented by similar risk characteristics by comparing to the Company's business environment and relevant industry practices.
- Evaluating the identification and measurement of the qualitative adjustments, including the basis for concluding an adjustment was warranted and compared the adjustments utilized by management to both internal portfolio metrics and external macroeconomic data to support the adjustments and evaluated the trends in such adjustments. We searched for and evaluated information that corroborates or contradicts management's reasonable and supportable forecast as well as identification and measurement of qualitative factors.

### *Acquisition of TGR Financial, Inc. ("TGRF")*

As discussed in Note 2 to the Company's consolidated financial statements, on December 17, 2021, the Company closed its acquisition of 100% of TGRF and its wholly-owned subsidiary, First Florida Integrity Bank. The value of the

transaction consideration was approximately \$283 million. The acquisition of TGRF has been accounted for as a business combination using the acquisition method of accounting which requires assets acquired and liabilities assumed to be recognized at fair value as of the acquisition date. Goodwill of \$125.1 million arising from the acquisition was derived based on the excess of the purchase price over the fair value of the net assets received.

The Company's determination of fair values of certain identifiable tangible and intangible assets is complex and included the following areas of management's judgments: (i) application of accounting guidance related to business combinations, (ii) significant unobservable inputs and assumptions utilized by management in determining the fair values of certain identifiable tangible and intangible assets, and (iii) changes in certain assumptions that could have a significant impact on the fair values of the identifiable tangible and intangible assets acquired.

Auditing these elements involved especially challenging auditor judgment due to the nature and extent of audit effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Evaluating the design and testing the operating effectiveness of controls relating to management's identification of assets and liabilities acquired in the acquisition transaction and management's consideration of the methodologies and related significant inputs and assumptions used in the determination of estimated fair values of assets and liabilities acquired.
- Assessing management's application of accounting guidance related to business combinations.
- Assessing the reasonableness of significant underlying assumptions by evaluating whether the information used by the Company: (i) was reasonably available at the time of the analysis; (ii) was the best information available under the circumstances; and (iii) gave consideration to observable market prices.
- Assessing the methodology utilized by management, including complex assumptions used, and testing the underlying source information, in the determination of fair values as of the acquisition date with the assistance of our internal valuation specialists.



San Ramon, California  
February 28, 2022

We have served as the Company's auditor since 2019. Vavrinek, Trine, Day & Co., LLP, who joined Eide Bailly LLP in 2019, had served as the Company's auditor since 2007.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and Board of Directors of First Foundation Inc.

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of First Foundation Inc. and subsidiaries (the “Company”) as of December 31, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control --Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2021, of the Company and our report dated February 28, 2022, expressed an unqualified opinion on those financial statements.

As described in Management’s Assessment on Internal Control over Financial Reporting, management excluded from its assessment of the internal control over financial reporting at TGR Financial, Inc. (“TGRF”), which was acquired on December 17, 2021, and whose financial statements constitute 19% of total assets of the consolidated financial statement amounts as of the year ended December 31, 2021. Accordingly, our audit did not include the internal control over financial reporting at TGRF.

### Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Assessment on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

San Ramon, California  
February 28, 2022

**FIRST FOUNDATION INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(In thousands, except share and per share amounts)*

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,121,757	\$ 629,707
Securities available-for-sale ("AFS")	1,201,777	814,671
Allowance for credit losses - investments	(10,399)	(7,245)
Net securities	<u>1,191,378</u>	<u>807,426</u>
Loans held for sale	<u>501,436</u>	<u>505,404</u>
Loans held for investment	6,906,728	4,803,799
Allowance for credit losses - loans	(33,776)	(24,200)
Net loans	<u>6,872,952</u>	<u>4,779,599</u>
Investment in FHLB stock	18,249	17,250
Deferred taxes	20,835	8,603
Premises and equipment, net	37,920	8,012
Real Estate Owned ("REO")	6,210	—
Goodwill and intangibles	222,125	95,296
Other assets	203,342	105,863
Total Assets	<u>\$ 10,196,204</u>	<u>\$ 6,957,160</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Deposits	\$ 8,811,960	\$ 5,913,433
Borrowings	210,127	269,000
Accounts payable and other liabilities	110,066	79,016
Total Liabilities	<u>9,132,153</u>	<u>6,261,449</u>
Shareholders' Equity		
Common Stock	56	45
Additional paid-in-capital	720,744	433,941
Retained earnings	340,976	247,638
Accumulated other comprehensive income	2,275	14,087
Total Shareholders' Equity	<u>1,064,051</u>	<u>695,711</u>
Total Liabilities and Shareholders' Equity	<u>\$ 10,196,204</u>	<u>\$ 6,957,160</u>

(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,		
	2021	2020	2019
Interest income:			
Loans	\$ 224,823	\$ 216,798	\$ 220,951
Securities AFS	20,435	25,688	25,004
FHLB Stock, fed funds sold and interest-bearing deposits	1,960	1,405	2,805
Total interest income	247,218	243,891	248,760
Interest expense:			
Deposits	13,453	39,432	64,182
Borrowings	481	7,815	14,624
Total interest expense	13,934	47,247	78,806
Net interest income	233,284	196,644	169,954
Provision for credit losses	3,866	6,746	2,637
Net interest income after provision for credit losses	229,418	189,898	167,317
Noninterest income:			
Asset management, consulting and other fees	36,022	29,465	28,658
Gain on sale of loans	21,459	15,140	4,218
Other income	12,972	10,042	8,900
Total noninterest income	70,453	54,647	41,776
Noninterest expense:			
Compensation and benefits	87,908	73,868	69,933
Occupancy and depreciation	24,977	23,892	20,905
Professional services and marketing costs	12,224	8,045	7,417
Customer service costs	8,775	7,445	17,858
Other expenses	14,202	12,528	13,481
Total noninterest expense	148,086	125,778	129,594
Income before taxes on income	151,785	118,767	79,499
Taxes on income	42,274	34,398	23,260
Net income	\$ 109,511	\$ 84,369	\$ 56,239
Net income per share:			
Basic	\$ 2.42	\$ 1.89	\$ 1.26
Diluted	\$ 2.41	\$ 1.88	\$ 1.25
Shares used in computation:			
Basic	45,272,183	44,639,430	44,617,361
Diluted	45,459,540	44,900,805	44,911,265

(See accompanying notes to the consolidated financial statements)



**FIRST FOUNDATION INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
*(In thousands)*

	For the Year Ended December 31,		
	2021	2020	2019
Net income	\$ 109,511	\$ 84,369	\$ 56,239
Other comprehensive income (loss):			
Unrealized holding gains (losses) on securities arising during the period	(16,696)	13,866	7,674
Other comprehensive income (loss) before tax	(16,696)	13,866	7,674
Income tax benefit (expense) related to items of other comprehensive income	4,884	(4,055)	(2,021)
Other comprehensive income (loss)	(11,812)	9,811	5,653
Less: Reclassification adjustment for loss included in net earnings	—	—	(316)
Income tax benefit related to reclassification adjustment	—	—	92
Reclassification adjustment for loss included in net earnings, net of tax	—	—	(224)
Other comprehensive income (loss), net of tax	(11,812)	9,811	5,429
Total comprehensive income	\$ 97,699	\$ 94,180	\$ 61,668

(See accompanying notes to the consolidated financial statements)

**FIRST FOUNDATION INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES**  
**IN SHAREHOLDERS' EQUITY**

*(In thousands, except share amounts)*

	<b>Common Stock</b>		<b>Additional</b>	<b>Retained</b>	<b>Accumulated Other</b>	
	<b>Number</b>	<b>Amount</b>	<b>Paid-in</b>	<b>Earnings</b>	<b>Comprehensive</b>	<b>Total</b>
	<b>of Shares</b>		<b>Capital</b>		<b>Income (Loss)</b>	
<b>Balance: December 31, 2018</b>	44,496,007	\$ 44	\$ 431,832	\$ 128,461	\$ (1,153)	\$ 559,184
Net income	—	—	—	56,239	—	56,239
Other comprehensive income (loss)	—	—	—	—	5,429	5,429
Stock based compensation	—	—	1,633	—	—	1,633
Cash dividend	—	—	—	(8,927)	—	(8,927)
Issuance of common stock:						
Exercise of options	44,000	—	334	—	—	334
Stock grants – vesting of restricted stock units	132,536	1	(1)	—	—	—
Repurchase of shares from restricted shares vesting	(1,800)	—	(23)	—	—	(23)
<b>Balance: December 31, 2019</b>	44,670,743	\$ 45	\$ 433,775	\$ 175,773	\$ 4,276	\$ 613,869
Net income	—	—	—	84,369	—	84,369
Other comprehensive income (loss)	—	—	—	—	9,811	9,811
Stock based compensation	—	—	2,075	—	—	2,075
Cash dividend	—	—	—	(12,504)	—	(12,504)
Issuance of common stock:						
Exercise of options	117,500	—	915	—	—	915
Stock grants – vesting of restricted stock units	103,741	—	—	—	—	—
Repurchase of shares from restricted shares vesting	(224,334)	—	(2,824)	—	—	(2,824)
<b>Balance: December 31, 2020</b>	44,667,650	\$ 45	\$ 433,941	\$ 247,638	\$ 14,087	\$ 695,711
Net income	—	—	—	109,511	—	109,511
Other comprehensive income (loss)	—	—	—	—	(11,812)	(11,812)
Stock based compensation	—	—	2,756	—	—	2,756
Cash dividend	—	—	—	(16,173)	—	(16,173)
Issuance of common stock:						
Exercise of options	327,000	—	2,748	—	—	2,748
Stock grants – vesting of restricted stock units	126,528	11	—	—	—	11
Stock issued in acquisition	11,352,232	—	283,011	—	—	283,011
Repurchase of shares from restricted shares vesting	(41,340)	—	(1,712)	—	—	(1,712)
<b>Balance: December 31, 2021</b>	<u>56,432,070</u>	<u>\$ 56</u>	<u>\$ 720,744</u>	<u>\$ 340,976</u>	<u>\$ 2,275</u>	<u>\$ 1,064,051</u>

(See accompanying notes to the consolidated financial statements)

**FIRST FOUNDATION INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(In thousands)*

	For the Year Ended December 31,		
	2021	2020	2019
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 109,511	\$ 84,369	\$ 56,239
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses - loans	10,547	26	2,637
Provision for credit losses - securities AFS	3,154	7,245	—
Stock-based compensation expense	2,756	2,075	1,633
Depreciation and amortization	3,318	3,205	3,019
Deferred tax benefit	(1,579)	(1,579)	(73)
Amortization of premium (discount) on securities	1,099	309	(973)
Amortization of core deposit intangible	1,579	1,895	2,291
Amortization of mortgage servicing rights - net	1,947	1,535	1,295
Amortization of premiums on purchased loans - net	—	8,384	(4,909)
Gain on sale of REO	—	—	(742)
Gain on sale of loans	(21,459)	(15,140)	(4,218)
Loss on sale of securities	—	—	316
Gain from hedging activities	—	—	(655)
Valuation allowance on mortgage servicing rights - net	1,899	1,424	—
Increase in other assets	(39,173)	(38,899)	(1,352)
Increase in accounts payable and other liabilities	23,336	12,593	5,929
Net cash provided by operating activities	96,935	67,442	60,437
<b>Cash Flows from Investing Activities:</b>			
Net increase in loans	(1,623,291)	(794,305)	(802,578)
Proceeds from sale of loans	580,417	553,148	573,897
Proceeds from sale of REO	—	—	1,557
Purchase of premises and equipment	(3,207)	(2,862)	(2,229)
Recovery of allowance for credit losses	999	1,003	1,855
Purchases of securities AFS	(454,788)	(56,629)	(577,802)
Proceeds from sale of securities	3,500	—	283,893
Maturities of securities AFS	268,146	270,480	95,580
Proceeds from redemption of securities	—	—	—
Cash in from merger	1,145,340	—	—
Sale (purchase) of FHLB and FRB stock, net	3,511	4,269	(1,212)
Net cash (used in) provided by investing activities	(79,373)	(24,896)	(427,039)
<b>Cash Flows from Financing Activities:</b>			
Increase in deposits	727,539	1,022,289	358,176
Net (decrease) increase in FHLB advances	(255,000)	(478,000)	30,000
Line of credit net change – borrowings, net	17,085	4,000	5,000
Payoff of acquired debt	—	—	—
Dividends paid	(16,173)	(12,504)	(8,927)
Settlement of swap	—	(12,102)	(19,883)
Proceeds from exercise of stock options	2,759	915	334
Repurchase of stock	(1,722)	(2,824)	(23)
Net cash provided by financing activities	474,488	521,774	364,677
Increase (decrease) in cash and cash equivalents	492,050	564,320	(1,925)
Cash and cash equivalents at beginning of year	629,707	65,387	67,312
Cash and cash equivalents at end of period	\$ 1,121,757	\$ 629,707	\$ 65,387
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Income taxes	\$ 39,510	\$ 31,310	\$ 23,624
Interest	\$ 15,272	\$ 56,991	\$ 75,149
Noncash transactions:			
Transfer of loans to loans held for sale	\$ 592,898	\$ 561,502	\$ 554,837
Mortgage servicing rights from loan sales	\$ 2,726	\$ 3,853	\$ 1,861
Chargeoffs against allowance for credit losses	\$ 1,824	\$ 1,844	\$ 2,692
Transfer of loans to REO	\$ 6,210	\$ —	\$ —
Acquisition:			
Assets acquired, net of cash received	\$ 1,489,698	\$ -	\$ -
Liabilities assumed	\$ 2,357,600	\$ -	\$ -
Cash considerations	\$ 10	\$ -	\$ -
Stock consideration	\$ 283,011	\$ -	\$ -
Goodwill	\$ 125,128	\$ -	\$ -

(See accompanying notes to the consolidated financial statements)

**FIRST FOUNDATION INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Years Ended December 31, 2021, 2020, and 2019

**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 the wholly owned subsidiaries of FFB, First Foundation Public Finance (“FFPF”), First Foundation Insurance Services (“FFIS”) and Blue Moon Management, LLC (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. FFI is incorporated in the state of Delaware. The corporate headquarters for FFI is located in Dallas, Texas. The Company has offices in California, Nevada, Florida, Texas, and Hawaii.

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) 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) support services involving the processing and transmission of financial and economic data for charitable organizations. At the end of 2021, these services were provided to approximately 1,700 clients, primarily located in Southern California, with an aggregate of \$5.7 billion of assets under management.

The Bank commenced operations in 2007, is incorporated in the state of California and currently operates in California, Nevada, Florida, Texas, and in Hawaii. The Bank offers a wide range of deposit instruments including personal and business checking and savings accounts, including interest-bearing negotiable order of withdrawal 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. Approximately 91% 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 is subject to continued examination by the California Department of Financial Protection and Innovation and the Federal Deposit Insurance Corporation (“FDIC”).

At December 31, 2021, the Company employed 674 employees.

***Basis of Presentation***

The consolidated financial statements have been prepared in conformity with U. S. GAAP 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 during the reporting periods and related disclosures. Actual results could differ significantly from those estimates.

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.

***Variable Interest Entities***

The Company may have variable interests in Variable Interest Entities (“VIEs”) arising from debt, equity or other monetary interests in an entity, which change with fluctuations in the fair value of the entity’s assets. VIEs are entities

**FIRST FOUNDATION INC.**  
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that, by design, either (1) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity. The primary beneficiary of a VIE (i.e., the party that has a controlling financial interest) is required to consolidate the assets and liabilities of the VIE. The primary beneficiary is the party that has both (1) the power to direct the activities of an entity that most significantly impact the VIE's economic performance; and (2) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company has sold loans, in 2021, 2020, 2019, 2018, 2016 and 2015, through securitizations sponsored by a government sponsored entity, Freddie Mac, who also provided credit enhancement of the loans through certain guarantee provisions. The Company retained the right to provide servicing for the loans except for special servicing for which an unrelated third party was engaged by the VIE. For the 2016 and 2015 securitizations, the Company acquired the "B" piece of the securitizations, which is structured to absorb any losses from the securitizations, and interest only strips from the securitization. For the 2021, 2020, 2019, and 2018 securitizations, the Company provides collateral to support its obligation to reimburse for credit losses incurred on loans in the securitization. Because the Company does not act as the special servicer for the VIE and because of the power of Freddie Mac over the VIE that holds the assets from the mortgage loan securitizations, the Company is not the primary beneficiary of the VIE and therefore the VIE is not consolidated.

