First Foundation Inc.
Form 10-Q
August 09, 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 June 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)

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 and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (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 August 7, 2018, there were 44,397,035 shares of registrant’s common stock outstanding

FIRST FOUNDATION INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 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)

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Cash and cash equivalents	$370,390	$120,394
Securities available-for-sale (“AFS”)	492,877	519,364
Loans held for sale	644,605	154,380
Loans, net of deferred fees	4,287,390	3,663,727
Allowance for loan and lease losses (“ALLL”)	(19,000)	(18,400)
Net loans	4,268,390	3,645,327
Premises and equipment, net	9,010	6,581
Investment in FHLB stock	22,707	19,060
Deferred taxes	18,290	12,143
Real estate owned (“REO”)	2,979	2,920
Goodwill and intangibles	100,370	33,576
Other assets	36,383	27,440
Total Assets	$5,966,001	$4,541,185
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Deposits	$4,632,950	$3,443,527
Borrowings	791,000	678,000
Accounts payable and other liabilities	24,082	24,707
Total Liabilities	5,448,032	4,146,234
Commitments and contingencies	—	—
Shareholders’ Equity		
Common Stock, par value $0.01: 70,000,000 shares authorized; 44,397,035 and 38,207,766 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	44	38
Additional paid-in-capital	430,479	314,501
Retained earnings	99,625	85,503

Accumulated other comprehensive loss, net of tax	(12,179)	(5,091)
Total Shareholders' Equity	517,969	394,951
Total Liabilities and Shareholders' Equity	$5,966,001	$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		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Interest income:				
Loans	$43,535	$29,982	$82,506	$56,473
Securities AFS	3,575	3,126	6,997	6,157
Fed funds sold, FHLB stock and deposits	1,388	544	2,314	1,382
Total interest income	48,498	33,652	91,817	64,012
Interest expense:				
Deposits	8,084	4,012	13,956	7,204
Borrowings	4,163	1,745	7,342	2,855
Total interest expense	12,247	5,757	21,298	10,059
Net interest income	36,251	27,895	70,519	53,953
Provision for loan losses	2,450	1,092	4,138	1,161
Net interest income after provision for loan losses	33,801	26,803	66,381	52,792
Noninterest income:				
Asset management, consulting and other fees	7,088	6,557	14,269	12,772
Gain on sale of loans	—	2,050	545	2,350
Gain on sale of REO	—	—	—	104
Loss on capital market activities	(1,490)	—	(1,490)	—
Other income	1,386	1,090	2,642	2,254
Total noninterest income	6,984	9,697	15,966	17,480
Noninterest expense:				
Compensation and benefits	16,645	13,983	33,814	28,738
Occupancy and depreciation	4,763	3,879	8,934	7,293
Professional services and marketing costs	1,820	207	4,309	3,636
Customer service costs	3,824	1,319	6,595	2,012
Other expenses	6,930	2,825	9,318	5,243
Total noninterest expense	33,982	22,213	62,970	46,922
Income before taxes on income	6,803	14,287	19,377	23,350
Taxes on income	1,657	4,671	5,255	7,621
Net income	$5,146	$9,616	$14,122	$15,729

Net income per share:				
Basic	$0.13	$0.29	$0.36	$0.47
Diluted	$0.12	$0.28	$0.35	$0.46
Shares used to compute net income per share:				
Basic	40,820,006	33,623,671	39,704,834	33,216,602
Diluted	41,332,192	34,564,319	40,234,560	34,264,436

(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	—	—	—	14,122	—	14,122
Other comprehensive income	—	—	—	—	(7,088)	(7,088)
Stock based compensation	—	—	1,675	—	—	1,675
Issuance of common stock:						
Exercise of options	193,000	—	1,468	—	—	1,468
Stock grants – vesting of Restricted Stock Units	135,946	—	—	—	—	—
Acquisition	5,234,593	5	101,494	—	—	101,499
Capital raise	625,730	1	11,341	—	—	11,342
Balance: June 30, 2018	44,397,035	$ 44	$430,479	$99,625	$ (12,179)	$517,969

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME - UNAUDITED

(In thousands)

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net income	$5,146	$9,616	$14,122	$15,729
Other comprehensive income:				
Unrealized holding gains (losses) on securities arising during the period	(2,578)	4,247	(10,018)	3,469
Other comprehensive income before tax	(2,578)	4,247	(10,018)	3,469
Income tax (benefit) expense related to items of other comprehensive income	(754)	1,748	(2,930)	1,428
Other comprehensive income (loss)	(1,824)	2,499	(7,088)	2,041
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	(1,824)	2,499	(7,088)	2,041
Total comprehensive income	$3,322	$12,115	$7,034	$17,770

