

First Foundation Inc.
Form 10-Q
November 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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)

20-8639702
(I.R.S. Employer
Identification Number)

18101 Von Karman Avenue, Suite 700 Irvine, CA 92612
(Address of principal executive offices)

92612
(Zip Code)

(949) 202-4160

(Registrant's telephone number, including area code)

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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 (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 7, 2018, there were 44,444,121 shares of registrant’s common stock outstanding

FIRST FOUNDATION INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST FOUNDATION INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Cash and cash equivalents	\$54,935	\$120,394
Securities available-for-sale (“AFS”)	799,870	519,364
Loans held for sale	—	154,380
Loans, net of deferred fees	4,450,859	3,663,727
Allowance for loan and lease losses (“ALLL”)	(19,000)	(18,400)
Net loans	4,431,859	3,645,327
Premises and equipment, net	8,890	6,581
Investment in FHLB stock	17,250	19,060
Deferred taxes	18,956	12,143
Real estate owned (“REO”)	1,997	2,920
Goodwill and intangibles	99,721	33,576
Other assets	32,804	27,440
Total Assets	\$5,466,282	\$4,541,185
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Deposits	\$4,668,707	\$3,443,527
Borrowings	232,000	678,000
Accounts payable and other liabilities	34,576	24,707
Total Liabilities	4,935,283	4,146,234
Commitments and contingencies	—	—
Shareholders’ Equity		
Common Stock, par value \$0.01: 70,000,000 shares authorized; 44,430,121 and 38,207,766 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	44	38
Additional paid-in-capital	431,199	314,501
Retained earnings	114,332	85,503

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Accumulated other comprehensive loss, net of tax	(14,576)	(5,091)
Total Shareholders' Equity	530,999	394,951
Total Liabilities and Shareholders' Equity	\$5,466,282	\$4,541,185

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED INCOME STATEMENTS - UNAUDITED

(In thousands, except share and per share amounts)

	Quarter Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Interest income:				
Loans	\$53,345	\$31,236	\$135,851	\$87,709
Securities AFS	3,579	3,023	10,576	9,180
Fed funds sold, FHLB stock and deposits	1,123	619	3,437	2,001
Total interest income	58,047	34,878	149,864	98,890
Interest expense:				
Deposits	11,442	4,899	25,398	12,103
Borrowings	2,879	1,539	10,221	4,394
Total interest expense	14,321	6,438	35,619	16,497
Net interest income	43,726	28,440	114,245	82,393
Provision for loan losses	9	701	4,147	1,862
Net interest income after provision for loan losses	43,717	27,739	110,098	80,531
Noninterest income:				
Asset management, consulting and other fees	7,228	6,900	21,497	19,672
Gain on sale of loans	1,364	1,962	419	4,312
Other income	2,512	1,001	5,154	3,359
Total noninterest income	11,104	9,863	27,070	27,343
Noninterest expense:				
Compensation and benefits	17,577	14,117	51,391	42,855
Occupancy and depreciation	5,590	3,801	14,524	11,094
Professional services and marketing costs	2,271	1,479	6,580	5,115
Customer service costs	4,854	2,229	11,449	4,241
Other expenses	3,675	1,767	12,993	7,010
Total noninterest expense	33,967	23,393	96,937	70,315
Income before taxes on income	20,854	14,209	40,231	37,559
Taxes on income	6,147	4,629	11,402	12,250
Net income	\$14,707	\$9,580	\$28,829	\$25,309
Net income per share:				

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Basic	\$0.33	\$0.28	\$0.70	\$0.75
Diluted	\$0.33	\$0.27	\$0.69	\$0.73
Shares used to compute net income per share:				
Basic	44,405,094	34,565,949	41,288,804	33,671,327
Diluted	44,852,107	35,259,632	41,790,656	34,599,813

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENT OF CHANGES

IN SHAREHOLDERS' EQUITY - UNAUDITED

(In thousands, except share amounts)

	Common Stock		Additional		Accumulated Other	
	Number					
	of Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Total
Balance: December 31, 2017	38,207,766	\$ 38	\$314,501	\$85,503	\$ (5,091)	\$394,951
Net income	—	—	—	28,829	—	28,829
Other comprehensive income	—	—	—	—	(9,485)	(9,485)
Stock based compensation	—	—	2,182	—	—	2,182
Issuance of common stock:						
Exercise of options	221,334	—	1,681	—	—	1,681
Stock grants – vesting of Restricted Stock Units	140,698	—	—	—	—	—
Acquisition	5,234,593	5	101,494	—	—	101,499
Capital raise	625,730	1	11,341	—	—	11,342
Balance: September 30, 2018	44,430,121	\$ 44	\$431,199	\$114,332	\$ (14,576)	\$530,999

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME - UNAUDITED

(In thousands)

	Quarter Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
Net income	\$14,707	\$9,580	\$28,829	\$25,309
Other comprehensive income:				
Unrealized holding gains (losses) on securities arising during the period	(3,388)	1,057	(13,406)	4,526
Other comprehensive income before tax	(3,388)	1,057	(13,406)	4,526
Income tax (benefit) expense related to items of other comprehensive income	(991)	435	(3,921)	1,863
Other comprehensive income (loss)	(2,397)	622	(9,485)	2,663
Reclassification adjustment for gains included in net earnings	—	—	—	—
Income tax (benefit) related to reclassification adjustment	—	—	—	—
Reclassification adjustment for gains included in net earnings, net of tax	—	—	—	—
Other comprehensive income (loss), net of tax	(2,397)	622	(9,485)	2,663
Total comprehensive income	\$12,310	\$10,202	\$19,344	\$27,972

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

	For the Nine Months	
	Ended September 30, 2018	2017
Cash Flows from Operating Activities:		
Net income	\$28,829	\$25,309
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,147	1,862
Stock-based compensation expense	2,182	912
Depreciation and amortization	2,084	1,765
Deferred tax expense	767	23
Amortization of core deposit intangible	1,404	156
Amortization of mortgage servicing rights – net	741	358
Accretion of discounts on purchased loans – net	(4,182)	(430)
Gain on sale of loans	(419)	(4,312)
Gain on sale of REO	—	(104)
(Increase) decrease in other assets	2,269	(4,448)
Increase in accounts payable and other liabilities	4,565	6,538
Net cash provided by operating activities	42,387	27,629
Cash Flows from Investing Activities:		
Net increase in loans	(785,756)	(889,326)
Proceeds from sale of loans	674,311	288,724
Proceeds from sale of REO	1,737	438
Purchases of premises and equipment	(2,118)	(1,767)
Purchases of AFS securities	(350,400)	(10,338)
Proceeds from sale of AFS securities	9,982	—
Maturities of AFS securities	56,729	53,168
Cash acquired in acquisition	47,582	—
Sale of FHLB stock, net	5,039	16,500
Net cash used in investing activities	(342,894)	(542,601)
Cash Flows from Financing Activities:		
Increase in deposits	747,595	841,931
FHLB Advances – net decrease	(510,570)	(844,000)
Line of credit net change – borrowings (paydowns), net	(15,000)	15,000
Proceeds from sale of stock	13,023	27,305
Net cash provided by (used in) financing activities	235,048	40,236
Decrease in cash and cash equivalents		
Cash and cash equivalents at beginning of year	(65,459)	(474,736)
	120,394	597,946

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Cash and cash equivalents at end of period	\$54,935	\$123,210
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$31,632	\$15,353
Income taxes	11,273	11,135
Noncash transactions:		
Transfer of loans to loans held for sale	\$524,367	\$189,928
Mortgage servicing rights from loan sales	2,646	1,954
Chargeoffs (recoveries) against allowance for loans losses	3,547	(238)
C1B acquisition reconciliation – goodwill/deferred taxes	300	—

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2018 - UNAUDITED

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements include First Foundation Inc. (“FFI”) and 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 Insurance Services (“FFIS”) and Blue Moon Management, LLC (collectively referred to as the “Company”). All inter-company balances and transactions have been eliminated in consolidation. The results of operations reflect any interim adjustments, all of which are of a normal recurring nature and which, in the opinion of management, are necessary for a fair presentation of the results for the interim period presented. The results for the 2018 interim periods are not necessarily indicative of the results expected for the full year.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

The accompanying unaudited consolidated financial statements include all information and footnotes required for interim financial statement presentation. These financial statements assume that readers have read the most recent Annual Report on Form 10-K which contains the latest available audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2017.

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the 2018 presentation.

In August 2018, the FASB issued guidance within ASU 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The amendments within ASU 2018-13 remove, modify, and supplement the disclosure requirements for fair value measurements. Disclosure requirements that were removed include: the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. Additional disclosure requirements include: the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period, and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. With the exception of the above additional disclosure requirements, which will be applied prospectively, all other amendments should be applied retrospectively to all periods presented upon their effective date. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In February 2017, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2017-05 “Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets” which clarifies that the guidance in Accounting Standards Codification (“ASC”) 610-20 on accounting for derecognition of a nonfinancial asset and in-substance nonfinancial asset applies only when the asset (or asset group) does not meet the definition of a business and provides guidance for partial sales of nonfinancial assets. The ASU became effective on January 1, 2018. The adoption of ASU No. 2017-05 did not have a material impact on the Company’s consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities”. The amendments in this ASU were issued to better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. As a result, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. Current GAAP contains limitations on how an entity can designate the hedged risk in certain cash flow and fair value hedging relationships. To address those current limitations, the amendments in this ASU permit hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk. In addition, the amendments in this ASU change the guidance for designating fair value hedges of interest rate risk and for measuring the change in fair value of the hedged item in fair value hedges of interest rate risk. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The adoption of ASU 2017-12 is not expected to have a material impact on the Company’s consolidated financial statements.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2018 – UNAUDITED

In January 2017, the FASB issued ASU 2017-04 “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” which provides updated guidance on how an entity is required to test goodwill for impairment. This update is effective for the Company for annual periods beginning after December 15, 2019, and interim periods within those annual periods. The adoption of ASU 2017-04 is not expected to have a material impact on the Company’s consolidated financial statements.

In June 2016, the FASB issued 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, will apply 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. This update is effective for the Company for annual periods beginning after December 15, 2019, and interim periods within those annual periods. The Company has begun analyzing the data requirements needed to implement the adoption of ASU 2016-13 and we expect that the adoption of ASU 2016-13 may have a significant impact on the Company’s recording of its allowance for loan losses. Management is continuing to evaluate the effects of 2016-13 and the impact of its implementation is undeterminable at this time.

In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases (Topic 842), Targeted Improvements. ASU 2018-10 provides improvements to clarify ASU 2016-02, Leases (Topic 842), or to correct unintended application of guidance. ASU 2018-11 provides amendments to a new and optional transition method to adopt the new lease requirements in ASU 2016-02. We expect the adoption of ASU 2018-10 and ASU 2018-11 will impact the Company’s accounting for its building leases at each of its locations through an increase in assets and liabilities in the same manner as the guidance in ASU 2016-02 described below.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases accounted for as operating leases under current lease accounting guidance. The amendments in this update are effective for interim and annual periods beginning after December 15, 2018. We expect the adoption of ASU 2016-02 to impact the Company’s accounting for its building leases at each of its locations through an increase in assets and liabilities by approximately \$20 million to \$25 million.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The guidance affects the accounting for equity investments and adjusts the fair value disclosures for financial instruments carried at amortized cost such that the disclosed fair values represent an exit price as opposed to an entry price. ASU 2016-01 was effective for the Company on January 1, 2018 and resulted in separate classification of equity securities with changes in the fair value of the equity securities captured in the consolidated statements of income. The adoption of ASU 2016-01 did not have a material effect on the Company’s financial statements and disclosures.

In May 2014, the FASB issued 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. The new standard was effective for the Company on January 1, 2018. 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. Descriptions of our primary revenue-generating activities that are within the scope of this update, which are presented in our income statements as components of non-interest income are as follows:

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.

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 is generally monthly for account

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2018 – UNAUDITED

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

The new guidance requires judgment in evaluating 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. The initial investment requirement for the buyer along with the various methods for profit recognition are no longer applicable. The Company does not expect the new guidance to have a significant impact on the consolidated financial statements.