***Reclassifications***

Certain amounts in the 2020 consolidated financial statements have been reclassified to conform to the 2021 presentation.

***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 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, 2021, included in cash and cash equivalents were \$946 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, 2021.

***Certificates of Deposit***

From time to time, the Company may invest funds with other financial institutions through certificates of deposit. Certificates of deposit 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

**FIRST FOUNDATION INC.**  
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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.

***Loan Origination Fees and Costs***

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 deferred fees and costs are recognized in interest income.

***Loans Held for Investment***

Loans held for investment are reported at the principal amount outstanding, net of cumulative chargeoffs, interest applied to principal (for loans accounted for using the cost recovery method), unamortized net deferred loan origination fees and costs and unamortized premiums or discounts on purchased loans. Interest on loans is accrued and recognized as interest income at the contractual rate of interest. When a loan is designated as held for investment, the intent is to hold these loans for the foreseeable future or until maturity or payoff. If subsequent changes occur, the Company may change its intent to hold these loans. Once a determination has been made to sell such loans, they are immediately transferred to loans held for sale and carried at the lower of cost or fair value.

***Loans Held for Sale***

Loans designated for sale through securitization or in the secondary market are classified as loans held for sale. Loans held for sale are accounted for at the lower of amortized cost or fair value. The fair value of loans held for sale is generally based on observable market prices from other loans in the secondary market that have similar collateral, credit, and interest rate characteristics. If quoted market prices are not readily available, the Company may consider other observable market data such as dealer quotes for similar loans or forward sale commitments. In certain cases, the fair value may be based on a discounted cash flow model. Related gains and losses are recognized in net gain on mortgage loan origination and sale activities.

***Nonaccrual Loans***

Loans are placed on nonaccrual status when the full and timely collection of principal and interest is doubtful, generally when the loan becomes 90 days or more past due for principal or interest payment. All payments received on nonaccrual loans are accounted for using the cost recovery method. Under the cost recovery method, all cash collected is applied to first reduce the principal balance. A loan may be returned to accrual status if all delinquent principal and interest payments are brought current and the collectability of the remaining principal and interest payments in accordance with the loan agreement is reasonably assured. Loans that are well secured and in the collection process may be maintained on accrual status, even if they are 90 days or more past due.

***Purchased Credit Deteriorated 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 deteriorated ("PCD") loans are recorded at the amount paid and there is no carryover of the seller's allowance for credit losses.

PCD loans are recorded at fair value reflecting the present value of the amounts expected to be collected. Income recognition on these PCD loans is based on a reasonable expectation about the timing and amount of cash flows to be collected. Acquired loans deemed impaired and considered collateral dependent, with the timing of the sale of loan collateral indeterminate, remain on nonaccrual status and have no accretable yield. All PCD loans were classified as accruing loans as of and subsequent to the acquisition date.

**FIRST FOUNDATION INC.**  
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Under ASC 326, the Bank's allowance for credit losses includes a purchased assets with credit deterioration PCD element. The fair value mark related to PCD loans held for investment will only accrete the interest mark to interest expense over the remaining life of the PCD loans, while the non-PCD loans will accrete both the interest and credit marks over the remaining life of the non-PCD loans.

***Allowance for Credit Losses***

The ACL is a valuation allowance for probable incurred credit losses. Provisions for credit 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 chargeoff 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 credit 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 credit 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. Credit 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 credit losses through a charge to provision for credit losses. Adjustments to impairment losses due to changes in the fair value of impaired loans' collateral properties are included in the provision for credit 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 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 credit losses.

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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 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. The Bank continues to leverage economic projections and applies a two-year time horizon prior to reverting to the Bank's historical loss experience, which continues to be deemed reasonable and supportable.

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, loans secured by vacant land and construction loans, 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.

The investment portfolio impacts the ACL through credit losses and/or cash flow changes. Cash flow impacts are the result when projected cash flow are lower than actual cash flow, primarily due to accelerated prepayments on Interest Only ("IO") strips.

***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. The Bank also has bank owned life insurance ("BOLI") acquired through the TGRF acquisition. BOLI is recorded at the amount that can be realized under the insurance contract, which is the cash surrender value. The increase in the cash surrender value each period and the receipt of death benefits in excess of the cash surrender value would be recorded to "Other Income" in the income statement.

***Transfers of Financial Assets***

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

***Real Estate Owned***

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 credit losses related to loans. 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, as are the net operating results from these assets.



**FIRST FOUNDATION INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
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***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, 2021 or 2020.

***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, 2021 and 2020, the Bank held \$18 million and \$17 million of FHLB stock, respectively. The Company does not believe that this stock is currently impaired and no adjustments to its carrying value have been recorded.

***Mortgage Servicing Rights***

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. As of December 31, 2021 and 2020, the allowance for servicing rights was \$3.3 million and \$1.4 million, respectively.

Servicing fee income, which is reported on the income statement as other income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal. The amortization of mortgage servicing rights is netted against loan servicing fee income.

***Goodwill***

Goodwill is recorded upon completion of a business combination as the difference between the purchase price and the fair value of net identifiable assets acquired. Subsequent to initial recognition, the Company will test goodwill for impairment on an annual basis by comparing the fair value of the reporting unit to its carrying amount. The goodwill recorded by the Company was recognized from acquisitions in 2015, 2017, 2018, and 2021, and was not considered impaired at December 31, 2021.

***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. At December 31, 2021 and 2020, core deposit intangible assets totaled \$8.5 million and \$6.8 million, respectively, and we recognized \$1.6 million, \$1.9 million and \$2.3 million in core deposit intangible amortization expense in 2021, 2020 and 2019, respectively.

**FIRST FOUNDATION INC.**  
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***Revenue Recognition***

On January 1, 2018, the Company adopted ASU 2014-09, “*Revenue from Contracts with Customers (Topic 606)*”, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This update replaces most existing revenue recognition guidance in GAAP. Adoption of ASU 2014-09 did not have a material impact on the Company’s consolidated financial statements and related disclosures, as the Company’s primary sources of revenues are generated from financial instruments, such as loans and investment securities that are not within the scope of ASU 2014-09.

**Contracts with Customers**

Contracts with customers are open-ended, and we provide services on an ongoing basis for an unspecified contract term. For these ongoing services, the fees are variable, since they are dependent on factors such as the value of underlying assets under management or volume of transactions.

Contract liabilities, or deferred revenue, are recorded when payments from customers are received in advance of providing services to customers. We generally receive payments for our services during the period or at the time services are provided, therefore, we do not have deferred revenue balances at period-end.

Employees receive incentive compensation in the form of commissions, which are considered incremental and recoverable costs to obtain the contract. We utilize the practical expedient not to capitalize such costs as the amortization period of the asset is less than 12 months, and therefore we expense the commissions as incurred.

Descriptions of our primary revenue-generating activities that are presented in our income statements are as follows:

**Interest on Loans**

Interest income is accrued daily on the Company’s outstanding loan balances. 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 are 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 chargeoffs related to the restructure, is estimated to be fully collectible by management and performing in accordance with the applicable loan terms.

**Wealth management and trust fee income**

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.

**FIRST FOUNDATION INC.**  
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Service charges on deposit accounts

Service charges on deposit accounts represent general service fees for monthly account maintenance and activity or transaction-based fees. Revenue is recognized when our performance obligation is completed which are generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

Gains and Losses on Sales of REO

To record a sale of REO, the Bank evaluates if: (a) a commitment on the buyer's part exists, (b) collection is probable in circumstances where the initial investment is minimal and (c) the buyer has obtained control of the asset, including the significant risks and rewards of the ownership. If there is no commitment on the buyer's part, collection is not probable or the buyer has not obtained control of the asset, then a gain cannot be recognized.

Other non-interest income includes revenue related to mortgage servicing activities and gains on sales of loans, which are not subject to the requirements of ASU 2014-09.

***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 in 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, including restricted stock units.

***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 assets 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.

***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

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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 units, which are determined using the treasury stock method.

***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.

***Derivatives and Hedging Activities***

Derivative instruments and hedging activities are accounted for in accordance with FASB ASC Topic 815, “Derivatives and Hedging.” The fair value of derivative instruments are recognized as either assets or liabilities on the consolidated balance sheet. All derivatives are evaluated at inception as to whether or not they are hedging or non-hedging activities. For derivative instruments designated as non-hedging activities, the change in fair value is recognized currently in earnings.

For derivative instruments designated as hedging activities, a qualitative analysis is performed at inception to determine if the derivative instrument is highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period that the hedge is designated. Subsequently, a qualitative assessment of a hedge’s effectiveness is performed on a quarterly basis. For a fair value hedge, the change in fair value on the hedging instrument is recognized currently in earnings and the change in fair value on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized currently in earnings. All amounts recognized in earnings are presented in the same income statement line item as the earnings effect of the hedged item.

***Recently Adopted Accounting Guidance***

Measurement of Credit Losses on Financial Instruments: In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* which introduces new guidance for the accounting for credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The new model, referred to as the current expected credit losses (“CECL”) model, applies to financial assets subject to credit losses and measured at amortized cost, and certain off-balance sheet credit exposures. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure.

The Company adopted the amendments within ASU 2016-13 on January 1, 2020 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for the periods beginning after that date are presented under Topic 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP. There was not any cumulative effect adjustment upon adoption. The instruments that were accounted for as purchased credit impaired (“PCI”) are transitioned under the new purchased credit deteriorated (“PCD”) model using the prospective transition approach. The Company applied the prospective transition approach for debt securities for which other than temporary impairment had been recognized prior to January 1, 2020. As a result, the amortized cost basis remains the same before and after the effective date.

Allowance for credit losses on investment securities: On January 1, 2020, the Company adopted the amendments within ASU 2016-13, which replaces the legacy US GAAP Other Than Temporary Impairment (“OTTI”) model with a credit loss model. The credit loss model under Accounting Standards Codification (“ASC”) 326-30, applicable to debt securities available for sale (“Securities AFS”), requires recognition of credit losses through an allowance account, but

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retains the concept from the OTTI model that credit losses are recognized once securities become impaired. For Securities AFS, a decline in fair value due to credit loss results in recognition of an allowance for credit losses. Impairment may result from credit deterioration of the issuer or collateral underlying the security. The assessment of determining if a decline in fair value resulted from a credit loss is performed at the individual security level. Among other factors, the Company considers: 1) the extent to which the fair value is less than the amortized cost basis; 2) the financial condition and near term prospects of the issuer, including consideration of relevant financial metrics or ratios of the issuer; 3) any adverse conditions related to an industry or geographic area of an issuer; 4) any changes to the rating of the security by a rating agency; and 5) any past due principal or interest payments from the issuer. If an assessment of the above factors indicates that a credit loss exists, the Company records an allowance for credit losses for the excess of the amortized cost basis over the present value of cash flows expected to be collected, limited to the amount that the security's fair value is less than its amortized cost basis. Subsequent changes in the allowance for credit losses are recorded as a provision for (or reversal of) credit loss expense. Interest accruals and amortization and accretion of premiums and discounts are suspended when the credit loss is recognized in earnings. Any interest received after the security has been placed on nonaccrual status is recognized on a cash basis. Accrued interest receivable on Securities AFS is excluded from the estimate of expected credit losses.

The provision for credit losses on the consolidated income statement includes the provisions for credit losses for loans and securities AFS. For 2021, the provision for credit losses was \$3.9 million.

In August 2021, FASB issued ASU 2021-06, "*Presentation of Financial Statements (Topic 205), Financial Services – Depository and Lending (Topic 942), and Financial Services – Investment Companies (Topic 946)*". ASU 2021-06 amends certain SEC guidance related to financial disclosures related to acquired and disposed businesses, and statistical disclosures for banks and savings and loan registrants, and is effective upon issuance. The adoption of ASU 2021-06 did not have a significant impact on the Company's consolidated financial statements.

In October 2020, FASB issued ASU 2020-10, "*Codification Improvements*". ASU 2020-10 amends certain guidance that may have been applied in an inconsistent manner by certain entities. The effective date for the amendments in this ASU are effective for annual periods after December 15, 2020. The adoption of ASU 2020-10 did not have a significant impact on the Company's consolidated financial statements.

In November 2019, FASB issued ASU 2019-12, "*Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes*". ASU 2019-12 provides amendments to simplify the accounting for income taxes by removing certain exceptions to the general principles in *Topic 740*. Because the Company is a large accelerated filer, this ASU did not impact the effective date of adoption of this standard.

***New Accounting Pronouncements***

In March 2020, FASB issued ASU 2020-04, "*Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*". ASU 2020-04 provides optional guidance for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this ASU are effective as of March 12, 2020 through December 31, 2022. The adoption of ASU 2020-04 is not expected to have a significant impact on the Company's consolidated financial statements.

In July 2019, FASB issued ASU 2019-07, "*Codification Updates to SEC Sections*". ASU 2019-07 amends certain Securities and Exchange Commission ("SEC") sections or paragraphs within the Accounting Standards Codification ("ASC") to reflect changes in SEC Final Rule Releases ("SEC Releases") No. 33-10532, *Disclosure Update and Simplification* and Nos. 33-10231 and 33-10442, *Investment Company Reporting Modernization*. The effective date and transition requirements for the amendments in this ASU are the same as the effective dates and transition requirements in SEC Releases 33-10532, 33-10231, and 33-10442, as amended by this ASU. The adoption of ASU 2019-07 is not expected to have a significant impact on the Company's consolidated financial statements.

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**NOTE 2: ACQUISITIONS**

On December 17, 2021, the Company completed the acquisition of TGR Financial, Inc. (“TGRF”) and its wholly owned subsidiary, First Florida Integrity Bank, through a merger of TGRF with and into the FFI followed immediately by the merger of First Florida Integrity Bank with and into FFB, in exchange for 11,352,232 shares of FFI common stock with a fair value of \$24.93 per share. The primary reason for acquiring TGRF was to grow our operations in markets with attractive demographic and economic trends.

The acquisition was accounted for under the purchase method of accounting. The acquired assets, assumed liabilities and identifiable intangible assets are recorded at their respective acquisition date fair values. Goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining TGRF into FFI. None of the goodwill recognized is expected to be deductible for income tax purposes.

The following table represents the assets acquired and liabilities assumed of TGRF as of December 17, 2021 and the fair value adjustments and amounts recorded by the Company in 2021 under the acquisition method of accounting:

<i>(dollars in thousands)</i>	<b>TGRF Book Value</b>	<b>Fair Value Adjustments</b>	<b>Fair Value</b>
<b>Assets Acquired:</b>			
Cash and cash equivalents	\$ 1,145,335	\$ 5	\$ 1,145,340
Securities AFS	147,739	109	147,848
Securities held-to-maturity	71,790	2,115	73,905
Loans, net of deferred fees	1,045,193	(5,387)	1,039,806
Investment in FHLB stock	4,510	—	4,510
Premises and equipment, net	34,199	(4,180)	30,019
Deferred taxes	3,414	2,361	5,775
Bank owned life insurance	46,163	—	46,163
Goodwill and intangibles	181	128,227	128,408
Other assets	13,562	(298)	13,264
Total assets acquired	<u>\$ 2,512,086</u>	<u>\$ 122,952</u>	<u>\$ 2,635,038</u>
<b>Liabilities Assumed:</b>			
Deposits	\$ 2,170,676	\$ 313	\$ 2,170,989
Borrowings	177,114	1,929	179,043
Accounts payable and other liabilities	7,386	182	7,568
Total liabilities assumed	2,355,176	2,424	2,357,600
Excess of assets acquired over liabilities assumed	156,910	120,528	277,438
Total	<u>\$ 2,512,086</u>	<u>\$ 122,952</u>	<u>\$ 2,635,038</u>
<b>Consideration:</b>			
Stock issued			\$ 283,011
Cash paid			10
Total consideration			<u>\$ 283,021</u>

In many cases, the fair values of assets acquired and liabilities assumed were determined by estimating the cash flows expected to result from those assets and liabilities and discounting them at appropriate market rates. The most significant category of assets for which this procedure was used was that of acquired loans. The excess of expected cash flows above the fair value (Level 3 inputs) of the majority of loans will be accreted to interest income over the remaining lives of the loans in accordance with ASC 310-20. The fair values are estimates and are subject to adjustment for up to one year after the merger date.