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

	For the Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	$14,122	$15,729
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,138	1,161
Stock–based compensation expense	1,675	662
Depreciation and amortization	1,317	1,163
Deferred tax expense	442	273
Amortization of core deposit intangible	755	109
Amortization of mortgage servicing rights – net	473	210
Accretion of premiums on purchased loans – net	(1,047)	(344)
Gain on sale of loans	(545)	(2,350)
Gain on sale of REO	—	(104)
Increase in other assets	(3,194)	(1,703)
Increase (decrease) in accounts payable and other liabilities	(5,929)	3,524
Net cash provided by operating activities	12,207	18,330
Cash Flows from Investing Activities:		
Net increase in loans	(645,628)	(608,507)
Proceeds from sale of loans	52,376	175,758
Proceeds from sale of REO	755	438
Purchases of premises and equipment	(1,471)	(1,656)
Purchases of AFS securities	(20,937)	(4,055)
Proceeds from sale of AFS securities	9,982	—
Maturities of AFS securities	37,470	33,638
Cash acquired in acqusition	47,582	—
Sale (purchases) of FHLB stock, net	(418)	11,178
Net cash used in investing activities	(520,289)	(393,206)
Cash Flows from Financing Activities:		
Increase in deposits	711,838	680,609
FHLB Advances – net (decrease) increase	43,430	(813,965)
Line of credit net change – borrowings (paydowns), net	(10,000)	25,000
Proceeds from sale of stock, net	12,810	14,231
Net cash provided by (used in) financing activities	758,078	(94,125)
Increase (decrease) in cash and cash equivalents	249,996	(469,001)
Cash and cash equivalents at beginning of year	120,394	597,946

Cash and cash equivalents at end of period	$370,390	$128,945
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$19,066	$9,432
Income taxes	11,090	5,405
Noncash transactions:		
Transfer of loans to loans held for sale	$544,795	$53,601
Mortgage servicing rights from loan sales, net	317	(1,080)
Chargeoffs (recoveries) against allowance for loans losses	3,538	(239)
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 Six Months Ended June 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 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 financial statements.

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.

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 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.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2018 – UNAUDITED

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
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

In many cases, the fair values of assets acquired and liabilities assumed were determined by estimating the cash flows expected to result from those assets and liabilities and discounting them at appropriate market rates. The most significant category of assets for which this procedure was used was that of acquired loans. The excess of expected cash flows above the fair value 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.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2018 – UNAUDITED

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 six months periods ending June 30, 2018 as if the acquisition of PBB had occurred on January 1, 2018, and unaudited pro forma information for the six months periods ending June 30, 2017 as if the acquisition of Commercial 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 $9.5 million and $0.7 million in net income for the six months ended June 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.

(dollars in thousands)	Six Months Ended June 30, 2018	2017
Net interest income	$81,974	$72,275
Provision for loan losses	4,138	1,526
Noninterest income	16,733	18,940
Noninterest expenses	66,597	59,083
Income before taxes	27,972	30,606

Taxes on income	7,529	7,682
Net income	$20,443	$22,924
Net income per share:		
Basic	$0.46	$0.55
Diluted	$0.46	$0.54

The revenues (net interest income and noninterest income) and net income for the period from June 1, 2018 to June 30, 2018 related to the operations acquired from PBB and included in our results of operations for the six months ended June 30, 2018 were approximately $2.3 million and $1.0 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

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2018 – UNAUDITED

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.

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

		Fair Value Measurement Level		
	Total	Level 1	Level 2	Level 3
(dollars in thousands)				
June 30, 2018:				
Investment securities available for sale:				
Agency mortgage-backed securities	$418,667	$—	$418,667	$—
Corporate bonds	39,150	—	39,150	—
Beneficial interest – FHLMC securitizations	33,622	—	—	33,622
Other	1,438	1,438	—	—

Investment in equity securities	422	422	—	—
Total assets at fair value on a recurring basis	$493,299	$1,860	$457,817	$33,622
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	—	—
Total assets at fair value on a recurring basis	$519,364	$493	$483,019	$35,852

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

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 $11.1 million and $13.4 million at June 30, 2018 and December 31, 2017, respectively. There were $0.9 million of specific reserves related to these loans at both June 30, 2018 and December 31, 2017.