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.

NOTE 2: ACQUISITIONS

On June 1, 2018, the Company completed the acquisition of PBB Bancorp and its wholly owned subsidiary Premier Business Bank (collectively "PBB"), through a merger of PBB with and into the Bank, in exchange for 5,234,593 shares of its common stock with a fair value of \$19.39 per share. The primary reason for acquiring PBB was to expand our operations in Southern California.

The acquisition is 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 of \$61 million, which is not tax deductible, is included in intangible assets in the table below.

The following table represents the assets acquired and liabilities assumed of PBB as of June 1, 2018 and the fair value adjustments and amounts recorded by the Bank in 2018 under the acquisition method of accounting:

(dollars in thousands)	PBB		
	Book Value	Fair Value Adjustments	Fair Value
Assets Acquired:			
Cash and cash equivalents	\$47,582	\$ —	\$47,582
Securities AFS	10,072	(90)	9,982
Loans, net of deferred fees	537,885	(14,986)	522,899
Allowance for loan losses	(3,011)	3,011	—
Premises and equipment, net	3,811	(1,536)	2,275

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Investment in FHLB stock	3,229	—	3,229
Deferred taxes	1,451	2,398	3,849
REO	934	(109)	825
Goodwill and Core deposit intangible	634	66,615	67,249
Other assets	6,634	(566)	6,068
Total assets acquired	\$609,221	\$ 54,737	\$663,958

Liabilities Assumed:

Deposits	\$477,366	\$ 219	\$477,585
Borrowings	79,911	(341)	79,570
Accounts payable and other liabilities	5,204	100	5,304
Total liabilities assumed	562,481	(22)	562,459
Excess of assets acquired over liabilities assumed	46,740	54,759	101,499
Total	\$609,221	\$ 54,737	\$663,958

Consideration:

Stock issued	\$101,499
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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

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2018 – UNAUDITED

which this procedure was used was that of acquired loans. The excess of expected cash flows above the fair value of the majority of loans will be accreted to interest income over the remaining lives of the loans in accordance with FASB Accounting Standards Codification (“ASC”) 310-20.

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 “purchased credit impaired” 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 purchased credit impaired 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 loan losses that had been previously recorded by PBB.

The Company recorded a deferred income tax asset of \$3.8 million related to PBB’s operating loss carry-forward and other tax attributes of PBB, along with the effects of fair value adjustments resulting from applying the purchase method of accounting.

The fair value of savings and transaction deposit accounts acquired from PBB 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. 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 PBB, of \$6.7 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 for the nine months periods ending September 30, 2018 as if the acquisition of PBB had occurred on January 1, 2018, and unaudited pro forma information for the nine months periods ending September 30, 2017 as if the acquisition of Community 1st Bancorp (“C1B”) and PBB had occurred on January 1, 2017, 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, acquisition costs, and the related income tax effects of all these items. The net effect of these pro forma adjustments were increases of \$6.3 million and \$6.4 million in net income for the nine months ended September 30, 2018 and 2017, respectively. 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.

	Nine Months Ended September 30,	
(dollars in thousands)	2018	2017
Net interest income	\$125,700	\$110,320
Provision for loan losses	4,147	2,482
Noninterest income	27,837	29,574
Noninterest expenses	100,564	88,862
Income before taxes	48,826	48,550
Taxes on income	13,676	16,824
Net income	\$35,150	\$31,726
Net income per share:		
Basic	\$0.80	\$0.76
Diluted	\$0.79	\$0.74

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2018 – UNAUDITED

The revenues (net interest income and noninterest income) and net income for the period from June 1, 2018 to September 30, 2018 related to the operations acquired from PBB and included in our results of operations for the nine months ended September 30, 2018 were approximately \$10.5 million and \$7.3 million, respectively.

NOTE 3: FAIR VALUE MEASUREMENTS

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.

Assets Measured at Fair Value on a Recurring Basis

Securities available for sale and effective with the adoption of ASU 2016-01 on January 1, 2018, investments in equity securities, 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:

	Total	Fair Value Measurement Level		
		Level 1	Level 2	Level 3
(dollars in thousands)				
September 30, 2018:				
Investment securities available for sale:				
Agency mortgage-backed securities	\$727,017	\$—	\$727,017	\$—
Corporate bonds	38,922	—	38,922	—
Beneficial interest – FHLMC securitizations	32,490	—	—	32,490
Other	1,441	1,441	—	—
Investment in equity securities	1,312	1,312	—	—
Total assets at fair value on a recurring basis	\$801,182	\$2,753	\$765,939	\$32,490
December 31, 2017:				
Investment securities available for sale:				
Agency mortgage-backed securities	\$464,019	—	464,019	—
Corporate bonds	19,000	—	19,000	—
Beneficial interest – FHLMC securitizations	35,852	—	—	35,852
Other	493	493	—	—
Investment in equity securities	514	514	—	—
Total assets at fair value on a recurring basis	\$519,878	\$1,007	\$483,019	\$35,852

The decrease in level 3 assets from December 31, 2017 was due to beneficial interest – FHLMC securitization maturities.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2018 – UNAUDITED

Assets Measured at Fair Value on a Nonrecurring Basis

Additionally, from time to time, we may be required to measure other assets at fair value 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.

Impaired Loans. ASC 820-10 applies to loans measured for impairment in accordance with ASC 310-10, “Accounting by Creditors for Impairment of a Loan”, at the fair value of the loan’s collateral (if the loan is collateral dependent) less estimated selling costs. 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 \$12.5 million and \$13.4 million at September 30, 2018 and December 31, 2017, respectively. There were \$0.8 million and \$0.9 million of specific reserves related to these loans at both September 30, 2018 and December 31, 2017.

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. As of September 30, 2018 and December 31, 2017, the fair value of real estate owned was \$2.0 million and \$2.9 million, respectively.

Fair Value of Financial Instruments

Fair value estimates are made at a discrete point in time based on relevant market information and other information about the financial instruments. Considerable judgment is required to interpret market data to develop estimates of fair value. These estimates are subjective in nature and invariably involve some inherent uncertainties. Additionally, unexpected events or changes in 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.

The methods of determining the fair value of assets and liabilities presented in this note as of September 30, 2018 are consistent with Note 3 of the Company’s 2017 Form 10-K except for the valuation of investment in equity securities. We refined the calculation used to determine the disclosed fair value of our investment in equity securities as part of adopting ASU 2016-01. The refined calculation did not have a significant impact on our fair value disclosures.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The carrying amounts and estimated fair values of financial instruments are as follows as of:

(dollars in thousands)	Carrying Value	Fair Value Measurement Level			Total
		1	2	3	
September 30, 2018:					
Assets:					
Cash and cash equivalents	\$54,935	\$54,935	\$—	\$—	\$54,935
Securities AFS	799,870	1,441	765,939	32,490	799,870
Loans, net	4,431,859	—	—	4,401,756	4,401,756
Investment in FHLB stock	17,250	—	17,250	—	17,250
Investment in equity securities	1,312	1,312	—	—	1,312
Liabilities:					
Deposits	4,668,707	2,899,208	1,767,610	—	4,666,818
Borrowings	232,000	—	197,000	35,000	232,000
December 31, 2017:					
Assets:					
Cash and cash equivalents	\$120,394	\$120,394	\$—	\$—	\$120,394
Securities AFS	519,364	493	483,019	35,852	519,364
Loans, held for sale	154,380	—	155,345	—	154,345
Loans, net	3,645,327	—	—	3,617,060	3,617,060
Investment in FHLB stock	19,060	—	19,060	—	19,060
Investment in equity securities	514	514	—	—	514
Liabilities:					
Deposits	3,443,527	2,542,730	901,877	—	3,444,607
Borrowings	678,000	—	628,000	50,000	678,000

NOTE 4: SECURITIES

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

(dollars in thousands)	Amortized Cost	Gross Gains	Unrealized Losses	Estimated Fair Value
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September 30, 2018:

Agency mortgage-backed securities	\$747,322	\$2	\$(20,307)	\$727,017
Corporate bonds	39,000	—	(78)	38,922
Beneficial interests in FHLMC securitization	32,699	1,735	(1,944)	32,490
Other	1,451	—	(10)	1,441
Total	\$820,472	\$1,737	\$(22,339)	\$799,870

December 31, 2017:

Agency mortgage-backed securities	\$471,131	\$287	\$(7,399)	\$464,019
Corporate bonds	19,000	—	—	19,000
Beneficial interests in FHLMC securitization	35,930	1,811	(1,889)	35,852
Other	499	—	(6)	493
Total	\$526,560	\$2,098	\$(9,294)	\$519,364

US Treasury securities of \$0.5 million as of September 30, 2018 that are included in the table above as Other are pledged as collateral to the State of California to meet regulatory requirements related to the Bank's trust operations. As of September 30, 2018, \$81 million of agency mortgage-backed securities are pledged as collateral as support for the Banks's obligations under a loan sales and securitization agreement entered into in 2018.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2018 – UNAUDITED

The tables below indicate, as of September 30, 2018 and December 31, 2017, the gross unrealized losses and fair values of our investments, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

(dollars in thousands)	Securities with Unrealized Loss at September 30, 2018					
	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	\$396,597	\$(2,649)	\$320,270	\$(17,658)	\$716,867	\$(20,307)
Corporate bonds	18,922	(78)	—	—	18,922	(78)
Beneficial interests in FHLMC securitization	—	—	7,314	(1,944)	7,314	(1,944)
Other	946	(5)	494	(5)	1,440	(10)
Total temporarily impaired securities	\$416,465	\$(2,732)	\$328,078	\$(19,607)	\$744,543	\$(22,339)

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

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 scheduled maturities of securities AFS and the related weighted average yields were as follows for the periods indicated:

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(dollars in thousands)	Less than 1 Year	1 Through 5 years	5 Through 10 Years	After 10 Years	Total
September 30, 2018					
Amortized Cost:					
Corporate bonds	\$ —	\$ —	\$ 39,000	\$ —	\$39,000
Other	499	—	951	—	1,450
Total	499	—	39,951	—	40,450
Weighted average yield	\$ 1.03 %	— %	5.06 %	— %	5.01 %
Estimated Fair Value:					
Corporate bonds	\$ —	\$ —	\$ 38,922	\$ —	\$38,922
Other	494	—	946	—	1,440
Total	\$ 494	\$ —	\$ 39,868	\$ —	\$40,362

FIRST FOUNDATION INC.

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For the Nine Months Ended September 30, 2018 – UNAUDITED

(dollars in thousands)	Less than 1 Year	1 Through 5 years	5 Through 10 Years	After 10 Years	Total
December 31, 2017					
Amortized Cost:					
Corporate bonds	\$ —	\$ —	\$ 19,000	\$ —	\$ 19,000
Other	—	499	—	—	499
Total	—	499	19,000	—	19,499
Weighted average yield	— %	1.03 %	5.24 %	— %	5.13 %
Estimated Fair Value:					
Corporate bonds	\$ —	\$ —	\$ 19,000	\$ —	\$ 19,000
Other	—	493	—	—	493
Total	\$ —	\$ 493	\$ 19,000	\$ —	\$ 19,493

Agency mortgage backed securities and beneficial interests in FHLMC securitizations are excluded from the above table because such securities are not due at a single maturity date. The weighted average yield of the agency mortgage backed securities and beneficial interests as of September 30, 2018 was 2.90%.