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Management reclassified all acquired held-to-maturity securities to securities AFS.

Certain loans, for which specific credit-related deterioration since origination was identified, are recorded at fair value reflecting the present value of the amounts expected to be collected. Income recognition on these PCD loans is based on a reasonable expectation about the timing and amount of cash flows to be collected. Acquired loans deemed impaired and considered collateral dependent, with the timing of the sale of loan collateral indeterminate, remain on nonaccrual status and have no accretable yield. All PCD loans were classified as accruing loans as of and subsequent to the acquisition date.

In accordance with generally accepted accounting principles there was no carryover of the allowance for credit losses that had been previously recorded by TGRF.

The Company recorded a deferred income tax asset of \$5.8 million related to the acquisition of TGR, including operating loss carry-forwards of \$0.1 million that are subject to limitation under Section 382 of the Internal Revenue Code.

The fair value of savings and transaction deposit accounts acquired from TGRF were assumed to approximate their carrying value as these accounts have no stated maturity and are payable on demand. Certificates of deposit accounts were valued by comparing the contractual cost of the portfolio to an identical portfolio bearing current market rates (Level 2 inputs). The portfolio was segregated into pools based on remaining maturity. For each pool, the projected cash flows from maturing certificates were then calculated based on contractual rates and prevailing market rates. The valuation adjustment for each pool is equal to the present value of the difference of these two cash flows, discounted at the assumed market rate for a certificate with a corresponding maturity. This valuation adjustment will be accreted to reduce interest expense over the remaining maturities of the respective pools. The Company also recorded a core deposit intangible, which represents the value of the deposit relationships acquired from TGRF, of \$3.3 million. The core deposit intangible will be amortized over a period of 10 years.

*Pro Forma Information (unaudited)*

The following table presents unaudited pro forma information as if the acquisition of TGRF had occurred on January 1, 2021 and January 1, 2020, for 2021 and 2020, respectively, after giving effect to certain adjustments. The unaudited pro forma information for these periods 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 and the income tax costs or benefits derived from the income or loss before taxes of TGRF. The net effect of these pro forma adjustments was an increase of \$13.1 million in net income for 2021 and a decrease in net income of \$13.1 million for 2020. 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 dates.

<i>(dollars in thousands)</i>	<b>2021</b>	<b>2020</b>
Net interest income	\$ 286,720	\$ 252,362
Provision for loan losses	3,898	21,138
Noninterest income	75,689	58,526
Noninterest expenses	178,944	170,715
Income before taxes	179,567	119,035
Taxes on income	47,341	31,344
Net income	<u>\$ 132,226</u>	<u>\$ 87,691</u>
Net income per share:		
Basic	\$ 2.34	\$ 1.57
Diluted	\$ 2.33	\$ 1.56

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The revenues (net interest income and noninterest income) and net income for the period from December 17, 2021 to December 31, 2021 related to the operations acquired from TGRF and included in our results of operations for 2021 were approximately \$1.6 million and \$1.3 million, respectively.

**NOTE 3: FAIR VALUE**

***Assets Measured at Fair Value on a Recurring Basis***

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Securities available for sale, investments in equity securities, and interest rate swaps are measured at fair value on a recurring basis depending upon whether the inputs are Level 1, 2 or 3 as described above.



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

(dollars in thousands)	Total	Fair Value Measurement Level		
		Level 1	Level 2	Level 3
December 31, 2021:				
Investment securities available for sale:				
Collateralized mortgage obligations	\$ 13,825	\$ —	\$ 13,825	\$ —
Agency mortgage-backed securities	928,989	—	928,989	—
Municipal bonds	52,146	—	52,146	—
SBA securities	27,972	—	27,972	—
Beneficial interests in FHLMC securitization	11,580	—	—	11,580
Corporate bonds	156,376	—	156,376	—
U.S. Treasury	490	490	—	—
Investment in equity securities	16,025	16,025	—	—
Total assets at fair value on a recurring basis	\$ 1,207,403	\$ 16,515	\$ 1,179,308	\$ 11,580
December 31, 2020:				
Investment securities available for sale:				
Agency mortgage-backed securities	\$ 723,995	\$ —	\$ 723,995	\$ —
Municipal bonds	1,107	—	1,107	—
Beneficial interests in FHLMC securitization	23,463	—	—	23,463
Corporate bonds	58,358	—	58,358	—
U.S. Treasury	503	503	—	—
Investment in equity securities	338	338	—	—
Total assets at fair value on a recurring basis	\$ 807,764	\$ 841	\$ 783,460	\$ 23,463

The decrease in Level 3 assets from December 31, 2020 was primarily due to securitization paydowns and due to \$3.2 million in provisions for credit losses in 2021.

**Assets Measured at Fair Value on a Nonrecurring Basis**

From time to time, we may be required to measure at fair value other assets on a nonrecurring basis. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

**Loans.** Loans measured at fair value on a nonrecurring basis include collateral dependent loans held for investment. The specific reserves for these loans are based on collateral value, net of estimated disposition costs and other identified quantitative inputs. Collateral value is determined based on independent third-party appraisals or internally-developed discounted cash flow analyses. Internal discounted cash flow analyses are also utilized to estimate the fair value of these loans, which considers internally-developed, unobservable inputs such as discount rates, default rates, and loss severity. 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. The total collateral dependent impaired Level 3 loans were \$61.6 million and \$36.2 million at December 31, 2021 and December 31, 2020, respectively. There were no specific reserves related to these loans at December 31, 2021 and December 31, 2020.

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*Real Estate Owned.* The fair value of real estate owned is based on external appraised values that include adjustments for estimated selling costs and assumptions of market conditions that are not directly observable, resulting in a Level 3 classification.

*Mortgage Servicing Rights.* When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income, resulting in a Level 3 classification. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Significant assumptions in the valuation of these Level 3 mortgage servicing rights as of December 31, 2021 included prepayment rates ranging from 20% to 30% and a discount rate of 10%.

***Fair Value of Financial Instruments***

FASB ASC 825, “Disclosures about Fair Value of Financial Instruments” requires disclosure of the fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate such value. The methodologies for estimating the fair value of financial assets and financial liabilities measured at fair value on a recurring and non-recurring basis are discussed above. The estimated fair value amounts have been determined by management using available market information and appropriate valuation methodologies, are based on the exit price notion set forth by ASU 2016-1. In cases where quoted market prices are not available, fair values are based on estimates using present value or other market value techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The aggregate fair value amounts presented below do not represent the underlying value of the Company.

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.* Investment securities 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 investment security’s credit rating, prepayment assumptions and other factors such as credit loss assumptions. When a market is illiquid or there is a lack of transparency around the inputs to valuation, the investment securities are classified as Level 3 and reliance is placed upon external third party models, and management judgment

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and evaluation for valuation. Level 1 investment 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 investment securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Investment securities classified as level 3 include beneficial interests in FHLMC securitizations. Significant assumptions in the valuation of these Level 3 investment securities as of December 31, 2021 included prepayment rates ranging from 30% to 35% and discount rates ranging from 6.8% to 11.5%.

*Federal Home Loan Bank Stock.* The Bank is a member of the Federal Home Loan Bank (the “FHLB”). As a member, we are required to own stock of the FHLB, the amount of which is based primarily on the level of our borrowings from this institution. The fair value of the stock is equal to the carrying amount, is classified as restricted securities and is 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 Held For Sale.* The fair value of loans held for sale is determined using secondary market pricing.

*Loans Held for Investment.* 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 or by reference to secondary market pricing. All loans have been adjusted to reflect changes in credit risk.

*Deposits.* The fair value of demand deposits, savings deposits, and money market deposits is defined as the amounts payable on demand. 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 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.

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

<i>(dollars in thousands)</i>	Carrying Value	Fair Value Measurement Level			
		1	2	3	Total
<b>December 31, 2021:</b>					
Assets:					
Cash and cash equivalents	\$ 1,121,757	\$ 1,121,757	\$ —	\$ —	\$ 1,121,757
Securities AFS, net	1,191,378	490	1,179,308	11,580	1,191,378
Loans held for sale	501,436	—	515,978	—	515,978
Loans, net	6,872,952	—	—	7,072,878	7,072,878
Investment in FHLB stock	18,249	—	18,249	—	18,249
Investment in equity securities	16,025	16,025	—	—	16,025
Liabilities:					
Deposits	\$ 8,811,960	\$ 8,143,473	\$ 668,487	\$ —	\$ 8,811,960
Borrowings	210,127	165,930	—	44,197	210,127
<b>December 31, 2020:</b>					
Assets:					
Cash and cash equivalents	\$ 629,707	\$ 629,707	\$ —	\$ —	\$ 629,707
Securities AFS, net	807,426	503	783,460	23,463	807,426
Loans held for sale	505,404	—	510,638	—	510,638
Loans, net	4,779,599	—	—	4,829,258	4,829,258
Investment in FHLB stock	17,250	—	17,250	—	17,250
Investment in equity securities	338	338	—	—	338
Liabilities:					
Deposits	\$ 5,913,433	\$ 4,934,537	\$ 978,897	\$ —	\$ 5,913,434
Borrowings	269,000	—	255,000	14,000	269,000

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**NOTE 4: SECURITIES**

The following table provides a summary of the Company's AFS securities portfolio as of:

<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized		Allowance for Credit Losses	Estimated Fair Value
		Gains	Losses		
<b>December 31, 2021:</b>					
Collateralized mortgage obligations	\$ 13,862	\$ —	\$ (37)	\$ —	\$ 13,825
Agency mortgage-backed securities	928,546	6,563	(6,120)	—	928,989
Municipal bonds	52,052	94	—	—	52,146
SBA securities	27,970	2	—	—	27,972
Beneficial interests in FHLMC securitization	21,606	373	—	(10,399)	11,580
Corporate bonds	154,027	2,441	(92)	—	156,376
U.S. Treasury	499	—	(9)	—	490
Total	<u>\$ 1,198,562</u>	<u>\$ 9,473</u>	<u>\$ (6,258)</u>	<u>\$ (10,399)</u>	<u>\$ 1,191,378</u>
<b>December 31, 2020:</b>					
Agency mortgage-backed securities	\$ 705,752	\$ 18,243	\$ —	\$ —	\$ 723,995
Municipal bonds	1,012	95	—	—	1,107
Beneficial interests in FHLMC securitization	30,497	211	—	(7,245)	23,463
Corporate bonds	57,000	1,358	—	—	58,358
U.S. Treasury	500	3	—	—	503
Total	<u>\$ 794,761</u>	<u>\$ 19,910</u>	<u>\$ —</u>	<u>\$ (7,245)</u>	<u>\$ 807,426</u>

As of December 31, 2021, US Treasury securities of \$0.5 million included in the table above are pledged as collateral to the State of California to meet regulatory requirements related to the Bank's trust operations, \$220 million of agency mortgage-backed securities are pledged as collateral as support for the Bank's obligations under loan sales and securitizations agreements entered into from 2018 and 2021, and \$176.2 million of SBA securities are pledged as collateral for repurchase agreements obtained from the TGRF acquisition. In 2019 we sold \$284 million of securities and recognized a loss of \$0.3 million.

The tables below indicate 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.

<i>(dollars in thousands)</i>	Securities with Unrealized Loss at December 31, 2021					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Collateralized mortgage obligations	\$ 12,971	\$ (37)	\$ —	\$ —	\$ 12,971	\$ (37)
Agency mortgage-backed securities	434,973	(5,051)	36,136	(1,069)	471,109	(6,120)
Corporate bonds	47,880	(92)	—	—	47,880	(92)
U.S. Treasury	491	(9)	—	—	491	(9)
Total temporarily impaired securities	<u>\$ 496,315</u>	<u>\$ (5,189)</u>	<u>\$ 36,136</u>	<u>\$ (1,069)</u>	<u>\$ 532,451</u>	<u>\$ (6,258)</u>

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<i>(dollars in thousands)</i>	<b>Securities with Unrealized Loss at December 31, 2019</b>					
	<b>Less than 12 months</b>		<b>12 months or more</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>
Agency mortgage-backed securities	\$ 5,488	\$ (2)	\$ 13,880	\$ (144)	\$ 19,368	\$ (146)
Beneficial interests in FHLMC securitization	20,609	(2,856)	3,220	(3,825)	23,829	(6,681)
<b>Total temporarily impaired securities</b>	<b>\$ 26,097</b>	<b>\$ (2,858)</b>	<b>\$ 17,100</b>	<b>\$ (3,969)</b>	<b>\$ 43,197</b>	<b>\$ (6,827)</b>

There were no unrealized losses on our investments as of December 31, 2020.

Unrealized losses in agency mortgage backed securities, beneficial interests in FHLMC securitizations, and other securities have not been recognized into income because the issuer bonds are of high credit quality, management does not intend to sell, 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 discount rates and assumptions regarding future interest rates. The fair value is expected to recover as the bonds approach maturity.

The following is a rollforward of the Bank's allowance for credit losses related to investments for the year ended December 31:

<i>(dollars in thousands)</i>	<b>Total</b>
<b><i>Year Ended December 31, 2021:</i></b>	
Beginning balance	\$ 7,245
Provision for credit losses	3,154
Balance: December 31, 2021	<u>\$ 10,399</u>
<b><i>Year Ended December 31, 2020:</i></b>	
Beginning balance	\$ —
Provision for credit losses	7,245
Balance: December 31, 2020	<u>\$ 7,245</u>

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

<i>(dollars in thousands)</i>	<b>Less than 1 Year</b>	<b>1 Through 5 years</b>	<b>5 Through 10 Years</b>	<b>After 10 Years</b>	<b>Total</b>
<b><i>December 31, 2021</i></b>					
<b><i>Amortized Cost:</i></b>					
Corporate bonds	\$ 3,505	\$ 11,634	\$ 133,352	\$ 5,535	\$ 154,026
Municipal bonds and U.S. Treasury	—	1,846	35,080	15,625	52,551
<b>Total</b>	<b>\$ 3,505</b>	<b>\$ 13,480</b>	<b>\$ 168,432</b>	<b>\$ 21,160</b>	<b>\$ 206,577</b>
Weighted average yield	(4.82)%	2.36 %	3.75 %	3.85 %	3.52 %
<b><i>Estimated Fair Value:</i></b>					
Corporate bonds	\$ 3,505	\$ 11,624	\$ 135,653	\$ 5,594	\$ 156,376
Municipal bonds and U.S. Treasury	—	1,916	35,091	15,629	52,636
<b>Total</b>	<b>\$ 3,505</b>	<b>\$ 13,540</b>	<b>\$ 170,744</b>	<b>\$ 21,223</b>	<b>\$ 209,012</b>
<b><i>December 31, 2020</i></b>					
<b><i>Amortized Cost:</i></b>					
Corporate bonds	\$ —	\$ —	\$ 57,000	\$ —	\$ 57,000
Municipal bonds and U.S. Treasury	500	1,012	—	—	1,512
<b>Total</b>	<b>\$ 500</b>	<b>\$ 1,012</b>	<b>\$ 57,000</b>	<b>\$ —</b>	<b>\$ 58,512</b>
Weighted average yield	1.83 %	2.81 %	5.39 %	— %	5.32 %
<b><i>Estimated Fair Value:</i></b>					
Corporate bonds	\$ —	\$ —	\$ 58,358	\$ —	\$ 58,358
Municipal bonds and U.S. Treasury	503	1,107	—	—	1,610
<b>Total</b>	<b>\$ 503</b>	<b>\$ 1,107</b>	<b>\$ 58,358</b>	<b>\$ —</b>	<b>\$ 59,968</b>

Agency mortgage backed securities and beneficial interests in FHLMC securitizations are excluded from the above table because such securities are not due at a single maturity date. The weighted average yield of the agency mortgage backed securities and beneficial interests in FHLMC securitizations as of December 31, 2021 and 2020 was 1.67% and 2.39%, respectively.