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Real Estate Owned. The fair value of real estate owned is based on external appraised values that include adjustments for estimated selling costs and assumptions of market conditions that are not directly observable, resulting in a Level 3 classification. As of June 30, 2018 and December 31, 2017, the fair value of real estate owned was $3.0 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 June 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.

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

	Carrying	Fair Value Measurement Level			
(dollars in thousands)	Value	1	2	3	Total
June 30, 2018:					
Assets:					
Cash and cash equivalents	$370,390	$370,390	$—	$—	$370,390
Securities AFS	492,877	1,438	457,817	33,622	492,877
Loans held for sale	644,605	—	644,605	—	644,605
Loans, net	4,268,390	—	—	4,220,596	4,220,596
Investment in FHLB stock	22,707	—	22,707	—	22,707
Investment in equity securities	422	422	—	—	422
Liabilities:					
Deposits	4,632,950	3,081,179	1,554,674	—	4,635,853
Borrowings	791,000	—	751,000	40,000	791,000
December 31, 2017:					
Assets:					
Cash and cash equivalents	$120,394	$120,394	$—	$—	$120,934
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
Liabilities:					
Deposits	3,443,527	2,542,730	901,877	—	3,444,607
Borrowings	678,000	—	628,000	50,000	678,000

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NOTE 4: SECURITIES

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

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2018:				
Agency mortgage-backed securities	$ 435,876	$—	$ (17,209)	$ 418,667
Corporate bonds	39,000	150	—	39,150
Beneficial interests in FHLMC securitization	33,772	1,832	(1,982)	33,622
Other	1,443	1	(6)	1,438
Total	$ 510,091	$ 1,983	$ (19,197)	$ 492,877
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 June 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.

The tables below indicate, as of June 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.

	Securities with Unrealized Loss at June 30, 2018					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Agency mortgage backed securities	$ 182,125	$ (5,655)	$ 236,542	$ (11,554)	$ 418,667	$ (17,209)
Beneficial interests in FHLMC securitization	—	—	7,734	(1,982)	7,734	(1,982)
Other	$ 197	$ (2)	$ 296	$ (4)	$ 493	$ (6)

Total temporarily impaired securities	$182,322	$(5,657)	$244,572	$(13,540)	$426,894	$(19,197)

	Securities with Unrealized Loss at December 31, 2017					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	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.

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

(dollars in thousands)	Less than 1 Year	1 Through 5 years	5 Through 10 Years	After 10 Years	Total
June 30, 2018					
Amortized Cost:					
Corporate bonds	$ —	$ —	$ 39,000	$ —	$39,000
Other	499	—	944	—	1,443
Total	499	—	39,944	—	40,443
Weighted average yield	1.03 %	— %	5.06 %	— %	5.01 %
Estimated Fair Value:					
Corporate bonds	$ —	$ —	$ 39,150	$ —	$39,150
Other	493	—	945	—	1,438
Total	$ 493	$ —	$ 40,095	$ —	$40,588

(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 June 30, 2018 was 2.57%.

NOTE 5: LOANS

The following is a summary of our loans as of:

(dollars in thousands)	June 30, 2018	December 31, 2017
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties:		
Multifamily	$2,024,512	$1,935,429
Single family	868,796	645,816
Total real estate loans secured by residential properties	2,893,308	2,581,245
Commercial properties	888,066	696,748
Land	85,655	37,160
Total real estate loans	3,867,029	3,315,153
Commercial and industrial loans	385,402	310,779
Consumer loans	26,164	29,330
Total loans	4,278,595	3,655,262
Premiums, discounts and deferred fees and expenses	8,795	8,465
Total	$4,287,390	$3,663,727

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As of June 30, 2018 and December 31, 2017, the principal balances shown above are net of unaccreted discount related to loans acquired in an acquisition of $18.9 million and $4.0 million, respectively.