NOTE 5: LOANS

The following is a summary of our loans as of:

(dollars in thousands)	September 30, 2018	December 31, 2017
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties:		
Multifamily	\$2,192,848	\$1,935,429
Single family	893,310	645,816
Total real estate loans secured by residential properties	3,086,158	2,581,245
Commercial properties	841,923	696,748
Land	78,466	37,160
Total real estate loans	4,006,547	3,315,153
Commercial and industrial loans	410,870	310,779
Consumer loans	23,471	29,330
Total loans	4,440,888	3,655,262
Premiums, discounts and deferred fees and expenses	9,971	8,465
Total	\$4,450,859	\$3,663,727

As of September 30, 2018 and December 31, 2017, the principal balances shown above are net of unaccreted discount related to loans acquired in an acquisition of \$15.8 million and \$4.0 million, respectively.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2018 – UNAUDITED

In 2015, 2017, and 2018 the Company purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of these purchased credit impaired loans is as follows as of:

	September 30, 2018	December 31, 2017
(dollars in thousands)		
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties	\$ 4,814	\$ —
Commercial properties	10,885	1,525
Land	1,097	1,096
Total real estate loans	16,796	2,621
Commercial and industrial loans	1,925	2,774
Consumer loans	11	—
Total loans	18,732	5,395
Unaccreted discount on purchased credit impaired loans	(8,521)	(1,638)
Total	\$ 10,211	\$ 3,757

Accretable yield, or income expected to be collected on purchased credit impaired loans, and the related changes, is as follows for the periods indicated:

	Nine Months Ended September 30, 2018	Year Ended December 31, 2017
(dollars in thousands)		
Beginning balance	\$ 850	\$ 289
Accretion of income	(1,476)	(108)
Reclassifications from nonaccretable difference	—	66
Acquisition	1,887	603
Disposals	(26)	—
Ending balance	\$ 1,235	\$ 850

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2018 – UNAUDITED

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

	Past Due and Still Accruing				Total Past			
(dollars in thousands)	30-59 Days	60-89 Days	90 Days or More	Nonaccrual	Due and Nonaccrual	Current	Total	
September 30, 2018:								
Real estate loans:								
Residential properties	\$3,382	\$—	\$1,461	\$675	\$5,518	\$3,080,640	\$3,086,158	
Commercial properties	120	—	1,303	1,642	3,065	838,858	841,923	
Land	—	—	—	—	—	78,466	78,466	
Commercial and industrial loans	2,159	113	50	8,923	11,245	399,625	410,870	
Consumer loans	—	7	—	—	7	23,464	23,471	
Total	\$5,661	\$120	\$2,814	\$11,240	\$19,835	\$4,421,053	\$4,440,888	
Percentage of total loans	0.13 %	— %	0.07 %	0.25 %	0.45 %			
December 31, 2017:								
Real estate loans:								
Residential properties	\$78	\$—	\$—	\$—	\$78	\$2,581,167	\$2,581,245	
Commercial properties	—	—	1,320	1,742	3,062	693,686	696,748	
Land	—	—	—	—	—	37,160	37,160	
Commercial and industrial loans	—	—	789	9,617	10,406	300,373	310,779	
Consumer loans	—	—	—	—	—	29,330	29,330	
Total	\$78	\$—	\$2,109	\$11,359	\$13,546	\$3,641,716	\$3,655,262	
Percentage of total loans	0.00 %	— %	0.06 %	0.31 %	0.37 %			

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

(dollars in thousands)	September 30, 2018			December 31, 2017		
	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Commercial real estate loans	\$1,282	\$1,518	\$2,800	\$—	\$ 1,598	\$1,598
Commercial and industrial loans	—	2,339	2,339	195	2,698	2,893
Total	1,282	3,857	5,139	195	4,296	4,491

The following table provides information on loans that were modified as TDRs for the following periods:

		Outstanding Recorded Investment		Financial
(dollars in thousands)	Number of loans	Pre-Modification	Post-Modification	Impact
Nine Months Ended September 30, 2018:				
Commercial real estate loans	1	\$1,283	\$ 1,283	\$ —
Commercial loans	3	2,339	2,339	—
Total	4	\$3,622	\$ 3,622	\$ —

		Outstanding Recorded Investment		Financial
(dollars in thousands)	Number of loans	Pre-Modification	Post-Modification	Impact
Year Ended December 31, 2017:				
Commercial real estate loans	1	\$ 1,598	\$ 1,598	\$ —
Commercial loans	1	218	218	—
Total	2	\$ 1,816	\$ 1,816	\$ —

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

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2018 – UNAUDITED

NOTE 6: ALLOWANCE FOR LOAN LOSSES

The following is a roll forward of the Bank's allowance for loan losses for the following periods:

(dollars in thousands)	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Quarter Ended September 30, 2018:					
Real estate loans:					
Residential properties	\$ 9,551	\$ 382	\$ —	\$ —	\$9,933
Commercial properties	4,904	(844)	—	—	4,060
Land	501	(64)	—	—	437
Commercial and industrial loans	3,825	541	(250)	241	4,357
Consumer loans	219	(6)	—	—	213
Total	\$ 19,000	\$ 9	\$ (250)	\$ 241	\$19,000
Nine Months Ended September 30, 2018:					
Real estate loans:					
Residential properties	\$ 9,715	\$ 218	\$ —	\$ —	\$9,933
Commercial properties	4,399	(128)	(211)	—	4,060
Land	395	42	—	—	437
Commercial and industrial loans	3,624	4,069	(3,577)	241	4,357
Consumer loans	267	(54)	—	—	213
Total	\$ 18,400	\$ 4,147	\$ (3,788)	\$ 241	\$19,000
Year Ended December 31, 2017:					
Real estate loans:					
Residential properties	\$ 6,669	\$ 3,046	\$ —	\$ —	\$9,715
Commercial properties	2,983	1,416	—	—	4,399
Land	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

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For the Nine Months Ended September 30, 2018 – UNAUDITED

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

	Allowance for Loan Losses Evaluated for				Unaccrued Credit
	Impairment	Purchased			Component Other Loans
(dollars in thousands)	Individual	Collectively	Impaired	Total	
September 30, 2018:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	\$—	\$9,933	\$—	\$9,933	\$2,063
Commercial properties	104	3,956	—	4,060	2,028
Land	—	437	—	437	147
Commercial and industrial loans	713	3,644	—	4,357	713
Consumer loans	—	213	—	213	5
Total	\$817	\$18,183	\$—	\$19,000	\$4,956
Loans:					
Real estate loans:					
Residential properties	\$675	\$3,083,100	\$2,383	\$3,086,158	\$271,337
Commercial properties	2,924	833,341	5,658	841,923	323,743
Land	—	77,650	816	78,466	41,719
Commercial and industrial loans	8,936	400,580	1,354	410,870	76,893
Consumer loans	—	23,471	—	23,471	1,128
Total	\$12,535	\$4,418,142	\$10,211	\$4,440,888	\$714,820
December 31, 2017:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	\$—	\$9,715	\$—	\$9,715	\$248
Commercial properties	—	4,399	—	4,399	1,449
Land	—	395	—	395	4
Commercial and industrial loans	909	2,715	—	3,624	1,204
Consumer loans	—	267	—	267	100
Total	\$909	\$17,491	\$—	\$18,400	\$3,005
Loans:					
Real estate loans:					
Residential properties	\$—	\$2,581,245	\$—	\$2,581,245	\$26,605
Commercial properties	4,037	691,632	1,079	696,748	168,057
Land	—	36,323	837	37,160	167

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Commercial and industrial loans	9,399	299,539	1,841	310,779	62,849
Consumer loans	—	29,330	—	29,330	2,899
Total	\$13,436	\$3,638,069	\$ 3,757	\$3,655,262	\$ 260,577

The column labeled “Unaccreted Credit Component Other Loans” represents the amount of unaccreted credit component discount for the other loans acquired in a business combination, and the stated principal balance of the related loans. The discount is equal to 0.69% and 1.15% of the stated principal balance of these loans as of September 30, 2018 and December 31, 2017, respectively. In addition to this unaccreted credit component discount, an additional \$0.3 million and \$0.2 million of ALLL has been provided for these loans as of September 30, 2018 and December 31, 2017, respectively.

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For the Nine Months Ended September 30, 2018 – UNAUDITED

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 TDRs are considered impaired at the time they are restructured. Purchased credit impaired 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.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows as of:

(dollars in thousands)	Pass	Special Mention	Substandard	Impaired	Total
September 30, 2018:					
Real estate loans:					
Residential properties	\$3,079,406	\$3,694	\$2,383	\$675	\$3,086,158
Commercial properties	820,094	11,086	7,819	2,924	841,923
Land	77,650	—	816	—	78,466
Commercial and industrial loans	393,235	6,879	1,820	8,936	410,870
Consumer loans	23,471	—	—	—	23,471
Total	\$4,393,856	\$21,659	\$12,838	\$12,535	\$4,440,888

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December 31, 2017:

Real estate loans:

Residential properties	\$2,578,773	\$ 192	\$ 2,280	\$ —	\$2,581,245
Commercial properties	680,449	6,326	5,936	4,037	696,748
Land	36,321	—	839	—	37,160
Commercial and industrial loans	298,408	865	2,107	9,399	310,779
Consumer loans	29,330	—	—	—	29,330
Total	\$3,623,281	\$ 7,383	\$ 11,162	\$ 13,436	\$3,655,262

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For the Nine Months Ended September 30, 2018 – UNAUDITED

Impaired loans evaluated individually and any related allowance are as follows as of:

(dollars in thousands)	With No Allowance		With an Allowance		Related
	Recorded Unpaid Principal	Recorded Investment	Recorded Unpaid Principal	Recorded Investment	Allowance
September 30, 2018:					
Real estate loans:					
Residential properties	\$675	\$ 675	\$—	\$ —	\$ —
Commercial properties	1,642	1,642	1,282	1,282	104
Commercial and industrial loans	2,353	2,353	6,583	6,583	713
Total	\$4,670	\$ 4,670	\$7,865	\$ 7,865	\$ 817

December 31, 2017:

Real estate loans:					
Commercial properties	\$4,037	\$ 4,037	\$—	\$ —	\$ —
Commercial and industrial loans	250	250	9,149	9,149	909
Total	\$4,287	\$ 4,287	\$9,149	\$ 9,149	\$ 909

The weighted average annualized average balance of the recorded investment for impaired loans, beginning from when the loan became impaired, and any interest income recorded on impaired loans after they became impaired is as follows for the:

(dollars in thousands)	Nine months Ended September 30, 2018		Year Ended December 31, 2017	
	Average Recorded	Interest Income after Impairment	Average Recorded	Interest Income after Impairment
Real estate loans:				
Residential properties	\$150	\$ —	\$1,323	\$ 20
Commercial properties	3,647	67	2,403	50
Commercial and industrial loans	9,239	—	5,503	5
Total	\$13,036	\$ 67	\$9,229	\$ 75

There was no interest income recognized on a cash basis in either 2018 or 2017 on impaired loans.

NOTE 7: LOAN SALES AND MORTGAGE SERVICING RIGHTS

During the first nine months of 2018, FFB recognized \$0.4 million of gains on the sale of \$674 million of multifamily loans and recorded mortgage servicing rights of \$2.6 million on the sale of those loans. In 2017, FFB sold \$453 million of multifamily loans to financial institutions and recognized a gain of \$7.0 million.

For the sales of multifamily loans, FFB retained servicing rights for the majority of these loans and recognized mortgage servicing rights as part of the transactions. As of September 30, 2018 and December 31, 2017, mortgage servicing rights were \$6.8 million and \$4.8 million, respectively and the amount of loans serviced for others totaled \$1.4 billion and \$0.7 billion at September 30, 2018 and December 31, 2017, respectively. Servicing fees collected for the nine months ended September 30, 2018, and in 2017 were \$0.7 million for both periods.

During the second quarter of 2018, we entered into swap agreements with notional amounts of \$651 million which were closed out in the third quarter of 2018. As a result of the swap, our interest income on loans was reduced by \$0.8 million for the period in which the swap was in place. The value of the swap at close out was \$5.9 million, which offset decreases in the value of the loans sold during the period in which the swap was in place.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2018 – UNAUDITED

NOTE 8: DEPOSITS

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

	September 30, 2018		December 31, 2017	
		Weighted Average Rate		Weighted Average Rate
(dollars in thousands)	Amount		Amount	
Demand deposits:				
Noninterest-bearing	\$ 1,372,745	—	\$ 1,097,196	—
Interest-bearing	328,863	0.780 %	235,294	0.411 %
Money market and savings	1,197,600	0.960 %	1,210,240	0.840 %
Certificates of deposits	1,769,499	1.924 %	900,797	1.189 %
Total	\$4,668,707	1.030 %	\$ 3,443,527	0.634 %

At September 30, 2018, of the \$377 million of certificates of deposits of \$250,000 or more, \$340 million mature within one year and \$37 million mature after one year. Of the \$1.4 billion of certificates of deposit of less than \$250,000, \$1.3 billion mature within one year and \$63 million mature after one year. At December 31, 2017, of the \$288 million of certificates of deposits of \$250,000 or more, \$230 million mature within one year and \$58 million mature after one year. Of the \$613 million of certificates of deposit of less than \$250,000, \$543 million mature within one year and \$70 million mature after one year.