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**NOTE 5: LOANS**

The following is a summary of our loans as of:

<i>(dollars in thousands)</i>	December 31, 2021	December 31, 2020
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties:		
Multifamily	\$ 2,886,055	\$ 2,247,542
Single family	933,445	806,014
Total real estate loans secured by residential properties	3,819,500	3,053,556
Commercial properties	1,309,200	747,807
Land and construction	156,028	55,832
Total real estate loans	5,284,728	3,857,195
Commercial and industrial loans	1,598,422	918,676
Consumer loans	10,834	18,888
Total loans	6,893,984	4,794,759
Premiums, discounts and deferred fees and expenses	12,744	9,040
Total	<u>\$ 6,906,728</u>	<u>\$ 4,803,799</u>

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

<i>(dollars in thousands)</i>	Past Due and Still Accruing			Nonaccrual	Total Past Due and Nonaccrual	Current	Total
	30-59 Days	60-89 Days	90 Days or More				
<b>December 31, 2021:</b>							
Real estate loans:							
Residential properties	\$ 1,519	\$ 310	\$ —	\$ 3,281	\$ 5,110	\$ 3,827,385	\$ 3,832,495
Commercial properties	2,934	—	—	1,529	4,463	1,305,112	1,309,575
Land and construction	—	—	—	—	—	155,926	155,926
Commercial and industrial loans	303	260	—	3,520	4,083	1,593,782	1,597,865
Consumer loans	—	—	—	—	—	10,867	10,867
Total	<u>\$ 4,756</u>	<u>\$ 570</u>	<u>\$ —</u>	<u>\$ 8,330</u>	<u>\$ 13,656</u>	<u>\$ 6,893,072</u>	<u>\$ 6,906,728</u>
Percentage of total loans	0.07 %	0.01 %	— %	0.12 %	0.20 %		
<b>December 31, 2020:</b>							
Real estate loans:							
Residential properties	\$ 35	\$ —	\$ —	\$ 10,947	\$ 10,982	\$ 3,042,574	\$ 3,053,556
Commercial properties	951	240	—	4,544	5,735	742,072	747,807
Land and construction	—	—	—	—	—	55,832	55,832
Commercial and industrial loans	1,013	411	152	5,137	6,713	911,963	918,676
Consumer loans	—	—	—	—	—	18,888	18,888
Total	<u>\$ 1,999</u>	<u>\$ 651</u>	<u>\$ 152</u>	<u>\$ 20,628</u>	<u>\$ 23,430</u>	<u>\$ 4,771,329</u>	<u>\$ 4,794,759</u>
Percentage of total loans	0.04 %	0.01 %	0.00 %	0.43 %	0.49 %		



**FIRST FOUNDATION INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
Years Ended December 31, 2021, 2020, and 2019

The following table summarizes our nonaccrual loans as of:

<i>(dollars in thousands)</i>	Nonaccrual with Allowance for Credit Losses	Nonaccrual with no Allowance for Credit Losses
<b>December 31, 2021:</b>		
Real estate loans:		
Residential properties	\$ —	\$ 3,281
Commercial properties	—	1,529
Commercial and industrial loans	1,733	1,788
Total	<u>\$ 1,733</u>	<u>\$ 6,598</u>
<b>December 31, 2020:</b>		
Real estate loans:		
Residential properties	\$ 2,987	\$ 7,959
Commercial properties	—	4,544
Commercial and industrial loans	2,581	2,557
Total	<u>\$ 5,568</u>	<u>\$ 15,060</u>

The following table presents the composition of TDRs by accrual and nonaccrual status as of:

<i>(dollars in thousands)</i>	December 31, 2021			December 31, 2020		
	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Residential loans	\$ 1,200	\$ —	\$ 1,200	\$ 1,200	\$ —	\$ 1,200
Commercial real estate loans	1,021	1,174	2,195	1,107	1,277	2,384
Commercial and industrial loans	493	2,030	2,523	1,041	2,832	3,873
Total	<u>\$ 2,714</u>	<u>\$ 3,204</u>	<u>\$ 5,918</u>	<u>\$ 3,348</u>	<u>\$ 4,109</u>	<u>\$ 7,457</u>

The following tables provide information on loans that were modified as TDRs during the following periods:

<i>(dollars in thousands)</i>	Number of loans	Outstanding Recorded Investment		Financial Impact
		Pre-Modification	Post-Modification	
<b>Year Ended December 31, 2021:</b>				
Commercial and industrial loans	1	\$ 346	\$ 346	\$ —
Total	<u>1</u>	<u>\$ 346</u>	<u>\$ 346</u>	<u>\$ —</u>
<b>Year Ended December 31, 2020</b>				
Commercial and industrial loans	1	\$ 507	\$ 507	\$ —
Total	<u>1</u>	<u>\$ 507</u>	<u>\$ 507</u>	<u>\$ —</u>

All of these loans were classified as a TDR as a result of a reduction in required principal payments and/or an extension of the maturity date of the loans. These loans have been paying in accordance with the terms of their restructure.

**FIRST FOUNDATION INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
Years Ended December 31, 2021, 2020, and 2019

**NOTE 6: ALLOWANCE FOR CREDIT LOSSES**

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

<i>(dollars in thousands)</i>	<b>Beginning Balance</b>	<b>Adoption of ASC 326</b>	<b>Provision for Credit Losses</b>	<b>Initial Allowance on Acquired PCD Loans</b>	<b>Chargeoffs</b>	<b>Recoveries</b>	<b>Ending Balance</b>
<b>2021:</b>							
Real estate loans:							
Residential properties	\$ 5,115	\$ —	\$ (1,453)	\$ 93	\$ (1,118)	\$ —	\$ 2,637
Commercial properties	8,711	—	774	7,564	—	—	17,049
Land and construction	892	—	1,051	52	—	—	1,995
Commercial and industrial loans	9,249	—	614	1,836	(706)	999	11,992
Consumer loans	233	—	(130)	—	—	—	103
Total	<u>\$ 24,200</u>	<u>\$ —</u>	<u>\$ 856</u>	<u>\$ 9,545</u>	<u>\$ (1,824)</u>	<u>\$ 999</u>	<u>\$ 33,776</u>
<b>2020:</b>							
Real estate loans:							
Residential properties	\$ 8,423	\$ 363	\$ (3,671)	\$ —	\$ —	\$ —	\$ 5,115
Commercial properties	4,166	3,760	785	—	—	—	8,711
Land and construction	573	92	227	—	—	—	892
Commercial and industrial loans	7,448	—	2,642	—	(1,844)	1,003	9,249
Consumer loans	190	—	43	—	—	—	233
Total	<u>\$ 20,800</u>	<u>\$ 4,215</u>	<u>\$ 26</u>	<u>\$ —</u>	<u>\$ (1,844)</u>	<u>\$ 1,003</u>	<u>\$ 24,200</u>
<b>2019:</b>							
Real estate loans:							
Residential properties	\$ 9,216	\$ —	\$ (793)	\$ —	\$ —	\$ —	\$ 8,423
Commercial properties	4,547	—	(381)	—	—	—	4,166
Land and construction	391	—	182	—	—	—	573
Commercial and industrial loans	4,628	—	3,653	—	(2,687)	1,854	7,448
Consumer loans	218	—	(24)	—	(5)	1	190
Total	<u>\$ 19,000</u>	<u>\$ —</u>	<u>\$ 2,637</u>	<u>\$ —</u>	<u>\$ (2,692)</u>	<u>\$ 1,855</u>	<u>\$ 20,800</u>

The Bank has purchased loans for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination. The carrying amount of those loans is as follows:

<i>(dollars in thousands)</i>	<b>2021</b>
Par value of acquired loans	\$ 41,105
Allowance for credit losses at acquisition	(9,545)
Non-credit discount at acquisition	(1,272)
Purchase price of acquired loans	<u>\$ 30,288</u>

**FIRST FOUNDATION INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
Years Ended December 31, 2021, 2020, and 2019

The following table presents the balance in the allowance for credit losses and the recorded investment in loans by impairment method as of:

	Allowance for Credit Losses		
	Loans Evaluated		
	Individually	Collectively	Total
<i>(dollars in thousands)</i>			
<b>December 31, 2021:</b>			
Allowance for credit losses:			
Real estate loans:			
Residential properties	\$ 111	\$ 2,526	\$ 2,637
Commercial properties	7,967	9,082	17,049
Land and construction	52	1,943	1,995
Commercial and industrial loans	2,386	9,606	11,992
Consumer loans	—	103	103
Total	<u>\$ 10,516</u>	<u>\$ 23,260</u>	<u>\$ 33,776</u>
Loans:			
Real estate loans:			
Residential properties	\$ 9,593	\$ 3,822,902	\$ 3,832,495
Commercial properties	41,313	1,268,262	1,309,575
Land and construction	694	155,232	155,926
Commercial and industrial loans	9,963	1,587,902	1,597,865
Consumer loans	—	10,867	10,867
Total	<u>\$ 61,563</u>	<u>\$ 6,845,165</u>	<u>\$ 6,906,728</u>
<b>December 31, 2020:</b>			
Allowance for credit losses:			
Real estate loans:			
Residential properties	\$ 1,059	\$ 4,056	\$ 5,115
Commercial properties	374	8,337	8,711
Land and construction	—	892	892
Commercial and industrial loans	956	8,293	9,249
Consumer loans	—	233	233
Total	<u>\$ 2,389</u>	<u>\$ 21,811</u>	<u>\$ 24,200</u>
Loans:			
Real estate loans:			
Residential properties	\$ 12,414	\$ 3,041,142	\$ 3,053,556
Commercial properties	17,304	730,503	747,807
Land and construction	—	55,832	55,832
Commercial and industrial loans	6,472	912,204	918,676
Consumer loans	—	18,888	18,888
Total	<u>\$ 36,190</u>	<u>\$ 4,758,569</u>	<u>\$ 4,794,759</u>

**FIRST FOUNDATION INC.**  
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Years Ended December 31, 2021, 2020, and 2019

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as loans secured by multifamily or commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Bank uses the following definitions for risk ratings:

**Pass:** Loans classified as pass are strong credits with no existing or known potential weaknesses deserving of management's close attention.

**Special Mention:** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard:** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Impaired:** A loan is considered impaired, when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement.

Additionally, all loans classified as troubled debt restructurings ("TDRs") are considered impaired. Purchased credit deteriorated loans are not considered impaired loans for these purposes.

Loans listed as pass include larger non-homogeneous loans not meeting the risk rating definitions above and smaller, homogeneous loans not assessed on an individual basis.

**FIRST FOUNDATION INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
Years Ended December 31, 2021, 2020, and 2019

The following tables present risk categories of loans based on year of origination, as of:

<i>(dollars in thousands)</i>	2021	2020	2019	2018	2017	Prior	Revolving Loans	Total
<b>December 31, 2021:</b>								
Loans secured by Real Estate:								
Residential								
Multifamily								
Pass	\$ 1,092,903	\$ 868,483	\$ 418,346	\$ 265,872	\$ 141,433	\$ 108,529	\$ —	\$ 2,895,566
Special Mention	—	—	1,177	—	—	—	—	1,177
Substandard	—	—	—	—	—	—	—	—
Total	<u>\$ 1,092,903</u>	<u>\$ 868,483</u>	<u>\$ 419,523</u>	<u>\$ 265,872</u>	<u>\$ 141,433</u>	<u>\$ 108,529</u>	<u>\$ —</u>	<u>\$ 2,896,743</u>
Single Family								
Pass	\$ 278,337	\$ 122,530	\$ 52,995	\$ 60,559	\$ 57,174	\$ 280,216	\$ 74,934	\$ 926,745
Special Mention	—	—	—	—	—	—	26	26
Substandard	—	—	—	—	1,873	6,830	278	8,981
Total	<u>\$ 278,337</u>	<u>\$ 122,530</u>	<u>\$ 52,995</u>	<u>\$ 60,559</u>	<u>\$ 59,047</u>	<u>\$ 287,046</u>	<u>\$ 75,238</u>	<u>\$ 935,752</u>
Commercial Real Estate								
Pass	\$ 114,678	\$ 39,135	\$ 59,426	\$ 94,930	\$ 115,614	\$ 804,295	\$ —	\$ 1,228,078
Special Mention	—	—	23,495	—	—	30,389	—	53,884
Substandard	—	—	2,934	—	2,217	22,462	—	27,613
Total	<u>\$ 114,678</u>	<u>\$ 39,135</u>	<u>\$ 85,855</u>	<u>\$ 94,930</u>	<u>\$ 117,831</u>	<u>\$ 857,146</u>	<u>\$ —</u>	<u>\$ 1,309,575</u>
Land and construction								
Pass	\$ 14,738	\$ —	\$ 17,692	\$ 31,952	\$ 2,529	\$ 88,321	\$ —	\$ 155,232
Special Mention	—	—	—	—	—	694	—	694
Substandard	—	—	—	—	—	—	—	—
Total	<u>\$ 14,738</u>	<u>\$ —</u>	<u>\$ 17,692</u>	<u>\$ 31,952</u>	<u>\$ 2,529</u>	<u>\$ 89,015</u>	<u>\$ —</u>	<u>\$ 155,926</u>
Commercial								
Pass	\$ 471,431	\$ 191,405	\$ 88,050	\$ 20,709	\$ 5,531	\$ 167,201	\$ 636,507	\$ 1,580,834
Special Mention	883	1,101	833	—	—	1,370	2,790	6,977
Substandard	—	1,535	1,765	982	192	2,688	2,892	10,054
Total	<u>\$ 472,314</u>	<u>\$ 194,041</u>	<u>\$ 90,648</u>	<u>\$ 21,691</u>	<u>\$ 5,723</u>	<u>\$ 171,259</u>	<u>\$ 642,189</u>	<u>\$ 1,597,865</u>
Consumer								
Pass	\$ 54	\$ —	\$ —	\$ 1,174	\$ —	\$ 2,617	\$ 7,022	\$ 10,867
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total	<u>\$ 54</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,174</u>	<u>\$ —</u>	<u>\$ 2,617</u>	<u>\$ 7,022</u>	<u>\$ 10,867</u>
Total loans								
Pass	\$ 1,972,141	\$ 1,221,553	\$ 636,509	\$ 475,196	\$ 322,281	\$ 1,451,179	\$ 718,463	\$ 6,797,322
Special Mention	883	1,101	25,505	—	—	32,453	2,816	62,758
Substandard	—	1,535	4,699	982	4,282	31,980	3,170	46,648
Total	<u>\$ 1,973,024</u>	<u>\$ 1,224,189</u>	<u>\$ 666,713</u>	<u>\$ 476,178</u>	<u>\$ 326,563</u>	<u>\$ 1,515,612</u>	<u>\$ 724,449</u>	<u>\$ 6,906,728</u>