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:

(dollars in thousands)	June 30, 2018	December 31, 2017
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties	$460	$—
Commercial properties	19,154	1,525
Land	1,104	1,096
Total real estate loans	20,718	2,621
Commercial and industrial loans	5,642	2,774
Consumer loans	13	—
Total loans	26,373	5,395
Unaccreted discount on purchased credit impaired loans	(9,864)	(1,638)
Total	$16,509	$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:

(dollars in thousands)	Six Months Ended June 30, 2018	Year Ended December 31, 2017
Beginning balance	$850	$ 289
Accretion of income	(127)	(108)
Reclassifications from nonaccretable difference	—	66
Acquisition	1,583	603
Disposals	(26)	—
Ending balance	$2,280	$ 850

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For the Six Months Ended June 30, 2018 – UNAUDITED

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

(dollars in thousands)	Past Due and Still Accruing 30–59 Days	60-89 Days	90 Days or More	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
June 30, 2018:							
Real estate loans:							
Residential properties	$1,012	$—	$ —	$ 61	$ 1,073	$2,892,235	$2,893,308
Commercial properties	2,474	1,442	—	1,675	5,591	882,475	888,066
Land	—	—	—	—	—	85,655	85,655
Commercial and industrial loans	2,498	201	—	6,943	9,642	375,760	385,402
Consumer loans	8	—	—	—	8	26,156	26,164
Total	$5,992	$1,643	$ —	$ 8,679	$ 16,314	$4,262,281	$4,278,595
Percentage of total loans	0.14 %	0.04 %	— %	0.20 %	0.38 %		
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 %		

As of June 30, 2018 and December 31, 2017, the Company had three loans with a balance of $4.0 million and seven loans with a balance of $4.5 million, respectively, that were classified as troubled debt restructurings (“TDR”). All 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.

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

(dollars in thousands)	June 30, 2018 Accrual	Nonaccrual	Total	December 31, 2017 Accrual	Nonaccrual	Total
Commercial real estate loans	$1,300	$1,545	$2,845	$—	$ 1,598	$1,598
Commercial and industrial loans	—	1,194	1,194	195	2,698	2,893

Total	1,300	2,739	4,039	195	4,296	4,491

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

(dollars in thousands)	Number of loans	Outstanding Recorded Investment Pre-Modification	Outstanding Recorded Investment Post-Modification	Financial Impact
Six Months Ended June 30, 2018				
Commercial real estate loans	1	$1,300	$ 1,300	$ —
Commercial loans	1	1,194	1,194	—
Total	2	$2,494	$ 2,494	$ —

(dollars in thousands)	Number of loans	Outstanding Recorded Investment Pre-Modification	Outstanding Recorded Investment Post-Modification	Financial 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	$ —

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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 June 30, 2018:					
Real estate loans:					
Residential properties	$ 9,908	$ (357)	$ —	$ —	$ 9,551
Commercial properties	4,390	725	(211)	—	4,904
Land	335	166	—	—	501
Commercial and industrial loans	5,093	1,971	(3,239)	—	3,825
Consumer loans	274	(55)	—	—	219
Total	$ 20,000	$ 2,450	$ (3,450)	$ —	$ 19,000
Six Months Ended June 30, 2018:					
Real estate loans:					
Residential properties	$ 9,715	$ (164)	$ —	$ —	$ 9,551
Commercial properties	4,399	716	(211)	—	4,904
Land	395	106	—	—	501
Commercial and industrial loans	3,624	3,528	(3,327)	—	3,825
Consumer loans	267	(48)	—	—	219
Total	$ 18,400	$ 4,138	$ (3,538)	$ —	$ 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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The following table presents the balance in the allowance for loan losses and the recorded investment in loans by impairment method as of:

(dollars in thousands)	Allowance for Loan Losses				Unaccreted Credit
	Evaluated for Impairment		Purchased		Component Other
	Individually	Collectively	Impaired	Total	Loans
June 30, 2018:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	$—	$9,551	$—	$9,551	$2,624
Commercial properties	128	4,776	—	4,904	2,964
Land	—	501	—	501	432
Commercial and industrial loans	786	3,039	—	3,825	1,211
Consumer loans	—	219	—	219	13
Total	$914	$18,086	$—	$19,000	$7,244
Loans:					
Real estate loans:					
Residential properties	$—	$2,893,308	$—	$2,893,308	$286,135
Commercial properties	2,975	873,313	11,778	888,066	338,718
Land	—	84,833	822	85,655	44,728
Commercial and industrial loans	8,151	373,342	3,909	385,402	86,432
Consumer loans	—	26,164	—	26,164	3,399
Total	$11,126	$4,250,960	$16,509	$4,278,595	$759,412
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

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 0.95% and 1.15% of the stated principal balance of these loans as of June 30, 2018 and December 31, 2017, respectively. In addition to this unaccreted credit component discount, an additional $0.4 million and $0.2 million of ALLL has been provided for these loans June 30, 2018 and December 31, 2017, respectively.