NOTE 9: BORROWINGS

At September 30, 2018, our borrowings consisted of \$192 million of overnight FHLB advances and \$5 million in FHLB term borrowings at the Bank and \$35 million of borrowings under a holding company line of credit. At December 31, 2017, our borrowings consisted of \$628 million of overnight FHLB advances at the Bank and \$50 million outstanding on a holding company line of credit. The overnight FHLB advances were paid in full in the early part of October 2018 and January 2018, respectively, and bore interest rates of 2.33% and 1.41%, respectively. At September 30, 2018, the interest rate on the holding company line of credit was 5.84%. Because the Bank utilizes overnight borrowings, the balance of outstanding borrowings fluctuates on a daily basis.

FHLB advances are collateralized primarily by loans secured by multifamily and commercial real estate properties with a carrying value of \$3.2 billion as of September 30, 2018. As a matter of practice, the Bank provides substantially all of its qualifying loans as collateral to the FHLB. The Bank's total borrowing capacity from the FHLB at September 30, 2018 was \$2.4 billion. In addition to the \$197 million borrowing at September 30, 2018, the Bank had in place \$201 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 provided for a revolving line of credit for up to \$50 million. The loan agreement matures in five years, with an option to extend the maturity date subject to certain conditions, and bears interest at 90 day LIBOR plus 350 basis points (3.50%). We are required to meet certain financial covenants during the term of the loan, including minimum capital levels and limits on classified assets. FFI's obligations under the loan agreement are secured by, among other things, a pledge of all of its equity in FFB. In April 2018, the maximum amount under the line was increased by \$25 million, to \$75 million.

The Bank also has \$120 million available borrowing capacity through unsecured fed funds lines, ranging in size from \$20 million to \$25 million, with five other financial institutions and a \$95 million secured line with the Federal Reserve Bank. None of these lines had outstanding borrowings as of September 30, 2018. Combined, the Bank's unused lines of credit as of September 30, 2018 and December 31, 2017 were \$2.2 billion and \$943 million, respectively. The average balance of overnight borrowings during the first nine months of 2018 was \$607 million, as compared to \$499 million during all of 2017.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2018 – UNAUDITED

NOTE 10: EARNINGS PER SHARE

Basic earnings per share excludes dilution and is computed by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if contracts to issue common stock were exercised or converted into common stock that would then share in earnings. The following table sets forth the Company's unaudited earnings per share calculations for the periods indicated:

(dollars in thousands, except per share amounts)	Quarter Ended		Quarter Ended	
	September 30, 2018		September 30, 2017	
	Basic	Diluted	Basic	Diluted
Net income	\$ 14,707	\$ 14,707	\$ 9,580	\$ 9,580
Basic common shares outstanding	44,405,094	44,405,094	34,565,949	34,565,949
Effect of contingent shares issuable		1,592		1,592
Effect of options and restricted stock		445,421		692,091
Diluted common shares outstanding		44,852,107		35,259,632
Earnings per share	\$ 0.33	\$ 0.33	\$ 0.28	\$ 0.27

(dollars in thousands, except per share amounts)	Nine Months Ended		Nine Months Ended	
	September 30, 2018		September 30, 2017	
	Basic	Diluted	Basic	Diluted
Net income	\$ 28,829	\$ 28,829	\$ 25,309	\$ 25,309
Basic common shares outstanding	41,288,804	41,288,804	33,671,327	33,671,327
Effect of contingent shares issuable		1,592		1,592
Effect of options and restricted stock		500,260		926,894
Diluted common shares outstanding		41,790,656		34,599,813
Earnings per share	\$ 0.70	\$ 0.69	\$ 0.75	\$ 0.73

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2018 – UNAUDITED

NOTE 11: SEGMENT REPORTING

For the quarter and nine months ended September 30, 2018 and 2017, the Company had two reportable business segments: Banking (FFB and FFIS) and Wealth Management (FFA). The results of FFI and any elimination entries are included in the column labeled Other. The following tables show key operating results for each of our business segments used to arrive at our consolidated totals for the following periods:

(dollars in thousands)	Banking	Wealth Management	Other	Total
Quarter ended September 30, 2018:				
Interest income	\$58,047	\$ —	\$—	\$58,047
Interest expense	13,786	—	535	14,321
Net interest income	44,261	—	(535)	43,726
Provision for loan losses	9	—	—	9
Noninterest income	5,079	6,260	(235)	11,104
Noninterest expense	27,530	5,189	1,248	33,967
Income (loss) before taxes on income	\$21,801	\$ 1,071	\$(2,018)	\$20,854

Quarter ended September 30, 2017:				
Interest income	\$34,877	\$1	\$—	\$34,878
Interest expense	6,210	—	228	6,438
Net interest income	28,667	1	(228)	28,440
Provision for loan losses	701	—	—	701
Noninterest income	3,955	6,132	(224)	9,863
Noninterest expense	17,333	5,096	964	23,393
Income (loss) before taxes on income	\$14,588	\$1,037	\$(1,416)	\$14,209

	Banking	Wealth Management	Other	Total
Nine months ended September 30, 2018:				
Interest income	\$149,864	\$—	\$—	\$149,864
Interest expense	34,049	—	1,570	35,619
Net interest income	115,815	—	(1,570)	114,245
Provision for loan losses	4,147	—	—	4,147
Noninterest income	8,586	18,920	(436)	27,070
Noninterest expense	76,896	16,333	3,708	96,937
Income (loss) before taxes on income	\$43,358	\$2,587	\$(5,714)	\$40,231

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Nine months ended September 30, 2017:				
Interest income	\$98,889	\$ 1	\$—	\$98,890
Interest expense	16,062	—	435	16,497
Net interest income	82,827	1	(435)	82,393
Provision for loan losses	1,862	—	—	1,862
Noninterest income	10,636	17,334	(627)	27,343
Noninterest expense	51,506	15,328	3,481	70,315
Income (loss) before taxes on income	\$40,095	\$ 2,007	\$(4,543)	\$37,559

ITEM 2.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 quarter and nine months ended September 30, 2018 as compared to our results of operations in the quarter and nine months ended September 30, 2017; and our financial condition at September 30, 2018 as compared to our financial condition at December 31, 2017. 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 report and our audited consolidated financial statements for the year ended December 31, 2017, and the notes thereto, which are set forth in Item 8 of our Annual Report on Form 10-K (our “2017 10-K”) which we filed with the Securities and Exchange Commission (“SEC”) on March 16, 2018.

Forward-Looking Statements

Statements contained in this report that are not historical facts or that discuss our expectations, beliefs or views regarding our future financial performance or future financial condition, or financial or other trends in our business or in the markets in which we operate, constitute “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 can be identified by the fact that they do not relate strictly to historical or current facts. Often, they include words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” “project,” “forecast” or words of similar meaning, or future or conditional verbs such as “will,” “would,” “should,” “could,” or “may.” Such forward-looking statements are based on current information that is available to us, and on assumptions that we make, about future events or economic or financial conditions or trends over which we do not have control. In addition, our businesses and the markets in which we operate are subject to a number of risks and uncertainties. Those risks and uncertainties, and unexpected future events, could cause our financial condition or actual operating results in the future to differ, possibly significantly, from our expected financial condition and operating results that are set forth in the forward-looking statements contained in this report.

The principal risks and uncertainties to which our businesses are subject are discussed in Item 1A in our 2017 10-K and in this Item 2 below. Therefore, you are urged to read not only the information contained in this Item 2, but also the risk factors and other cautionary information contained in Item 1A of our 2017 10-K, which qualify the forward-looking statements contained in this report.

Due to these risks and uncertainties, you are cautioned not to place undue reliance on the forward-looking statements contained in this report and not to make predictions about our future financial performance based solely on our historical financial performance. We also disclaim any obligation to update forward-looking statements contained in this report or in our 2017 10-K, except as may otherwise be required by applicable law or government regulations.

Critical Accounting Policies

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

values of the affected assets on our balance sheet, generally by means of charges against income, which could also affect our results of operations in the fiscal periods when those charges are recognized.

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

be able to use to offset or reduce taxes in the future. The establishment of such a valuation allowance, or any increase in an existing valuation allowance, would be effectuated through a charge to the provision for income taxes or a reduction in any income tax credit for the period in which such valuation allowance is established or increased.

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

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

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

Recent Developments and Overview

On October 30, 2018, we announced the initiation of a stock repurchase program under which we can repurchase up to 2.2 million shares of our common stock, subject to certain regulatory restrictions. As a result, we will not be selling stock under the "at-the-market" equity offering while we are purchasing shares of our common stock under the stock repurchase program.

We completed a remix of our balance sheet during the third quarter of 2018 whereby we sold \$622 million of multifamily loans through a securitization and separately purchased \$331 million of securities issued in the securitization. As a result, lower yielding loans were removed from our loan portfolio, cash holdings being held for regulatory liquidity purposes were replaced with higher yielding securities, our multifamily loan concentrations and loan to deposit ratios were reduced, and Bank borrowings decreased to \$197 million at September 30, 2018 from \$628 million at December 31, 2017.

We completed the acquisition of PBB Bancorp and its wholly owned subsidiary Premier Business Bank (collectively "PBB") on June 1, 2018, and acquired \$523 million in loans and \$478 million in deposits. Excluding the PBB acquisition, during the first nine months of 2018, we had loan originations of \$1.3 billion and deposit growth of \$748 million. Total revenues (net interest income and noninterest income) increased by 29% in the first nine months of 2018 when compared to the first nine months of 2017.

Results of Operations

Our net income for the quarter and nine months ending September 30, 2018 was \$14.7 million and \$28.8 million, respectively as compared to \$9.6 million and \$25.3 million for the corresponding periods in 2017. Income before taxes for the quarter and nine months ending September 30, 2018 was \$20.9 million and \$40.2 million, respectively, as compared to \$14.2 million and \$37.6 million for the corresponding periods in 2017.

The effective tax rate for the first nine months of 2018 was 28.3% as compared to 32.6% for the first nine months of 2017. As a result of reduced federal tax rates, our statutory tax rate decreased from 41.5% in 2017 to 29.0% in 2018. In addition, during the first nine months of 2018 and 2017, we realized a 157 and 982 basis point reduction in our effective tax rate, respectively, related to excess tax benefits resulting from the exercise or vesting of stock awards.

The primary sources of revenue for Banking are net interest income, fees from its deposits, trust and insurance services, certain loan fees, and consulting fees. The primary source of revenue for Wealth Management is asset management fees assessed on the balance of AUM. Compensation and benefit costs, which represent the largest component of noninterest expense, accounted for 49% and 75%, respectively, of the total noninterest expense for Banking and Wealth Management in the first nine months of 2018.

The following table shows key operating results for each of our business segments for the quarter ended September 30:

(dollars in thousands)	Banking	Wealth Management	Other	Total
2018:				
Interest income	\$58,047	\$ —	\$—	\$58,047
Interest expense	13,786	—	535	14,321
Net interest income	44,261	—	(535)	43,726
Provision for loan losses	9	—	—	9
Noninterest income	5,079	6,260	(235)	11,104
Noninterest expense	27,530	5,189	1,248	33,967
Income (loss) before taxes on income	\$21,801	\$ 1,071	\$(2,018)	\$20,854
2017:				
Interest income	\$34,877	\$ 1	\$—	\$34,878
Interest expense	6,210	—	228	6,438
Net interest income	28,667	1	(228)	28,440
Provision for loan losses	701	—	—	701
Noninterest income	3,955	6,132	(224)	9,863
Noninterest expense	17,333	5,096	964	23,393
Income (loss) before taxes on income	\$14,588	\$ 1,037	\$(1,416)	\$14,209

General. Consolidated income before taxes in the third quarter of 2018 was \$20.9 million, as compared to \$14.2 million in the third quarter of 2017. The \$6.7 million increase in income before taxes was the result of a \$7.2 million increase in income before taxes for Banking which was partially offset by a \$0.6 million increase in corporate interest and noninterest expenses. The increase in Banking was due to higher net interest income, a lower provision for loan losses and higher noninterest income, which were partially offset by higher noninterest expenses. For Corporate, noninterest expenses increased due to higher consulting costs.