**FIRST FOUNDATION INC.**  
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<i>(dollars in thousands)</i>	2020	2019	2018	2017	2016	Prior	Revolving Loans	Total
<b>December 31, 2020:</b>								
Loans secured by Real Estate:								
Residential								
Multifamily								
Pass	\$ 774,701	\$ 638,237	\$ 469,866	\$ 218,470	\$ 82,941	\$ 63,328	\$ —	\$ 2,247,543
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total	<u>\$ 774,701</u>	<u>\$ 638,237</u>	<u>\$ 469,866</u>	<u>\$ 218,470</u>	<u>\$ 82,941</u>	<u>\$ 63,328</u>	<u>\$ —</u>	<u>\$ 2,247,543</u>
Single Family								
Pass	\$ 173,563	\$ 83,311	\$ 110,560	\$ 95,888	\$ 107,568	\$ 196,692	\$ 25,014	\$ 792,596
Special Mention	—	—	—	986	—	—	—	986
Substandard	—	—	—	1,946	—	7,134	3,351	12,431
Total	<u>\$ 173,563</u>	<u>\$ 83,311</u>	<u>\$ 110,560</u>	<u>\$ 98,820</u>	<u>\$ 107,568</u>	<u>\$ 203,826</u>	<u>\$ 28,365</u>	<u>\$ 806,013</u>
Commercial Real Estate								
Pass	\$ 46,260	\$ 100,432	\$ 120,230	\$ 129,120	\$ 119,719	\$ 194,533	\$ —	\$ 710,294
Special Mention	—	743	16,278	—	2,333	157	—	19,511
Substandard	—	5,929	—	2,336	2,515	7,222	—	18,002
Total	<u>\$ 46,260</u>	<u>\$ 107,104</u>	<u>\$ 136,508</u>	<u>\$ 131,456</u>	<u>\$ 124,567</u>	<u>\$ 201,912</u>	<u>\$ —</u>	<u>\$ 747,807</u>
Land and construction								
Pass	\$ 257	\$ 15,923	\$ 27,792	\$ 10,532	\$ 706	\$ 622	\$ —	\$ 55,832
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total	<u>\$ 257</u>	<u>\$ 15,923</u>	<u>\$ 27,792</u>	<u>\$ 10,532</u>	<u>\$ 706</u>	<u>\$ 622</u>	<u>\$ —</u>	<u>\$ 55,832</u>
Commercial								
Pass	\$ 377,500	\$ 146,279	\$ 54,910	\$ 15,868	\$ 13,180	\$ 16,823	\$ 270,604	\$ 895,164
Special Mention	2,058	3,922	1,868	579	297	448	6,107	15,279
Substandard	1,226	316	1,188	259	2,459	281	2,504	8,233
Total	<u>\$ 380,784</u>	<u>\$ 150,517</u>	<u>\$ 57,966</u>	<u>\$ 16,706</u>	<u>\$ 15,936</u>	<u>\$ 17,552</u>	<u>\$ 279,215</u>	<u>\$ 918,676</u>
Consumer								
Pass	\$ 2,557	\$ —	\$ 1,321	\$ 3	\$ 6,784	\$ 100	\$ 8,123	\$ 18,888
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total	<u>\$ 2,557</u>	<u>\$ —</u>	<u>\$ 1,321</u>	<u>\$ 3</u>	<u>\$ 6,784</u>	<u>\$ 100</u>	<u>\$ 8,123</u>	<u>\$ 18,888</u>
Total loans								
Pass	\$ 1,374,838	\$ 984,182	\$ 784,679	\$ 469,881	\$ 330,898	\$ 472,098	\$ 303,741	\$ 4,720,317
Special Mention	2,058	4,665	18,146	1,565	2,630	605	6,107	35,776
Substandard	1,226	6,245	1,188	4,541	4,974	14,637	5,855	38,666
Total	<u>\$ 1,378,122</u>	<u>\$ 995,092</u>	<u>\$ 804,013</u>	<u>\$ 475,987</u>	<u>\$ 338,502</u>	<u>\$ 487,340</u>	<u>\$ 315,703</u>	<u>\$ 4,794,759</u>

**FIRST FOUNDATION INC.**  
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The following table presents the amortized cost basis of collateral dependent loans, which are individually evaluated to determine expected credit losses and the related ACL allocated to these loans as of:

<i>(dollars in thousands)</i>	<b>Real Estate</b>	<b>Cash</b>	<b>Equipment/ Receivables</b>	<b>Total</b>	<b>ACL Allocation</b>
<b>December 31, 2021:</b>					
Loans secured by Real Estate:					
Residential properties					
Single family	\$ 2,568	\$ —	\$ —	\$ 2,568	\$ —
Commercial loans	—	250	—	250	—
Total	<u>\$ 2,568</u>	<u>\$ 250</u>	<u>\$ —</u>	<u>\$ 2,818</u>	<u>\$ —</u>
<b>December 31, 2020:</b>					
Loans secured by Real Estate:					
Residential properties					
Single family	\$ 10,144	\$ —	\$ —	\$ 10,144	\$ 1,051
Commercial loans	—	250	122	372	44
Total	<u>\$ 10,144</u>	<u>\$ 250</u>	<u>\$ 122</u>	<u>\$ 10,516</u>	<u>\$ 1,095</u>

**NOTE 7: PREMISES AND EQUIPMENT**

A summary of premises and equipment is as follows at December 31:

<i>(dollars in thousands)</i>	<b>2021</b>	<b>2020</b>
Leasehold improvements and artwork	\$ 22,331	\$ 7,762
Information technology equipment	12,205	11,155
Furniture and fixtures	3,920	3,503
Land and auto	16,943	805
Total	<u>55,399</u>	<u>23,225</u>
Accumulated depreciation and amortization	<u>(17,479)</u>	<u>(15,213)</u>
Net	<u>\$ 37,920</u>	<u>\$ 8,012</u>

**NOTE 8: REAL ESTATE OWNED**

The activity in our portfolio of REO is as follows during the periods ending December 31:

<i>(dollars in thousands)</i>	<b>2021</b>	<b>2020</b>
Beginning balance	\$ —	\$ —
Loans transferred to REO	6,210	—
REO acquired in merger	—	—
Dispositions of REO	—	—
Ending balance	<u>\$ 6,210</u>	<u>\$ —</u>

**NOTE 9: LOAN SALES AND MORTGAGE SERVICING RIGHTS**

In 2021, FFB sold \$559 million of multifamily loans and recognized a gain of \$21.5 million. In 2020, FFB sold \$553 million of multifamily loans and recognized a gain of \$15.1 million. In 2019, FFB recognized \$4.2 million of gains on the sale of \$549 million of multifamily loans.

**FIRST FOUNDATION INC.**  
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For the sales of multifamily loans in 2021, 2020, and 2019, FFB retained servicing rights for the majority of these loans and recognized mortgage servicing rights as part of the transactions. As of December 31, 2021, and 2020, mortgage servicing rights were \$6.8 million and \$7.9 million, respectively, net of valuation allowances of \$1.9 million and \$1.4 million, respectively. The amount of loans serviced for others totaled \$1.7 billion and \$1.7 billion at December 31, 2021 and 2020, respectively. Servicing fees collected in 2021, 2020, and 2019 were \$3.4 million, \$1.6 million, and \$1.7 million, respectively.

**NOTE 10: DEPOSITS**

The following table summarizes the outstanding balance of deposits and average rates paid thereon as of:

<i>(dollars in thousands)</i>	2021		2020	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Demand deposits:				
Noninterest-bearing	\$ 3,280,455	—	\$ 1,655,847	—
Interest-bearing	2,242,684	0.070 %	871,289	0.372 %
Money market and savings	2,620,336	0.275 %	2,407,401	0.549 %
Certificates of deposits	668,485	0.145 %	978,896	0.591 %
Total	<u>\$ 8,811,960</u>	0.111 %	<u>\$ 5,913,433</u>	0.376 %

At December 31, 2021, of the \$367 million of certificates of deposits of \$250,000 or more, \$361 million mature within one year and \$6 million mature after one year. Of the \$301 million of certificates of deposit of less than \$250,000, \$229 million mature within one year and \$72 million mature after one year. At December 31, 2020, of the \$416 million of certificates of deposits of \$250,000 or more, \$409 million mature within one year and \$7 million mature after one year. Of the \$563 million of certificates of deposit of less than \$250,000, \$520 million mature within one year and \$43 million mature after one year.

**NOTE 11: BORROWINGS**

At December 31, 2021, our borrowings consisted of \$26 million in subordinated notes, \$166 million of repurchase agreements, and \$18.5 million of borrowings under a holding company line of credit. At December 31, 2020, our borrowings consisted of \$255 million in FHLB term advances at the Bank, and \$14 million of borrowings under a holding company line of credit. The subordinated notes mature in June 2030 and bear a fixed interest rate of 6.0%, until June 30, 2025, at which time they will convert to a floating rate based on three month Secured Overnight Financing Rate (“SOFR”), plus 590 basis points (5.90%), until maturity. Out of the \$255 million in FHLB term advances, a \$250 million FHLB term advance outstanding at December 31, 2020 matured in March 2021, and bore an interest rate of 0.47%, and a \$5 million zero interest advance outstanding at December 31, 2020 matured in April 2021. At December 31, 2021 the interest rate on the company line of credit was 3.63%.

FHLB advances are collateralized by loans secured by multifamily and commercial real estate properties with a carrying value of \$4 billion as of December 31, 2021. As a matter of practice, the Bank provides substantially all of its qualifying loans as collateral to the FHLB. The Bank’s total remaining borrowing capacity from the FHLB at December 31, 2021 was \$2.7 billion. The Bank had in place \$277 million of letters of credit from the FHLB which are used to meet collateral requirements for borrowings from the State of California and local agencies.

During 2017, FFI entered into a loan agreement with an unaffiliated lender that provides for a revolving line of credit for up to \$40 million. The loan agreement matures in five years, with an option to extend the maturity date subject to certain conditions, and bears interest at 90 day SOFR plus 350 basis points (3.50%). We are required to meet certain financial covenants during the term of the loan, including minimum capital levels and limits on classified assets. As of December 31, 2021, FFI was in compliance with the covenants on this loan agreement.



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The Company obtained repurchase agreements from the TGRF acquisition. The agreements are treated as overnight borrowings, with the obligations to repurchase securities sold reflected as a liability. The investment securities underlying the agreements remain in the Company's securities AFS accounts. As of December 31, 2021, the repurchase agreements weighted average rate was 0.001%, and are collateralized by investment securities with fair value of approximately \$176.2 million.

The Bank also has \$195 million available unsecured fed funds lines, ranging in size from \$20 million to \$100 million, with five other financial institutions and a \$166 million secured line with the Federal Reserve Bank. None of these lines had outstanding borrowings as of December 31, 2021. Combined, the Bank's unused lines of credit as of December 31, 2021 were \$3.1 billion. The average daily balance of overnight borrowings outstanding during 2021, 2020 and 2019 was \$1 million, \$56 million and \$413 million, respectively.

**NOTE 12: SHAREHOLDERS' EQUITY**

FFI is a holding company and does not have any direct operating activities. Any future cash flow needs of FFI are expected to be met by its existing cash and cash equivalents and dividends from its subsidiaries. The Bank is subject to various laws and regulations that limit the amount of dividends that a bank can pay without obtaining prior approval from bank regulators. Additionally, under the terms of the holding company line of credit agreement, FFI may only declare and pay a dividend if the total amount of dividends and stock repurchases during the current twelve months does not exceed 50% of FFI's net income for the same twelve month period. As of December 31, 2021, FFI's cash and cash equivalents totaled \$21.8 million.

**NOTE 13: EARNINGS PER SHARE**

The following table sets forth the Company's earnings per share calculations for the years ended December 31:

<i>(dollars in thousands, except per share amounts)</i>	2021		2020		2019	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income	\$ 109,511	\$ 109,511	\$ 84,369	\$ 84,369	\$ 56,239	\$ 56,239
Basic common shares outstanding	45,272,183	45,272,183	44,639,430	44,639,430	44,617,361	44,617,361
Effect of options, restricted stock and contingent shares issuable		187,357		261,375		293,904
Diluted common shares outstanding		45,459,540		44,900,805		44,911,265
Earnings per share	\$ 2.42	\$ 2.41	\$ 1.89	\$ 1.88	\$ 1.26	\$ 1.25

**NOTE 14: STOCK BASED COMPENSATION**

In 2007, the Board of Directors of FFI approved two equity incentive plans that provided for the grant of stock options, shares of restricted stock, restricted stock units ("RSUs"), stock bonus awards and performance awards (collectively, "Equity Incentive Awards") to the Company's executive officers, other key employees and directors up to 1,300,282 shares of the FFI's common stock. In 2010, shareholders approved an increase of 580,000 in the number of shares available for issuance under one of these plans. In 2015, shareholders approved a new equity incentive plan whereby: the Company can no longer issue Equity Incentive Awards under the previously approved plans; 750,000 shares of common stock will be available for the grant of Equity Incentive Awards to the Company's executive officers, other key employees and directors; Equity Incentive Awards that are outstanding under the prior plans will remain outstanding and unchanged and subject to the terms of those Plans; and upon termination, cancellation or forfeiture of any of the Equity Incentive Awards that are outstanding under the prior plans, those shares will be added to the pool of shares available for

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future grants of Equity Incentive Awards under the plan approved in 2015. The shares included above do not reflect the impact of the two for one stock split which occurred at the beginning of 2017. The Company recognized stock-based compensation expense of \$2.8 million, \$2.1 million, and \$1.6 million in 2021, 2020, and 2019, respectively, related to RSUs.

Stock options, when granted, have an exercise price not less than the current market value of the common stock and expire after ten years if not exercised. If applicable, vesting periods are set at the date of grant and the Plans provide for accelerated vesting should a change in control occur.

The following table summarizes the activities in the Plans during 2021:

<i>(dollars in thousands except per share amounts)</i>	<b>Options Granted</b>	<b>Weighted Average Exercise Price per Share</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Balance: December 31, 2020	374,050	\$ 7.81		
Options granted	—	—		
Options exercised	(327,000)	7.69		
Options forfeited	—	—		
Balance: December 31, 2021	47,050	8.68	1.96 Years	\$ 761
Options exercisable	47,050	\$ 8.68	1.96 Years	\$ 761

The intrinsic value of stock options exercised in 2021 was \$5.8 million.

The following table summarizes the activities in the Plans during 2020:

<i>(dollars in thousands except per share amounts)</i>	<b>Options Granted</b>	<b>Weighted Average Exercise Price per Share</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Balance: December 31, 2019	548,550	\$ 7.79		
Options granted	—	—		
Options exercised	(117,500)	7.79		
Options forfeited	(57,000)	7.66		
Balance: December 31, 2020	374,050	7.81	1.08 Years	\$ 3,586
Options exercisable	374,050	\$ 7.81	1.08 Years	\$ 3,586

The intrinsic value of stock options exercised in 2020 was \$0.8 million.

The following table summarizes the activities in the Plans during 2019:

<i>(dollars in thousands except per share amounts)</i>	<b>Options Granted</b>	<b>Weighted Average Exercise Price per Share</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Balance: December 31, 2018	592,550	\$ 7.78		
Options granted	—	—		
Options exercised	(44,000)	7.60		
Options forfeited	—	—		
Balance: December 31, 2019	548,550	7.79	2.02 Years	\$ 5,270
Options exercisable	548,550	\$ 7.79	2.02 Years	\$ 5,270

The intrinsic value of stock options exercised in 2019 was \$0.3 million.

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The following table provides a summary of the RSUs issued by the Company under its equity incentive plans for the periods ended December 31:

	2021		2020		2019	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Balance: January 1	193,190	\$ 15.32	139,278	\$ 15.69	114,320	\$ 17.51
New RSUs	134,973	23.33	159,186	15.26	157,494	15.18
Shares vested and issued	(126,528)	17.45	(103,741)	15.74	(132,536)	16.65
RSUs forfeited	(2,061)	20.06	(1,533)	—	—	—
Balance December 31	199,574	\$ 19.34	193,190	\$ 15.32	139,278	\$ 15.69

The fair value of the shares vested and issued was \$2.2 million, \$1.6 million and \$2.0 million in 2021, 2020 and 2019, respectively. As of December 31, 2021, the Company had \$2.0 million of unrecognized compensation costs related to outstanding RSUs, which will be recognized through June 2024, subject to the related vesting requirements.

**NOTE 15: 401(k) PROFIT SHARING PLAN**

The Company's employees participate in the Company's 401(k) profit sharing plan (the "401k Plan") that covers all employees eighteen years of age or older who have completed three months of employment. Each employee eligible to participate in the 401k Plan may contribute up to 100% of his or her compensation, subject to certain statutory limitations. In 2021, 2020, and 2019, the Company matched 100% of a participant's contribution up to 3% of a participant's compensation and an additional 50% of a participant's contribution up to the next 2% of a participant's compensation. These employer contributions are subject to the plan's vesting schedule. The Company contributions of \$2.2 million, \$1.8 million and \$1.9 million were included in compensation and benefits for 2021, 2020 and 2019, respectively. The Company may also make an additional profit sharing contribution on behalf of eligible employees. No profit sharing contributions were made in 2021, 2020 or 2019.