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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
June 30, 2018:					
Real estate loans:					
Residential properties	$2,890,024	$3,223	$ 61	$—	$2,893,308
Commercial properties	857,475	11,103	16,513	2,975	888,066
Land	84,833	—	822	—	85,655
Commercial and industrial loans	371,970	—	5,281	8,151	385,402
Consumer loans	26,164	—	—	—	26,164
Total	$4,230,466	$14,326	$ 22,677	$11,126	$4,278,595

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

	With No Allowance Recorded		With an Allowance Recorded		
(dollars in thousands)	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Related Allowance
June 30, 2018:					
Real estate loans:					
Commercial properties	$1,675	$ 1,675	$1,300	$ 1,300	$ 128
Commercial and industrial loans	2,401	2,401	5,750	5,750	786
Total	$4,076	$ 4,076	$7,050	$ 7,050	$ 914
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:

	Six months Ended June 30, 2018		Year Ended December 31, 2017	
(dollars in thousands)	Average Recorded Investment	Interest Income after Impairment	Average Recorded Investment	Interest Income after Impairment
Real estate loans:				
Residential properties	$—	$ —	$1,323	$ 20
Commercial properties	4,001	47	2,403	50
Commercial and industrial loans	9,338	—	5,503	5
Total	$13,339	$ 47	$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 six months of 2018, FFB recognized $0.5 million of gains on the sale of $52 million of multifamily loans and recorded mortgage servicing rights of $0.3 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 June 30, 2018 and December 31, 2017, mortgage servicing rights were $4.7 million and $4.8 million, respectively and the amount of loans serviced for others totaled $778 million and $745 million at June 30, 2018 and December 31, 2017, respectively. Servicing fees collected for the six months ended June 30, 2018, and in 2017 were $0.4 million and $0.5 million, respectively.

During the second quarter of 2018, we entered swap agreements with notional amounts of $651 million. These agreements have termination dates ranging from March 2021 to February 2023 and are reset quarterly. During the third quarter of 2018, our net interest income is expected to be lower by $0.8 million as a result of these swap agreements. The counterparty to these agreements is a financial institution with substantial levels of assets and equity.

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NOTE 8: DEPOSITS

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

	June 30, 2018		December 31, 2017	
(dollars in thousands)	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Demand deposits:				
Noninterest-bearing	$1,478,189	—	$1,097,196	—
Interest-bearing	437,938	0.879 %	235,294	0.411 %
Money market and savings	1,165,052	0.933 %	1,210,240	0.840 %
Certificates of deposits	1,551,771	1.753 %	900,797	1.189 %
Total	$4,632,950	1.328 %	$3,443,527	0.634 %

At June 30, 2018, of the $365 million of certificates of deposits of $250,000 or more, $301 million mature within one year and $64 million mature after one year. Of the $1.2 billion of certificates of deposit of less than $250,000, $1.1 billion mature within one year and $96 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 June 30, 2018, our borrowings consisted of $736 million of overnight FHLB advances, $15 million in FHLB term borrowings at the Bank and $40 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 July 2018 and January 2018, respectively, and bore interest rates of 2.07% and 1.41%, respectively. At June 30, 2018, the interest rate on the holding company line of credit was 5.81%. Because the Bank utilizes overnight borrowings, the balance of outstanding borrowings fluctuates on a daily basis.

FHLB advances are collateralized by loans secured by multifamily and commercial real estate properties with a carrying value of $3.9 billion as of June 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 June 30, 2018 was $1.9 billion. In addition to the $751 million borrowing at June 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 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. None of these lines had outstanding borrowings as of June 30, 2018. Combined, the Bank's unused lines of credit as of June 30, 2018 and December 31, 2017 were $1.1 billion and $943 million, respectively. The average balance of overnight borrowings during the first six months of 2018 was $693 million, as compared to $499 million during all of 2017.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 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:

	Quarter Ended June 30, 2018		Quarter Ended June 30, 2017	
(dollars in thousands, except per share amounts)	Basic	Diluted	Basic	Diluted
Net income	$5,146	$5,146	$9,616	$9,616
Basic common shares outstanding	40,820,006	40,820,006	33,623,671	33,623,671
Effect of contingent shares issuable		1,592		1,592
Effect of options and restricted stock		510,594		939,056
Diluted common shares outstanding		41,332,192		34,564,319
Earnings per share				