The following table shows key operating results for each of our business segments for the nine months ended September 30:

(dollars in thousands)	Banking	Wealth Management	Other	Total
2018:				
Interest income	\$ 149,864	\$ —	\$—	\$149,864
Interest expense	34,049	—	1,570	35,619
Net interest income	115,815	—	(1,570)	114,245
Provision for loan losses	4,147	—	—	4,147
Noninterest income	8,586	18,920	(436)	27,070
Noninterest expense	76,896	16,333	3,708	96,937
Income (loss) before taxes on income	\$43,358	\$ 2,587	\$(5,714)	\$40,231
2017:				
Interest income	\$98,889	\$ 1	\$—	\$98,890
Interest expense	16,062	—	435	16,497
Net interest income	82,827	1	(435)	82,393
Provision for loan losses	1,862	—	—	1,862
Noninterest income	10,636	17,334	(627)	27,343
Noninterest expense	51,506	15,328	3,481	70,315
Income (loss) before taxes on income	\$40,095	\$ 2,007	\$(4,543)	\$37,559

General. Consolidated income before taxes in the first nine months of 2018 was \$40.2 million, as compared to \$37.6 million in the first nine months of 2017. The \$2.7 million increase in income before taxes was due to a \$3.3 million increase in income before taxes for Banking, a \$0.6 million increase in income before taxes for Wealth Management, which was partially offset by a \$1.1 million increase in corporate interest expenses. The increase in Banking was due to higher net interest income, which was partially offset by a higher provision for loan losses, lower noninterest income and higher noninterest expenses. The increase in Wealth Management was due to higher noninterest income, which was partially offset by higher noninterest expenses. For Corporate, interest expenses increased \$1.1 million due to increases in balances outstanding and increased rates on our holding company line of credit.

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

(dollars in thousands)	Quarter Ended September 30: 2018			2017		
	Average Balances	Interest	Average Yield / Rate	Average Balances	Interest	Average Yield / Rate
Interest-earning assets:						
Loans	\$4,929,164	\$ 53,345	4.32 %	\$3,345,159	\$ 31,236	3.73 %
Securities	516,057	3,579	2.77 %	481,741	3,023	2.51 %
FHLB stock, fed funds, and deposits	163,929	1,123	2.72 %	103,960	619	2.36 %
Total interest-earning assets	5,609,150	58,047	4.13 %	3,930,860	34,878	3.55 %
Noninterest-earning assets:						
Nonperforming assets	9,742			5,250		
Other	155,098			31,869		
Total assets	\$5,773,990			\$3,967,979		
Interest-bearing liabilities:						
Demand deposits	\$414,503	\$ 935	0.89 %	\$271,270	440	0.64 %
Money market and savings	1,201,909	2,836	0.94 %	1,027,892	2,194	0.85 %
Certificates of deposit	1,608,400	7,671	1.89 %	858,120	2,265	1.05 %
Total interest-bearing deposits	3,224,812	11,442	1.41 %	2,157,282	4,899	0.90 %
Borrowings	482,753	2,879	2.37 %	454,273	1,539	1.34 %
Total interest-bearing liabilities	3,707,565	14,321	1.53 %	2,611,555	6,438	0.98 %
Noninterest-bearing liabilities:						
Demand deposits	\$1,520,153			\$1,013,753		
Other liabilities	23,918			17,281		
Total liabilities	5,251,636			3,642,589		
Shareholders' equity	522,354			325,390		
Total liabilities and equity	\$5,773,990			\$3,967,979		
Net Interest Income		\$ 43,726			\$ 28,440	
Net Interest Rate Spread			2.60 %			2.57 %
Net Yield on Interest-earning Assets			3.12 %			2.90 %

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(dollars in thousands)	Nine Months Ended September 30: 2018			2017			
	Average Balances	Interest	Average Yield / Rate	Average Balances	Interest	Average Yield / Rate	
Interest-earning assets:							
Loans	\$ 4,418,421	\$ 135,851	4.10%	\$3,174,155	\$ 87,709	3.69%	
Securities	519,181	10,576	2.72%	496,756	9,180	2.46%	
FHLB stock, fed funds, and deposits	185,989	3,437	2.47%	87,216	2,001	3.07%	
Total interest-earning assets	5,123,591	149,864	3.90%	3,758,127	98,890	3.51%	
Noninterest-earning assets:							
Nonperforming assets	11,017			6,227			
Other	99,249			30,433			
Total assets	\$ 5,233,857			\$3,794,787			
Interest-bearing liabilities:							
Demand deposits	\$ 336,975	\$ 2,061	0.82%	\$259,660	1,100	0.57%	
Money market and savings	1,125,995	7,390	0.88%	1,003,696	5,934	0.79%	
Certificates of deposit	1,268,607	15,947	1.68%	780,228	5,069	0.87%	
Total interest-bearing deposits	2,731,577	25,398	1.24%	2,043,584	12,103	0.79%	
Borrowings	675,435	10,221	2.02%	588,590	4,394	1.00%	
Total interest-bearing liabilities	3,407,012	35,619	1.40%	2,632,174	16,497	0.84%	
Noninterest-bearing liabilities:							
Demand deposits	\$ 1,354,188			\$842,312			
Other liabilities	20,852			15,233			
Total liabilities	4,782,052			3,489,719			
Shareholders' equity	451,805			305,068			
Total liabilities and equity	\$ 5,233,857			\$3,794,787			
Net Interest Income							
		\$ 114,245			\$ 82,393		
Net Interest Rate Spread							
			2.50%			2.67%	
Net Yield on Interest-earning Assets							
			2.97%			2.92%	

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 for the quarter and nine months ended September 30, 2018, as compared to corresponding periods in 2017:

(dollars in thousands)	Quarter Ended September 30, 2018 vs. 2017			Nine Months Ended September 30, 2018 vs. 2017		
	Increase (Decrease) due to: Volume	Rate	Total	Increase (Decrease) due to: Volume	Rate	Total
Interest earned on:						

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Loans	\$16,568	\$5,541	\$22,109	\$37,407	\$10,735	\$48,142
Securities	224	332	556	430	966	1,396
Fed funds, FHLB stock, and deposits	400	104	504	1,888	(452)	1,436
Total interest-earning assets	17,192	5,977	23,169	39,725	11,249	50,974
Interest paid on:						
Demand deposits	288	207	495	387	574	961
Money market and savings	397	245	642	764	692	1,456
Certificates of deposit	2,832	2,574	5,406	4,362	6,516	10,878
Borrowings	113	1,227	1,340	732	5,095	5,827
Total interest-bearing liabilities	3,630	4,253	7,883	6,245	12,877	19,122
Net interest income	\$13,562	\$1,724	\$15,286	\$33,480	\$(1,628)	\$31,852

Net interest income for Banking increased 54% from \$28.7 million in the third quarter of 2017, to \$44.3 million in the third quarter of 2018 due to a 43% increase in interest-earning assets and an increase in the net yield on interest earning assets. On a consolidated basis our net yield on interest earning assets was 3.12% for the third quarter of 2018 as compared to 2.90% in the third quarter of 2017. This increase was due to a 50% increase in the amount of noninterest bearing deposits and an increase in the net interest rate spread from 2.57% in the third quarter of 2017 to 2.60% in the third quarter of 2018. The increase in the net interest rate spread was due to an increase in the yield on interest-earnings assets which was partially offset by an increase in the cost of interest-bearing liabilities. The yield on interest-earning assets increased as new originations and acquired loans added to the portfolio bear interest rates higher than the current portfolio rates as a result of increases in market rates, the realization of \$1.5 million of credit and yield discounts on the payoff of acquired loans as well as reductions in our lower yielding cash holdings. The increase in the cost of interest-bearing liabilities was due to increased costs of interest-bearing deposits, resulting from increases in deposit market rates, and increased costs of borrowings as the average rate on FHLB advances increased from 1.20% in the third quarter of 2017 to 2.09% in the third quarter of 2018. The average balance outstanding under the holding company line of credit increased from \$19.4 million in the third quarter of 2017 to \$36.8 million in the third quarter of 2018, and the average rate increased by over 100 basis points, resulting in a \$0.3 million increase in corporate interest expense.

Net interest income for Banking increased 40% from \$82.8 million in the first nine months of 2017, to \$115.8 million in the first nine months of 2018 due to a 36% increase in interest-earning assets and an increase in the net yield on interest earning assets. On a consolidated basis our net yield on interest earning assets was 2.97% for the first nine months of 2018 as compared to 2.92% during the first nine months of 2017. This increase was due to a 61% increase in the amount of noninterest bearing deposits which was partially offset by a decrease in the net interest rate spread from 2.67% for the first nine months of 2017 to 2.50% in the first nine months of 2018. The decrease in the net interest rate spread was due to an increase in the cost of interest-bearing liabilities which was partially offset by an increase in the yield on interest-earnings assets. The yield on interest-earning assets increased to 3.90% for the first nine months of 2018 from 3.51% for the first nine months of 2017 as new originations and acquired loans added to the portfolio bear interest rates higher than the current portfolio rates as a result of increases in market rates and the realization of \$1.6 million of credit and yield discounts on the payoff of acquired loans. The increase in the cost of interest-bearing liabilities was due to increased costs of interest-bearing deposits, resulting from increases in deposit market rates, and increased costs of borrowings as the average rate on FHLB advances increased from 0.92% in the first nine months of 2017 to 1.81% in the first nine months of 2018. The average balance outstanding under the holding company line of credit increased from \$12.4 million in the first nine months of 2017 to \$37.7 million in the first nine months of 2018, and the average rate increased by 88 basis points, resulting in a \$1.1 million increase in corporate interest expense.

Provision for loan losses. The provision for loan losses represents our estimate of the amount necessary to be charged against the current period's earnings to maintain the ALLL at a level that we consider adequate in relation to the estimated losses inherent in the loan portfolio. The provision for loan losses is impacted by changes in loan balances as well as changes in estimated loss assumptions and charge-offs and recoveries. The amount of the provision also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions and certain other subjective factors that may affect the ability of borrowers to meet their repayment obligations to us. For the quarter ended September 30, 2018 we recorded a negligible amount of provisions for loan losses and \$4.1 million of provisions for the nine months ended September 30, 2018, as compared to \$0.7 million and \$1.9 million, respectively, for the quarter and nine months ended September 30, 2017. The lack of provision in the third quarter of 2018 was due to the resolution of problem loans in the second quarter of 2018 and the reduction in outstanding loan balances as the result of the sale of \$622 million of loans. The \$4.1 million provision for loan losses in the first nine months of 2018 was due to growth in our loan balances and the \$3.5 million of chargeoffs in the first nine months of 2018.

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 and insurance commissions. The following table provides a breakdown of noninterest income for Banking for the quarter and nine months ended September 30:

(dollars in thousands)	2018	2017
Quarter Ended September 30:		
Trust fees	\$1,054	\$825
Consulting fees	101	112
Deposit charges	281	100
Gain on sale of loans	1,364	1,962
Gain on sale of REO	—	104
Loan related fees	1,870	649
Other	409	203
Total noninterest income	\$5,079	\$3,955
Nine Months Ended September 30:		
Trust fees	\$2,808	\$2,485
Consulting fees	304	334
Deposit charges	595	329
Gain on sale of loans	419	4,312
Gain on sale of REO	—	104
Loan related fees	3,443	2,091
Other	1,017	981
Total noninterest income	\$8,586	\$10,636

Noninterest income in Banking in the third quarter of 2018 was \$5.1 million as compared to \$4.0 million in the third quarter of 2017 due to an increase in loan and prepayment fees, trust fees and deposit fees, which were partially offset by a lower gain on sale of loans as a result of rising market rates. In the third quarter of 2018, the weighted average rate of the multifamily loans sold was 3.83%, which is significantly below current market rates.