**NOTE 16: INCOME TAXES**

The Company is subject to federal income tax and California franchise tax. Income tax expense (benefit) was as follows for the years ended December 31:

<i>(dollars in thousands)</i>	2021	2020	2019
Current expense:			
Federal	\$ 28,550	\$ 23,316	\$ 15,411
State	15,303	12,661	7,922
Deferred expense (benefit):			
Federal	(867)	(1,315)	(235)
State	(712)	(264)	162
Total	<u>\$ 42,274</u>	<u>\$ 34,398</u>	<u>\$ 23,260</u>

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The following is a comparison of the federal statutory income tax rates to the Company's effective income tax rate for the years ended December 31:

<i>(dollars in thousands)</i>	2021		2020		2019	
	Amount	Rate	Amount	Rate	Amount	Rate
Income before taxes	\$ 151,785		\$ 118,767		\$ 79,499	
Federal tax statutory rate	\$ 31,875	21.00 %	\$ 24,941	21.00 %	\$ 16,695	21.00 %
State tax, net of Federal benefit	12,262	8.08 %	9,612	8.09 %	6,405	8.06 %
Windfall benefit – exercise of stock options	(1,708)	(1.13)%	(118)	(0.10)%	—	— %
Transaction costs	551	0.36 %	—	— %	—	— %
Low income housing, net benefit	(732)	(0.48)%	(638)	(0.54)%	—	— %
Tax exempt interest income	(1,014)	(0.67)%	(150)	(0.12)%	—	— %
Other items, net	1,040	0.69 %	751	0.63 %	160	0.20 %
Effective tax rate	\$ 42,274	27.85 %	\$ 34,398	28.96 %	\$ 23,260	29.26 %

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income tax recognition. The following is a summary of the components of the net deferred tax assets recognized in the accompanying consolidated balance sheets at December 31:

<i>(dollars in thousands)</i>	2021	2020
Deferred tax assets (liabilities)		
Allowance for credit and REO losses	\$ 14,062	\$ 8,546
Operating loss carryforwards	1,775	1,924
State taxes	3,157	2,611
Stock-based compensation	538	558
Market valuation: merger	3,252	2,438
Capital activities – mark to market	3,927	847
Compensation related	1,343	1,210
Core deposit intangible	(2,471)	(1,977)
Prepaid expenses	(1,853)	(1,234)
Depreciation	(1,065)	(1,014)
Accumulated other comprehensive income	(945)	(5,824)
Other	(885)	518
Net deferred tax assets	\$ 20,835	\$ 8,603

As part of a merger in 2012, the Company acquired operating loss carryforwards of \$13.4 million. These operating loss carryforwards are subject to limitation under Section 382 of the Internal Revenue Code and expire in 2032. As a result, the Company will only be able to utilize operating loss carryforwards of \$8.2 million, ratably over a period of 20 years. As part of a merger in 2015, the Company acquired operating loss carryforwards of \$3.6 million. These operating loss carryforwards are subject to limitation under Section 382 of the Internal Revenue Code and expire in 2035. As part of the mergers in 2017 and 2018, the Company acquired operating loss carryforwards of \$0.7 and \$3.2 million, respectively. These operating loss carryforwards are subject to limitation under Section 382 of the Internal Revenue Code and have been fully utilized as of the end of 2020. As part of a merger in 2021, the Company acquired operating loss carryforwards of \$0.1 million. These operating loss carryforwards are subject to limitation under Section 382 of the Internal Revenue Code and expire in 2033. As of December 31, 2021, the remaining operating loss carryforwards from the 2012 and 2015 acquisitions available to be utilized by the Company were \$6.0 million. The Company has no other operating loss carryforwards.

The Company's federal income tax returns for the periods 2018 through 2020 are open to audit. The Company's California and other state income tax returns for the periods ranging between 2017 through 2020 are open to audit.

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**NOTE 17: COMMITMENTS AND CONTINGENCIES**

***Leases***

The Company adopted ASU 2016-02, *Leases (Topic 842)*, on January 1, 2019, using the alternative transition method whereby comparative periods were not restated. No cumulative effect adjustment to the opening balance of retained earnings was required.

The Company leases certain facilities for its corporate offices and branch operations under non-cancelable operating leases that expire through 2029. All leases were classified as operating leases and therefore, were previously not recognized on the Company's consolidated balance sheet. With the adoption of Topic 842, operating lease agreements are required to be recognized on the consolidated balance sheet as a right-of-use ("ROU") asset and a corresponding lease liability.

Certain leases include options to renew, with renewal terms that can extend the lease term. The depreciable life of leased assets are limited by the expected lease term.

Adoption of this standard resulted in the Company recognizing a right of use asset of \$21.1 million, a corresponding lease liability of \$22.7 million on January 1, 2019 and eliminated a \$1.6 million deferred rent liability recognized under previous accounting standards.

Supplemental lease information at or for the twelve months ended December 31, 2021 is as follows:

*(dollars in thousands)*

***Balance Sheet:***

Operating lease asset classified as other assets	\$ 19,384
Operating lease liability classified as other liabilities	20,575

***Income Statement:***

Operating lease cost classified as occupancy and equipment expense	\$ 6,559
Weighted average lease term, in years	4.57
Weighted average discount rate	4.85 %
Operating cash flows	\$ 6,794

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used.

The Company leases certain facilities for its corporate offices and branch operations under non-cancelable operating leases that expire through 2029. Lease expense for 2021, 2020, and 2019 was \$6.5 million, \$6.1 million, and

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\$5.9 million, respectively. Future minimum lease commitments under all non-cancelable operating leases at December 31, 2021 are as follows:

<i>(dollars in thousands)</i>	
2022	\$ 7,068
2023	4,588
2024	4,269
2025	3,584
2026 and after	5,178
Total future minimum lease payments	\$ 24,687
Discount on cash flows	(4,112)
Total lease liability	\$ 20,575

***Financial Instruments with Off-Balance Sheet Risk***

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk to meet the financing needs of customers and to reduce exposure to fluctuations in interest rates. These financial instruments may include commitments to extend credit and standby and commercial letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Standby and commercial letters of credit and financial guarantees are conditional commitments issued by the Bank to guaranty the performance of a customer to a third party. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The following table provides the off-balance sheet arrangements of the Bank as of December 31:

<i>(dollars in thousands)</i>	2021	2020
Commitments to fund new loans	\$ 29,545	\$ 36,143
Commitments to fund under existing loans, lines of credit	881,605	517,169
Commitments under standby letters of credit	14,576	15,589

Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include deposits, marketable securities, accounts receivable, inventory, property, plant and equipment, motor vehicles and real estate.

***Litigation***

From time to time, the Company may become party to various lawsuits, which have arisen in the course of business. While it is not possible to predict with certainty the outcome of such litigation, it is the opinion of management, based in part upon opinions of counsel, that the liability, if any, arising from such lawsuits would not have a material adverse effect on the Company's financial position or results of operations.

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**NOTE 18: DERIVATIVES AND HEDGING ACTIVITIES**

Derivatives, specifically interest rate swaps, are used by the Company to reduce the risk that significant increases in interest rates may have on the value of loans held for sale. Derivative transactions are measured in terms of notional amount, which is not recorded in the consolidated statements of financial condition. The notional amount is generally not exchanged and is used as the basis for interest and other contractual payments. Derivatives are reported at their respective fair values in other assets or other liabilities on the consolidated balance sheet, with changes in fair value recognized currently in earnings.

During the fourth quarter of 2018, we entered into two swap agreements, with combined notional amounts of \$500 million, to offset the impact of changes in interest rates on the value of loans held for sale. These swaps were designated as fair value hedges using the last-of-layer method with the interest rate risk component of the loans held for sale designated as the hedged risk.

During the second quarter of 2018, we entered into four interest rate swap agreements, with combined notional amounts of \$652 million, to mitigate against the effect of increases in interest rates on loans held for sale. These swaps were designated as non-hedging activities and were closed out in the third quarter of 2018. During 2018, the payment of the difference between the fixed and floating rate of these interest rate swaps resulted in a \$0.8 million reduction in loan interest income and the increase in value of these interest rate swaps of \$5.9 million was included in gain on sale of loans in 2018.

The following table provides the effect of fair value hedge accounting on the consolidated income statement for 2020, including the location and amount of gain or (loss) recognized in income on fair value hedging relationships:

<i>(dollars in thousands)</i>	<b>Interest Income - Loans</b>
Gain or (Loss):	
Interest contracts:	
Hedged items	\$ 12,102
Derivatives designated as hedging instruments	(11,476)

The following table provides the effect of fair value hedge accounting on the consolidated income statement for 2019, including the location and amount of gain or (loss) recognized in income on fair value hedging relationships:

<i>(dollars in thousands)</i>	<b>Interest Income - Loans</b>
Gain or (Loss):	
Interest contracts:	
Hedged items	\$ 25,006
Derivatives designated as hedging instruments	(19,883)

There were no derivative positions outstanding at December 31, 2021.

**NOTE 19: RELATED-PARTY TRANSACTIONS**

The Bank held \$6.2 million and \$4.1 million of deposits from related parties, including directors and executive officers of the Company and their affiliates, as of December 31, 2021 and December 31, 2020, respectively. Interest paid on deposit accounts held by related parties was \$37,000 in 2021, \$22,000 in 2020 and \$30,000 in 2019.

As of December 31, 2021, related parties, including directors and executive officers of the Company and their affiliates, held \$6.1 million in assets under management with FFA and FFB. In 2021, 2020, and 2019 the Company received \$19,000, \$0.1 million, and \$0.1 million, respectively, in fees related to these assets under management.

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Two executive officers of FFB previously had minority interests in an entity which FFB uses for software services, for which FFB paid \$0.6 million in 2021, \$0.3 million in 2020, and \$0.3 million in 2019.

As of December 31, 2021, a director owns a \$70,000 portion of subordinated notes held at FFI.

The CEO of the Company is a director of another financial services company, and its financial institution subsidiary, that has deposits with the Bank and, in 2018 and 2017, purchased \$52.1 million and \$121.9 million of loans, respectively, from the Bank for which the Bank will continue to provide servicing. The balance of deposits held at the Bank was \$0.2 million and \$45.7 million at December 31, 2021 and December 31, 2020, respectively, and the interest paid by the Bank was \$33,100 and \$0.2 million in 2021 and 2020, respectively. The amount of loans serviced for this financial institution was \$95 million at December 31, 2021. In 2017, the Bank participated in a subordinated note offering from the financial services company for \$15 million. The Bank earned \$0.8 million from this investment in 2021, 2020, and 2019.

**NOTE 20: QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS**

The Company began investing in qualified affordable housing projects in the last quarter of 2019. These investments may qualify for Community Reinvestment Act (CRA) credit and generate low income housing tax credits (LIHTC) and other tax benefits over an approximate 10 year period. The Company records these investments using the proportional amortization method and amortizes the initial cost of the investment in proportion to the tax benefits, and the net benefit is recognized in the income statement as a component of income tax expense.

At December 31, 2021 and December 31, 2020, the balance of the investment for qualified affordable housing projects was \$59.0 million and \$39.7 million, respectively. Total unfunded commitments related to the investments in qualified affordable housing projects was \$45.2 million and \$34.4 million at December 31, 2021 and December 31, 2020, respectively. The Company expects to fulfill these commitments between 2022 and 2033.

During 2021, 2020, and 2019, the Company recognized amortization expense of \$3.6 million, \$2.6 million, and \$161,000, respectively, and recognized tax credits from its investment in affordable housing tax credits of \$3.2 million, \$1.5 million, and \$61,000, respectively. These amounts were included within income tax expense. The Company had no impairment losses during 2021, 2020, and 2019.

**NOTE 21: REGULATORY MATTERS**

FFI and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on FFI and the Bank's financial condition. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of FFI and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Under a new comprehensive capital framework for U.S. banking organizations, which became effective on January 1, 2015, with certain of their provisions phased-in over a several years through January 1, 2019, the Company (on a consolidated basis) and FFB (on a stand-alone basis) are required to 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. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. FFI's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by the regulators to ensure capital adequacy require FFI and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to assets (as defined). Management believes, as of December 31, 2021 and December 31, 2020 that FFI and the Bank met all capital adequacy requirements.



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

<i>(dollars in thousands)</i>	<b>Actual</b>		<b>For Capital Adequacy Purposes</b>		<b>To Be Well-Capitalized Under Prompt Corrective Action Provisions</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
<b>FFI</b>						
<b>December 31, 2021</b>						
CET1 capital ratio	\$ 846,515	11.34 %	\$ 335,801	4.50 %		
Tier 1 leverage ratio	846,515	8.43 %	401,645	4.00 %		
Tier 1 risk-based capital ratio	846,515	11.34 %	447,735	6.00 %		
Total risk-based capital ratio	887,821	11.90 %	596,980	8.00 %		
<b>December 31, 2020</b>						
CET1 capital ratio	\$ 589,276	11.55 %	\$ 229,490	4.50 %		
Tier 1 leverage ratio	589,276	8.93 %	263,986	4.00 %		
Tier 1 risk-based capital ratio	589,276	11.55 %	305,987	6.00 %		
Total risk-based capital ratio	620,700	12.17 %	407,982	8.00 %		
<b>BANK</b>						
<b>December 31, 2021</b>						
CET1 capital ratio	\$ 854,075	11.49 %	\$ 334,608	4.50 %	\$ 483,323	6.50 %
Tier 1 leverage ratio	854,075	8.53 %	400,616	4.00 %	500,770	5.00 %
Tier 1 risk-based capital ratio	854,075	11.49 %	446,144	6.00 %	594,859	8.00 %
Total risk-based capital ratio	895,381	12.04 %	594,859	8.00 %	743,574	10.00 %
<b>December 31, 2020</b>						
CET1 capital ratio	\$ 591,171	11.63 %	\$ 228,703	4.50 %	\$ 330,349	6.50 %
Tier 1 leverage ratio	591,171	8.98 %	263,330	4.00 %	329,162	5.00 %
Tier 1 risk-based capital ratio	591,171	11.63 %	304,938	6.00 %	406,583	8.00 %
Total risk-based capital ratio	622,595	12.25 %	406,583	8.00 %	508,229	10.00 %

As of each of the dates set forth in the above table, the Company exceeded the minimum required capital ratios applicable to it and FFB's capital ratios exceeded the minimums necessary to qualify as a well-capitalized depository institution under the prompt corrective action regulations. The required ratios for capital adequacy set forth in the above table do not include the additional capital conservation buffer, though each of the Company and FFB maintained capital ratios necessary to satisfy the capital conservation buffer requirements as of the dates indicated.

As of December 31, 2021, the amount of capital at FFB in excess of amounts required to be Well Capitalized was \$371 million for the CET-1 capital ratio, \$353 million for the Tier 1 leverage ratio, \$259 million for the Tier 1 risk-based capital ratio and \$152 million for the Total risk-based capital ratio. No conditions or events have occurred since December 31, 2021 that we believe have changed FFI's or FFB's capital adequacy classifications from those set forth in the above table.

If a banking organization does not hold a capital conservation buffer composed of common equity tier 1 capital above its minimum risk-based capital requirements, it will face constraints on dividends, equity repurchases and executive compensation based on the amount of the shortfall. The capital buffer, which is 2.5%, is measured against risk weighted assets and is therefore not applicable to the tier 1 leverage ratio. The following table sets forth the minimum capital ratios plus the applicable increment of the capital conservation buffer that took effect on January 1, 2019:

CET-1 to risk-weighted assets	7.00 %
Tier 1 capital (i.e., CET-1 plus Additional Tier 1) to risk-weighted assets	8.50 %
Total capital (i.e., Tier 1 plus Tier 2) to risk-weighted assets	10.50 %

**FIRST FOUNDATION INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
Years Ended December 31, 2021, 2020, and 2019

**NOTE 22: NONINTEREST INCOME**

The following table represents revenue from contracts with customers as well as other noninterest income for the years ended December 31:

<i>(dollars in thousands)</i>	2021	2020	2019
Asset management, consulting and other fees:			
Wealth management	\$ 28,447	\$ 23,413	\$ 23,067
Trust fees	7,161	5,645	5,124
Consulting fees	414	407	467
Total	<u>\$ 36,022</u>	<u>\$ 29,465</u>	<u>\$ 28,658</u>
Other income:			
Deposit fees	\$ 1,714	\$ 1,236	\$ 1,070
Loan related fees	9,208	8,334	6,667
Other	2,050	472	1,163
Total	<u>\$ 12,972</u>	<u>\$ 10,042</u>	<u>\$ 8,900</u>

Receivables from contracts with customers, which consist primarily of asset management fees, were \$6 million, \$8.7 million and \$1 million at December 31, 2021, 2020 and 2019, respectively, and are included in other assets on the consolidated balance sheets.