Noninterest income in Banking in the first nine months of 2018 was \$8.6 million as compared to \$10.6 million in the first nine months of 2017 as decreases in the gain on sale of loans was offset by higher loan, deposit and trust fees. In the first nine months of 2017 we realized a \$4.3 million gain on sale of loans as compared to \$0.4 million in the first nine months of 2018 as rising market interest rates resulted in lower gains on sale. As a result of higher levels of prepayments and increases related to the acquisitions of Community 1st Bank (“C1B”) and PBB, loan fees and deposits fees increased from \$2.4 million in the first nine months of 2017 to \$4.0 million in the first nine months of 2018.

Noninterest income for Wealth Management includes fees charged to high net-worth clients for managing their assets and for providing financial planning consulting services. The following table provides a breakdown of noninterest income for Wealth Management for the quarter and nine months ended September 30:

(dollars in thousands)	2018	2017
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Quarter Ended September 30:

Asset management fees	\$6,258	\$6,124
Other	2	8
Total noninterest income	\$6,260	\$6,132

Nine Months Ended September 30:

Asset management fees	\$18,932	\$17,290
Other	(12)	44
Total noninterest income	\$18,920	\$17,334

Noninterest revenue for Wealth Management increased by \$0.1 million and \$1.6 million, respectively, for the quarter and nine months ended September 30, 2018 when compared to the corresponding periods in 2017 due to higher levels of AUM balances on which the asset management fees are calculated.

Noninterest Expense. The following table provides a breakdown of noninterest expense for Banking and Wealth Management for the quarter and nine months ended September 30:

	Banking		Wealth Management	
(dollars in thousands)	2018	2017	2018	2017
Quarter Ended September 30:				
Compensation and benefits	\$13,215	\$9,863	\$3,994	\$3,928
Occupancy and depreciation	4,987	3,221	544	537
Professional services and marketing	1,056	560	466	485
Customer service costs	4,854	2,229	—	—
Other expenses	3,418	1,460	185	146
Total noninterest expense	\$27,530	\$17,333	\$5,189	\$5,096
Nine Months Ended September 30:				
Compensation and benefits	\$38,028	\$29,913	\$12,283	\$11,956
Occupancy and depreciation	12,690	9,404	1,688	1,608
Professional services and marketing	3,338	2,320	1,800	1,320
Customer service costs	11,449	4,241	—	—
Other expenses	11,391	5,628	562	444
Total noninterest expense	\$76,896	\$51,506	\$16,333	\$15,328

Noninterest expense in Banking increased from \$17.3 million in the third quarter of 2017 to \$27.5 million in the third quarter of 2018, due to increases in staffing and costs associated with the Bank's expansion, including the acquisition of C1B in November 2017 and PBB in June 2018, and the growth of its balances of loans and deposits. Compensation and benefits for Banking increased \$3.4 million or 34% during the third quarter of 2018 as compared to the third quarter of 2017 due to salary increases and an increase in the number of full time equivalent employees ("FTE") in Banking, which increased to 420.8 in the third quarter of 2018 from 315.7 in the third quarter of 2017 as a result of the increased staffing related to the acquisitions and additional personnel added to support the growth in loans and deposits. The \$1.8 million increase in occupancy and depreciation for Banking in the third quarter of 2018 as compared to the third quarter of 2017 was due to costs related to the acquisitions and increases in our data processing costs due to increased volumes and the implementation of enhancements. The \$0.5 million increase in professional services and marketing was the result of increased information technology costs related to the acquisitions and recoveries of legal costs realized in the third quarter of 2017. Customer service costs for Banking increased from \$2.2 million in the third quarter of 2017 to \$4.9 million in the third quarter of 2018 due primarily to increases in the earnings credit rates paid on the balances, which reflect the increases in short term market rates during the third quarter of 2018 when compared to the third quarter of 2017. The \$2.0 million increase in other expenses for Banking in the third quarter of 2018 when compared to the third quarter of 2017 was due to additional costs related to the acquisitions of C1B and PBB, primarily amortization of core deposit intangibles and FDIC insurance.

Noninterest expense in Banking increased from \$51.5 million in the first nine months of 2017 to \$76.9 million in the first nine months of 2018, due to increases in staffing and costs associated with the Bank's expansion, including the acquisition of C1B in November 2017 and PBB in June 2018, and the growth of its balances of loans and deposits. Compensation and benefits for Banking increased \$8.1 million or 27% during the first nine months of 2018 as compared to the first nine months of 2017 due to salary increases and an increase in the number of FTE in Banking, which increased to 373.4 in the first nine months of 2018 from 303.8 in the first nine months of 2017 as a result of the

increased staffing related to the acquisitions of C1B and PBB and additional personnel added to support the growth in loans and deposits. A \$3.3 million increase in occupancy and depreciation for Banking in the first nine months of 2018 as compared to the first nine months of 2017 was due to costs related to the acquisitions of C1B and PBB and increases in our data processing costs due to increased volumes and the implementation of enhancements. The \$1.0 million increase in professional services and marketing in Banking was due to a \$1.8 million recovery of legal costs realized in the first nine months of 2017 which were offset by lower legal costs, excluding the recovery, incurred in the first nine months of 2018 and higher costs related to the acquisitions of C1B and PBB. Customer service costs for Banking increased \$7.2 million in the first nine months of 2018 as compared to the first nine months of 2017 due primarily to increases in the earnings credit rates paid on the balances, which reflect the increases in short term market rates during the first nine months of 2018 when compared to the first nine months of 2017. The \$5.8 million increase in other expenses for Banking in the first nine months of 2018 when compared to the first nine months of 2017 were due to \$3.6 million of acquisition costs related to the PBB acquisition and due to additional activities related to the acquisitions, primarily amortization of core deposit intangibles and FDIC insurance. The increase in noninterest expense for Wealth Management was due to salary increases, legal costs and increases in referral fees due to higher levels of AUM.

The increases in noninterest expense in Wealth Management for the third quarter and nine months of 2018 as compared to the corresponding periods in 2017 were due to salary increases and increases in referral fees due to higher levels of AUM.

Financial Condition

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

(dollars in thousands)	Banking	Wealth Management	Other and Eliminations	Total
September 30, 2018:				
Cash and cash equivalents	\$ 54,773	\$ 3,534	\$ (3,372)	) \$ 54,935
Securities AFS	799,870	—	—	799,870
Loans, net	4,431,859	—	—	4,431,859
Premises and equipment	7,927	827	136	8,890
FHLB Stock	17,250	—	—	17,250
Deferred taxes	18,737	173	46	18,956
REO	1,997	—	—	1,997
Goodwill and intangibles	99,721	—	—	99,721
Other assets	30,820	367	1,617	32,804
Total assets	\$ 5,462,954	\$ 4,901	\$ (1,573)	) \$ 5,466,282
Deposits	\$ 4,679,997	\$ —	\$ (11,290)	) \$ 4,668,707
Borrowings	197,000	—	35,000	232,000
Intercompany balances	3,670	475	(4,145)) —
Other liabilities	29,631	2,385	2,560	34,576
Shareholders' equity	552,656	2,041	(23,698)	) 530,999
Total liabilities and equity	\$ 5,462,954	\$ 4,901	\$ (1,573)	) \$ 5,466,282
December 31, 2017:				
Cash and cash equivalents	\$ 120,261	\$ 4,407	\$ (4,274)	) \$ 120,394
Securities AFS	519,364	—	—	519,364
Loans held for sale	154,380	—	—	154,380
Loans, net	3,645,327	—	—	3,645,327
Premises and equipment	5,519	926	136	6,581
FHLB Stock	19,060	—	—	19,060
Deferred taxes	12,008	172	(37)	) 12,143
REO	2,920	—	—	2,920
Goodwill and Intangibles	33,576	—	—	33,576
Other assets	25,521	179	1,740	27,440
Total assets	\$ 4,537,936	\$ 5,684	\$ (2,435)	) \$ 4,541,185
Deposits	\$ 3,460,465	\$ —	\$ (16,938)	) \$ 3,443,527
Borrowings	628,000	—	50,000	678,000
Intercompany balances	3,301	643	(3,944)) —
Other liabilities	18,646	2,970	3,091	24,707
Shareholders' equity	427,524	2,071	(34,644)	) 394,951
Total liabilities and equity	\$ 4,537,936	\$ 5,684	\$ (2,435)	) \$ 4,541,185

Our consolidated balance sheet is primarily affected by changes occurring in Banking as Wealth Management does 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 the first nine months of 2018, total assets increased by \$925 million primarily due to increases in securities and loans. Securities increased by \$281 million due primarily to \$350 million in securities purchases, offset by \$67 million in cash received in proceeds from the sale, principal collection, and maturities of securities. Loans and loans held for sale increased by \$633 million as a result of \$1.3 billion of originations and \$523 million of loans added from the PBB acquisition, which were partially offset by the sale of \$676 million of multifamily loans and payoffs or scheduled payments of \$553 million. Deposits increased by \$748 million, excluding the deposits acquired in the PBB acquisition, as our specialty deposits, branch deposits and wholesale deposits increased by \$38 million, \$112 million and \$598 million, respectively. Borrowings decreased by \$446 million due primarily to the remix of our balance sheet and increase in deposits.

Cash and cash equivalents, certificates of deposit and securities. Cash and cash equivalents, which primarily consist of funds held at the Federal Reserve Bank or at correspondent banks, including fed funds, decreased \$65 million during the first nine months of 2018. Changes in cash equivalents are primarily affected by the funding of loans, investments in securities, and changes in our sources of funding: deposits, FHLB advances and FFI borrowings.

Securities available for sale. The following table provides a summary of the Company's AFS securities portfolio as of:

(dollars in thousands)	Amortized Cost	Gross Gains	Unrealized Losses	Estimated Fair Value
September 30, 2018:				
Agency mortgage-backed securities	\$ 747,322	\$ 2	\$(20,307)	\$ 727,017
Corporate bonds	39,000	—	(78)	38,922
Beneficial interest – FHLMC securitization	32,699	1,735	(1,944)	32,490
Other	1,451	—	(10)	1,441
Total	\$ 820,472	\$ 1,737	\$(22,339)	\$ 799,870
December 31, 2017:				
Agency mortgage-backed securities	\$ 471,131	\$ 287	\$(7,399)	\$ 464,019
Corporate bonds	19,000	—	—	19,000
Beneficial interest – FHLMC securitization	35,930	1,811	(1,889)	35,852
Other	499	—	(6)	493
Total	\$ 526,560	\$ 2,098	\$(9,294)	\$ 519,364

US Treasury securities of \$0.5 million as of September 30, 2018 that are included in the table above as Other are pledged as collateral to the State of California to meet regulatory requirements related to the Bank's trust operations. As of September 30, 2018, \$81 million of agency mortgage-backed securities are pledged as collateral as support for the Banks's obligations under a loan sales and securitization agreement entered into in 2018.

The scheduled maturities of securities AFS, other than agency mortgage-backed securities, and the related weighted average yield is as follows as of September 30, 2018:

(dollars in thousands)	Less than 1 Year	1 Through 5 years	5 Through 10 Years	After 10 Years	Total
Amortized Cost:					
Corporate bonds	\$ —	\$ —	\$ 39,000	\$ —	\$ 39,000
Other	499	—	951	—	1,450
Total	\$ 499	\$ —	\$ 39,951	\$ —	\$ 40,450
Weighted average yield	1.03 %	— %	5.06 %	— %	5.01 %
Estimated Fair Value:					
Corporate bonds	\$ —	\$ —	\$ 38,922	\$ —	\$ 38,922
Other	494	—	946	—	1,440
Total	\$ 494	\$ —	\$ 39,868	\$ —	\$ 40,362

Agency mortgage backed securities and beneficial interest – 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 September 30, 2018 was 2.90%.

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

	September 30, 2018	December 31, 2017
(dollars in thousands)		
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties:		
Multifamily	\$2,192,848	\$1,935,429
Single family	893,310	645,816
Total real estate loans secured by residential properties	3,086,158	2,581,245
Commercial properties	841,923	696,748
Land	78,466	37,160
Total real estate loans	4,006,547	3,315,153
Commercial and industrial loans	410,870	310,779
Consumer loans	23,471	29,330
Total loans	4,440,888	3,655,262
Premiums, discounts and deferred fees and expenses	9,971	8,465
Total	\$4,450,859	\$3,663,727

Total loans, including loans held for sale, increased \$787 million during the first nine months of 2018 as a result of \$1.3 billion of originations and \$523 million of loans acquired in the acquisition of PBB which were partially offset by the sale of \$676 million of multifamily loans and payoffs or scheduled payments of \$553 million.

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

	September 30, 2018		December 31, 2017	
		Weighted Average Rate		Weighted Average Rate
(dollars in thousands)	Amount		Amount	
Demand deposits:				
Noninterest-bearing	\$1,372,745	—	\$1,097,196	—
Interest-bearing	328,863	0.780 %	235,294	0.411 %
Money market and savings	1,197,600	0.960 %	1,210,240	0.840 %
Certificates of deposits	1,769,499	1.924 %	900,797	1.189 %
Total	\$4,668,707	1.030 %	\$3,443,527	0.634 %

During the first nine months of 2018, the weighted average rate of our interest-bearing deposits increased from 0.93% at December 31, 2017 to 1.46% at September 30, 2018, while the weighted average interest rates of both interest-bearing and noninterest-bearing deposits increased from 0.63% at December 31, 2017 to 1.03% at September 30, 2018. The increase in the weighted average rate of our interest-bearing deposits was the result of increases in market rates and our success in attracting higher balance accounts which generally bear higher interest rates.

The \$1.2 billion growth in deposits during the first nine months of 2018 was primarily due to the acquisition of PBB and increases in our specialty deposits, branch deposits and wholesale deposits of \$38 million, \$112 million and \$598 million, respectively.

The maturities of our certificates of deposit of \$100,000 or more were as follows as of September 30, 2018:

(dollars in thousands)	
3 months or less	\$261,657
Over 3 months through 6 months	119,720
Over 6 months through 12 months	170,564
Over 12 months	83,012
Total	\$634,953

From time to time, the Bank will utilize brokered deposits as a source of funding. As of September 30, 2018 the Bank held \$1.1 billion of deposits which are classified as brokered deposits.

Borrowings. At September 30, 2018 our borrowings consisted of \$192 million in overnight FHLB advances and \$5 million in FHLB term borrowings at the Bank and \$35 million of borrowings on our holding company line of credit. At December 31, 2017, our borrowings consisted of \$628 million of overnight FHLB advances at the Bank and \$50 million of borrowings under our holding company line of credit. The FHLB overnight advances were paid in full in the early parts of October 2018 and January 2018, respectively. Because FFB primarily utilizes overnight borrowings, the balance of outstanding borrowings fluctuates on a daily basis. The average balance of borrowings at the Bank during the first nine months of 2018 was \$607 million, as compared to \$549 million during the first nine months of

2017. The weighted average interest rate on these borrowings was 2.33% for the first nine months of 2018, as compared to 1.14% for the first nine months of 2017. The maximum amount of borrowings at the Bank outstanding at any month-end during the first nine months of 2018 and 2017 was \$773 million and \$818 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 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:

	Past Due and Still Accruing				Total Past		
(dollars in thousands)	30–59 Days	60-89 Days	90 Days or More	Nonaccrual	Due and Nonaccrual	Current	Total
September 30, 2018:							
Real estate loans:							
Residential properties	\$3,382	\$—	\$1,461	\$ 675	\$ 5,518	\$3,080,640	\$ 3,086,158
Commercial properties	120	—	1,303	1,642	3,065	838,858	841,923
Land	—	—	—	—	—	78,466	78,466
Commercial and industrial loans	2,159	113	50	8,923	11,245	399,625	410,870
Consumer loans	—	7	—	—	7	23,464	23,471
Total	\$5,661	\$120	\$2,814	\$ 11,240	\$ 19,835	\$4,421,053	\$ 4,440,888
Percentage of total loans	0.13 %	— %	0.07 %	0.25 %	0.45 %		

December 31, 2017:

Real estate loans:							
Residential properties	\$78	\$—	\$—	\$ —	\$ 78	\$2,581,167	\$ 2,581,245
Commercial properties	—	—	1,320	1,742	3,062	693,686	696,748
Land	—	—	—	—	—	37,160	37,160
Commercial and industrial loans	—	—	789	9,617	10,406	300,373	310,779
Consumer loans	—	—	—	—	—	29,330	29,330
Total	\$78	\$—	\$2,109	\$ 11,359	\$ 13,546	\$3,641,716	\$ 3,655,262
Percentage of total loans	0.00 %	0.00 %	0.06 %	0.31 %	0.37 %		

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

(dollars in thousands)	September 30, 2018			December 31, 2017		
	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Commercial real estate loans	\$1,282	\$1,518	\$2,800	\$—	\$ 1,598	\$1,598
Commercial and industrial loans	—	2,339	2,339	195	2,698	2,893

Total	1,282	3,857	5,139	195	4,296	4,491
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These loans were classified as a TDR as a result of a reduction in required principal payments, reductions in rates and/or an extension of the maturity date of the loans.

The following is a breakdown of our loan portfolio by the risk category of loans as of:

(dollars in thousands)	Pass	Special Mention	Substandard	Impaired	Total
September 30, 2018:					
Real estate loans:					
Residential properties	\$3,079,406	\$3,694	\$ 2,383	\$675	\$3,086,158
Commercial properties	820,094	11,086	7,819	2,924	841,923
Land	77,650	—	816	—	78,466
Commercial and industrial loans	393,235	6,879	1,820	8,936	410,870
Consumer loans	23,471	—	—	—	23,471
Total	\$4,393,856	\$21,659	\$ 12,838	\$ 12,535	\$4,440,888

December 31, 2017:

Real estate loans:					
Residential properties	\$2,578,773	\$192	\$ 2,280	\$ —	\$2,581,245
Commercial properties	680,449	6,326	5,936	4,037	696,748
Land	36,321	—	839	—	37,160
Commercial and industrial loans	298,408	865	2,107	9,399	310,779
Consumer loans	29,330	—	—	—	29,330
Total	\$3,623,281	\$7,383	\$ 11,162	\$ 13,436	\$3,655,262

We consider a loan to be impaired when, based upon current information and events, we believe that it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan. We measure impairment using either the present value of the expected future cash flows discounted at the loan's effective interest rate, or the fair value of the properties collateralizing the loan, for collateral dependent loans. Impairment losses are included in the ALLL through a charge to provision for loan losses. Adjustments to impairment losses due to changes in the fair value of the property collateralizing an impaired loan are considered in computing the provision for loan losses. Loans collectively reviewed for impairment include all loans except for loans which are individually reviewed based on specific criteria, such as delinquency, debt coverage, adequacy of collateral and condition of property collateralizing the loans. Impaired loans include nonaccrual loans (excluding those collectively reviewed for impairment), certain restructured loans and certain performing loans less than 90 days delinquent ("other impaired loans") which we believe are not likely to be collected in accordance with the contractual terms of the loans.

In 2015, 2017 and 2018, we purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of these purchased credit impaired loans is as follows as of:

(dollars in thousands)	September 30, 2018	December 31, 2017
Outstanding principal balance:		
Loans secured by real estate:		

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Residential properties	\$ 4,814	\$ —
Commercial properties	10,885	1,525
Land	1,097	1,096
Total real estate loans	16,796	2,621
Commercial and industrial loans	1,925	2,774
Consumer loans	11	—
Total loans	18,732	5,395
Unaccreted discount on purchased credit impaired loans	(8,521)	(1,638)
Total	\$ 10,211	\$ 3,757

Allowance for Loan Losses. The following table summarizes the activity in our ALLL for the periods indicated:

(dollars in thousands)	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Quarter ended September 30, 2018:					
Real estate loans:					
Residential properties	\$ 9,551	\$ 382	\$ —	\$ —	\$ 9,933
Commercial properties	4,904	(844)	—	—	4,060
Land	501	(64)	—	—	437
Commercial and industrial loans	3,825	541	(250)	241	4,357
Consumer loans	219	(6)	—	—	213
Total	\$ 19,000	\$ 9	\$ (250)	\$ 241	\$ 19,000

Nine months ended September 30, 2018:

Real estate loans:					
Residential properties	\$ 9,715	\$ 218	\$ —	\$ —	\$ 9,933
Commercial properties	4,399	(128)	(211)	—	4,060
Land	395	42	—	—	437
Commercial and industrial loans	3,624	4,069	(3,577)	241	4,357
Consumer loans	267	(54)	—	—	213
Total	\$ 18,400	\$ 4,147	\$ (3,788)	\$ 241	\$ 19,000

Year ended December 31, 2017:

Real estate loans:					
Residential properties	\$ 6,669	\$ 3,046	\$ —	\$ —	\$ 9,715
Commercial properties	2,983	1,416	—	—	4,399
Land	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 acquisitions, our ALLL represented 0.50%, and 0.54% of total loans outstanding as of September 30, 2018 and December 31, 2017, respectively.

The amount of the ALLL is adjusted periodically by charges to operations (referred to in our income statement as the “provision for loan losses”) (i) to replenish the ALLL after it has been reduced due to loan write-downs or charge-offs, (ii) to reflect increases in the volume of outstanding loans, and (iii) to take account of changes in the risk of potential loan losses due to a deterioration in the condition of borrowers or in the value of property securing non-performing loans or adverse changes in economic conditions. The amounts of the provisions we make for loan losses are based on our estimate of losses in our loan portfolio. In estimating such losses, we use economic and loss migration models that are based on bank regulatory guidelines and industry standards, and our historical charge-off experience and loan delinquency rates, local and national economic conditions, a borrower’s ability to repay its borrowings, and the value of any property collateralizing the loan, as well as a number of subjective factors. However, these determinations involve judgments about changes and trends in current economic conditions and other events that can affect the ability of borrowers to meet their loan obligations to us and a weighting among the quantitative and qualitative factors we

consider in determining the sufficiency of the ALLL. Moreover, the duration and anticipated effects of prevailing economic conditions or trends can be uncertain and can be affected by a number of risks and circumstances that are outside of our control. If changes in economic or market conditions or unexpected subsequent events were to occur, or if changes were made to bank regulatory guidelines or industry standards that are used to assess the sufficiency of the ALLL, it could become necessary for us to incur additional, and possibly significant, charges to increase the ALLL, which would have the effect of reducing our income.