**NOTE 23: OTHER EXPENSES**

The following items are included in the consolidated income statements as other expenses for the years ended December 31:

<i>(dollars in thousands)</i>	2021	2020	2019
Regulatory assessments	\$ 4,200	\$ 3,817	\$ 3,969
Directors' compensation expenses	820	639	628
Acquisition expenses	2,606	—	(490)

**FIRST FOUNDATION INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
Years Ended December 31, 2021, 2020, and 2019

**NOTE 24: SEGMENT REPORTING**

In 2021, 2020, and 2019 the Company had two reportable business segments: Banking (FFB) and Wealth Management (FFA). The results of FFI and any elimination entries are included in the column labeled Other. The reportable segments are determined by products and services offered and the corporate structure. Business segment earnings before taxes are the primary measure of the segment's performance as evaluated by management. Business segment earnings before taxes include direct revenue and expenses of the segment as well as corporate and inter-company cost allocations. Allocations of corporate expenses, such as finance and accounting, data processing and human resources, are calculated based on estimated activity or usage levels. The management accounting process measures the performance of the operating segments based on the Company's management structure and is not necessarily comparable with similar information for other financial services companies. If the management structures and/or the allocation process changes, allocations, transfers and assignments may change. The following tables show key operating results for each of our business segments used to arrive at our consolidated totals for the years ended December 31:

<i>(dollars in thousands)</i>	<b>Banking</b>	<b>Wealth Management</b>	<b>Other</b>	<b>Total</b>
<b>2021:</b>				
Interest income	\$ 247,218	\$ —	\$ —	\$ 247,218
Interest expense	13,688	—	246	13,934
Net interest income	233,530	—	(246)	233,284
Provision for credit losses	3,866	—	—	3,866
Noninterest income	41,068	29,917	(532)	70,453
Noninterest expense	121,375	23,349	3,362	148,086
Income (loss) before taxes on income	<u>\$ 149,357</u>	<u>\$ 6,568</u>	<u>\$ (4,140)</u>	<u>\$ 151,785</u>
<b>2020:</b>				
Interest income	\$ 243,891	\$ —	\$ —	\$ 243,891
Interest expense	47,078	—	169	47,247
Net interest income	196,813	—	(169)	196,644
Provision for credit losses	6,746	—	—	6,746
Noninterest income	31,567	24,510	(1,430)	54,647
Noninterest expense	102,019	21,778	1,981	125,778
Income (loss) before taxes on income	<u>\$ 119,615</u>	<u>\$ 2,732</u>	<u>\$ (3,580)</u>	<u>\$ 118,767</u>
<b>2019:</b>				
Interest income	\$ 248,760	\$ —	\$ —	\$ 248,760
Interest expense	78,450	—	356	78,806
Net interest income	170,310	—	(356)	169,954
Provision for credit losses	2,637	—	—	2,637
Noninterest income	18,844	24,136	(1,204)	41,776
Noninterest expense	104,367	21,931	3,296	129,594
Income (loss) before taxes on income	<u>\$ 82,150</u>	<u>\$ 2,205</u>	<u>\$ (4,856)</u>	<u>\$ 79,499</u>

**FIRST FOUNDATION INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
Years Ended December 31, 2021, 2020, and 2019

The following tables show the financial position for each of our business segments, and of FFI which is included in the column labeled Other, and the eliminating entries used to arrive at our consolidated totals at December 31:

<i>(dollars in thousands)</i>	<b>Banking</b>	<b>Wealth Management</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
<b>2021:</b>					
Cash and cash equivalents	\$ 1,121,089	\$ 3,195	\$ 21,763	\$ (24,290)	\$ 1,121,757
Securities AFS, net	1,191,378	—	—	—	1,191,378
Loans held for sale	501,436	—	—	—	501,436
Loans, net	6,872,952	—	—	—	6,872,952
FHLB Stock	18,249	—	—	—	18,249
Premises and equipment	37,373	411	136	—	37,920
Deferred taxes	20,745	138	(48)	—	20,835
REO	6,210	—	—	—	6,210
Goodwill and Intangibles	222,125	—	—	—	222,125
Other assets	179,385	365	1,103,181	(1,079,589)	203,342
Total assets	<u>\$ 10,170,942</u>	<u>\$ 4,109</u>	<u>\$ 1,125,032</u>	<u>\$ (1,103,879)</u>	<u>\$ 10,196,204</u>
Deposits	\$ 8,836,250	\$ —	\$ —	\$ (24,290)	\$ 8,811,960
Borrowings	165,930	—	44,197	—	210,127
Intercompany balances	4,605	(8,204)	3,599	—	—
Other liabilities	92,500	4,381	13,185	—	110,066
Shareholders' equity	1,071,657	7,932	1,064,051	(1,079,589)	1,064,051
Total liabilities and equity	<u>\$ 10,170,942</u>	<u>\$ 4,109</u>	<u>\$ 1,125,032</u>	<u>\$ (1,103,879)</u>	<u>\$ 10,196,204</u>
<b>2020:</b>					
Cash and cash equivalents	\$ 629,066	\$ 1,671	\$ 4,692	\$ (5,722)	\$ 629,707
Securities AFS, net	807,426	—	—	—	807,426
Loans held for sale	505,404	—	—	—	505,404
Loans, net	4,779,599	—	—	—	4,779,599
FHLB Stock	17,250	—	—	—	17,250
Premises and equipment	7,313	563	136	—	8,012
Deferred taxes	8,663	186	(246)	—	8,603
Goodwill and Intangibles	95,296	—	—	—	95,296
Other assets	91,702	314	713,940	(700,093)	105,863
Total assets	<u>\$ 6,941,719</u>	<u>\$ 2,734</u>	<u>\$ 718,522</u>	<u>\$ (705,815)</u>	<u>\$ 6,957,160</u>
Deposits	\$ 5,919,155	\$ —	\$ —	\$ (5,722)	\$ 5,913,433
Borrowings	255,000	—	14,000	—	269,000
Intercompany balances	4,493	(3,519)	(974)	—	—
Other liabilities	65,423	3,808	9,785	—	79,016
Shareholders' equity	697,648	2,445	695,711	(700,093)	695,711
Total liabilities and equity	<u>\$ 6,941,719</u>	<u>\$ 2,734</u>	<u>\$ 718,522</u>	<u>\$ (705,815)</u>	<u>\$ 6,957,160</u>

**FIRST FOUNDATION INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
Years Ended December 31, 2021, 2020, and 2019

**NOTE 25: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

<i>(dollars in thousands, except per share amounts)</i>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Full Year</b>
<b><i>Year Ended December 31, 2021:</i></b>					
Interest income	\$ 59,138	\$ 61,403	\$ 61,989	\$ 64,688	\$ 247,218
Interest expense	4,909	3,493	2,802	2,730	13,934
Net interest income	54,229	57,910	59,187	61,958	233,284
Provision for credit losses	360	44	(417)	3,879	3,866
Noninterest income	11,908	14,035	30,680	13,830	70,453
Noninterest expense	34,511	35,617	38,394	39,564	148,086
Income before taxes on income	31,266	36,284	51,890	32,345	151,785
Taxes on income	8,911	10,230	14,664	8,469	42,274
Net income	\$ 22,355	\$ 26,054	\$ 37,226	\$ 23,876	\$ 109,511
Income per share					
Basic	\$ 0.50	\$ 0.58	\$ 0.83	\$ 0.51	\$ 2.42
Diluted	\$ 0.50	\$ 0.58	\$ 0.83	\$ 0.51	\$ 2.41
<b><i>Year Ended December 31, 2020:</i></b>					
Interest income	\$ 62,338	\$ 61,932	\$ 61,691	\$ 57,930	\$ 243,891
Interest expense	17,470	13,485	10,074	6,218	47,247
Net interest income	44,868	48,447	51,617	51,712	196,644
Provision for credit losses	4,064	1,367	1,548	(233)	6,746
Noninterest income	10,675	8,969	23,641	11,362	54,647
Noninterest expense	32,872	30,937	30,595	31,374	125,778
Income before taxes on income	18,607	25,112	43,115	31,933	118,767
Taxes on income	5,396	7,258	12,177	9,567	34,398
Net income	\$ 13,211	\$ 17,854	\$ 30,938	\$ 22,366	\$ 84,369
Income per share					
Basic	\$ 0.30	\$ 0.40	\$ 0.69	\$ 0.50	\$ 1.89
Diluted	\$ 0.29	\$ 0.40	\$ 0.69	\$ 0.50	\$ 1.88
<b><i>Year Ended December 31, 2019:</i></b>					
Interest income	\$ 60,544	\$ 63,308	\$ 62,614	\$ 62,294	\$ 248,760
Interest expense	19,497	21,421	19,482	18,406	78,806
Net interest income	41,047	41,887	43,132	43,888	169,954
Provision for credit losses	540	1,231	172	694	2,637
Noninterest income	8,465	9,131	13,982	10,198	41,776
Noninterest expense	32,945	32,282	32,694	31,673	129,594
Income before taxes on income	16,027	17,505	24,248	21,719	79,499
Taxes on income	4,768	5,095	6,892	6,505	23,260
Net income	\$ 11,259	\$ 12,410	\$ 17,356	\$ 15,214	\$ 56,239
Income per share					
Basic	\$ 0.25	\$ 0.28	\$ 0.39	\$ 0.34	\$ 1.26
Diluted	\$ 0.25	\$ 0.28	\$ 0.39	\$ 0.34	\$ 1.25

**FIRST FOUNDATION INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
Years Ended December 31, 2021, 2020, and 2019

**NOTE 26 PARENT ONLY FINANCIAL STATEMENTS**

**BALANCE SHEETS**

<i>(dollars in thousands)</i>	December 31,	
	2021	2020
<b>ASSETS</b>		
Cash and cash equivalents	\$ 21,763	\$ 4,692
Premises and equipment, net	136	136
Deferred taxes	(48)	(246)
Investment in subsidiaries	1,079,589	700,093
Intercompany receivable	—	974
Other assets	23,592	13,847
Total Assets	<u>\$ 1,125,032</u>	<u>\$ 719,496</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Borrowings	\$ 44,197	\$ 14,000
Intercompany payable	3,599	—
Accounts payable and other liabilities	13,185	9,785
Total Liabilities	<u>60,981</u>	<u>23,785</u>
Shareholders' Equity		
Common Stock	56	45
Additional paid-in-capital	720,744	433,941
Retained earnings	340,976	247,638
Accumulated other comprehensive income, net of tax	2,275	14,087
Total Shareholders' Equity	<u>1,064,051</u>	<u>695,711</u>
Total Liabilities and Shareholders' Equity	<u>\$ 1,125,032</u>	<u>\$ 719,496</u>

**INCOME STATEMENTS**

<i>(dollars in thousands)</i>	For the Year Ended December 31,		
	2021	2020	2019
Interest expense—borrowings	\$ 246	\$ 169	\$ 356
Noninterest income:			
Earnings from investment in subsidiaries	112,550	86,909	59,660
Other income	1,271	(97)	82
Total noninterest income	<u>113,821</u>	<u>86,812</u>	<u>59,742</u>
Noninterest expense:			
Compensation and benefits	972	1,343	1,517
Occupancy and depreciation	1	112	178
Professional services and marketing costs	3,329	848	1,842
Other expenses	863	1,011	1,045
Total noninterest expense	<u>5,165</u>	<u>3,314</u>	<u>4,582</u>
Income before taxes on income	<u>108,410</u>	<u>83,329</u>	<u>54,804</u>
Taxes on income	<u>(1,101)</u>	<u>(1,040)</u>	<u>(1,435)</u>
Net income	<u>\$ 109,511</u>	<u>\$ 84,369</u>	<u>\$ 56,239</u>

**FIRST FOUNDATION INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
Years Ended December 31, 2021, 2020, and 2019

**STATEMENTS OF COMPREHENSIVE INCOME**

<i>(dollars in thousands)</i>	For the Year Ended December 31,		
	2021	2020	2019
Net income	\$ 109,511	\$ 84,369	\$ 56,239
Other comprehensive income:			
Unrealized holding (losses) gains on securities arising during the period	(16,696)	13,866	7,674
Other comprehensive income (loss) before tax	(16,696)	13,866	7,674
Income tax benefit (expense) related to items of other comprehensive income	4,884	(4,055)	(2,021)
Other comprehensive (loss) income	(11,812)	9,811	5,653
Less: Reclassification adjustment for loss included in net earnings	—	—	(316)
Income tax benefit related to reclassification adjustment	—	—	92
Reclassification adjustment for loss included in net earnings, net of tax	—	—	(224)
Other comprehensive (loss) income, net of tax	(11,812)	9,811	5,429
Total comprehensive income	\$ 97,699	\$ 94,180	\$ 61,668

**STATEMENTS OF CASH FLOWS**

<i>(dollars in thousands)</i>	For the Year Ended December 31,		
	2021	2020	2019
<b><i>Cash Flows from Operating Activities:</i></b>			
Net income	\$ 109,511	\$ 84,369	\$ 56,239
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Earnings from investment in subsidiaries	(112,550)	(86,909)	(59,660)
Stock-based compensation expense	115	98	90
Deferred tax liability (benefit)	(198)	414	75
Decrease (increase) in other assets	(26,308)	549	(322)
Increase (decrease) in accounts payable and other liabilities	3,400	(5,079)	(46)
Net cash used in operating activities	(26,030)	(6,558)	(3,624)
<b><i>Cash Flows from Investing Activities:</i></b>			
Investment in subsidiaries	(10)	—	(10,000)
Dividend from subsidiary	22,000	12,000	17,000
Net cash provided by (used in) investing activities	21,990	12,000	7,000
<b><i>Cash Flows from Financing Activities:</i></b>			
Line of credit net change - borrowings, net	30,197	4,000	5,000
Proceeds from the sale of stock, net	2,514	908	334
Repurchase of stock	—	(2,824)	(23)
Intercompany accounts, net decrease (increase)	4,573	2,606	576
Dividends paid	(16,173)	(12,504)	(8,927)
Net cash (used in) provided by financing activities	21,111	(7,814)	(3,040)
Increase (decrease) in cash and cash equivalents	17,071	(2,372)	336
Cash and cash equivalents at beginning of year	4,692	7,064	6,728
Cash and cash equivalents at end of year	\$ 21,763	\$ 4,692	\$ 7,064

**FIRST FOUNDATION INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
Years Ended December 31, 2021, 2020, and 2019

**NOTE 27: SUBSEQUENT EVENTS**

***Cash Dividend***

On January 31, 2022, the Board of Directors of the Company declared a quarterly cash dividend of \$0.11 per common share to be paid on February 17, 2022 to stockholders of record as of the close of business on February 10, 2022.

***Subordinated Debt***

On January 24, 2022, the Company completed a \$150 million offering of its 3.50% fixed-to-floating rate subordinated notes due 2032 (the “Notes”). The Company plans to use the net proceeds from the Notes offering for general corporate purposes, which may include, without limitation, providing capital to support its organic growth or growth through strategic acquisitions, financing investments, capital expenditures, investments in First Foundation Bank to support regulatory capital, and repaying up to \$30 million of indebtedness.

The Notes initially will bear interest at a rate of 3.50% per annum, payable semi-annually in arrears on February 1 and August 1 of each year, commencing on August 1, 2022. The last interest payment date for the fixed rate period will be February 1, 2027. From and including February 1, 2027 to, but excluding February 1, 2032 or the date of earlier redemption, the Notes will bear interest at a floating rate per annum equal to the Benchmark rate (which is expected to be Three-Month Term SOFR), each as defined in and subject to the provisions of the Indenture, plus 204 basis points, payable quarterly in arrears on February 1, May 1, August 1, and November 1 of each year, commencing on May 1, 2027.



**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC rules, an evaluation was performed under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the effectiveness as of December 31, 2021, of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2021, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

**Changes in Internal Controls**

There was no change in the Company's internal control over financial reporting during the quarter ended December 31, 2021 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Internal Control Over Financial Reporting**

***Management's Annual Report on Internal Control Over Financial Reporting***

Management of First Foundation Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those written policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America;
- provide reasonable assurance that our receipts and expenditures are being made only in accordance with authorization of our management and board of directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of such controls to future periods are subject to the risks that the controls may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

***Management's Assessment of Internal Control over Financial Reporting***

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, based on criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Management's assessment included an evaluation of the design and the testing of the operational effectiveness of the Company's internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

As permitted management excluded from its assessment the operations of TGRF, which was acquired on December 17, 2021. Assets acquired and excluded from management's assessment of internal control over financial reporting comprised approximately 19% of consolidated total assets as of December 31, 2021.