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

The following table presents the balance in the ALLL and the recorded investment in loans by impairment method as of:

	Allowance for Loan Losses Evaluated for Impairment				Unaccrued Credit
	Individual	Collectively	Purchased Impaired	Total	Component Other Loans
(dollars in thousands)					
September 30, 2018:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	\$—	\$9,933	\$ —	\$9,933	\$ 2,063
Commercial properties	104	3,956	—	4,060	2,028
Land	—	437	—	437	147
Commercial and industrial loans	713	3,644	—	4,357	713
Consumer loans	—	213	—	213	5
Total	\$817	\$18,183	\$ —	\$19,000	\$ 4,956
Loans:					
Real estate loans:					
Residential properties	\$675	\$3,083,100	\$ 2,383	\$3,086,158	\$ 271,337
Commercial properties	2,924	833,341	5,658	841,923	323,743
Land	—	77,650	816	78,466	41,719
Commercial and industrial loans	8,936	400,580	1,354	410,870	76,893
Consumer loans	—	23,471	—	23,471	1,128
Total	\$12,535	\$4,418,142	\$ 10,211	\$4,440,888	\$ 714,820
	Allowance for Loan Losses Evaluated for Impairment				Unaccrued Credit
	Individual	Collectively	Purchased Impaired	Total	Component Other Loans
(dollars in thousands)					
December 31, 2017:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	\$—	\$9,715	\$ —	\$9,715	\$ 248
Commercial properties	—	4,399	—	4,399	1,449
Land	—	395	—	395	4
Commercial and industrial loans	909	2,715	—	3,624	1,204
Consumer loans	—	267	—	267	100
Total	\$909	\$17,491	\$ —	\$18,400	\$ 3,005
Loans:					
Real estate loans:					
Residential properties	\$—	\$2,581,245	\$ —	\$2,581,245	\$ 26,605
Commercial properties	4,037	691,632	1,079	696,748	168,057

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Land	—	36,323	837	37,160	167
Commercial and industrial loans	9,399	299,539	1,841	310,779	62,849
Consumer loans	—	29,330	—	29,330	2,899
Total	\$13,436	\$3,638,069	\$ 3,757	\$3,655,262	\$ 260,577

The column labeled “Unaccreted Credit Component Other Loans” represents the amount of unaccreted credit component discount for the other loans acquired in prior acquisitions, and the stated principal balance of the related loans. The unaccreted credit component discount is equal to 0.69% and 1.15% of the stated principal balances of these loans as of September 30, 2018 and December 31, 2017, respectively. In addition to this unaccreted credit component discount, an additional \$0.3 million and \$0.2 million of the ALLL were provided for these loans as of September 30, 2018 and December 31, 2017, respectively.

Liquidity

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

We monitor our liquidity in accordance with guidelines established by our Board of Directors and applicable regulatory requirements. Our need for liquidity is affected by our loan activity, net changes in deposit levels and the maturities of our borrowings. The principal sources of our liquidity consist of deposits, loan interest and principal payments and prepayments, investment management and consulting fees, FHLB advances and proceeds from borrowings and sales of shares by FFI. The remaining balances of the Bank's lines of credit available to draw down totaled \$2.2 billion at September 30, 2018.

Cash Flows Provided by Operating Activities. During the nine months ended September 30, 2018, operating activities provided net cash of \$42 million, comprised primarily of our net income of \$29 million and \$2 million decrease in other assets and \$5 million increase in accounts payable and other liabilities. During the nine months ended September 30, 2017, operating activities provided net cash of \$28 million, comprised primarily of our net income of \$25 million, and \$7 million increase in accounts payable and other liabilities, offset partially by \$4.3 million in gains on sales of loans.

Cash Flows Used in Investing Activities. During the nine months ended September 30, 2018, investing activities used net cash of \$343 million, primarily to fund a \$786 million net increase in loans and \$350 million in securities purchases, offset partially by \$674 million in loan sales, \$67 million in cash received in proceeds from the sale, principal collection, and maturities of securities, and \$48 million in cash received in the acquisition. During the nine months ended September 30, 2017, investing activities used net cash of \$543 million, primarily to fund a \$889 million net increase in loans, offset partially by \$289 million in loan sales and \$53 million in cash received in proceeds from the sale, principal collection, and maturities of securities.

Cash Flow Provided by Financing Activities. During the nine months ended September 30, 2018, financing activities provided net cash of \$235 million, consisting primarily of net increases of \$748 million in deposits, offset partially by a \$511 million net decrease in FHLB advances. During the nine months ended September 30, 2017, financing activities provided net cash of \$40 million, consisting primarily of \$15 million in proceeds from a holding company line of credit and \$27.3 million in proceeds from the sale of stock.

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 September 30, 2018 and December 31, 2017, the loan-to-deposit ratios at the Bank were 95% and 111%, respectively.

Off-Balance Sheet Arrangements

The following table provides the off-balance sheet arrangements of the Company as of September 30, 2018:

(dollars in thousands)	
Commitments to fund new loans	\$ 19,236
Commitments to fund under existing loans, lines of credit	316,952
Commitments under standby letters of credit	9,909

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 September 30, 2018, the Bank was obligated on \$201 million of letters of credit to the FHLB which were being used

as collateral for public fund deposits, including \$163 million of deposits from the State of California.

Capital Resources and Dividend Policy

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

Certain qualitative assessments also are made by a banking institution's primary federal regulatory agency that could lead the agency to determine that the banking institution should be assigned to a lower capital category than the one indicated by the

quantitative measures used to assess the institution's capital adequacy. At each successive lower capital category, a banking institution is subject to greater operating restrictions and increased regulatory supervision by its federal bank regulatory agency.

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

(dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
FFI						
September 30, 2018:						
CET1 capital ratio	\$446,405	11.27%	\$178,315	4.50%		
Tier 1 leverage ratio	446,405	7.85 %	227,325	4.00 %		
Tier 1 risk-based capital ratio	446,405	11.27%	237,754	6.00 %		
Total risk-based capital ratio	467,231	11.79%	317,005	8.00 %		
December 31, 2017:						
CET1 capital ratio	\$366,236	11.99%	\$137,435	4.50%		
Tier 1 leverage ratio	366,236	8.44 %	173,514	4.00 %		
Tier 1 risk-based capital ratio	366,236	11.99%	183,246	6.00 %		
Total risk-based capital ratio	385,236	12.61%	244,328	8.00 %		
FFB						
September 30, 2018:						
CET1 capital ratio	\$467,876	11.82%	\$178,163	4.50%	\$257,346	6.50 %
Tier 1 leverage ratio	467,876	8.24 %	227,132	4.00 %	283,916	5.00 %
Tier 1 risk-based capital ratio	467,876	11.82%	237,550	6.00 %	316,734	8.00 %
Total risk-based capital ratio	488,702	12.34%	316,734	8.00 %	395,917	10.00 %
December 31, 2017:						
CET1 capital ratio	\$398,709	13.07%	\$137,290	4.50%	\$198,308	6.50 %
Tier 1 leverage ratio	398,709	9.20 %	173,363	4.00 %	216,703	5.00 %
Tier 1 risk-based capital ratio	398,709	13.07%	183,053	6.00 %	244,071	8.00 %
Total risk-based capital ratio	417,709	13.69%	244,071	8.00 %	305,089	10.00 %

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

As of September 30, 2018, the amount of capital at FFB in excess of amounts required to be Well Capitalized was \$211 million for the CET-1 capital ratio, \$184 million for the Tier 1 leverage ratio, \$151 million for the Tier 1 risk-based capital ratio and \$93 million for the Total risk-based capital ratio.

During 2017, FFI made cash capital contributions to FFB of \$65 million. As of September 30, 2018, FFI had \$15 million of available capital and \$40 million of available capacity under its line of credit and, therefore, has the ability

and financial resources to contribute additional capital to FFB, if needed.

The “Basel III” rules adopted by the Federal Reserve Board and the FDIC (the “New Capital Rules”) introduced a capital conservation buffer which is an increment added to the minimum capital ratios. 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 is measured against risk weighted assets and is therefore not applicable to the tier 1 leverage ratio. The implementation of the capital conservation buffer began on January 1, 2016 at 0.625%, and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019. The following table sets forth the minimum capital ratios plus the applicable increment of the capital conservation buffer as of the current year and when it is fully implemented in 2019:

	2018	2019
CET-1 to risk-weighted assets	6.375 %	7.000 %
Tier 1 capital (i.e., CET-1 plus Additional Tier 1) to risk-weighted assets	7.875 %	8.500 %
Total capital (i.e., Tier 1 plus Tier 2) to risk-weighted assets	9.875 %	10.500 %

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We did not pay dividends in 2018 or 2017. Although FFI has not paid cash dividends since FFB commenced its banking operations in October 2007, our Board of Directors periodically reviews whether to declare or pay cash dividends, taking into account, among other things, general business conditions, our financial results, future prospects, capital requirements, legal and regulatory restrictions, and other factors as our Board may deem relevant.

We had no material commitments for capital expenditures as of September 30, 2018. However, we intend to take advantage of opportunities that may arise in the future to grow our businesses, including by opening additional wealth management offices or acquiring complementary businesses that we believe will provide us with attractive risk-adjusted returns, although we do not have any immediate plans, arrangements or understandings relating to any material acquisition. As a result, we may seek to obtain additional borrowings and to sell additional shares of our common stock to raise funds which we might need for these purposes. There is no assurance, however, that, if required, we will succeed in obtaining additional borrowings or selling additional shares of our common stock on terms that are acceptable to us, if at all, as this will depend on market conditions and other factors outside of our control, as well as our future results of operations.

At-the-Market Offering

On February 16, 2017, the Company and the Bank entered into an Equity Distribution Agreement (the “Distribution Agreement”) with FBR Capital Markets & Co., Raymond James & Associates, Inc., Sandler O’Neill & Partners, L.P., and D.A. Davidson & Co. (collectively, the “Distribution Agents”) to sell shares of the Company’s common stock, par value \$0.001 per share (the “ATM Shares”), having an aggregate offering price of up to \$80 million, from time to time, through an “at-the-market” equity offering program (the “ATM Program”). The sales of the ATM Shares may be made in negotiated transactions or other transactions that are deemed to be “at-the-market offerings” as defined in Rule 415 under the Securities Act of 1933. The Company has no obligation to sell any of the ATM Shares under the Distribution Agreement, and may at any time suspend sales of the ATM Shares under the Distribution Agreement. The Company determined to suspend sales of the ATM Shares upon the filing of its 2017 10-K, but may resume sales under the ATM Program in future periods without notice.

The Company has agreed to pay commission to the Distribution Agents for their services in acting as agent in the sale of ATM Shares, and the Company advanced \$90,000 to the Distribution Agents for their out-of-pocket legal fees incurred in connection with the ATM Program. The Distribution Agents are entitled to compensation at a commission rate equal to 2.0% of the gross proceeds from the sale of ATM Shares pursuant to the Distribution Agreement; provided, however, that the compensation payable to each Distribution Agent upon the sale of ATM Shares pursuant to the Distribution Agreement will be reduced by \$22,500 in a manner such that no compensation will be paid to a Distribution Agent until the amount of the commission earned by such Distribution Agent exceeds \$22,500. The Distribution Agreement contains representations and warranties and covenants that are customary for transactions of this type. In addition, the Company has agreed to indemnify the Distribution Agents against certain liabilities on customary terms, subject to limitations on such arrangements imposed by applicable law and regulation.

During the second quarter of 2017, we commenced sales of common stock through the ATM Program. During 2017, we sold 1,382,506 shares of common stock through the ATM Program, realizing \$22.8 million in net proceeds. The details of the shares of common stock sold through the ATM Program during the first nine months of 2018 are as follows:

	Weighted Average	Net
Number of Shares Sold	Price	Proceeds

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(in thousands, except share and per share amounts)

February, 2018	400,288	\$ 18.27	7,166
March, 2018	225,442	\$ 18.80	4,176
Total	625,730	\$ 18.46	\$ 11,342

As of September 30, 2018, the remaining dollar value of common stock we had available to sell under the ATM Program was \$45.2 million. As required by SEC rules, we will not resume sales under the ATM Program while we are purchasing shares of our common stock under our stock repurchase program.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain financial risks, which are discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations in the section titled Asset and Liability Management: Interest Rate Risk in our Annual Report on Form 10-K which we filed with the Securities and Exchange Commission on March 16, 2018. There have been no material changes to our quantitative and qualitative disclosures about market risk since December 31, 2017.

ITEM 4. 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 Securities Exchange Act of 1934, as amended (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. 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.

In accordance with SEC rules, an evaluation was performed under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer of the effectiveness, as of September 30, 2018, of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2018, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our 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.

There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors that were disclosed in Item 1A, under the caption "Risk Factors" in Part I of our Annual Report on Form 10-K for the year ended December 31, 2017, which we filed with the SEC on March 16, 2018.

ITEM 6. EXHIBITS

Exhibit

No. Description of Exhibit

31.1 Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002

101 XBRL (eXtensive Business Reporting Language). The following financial materials from the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2018, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Loss, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements 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.

FIRST FOUNDATION INC.

Dated: November 8, 2018 By: /s/ JOHN M. MICHEL
John M. Michel
Executive Vice President and
Chief Financial Officer

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