Based on that assessment, management determined that, as of December 31, 2021, the Company maintained effective internal control over financial reporting.

The foregoing report on internal control over financial reporting shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section.

Eide Bailly, LLP, independent registered public accounting firm, which audited our consolidated financial statements for the fiscal year ended December 31, 2021 included in this Annual Report on Form 10-K, has audited the effectiveness of our internal control over financial reporting as of December 31, 2021, as stated in their report included Item 8.

**Item 9B. Other Information.**

None.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.**

Not applicable.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

Except for the information regarding our Code of Conduct below, the information required by this Item 10 is hereby incorporated by reference to the Company's definitive proxy statement, expected to be filed with the SEC on or before April 30, 2022, for its 2022 Annual Meeting of Stockholders.

Our Board has adopted a Code of Conduct for the Chief Executive Officer and Other Senior Financial Officers (the "Code") which contains specific ethical policies and principles that apply to our principal executive officer, principal financial officer, principal accounting officer and other key accounting and financial personnel. The Code constitutes our "code of ethics" within the meaning of Section 406 of the Sarbanes-Oxley Act and is our "code of conduct" within the meaning of the listing standards of the Nasdaq Stock Market LLC.

The Code is available in the Investor Relations section of our website at [www.ff-inc.com](http://www.ff-inc.com). To the extent required by applicable rules of the SEC and the Nasdaq Stock Market LLC, we will disclose on our website any amendments to the

Code and any waivers of the requirements of the Code that may be granted to our executive officers, including our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions.

**Item 11. Executive Compensation**

The information required by this Item 11 is hereby incorporated by reference to the Company's definitive proxy statement, expected to be filed with the SEC on or before April 30, 2022, for its 2022 Annual Meeting of Stockholders.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by this Item 12 is hereby incorporated by reference to the Company's definitive proxy statement, expected to be filed with the SEC on or before April 30, 2022, for its 2022 Annual Meeting of Stockholders.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information required by this Item 13 is hereby incorporated by reference to the Company's definitive proxy statement, expected to be filed with the SEC on or before April 30, 2022, for its 2022 Annual Meeting of Stockholders.

**Item 14. Principal Accountant Fees and Services**

The information required by this Item 14 is hereby incorporated by reference to the Company's definitive proxy statement, expected to be filed with the SEC on or before April 30, 2022, for its 2022 Annual Meeting of Stockholders.

**PART IV**

**Item 15. Exhibit and Financial Statement Schedules.**

**(a) Financial Statements, Financial Statement Schedules**

See page 64 for an index of the financial statements filed as part of this Annual Report on Form 10-K. No financial statement schedules are provided because the information called for is not required or is shown either in the financial statements or the notes thereto.

**(b) Exhibits**

See the Index of Exhibits on page E-1 for a list of exhibits filed as part of this Annual Report on Form 10-K, which Index of Exhibits is incorporated herein by reference.

**Item 16. Form 10-K Summary.**

None

## INDEX OF EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
2.1	<a href="#"><u>Agreement and Plan of Merger, dated October 28, 2015, entered into by First Foundation Inc., a California corporation, and First Foundation Inc., a Delaware corporation, to effectuate the Delaware reincorporation (incorporated by reference to Exhibit 2.99 to the Company's Current Report on Form 8-K, filed on October 29, 2015).</u></a>
2.2	<a href="#"><u>Agreement and Plan of Merger, dated November 25, 2014, by and among the Company, First Foundation Bank and Pacific Rim Bank (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed on December 1, 2014).</u></a>
2.3	<a href="#"><u>Agreement and Plan of Merger, as amended, dated June 29, 2011, by and among the Company, First Foundation Bank and Desert Commercial Bank, together with First, Second and Third Amendments thereto (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form 10, filed on October 17, 2013).</u></a>
2.4	<a href="#"><u>Agreement and Plan of Reorganization and Merger, dated as of June 14, 2017, by and between the Company and Community 1st Bancorp (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed on June 15, 2017).</u></a>
2.5	<a href="#"><u>Agreement and Plan of Reorganization and Merger, dated as of December 18, 2017, by and between the Company and PBB Bancorp (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed on December 19, 2017).</u></a>
2.6	<a href="#"><u>Agreement and Plan of Merger and Reorganization, dated as of June 2, 2021, by and between the Company and TGR Financial, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q, filed on August 6, 2021).</u></a>
3.1	<a href="#"><u>Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on October 29, 2015).</u></a>
3.2	<a href="#"><u>Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed on October 29, 2015).</u></a>
4.1	<a href="#"><u>Specimen Certificate for Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K/A, filed on August 3, 2015).</u></a>
4.2	<a href="#"><u>Description of Common Stock (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K filed on March 2, 2020).</u></a>
10.1(1)	<a href="#"><u>First Foundation Inc. 2007 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form 10, filed on October 17, 2013).</u></a>
10.2(1)	<a href="#"><u>First Foundation Inc. 2007 Management Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form 10, filed on October 17, 2013).</u></a>
10.3(1)	<a href="#"><u>First Foundation Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.99 to the Company's Registration Statement on Form S-8, filed on October 28, 2015).</u></a>
10.4(1)	<a href="#"><u>First Foundation Inc. Form of Restricted Stock Unit Agreement for 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K, filed on March 15, 2016).</u></a>

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<b>Exhibit No.</b>	<b>Description</b>
10.5(1)	<a href="#">First Foundation Inc. Form of Stock Option Agreement for 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K, filed on March 15, 2016).</a>
10.6(1)	<a href="#">Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.99 to the Company's Current Report on Form 8-K, filed on October 30, 2015).</a>
10.7(1)	Amended and Restated Employment Agreement, dated December 31, 2009, by and between the Company, First Foundation Advisors and Ulrich E. Keller, Jr., together with First and Second Amendments thereto ( <a href="#">incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form 10, filed on October 17, 2013</a> ), Third Amendment thereto, dated January 26, 2016 ( <a href="#">incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed on February 1, 2016</a> ), Fourth Amendment thereto, dated February 7, 2018 ( <a href="#">incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed on February 7, 2018</a> ), and Fifth Amendment thereto, dated March 11, 2020 ( <a href="#">incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on March 13, 2020</a> ).
10.8(1)	Amended and Restated Employment Agreement, dated December 31, 2009, by and between the Company, First Foundation Bank and Scott F. Kavanaugh, together with First and Second Amendments thereto ( <a href="#">incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form 10, filed on October 17, 2013</a> ), Third Amendment thereto, dated January 26, 2016 ( <a href="#">incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on February 1, 2016</a> ), Fourth Amendment thereto, dated February 7, 2018 ( <a href="#">incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on February 7, 2018</a> ), and Fifth Amendment thereto, dated March 11, 2020 ( <a href="#">incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on March 13, 2020</a> ).
10.9(1)	<a href="#">Employment Agreement, dated April 22, 2020, by and between First Foundation Bank and Kevin Thompson (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 1, 2020).</a>
10.10(1)	Employment Agreement, dated May 11, 2015, by and between First Foundation Bank and David DePillo ( <a href="#">incorporated by reference to Exhibit 10.21 to the Company's Quarterly Report on Form 10-Q, filed on May 11, 2015</a> ), together with First Amendment thereto, dated February 7, 2018 ( <a href="#">incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K, filed on February 7, 2018</a> ), and Second Amendment thereto, dated March 11, 2020 ( <a href="#">incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed on March 13, 2020</a> ).
10.11(1)	Employment Agreement, dated June 1, 2015, by and between First Foundation Bank and Lindsay Lawrence, together with First Amendment thereto ( <a href="#">incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K, filed on March 1, 2019</a> ), and Second Amendment thereto, dated March 11, 2020 ( <a href="#">incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed on March 13, 2020</a> ).
10.12(1)	Amended and Restated Change in Control Agreement Severance Compensation Agreement, dated August 6, 2020, by and between the Company and Ulrich E. Keller, Jr. ( <a href="#">incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q, filed on August 7, 2020</a> ).
10.13(1)	Amended and Restated Change in Control Agreement Severance Compensation Agreement, dated August 6, 2020, by and between the Company and Scott F. Kavanaugh ( <a href="#">incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed on August 7, 2020</a> ).

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<b>Exhibit No.</b>	<b>Description</b>
10.14(1)	Amended and Restated Change in Control Agreement Severance Compensation Agreement, dated August 6, 2020, by and between the Company and Kevin L. Thompson ( <a href="#">incorporated by reference to the Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q, filed on August 7, 2020</a> ).
10.15(1)	Amended and Restated Change in Control Agreement Severance Compensation Agreement, dated August 6, 2020, by and between the Company and David DePillo ( <a href="#">incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q, filed on August 7, 2020</a> ).
10.16(1)	Amended and Restated Change in Control Agreement Severance Compensation Agreement, dated August 6, 2020, by and between the Company and Lindsay Lawrence ( <a href="#">incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q, filed on August 7, 2020</a> ).
10.17(1)	<u>Change of Control Severance Compensation Agreement, dated June 1, 2020, among First Foundation Inc. and Kevin Thompson (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on June 1, 2020).</u>
10.18	Loan Agreement, dated February 8, 2017, by and between the Company, as borrower, and NexBank SSB, as lender ( <a href="#">incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed February 9, 2017</a> ).
10.19	First Amendment to Loan Agreement, dated May 18, 2017, by and between the Company and NexBank SSB ( <a href="#">incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed May 22, 2017</a> ).
10.20	Second Amendment to Loan Agreement, dated April 6, 2018, by and between the Company and NexBank SSB ( <a href="#">incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed April 9, 2018</a> ).
10.21	Third Amendment to Loan Agreement, dated October 30, 2018, by and between the Company and NexBank SSB ( <a href="#">incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed October 31, 2018</a> ).
10.22	Fourth Amendment to Loan Agreement, dated May 31, 2019, by and between the Company and NexBank SSB ( <a href="#">incorporated by reference to Exhibit 10.1 to the Company's Current Report on 8-K, filed June 3, 2019</a> ).
10.23	Pledge and Security Agreement, dated as of February 8, 2017, by and between the Company and NexBank SSB ( <a href="#">incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed February 9, 2017</a> ).
14.1	Code of Conduct for the Chief Executive Officer and Other Senior Financial Officers ( <a href="#">incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K, filed on March 25, 2014</a> ).
21.1(2)	<a href="#">Subsidiaries of the Registrant.</a>
23.1(2)	<a href="#">Consent of Eide Bailly, LLP, independent registered public accounting firm.</a>
24.1	<a href="#">Power of Attorney (included on signature page of this Annual Report on Form 10-K).</a>
31.1(2)	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2(2)	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>

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<b>Exhibit No.</b>	<b>Description</b>
32.1(2)	<a href="#">Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2(2)	<a href="#">Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	The cover page from the Company's Annual Report on Form 10-K for the year ended December 31, 2021 has been formatted in Inline XBRL.

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(1) Management contract or compensatory plan.

(2) Filed herewith.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in Dallas, Texas on February 28, 2022.

FIRST FOUNDATION INC.

By: /s/ SCOTT F. KAVANAUGH

Scott F. Kavanaugh, President and  
Chief Executive Officer

## POWER OF ATTORNEY

Each individual whose signature appears below constitutes and appoints Scott F. Kavanaugh, Ulrich E. Keller, Jr. and Kevin L. Thompson, and each of them, acting severally, his or her true and lawful attorneys-in-fact and agents with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign and file on his or her behalf and in each capacity stated below, all amendments and/or supplements to this Annual Report on Form 10-K, which amendments or supplements may make changes and additions to this Report as such attorneys-in-fact, or any of them, acting severally, may deem necessary or appropriate.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed below by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
<u>/s/ SCOTT F. KAVANAUGH</u> Scott F. Kavanaugh	Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2022
<u>/s/ KEVIN L. THOMPSON</u> Kevin L. Thompson	Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2022
<u>/s/ ULRICH E. KELLER, JR.</u> Ulrich E. Keller, Jr.	Chairman and Director	February 28, 2022
<u>/s/ MAX BRIGGS</u> Max Briggs	Director	February 28, 2022
<u>/s/ JOHN HAKOPIAN</u> John Hakopian	Director	February 28, 2022
<u>/s/ DAVID LAKE</u> David Lake	Director	February 28, 2022
<u>/s/ ELIZABETH PAGLIARINI</u> Elizabeth Pagliarini	Director	February 28, 2022
<u>/s/ MITCHELL ROSENBERG</u> Mitchell Rosenberg	Director	February 28, 2022
<u>/s/ DIANE RUBIN</u> Diane Rubin	Director	February 28, 2022
<u>/s/ JACOB SONENSHINE</u> Jacob Sonenshine	Director	February 28, 2022
<u>/s/ GARY TICE</u> Gary Tice	Director	February 28, 2022



**SUBSIDIARIES OF REGISTRANT**

<b>Name and State or other Jurisdiction of Incorporation</b>	<b>Registrant's Percentage Ownership</b>
First Foundation Advisors, a California corporation .....	100%
First Foundation Bank, a California corporation .....	100%

In accordance with the instructions set forth in Paragraph (b) of Item 601 of Regulation S-K, we have omitted subsidiaries that, if considered in the aggregate as a single subsidiary, would not have constituted a significant subsidiary as of December 31, 2021.

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (File Nos. 333-193658 and 333-207638) and Registration Statement on Form S-3 (File No. 333-239396) of First Foundation Inc. and Subsidiaries of our reports dated February 28, 2022, relating to the consolidated financial statements, and the effectiveness of First Foundation's internal control over financial reporting, which appear in this Form 10-K.

*Eide Bailly LLP*

San Ramon, California  
February 28, 2022

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**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER  
UNDER  
SECTION 302 OF THE SARBANES-OXLEY ACT**

I, Scott F. Kavanaugh, certify that:

1. I have reviewed this Annual Report on Form 10-K of First Foundation Inc. for the fiscal year ended December 31, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 28, 2022

/s/ SCOTT F. KAVANAUGH

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Scott F. Kavanaugh  
Chief Executive Officer

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**CERTIFICATIONS OF CHIEF FINANCIAL OFFICER  
UNDER  
SECTION 302 OF THE SARBANES-OXLEY ACT**

I, Kevin L. Thompson, certify that:

1. I have reviewed this Annual Report on Form 10-K of First Foundation Inc. for the fiscal year ended December 31, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 28, 2022

/s/ KEVIN L. THOMPSON

\_\_\_\_\_  
Kevin L. Thompson  
Executive Vice President  
and Chief Financial Officer

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

FIRST FOUNDATION INC.

Annual Report on Form 10-K  
for the Year ended December 31, 2021

In connection with the accompanying Annual Report on Form 10-K of First Foundation Inc. (the “Company”), for the year ended December 31, 2021, as filed with the Securities and Exchange Commission as of the date hereof (the “Annual Report”), I, Scott F. Kavanaugh, Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Annual Report fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2022

/s/ SCOTT F. KAVANAUGH

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Scott F. Kavanaugh  
Chief Executive Officer

*A signed original of this written statement required by Section 906 has been provided to First Foundation Inc. and will be retained by First Foundation Inc. and furnished to the Securities and Exchange Commission or its staff upon request.*

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

FIRST FOUNDATION INC.

Annual Report on Form 10-K  
for the Year ended December 31, 2021

In connection with the accompanying Annual Report on Form 10-K of First Foundation Inc. (the “Company”), for the year ended December 31, 2021, as filed with the Securities and Exchange Commission as of the date hereof (the “Annual Report”), I, Kevin L. Thompson, Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Annual Report fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2022

/s/ KEVIN L. THOMPSON

\_\_\_\_\_  
Kevin L. Thompson  
Chief Financial Officer

*A signed original of this written statement required by Section 906 has been provided to First Foundation Inc. and will be retained by First Foundation Inc. and furnished to the Securities and Exchange Commission or its staff upon request.*

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