

First Foundation Inc.
Form 10-Q
May 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 March 31, 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 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 May 7, 2018, there were 39,078,436 shares of registrant’s common stock outstanding.

FIRST FOUNDATION INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

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(i)

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
FIRST FOUNDATION INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

| | March 31, 2018 (unaudited) | December 31, 2017 |
|--|----------------------------------|-------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$177,356 | \$120,394 |
| Securities available-for-sale (“AFS”) | 513,067 | 519,364 |
| Loans held for sale | 148,266 | 154,380 |
| Loans, net of deferred fees | 3,914,970 | 3,663,727 |
| Allowance for loan and lease losses (“ALLL”) | (20,000) | (18,400) |
| Net loans | 3,894,970 | 3,645,327 |
| Premises and equipment, net | 6,716 | 6,581 |
| Investment in FHLB stock | 22,626 | 19,060 |
| Deferred taxes | 13,629 | 12,143 |
| Real estate owned (“REO”) | 2,165 | 2,920 |
| Goodwill and intangibles | 33,551 | 33,576 |
| Other assets | 29,836 | 27,440 |
| Total Assets | \$4,842,182 | \$4,541,185 |
| LIABILITIES AND SHAREHOLDERS’ EQUITY | | |
| Liabilities: | | |
| Deposits | \$3,636,192 | \$3,443,527 |
| Borrowings | 769,000 | 678,000 |
| Accounts payable and other liabilities | 24,876 | 24,707 |
| Total Liabilities | 4,430,068 | 4,146,234 |
| Commitments and contingencies | — | — |
| Shareholders’ Equity | | |

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| | | |
|---|-------------|-------------|
| Common Stock, par value \$.001: 70,000,000 shares authorized; 39,056,436 and 38,207,766 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively | 39 | |
| Additional paid-in-capital | 327,951 | 314,501 |
| Retained earnings | 94,479 | 85,503 |
| Accumulated other comprehensive loss, net of tax | (10,355) | (5,091) |
| Total Shareholders' Equity | 412,114 | 394,951 |
| Total Liabilities and Shareholders' Equity | \$4,842,182 | \$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)

| | For the Quarter Ended March 31, | |
|--|------------------------------------|----------|
| | 2018 | 2017 |
| Interest income: | | |
| Loans | \$38,971 | \$26,491 |
| Securities | 3,422 | 3,031 |
| FHLB stock, fed funds sold and interest-bearing deposits | 926 | 838 |
| Total interest income | 43,319 | 30,360 |
| Interest expense: | | |
| Deposits | 5,872 | 3,192 |
| Borrowings | 3,179 | 1,110 |
| Total interest expense | 9,051 | 4,302 |
| Net interest income | 34,268 | 26,058 |
| Provision for loan losses | 1,688 | 69 |
| Net interest income after provision for loan losses | 32,580 | 25,989 |
| Noninterest income: | | |
| Asset management, consulting and other fees | 7,181 | 6,215 |
| Gain on sale of loans | 545 | 300 |
| Gain on sale of REO | — | 104 |
| Other income | 1,256 | 1,164 |
| Total noninterest income | 8,982 | 7,783 |
| Noninterest expense: | | |
| Compensation and benefits | 17,169 | 14,755 |
| Occupancy and depreciation | 4,171 | 3,414 |
| Professional services and marketing costs | 2,489 | 3,429 |
| Customer service costs | 2,771 | 693 |
| Other expenses | 2,388 | 2,418 |
| Total noninterest expense | 28,988 | 24,709 |
| Income before taxes on income | 12,574 | 9,063 |
| Taxes on income | 3,598 | 2,950 |
| Net income | \$8,976 | \$6,113 |
| Net income per share: | | |
| Basic | \$0.23 | \$0.19 |

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| | | |
|-----------------------------|------------|------------|
| Diluted | \$0.23 | \$0.18 |
| Shares used in computation: | | |
| Basic | 38,577,271 | 32,805,010 |
| Diluted | 39,124,732 | 33,961,220 |

(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 | — | — | — | 8,976 | — | 8,976 |
| Other comprehensive income | — | — | — | — | (5,264) | (5,264) |
| Stock based compensation | — | — | 1,165 | — | — | 1,165 |
| Issuance of common stock: | | | | | | |
| Exercise of options | 123,000 | — | 944 | — | — | 944 |
| Stock grants – vesting of RSUs | 99,940 | — | — | — | — | — |
| Capital raise | 625,730 | 1 | 11,341 | — | — | 11,342 |
| Balance: March 31, 2018 | 39,056,436 | \$ 39 | \$ 327,951 | \$ 94,479 | \$ (10,355) | \$ 412,114 |

(See accompanying notes to the consolidated financial statements)

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FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME - UNAUDITED

(In thousands)

| | For the Quarter Ended March 31, | |
|---|---------------------------------|----------|
| | 2018 | 2017 |
| Net income | \$ 8,976 | \$ 6,113 |
| Other comprehensive income: | | |
| Unrealized holding gains (losses) on securities arising during the period | (7,440) | (778) |
| Other comprehensive income (loss) before tax | (7,440) | (778) |
| Income tax expense (benefit) related to items of other comprehensive income | (2,176) | (320) |
| Other comprehensive income (loss) | (5,264) | (458) |
| Less: Reclassification adjustment for (gains) losses included in net earnings | — | — |
| Income tax expense (benefit) related to reclassification adjustment | — | — |
| Reclassification adjustment for (gains) losses included in net earnings, net of tax | — | — |
| Other comprehensive income (loss), net of tax | (5,264) | (458) |
| Total comprehensive income | \$ 3,712 | \$ 5,655 |

(See accompanying notes to the consolidated financial statements)

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FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

| | For the Three Months | |
|---|----------------------|-----------|
| | Ended March 31, | 2017 |
| | 2018 | 2017 |
| Cash Flows from Operating Activities: | | |
| Net income | \$8,976 | \$6,113 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 1,688 | 69 |
| Stock-based compensation expense | 1,165 | 442 |
| Depreciation and amortization | 664 | 553 |
| Deferred tax expense | 390 | 726 |
| Amortization of core deposit intangible | 325 | 55 |
| Amortization of mortgage servicing rights – net | (234) | 104 |
| Amortization of discounts (premiums) on purchased loans – net | 654 | (77) |
| Gain on sale of loans | (545) | (300) |
| Gain on sale of REO | — | (104) |
| Increase in other assets | (1,868) | (1,498) |
| Increase (decrease) in accounts payable and other liabilities | 169 | (584) |
| Net cash provided by operating activities | 11,384 | 5,499 |
| Cash Flows from Investing Activities: | | |
| Net increase in loans | (298,019) | (286,518) |
| Proceeds from sale of loans | 52,376 | 20,985 |
| Proceeds from sale of REO | 755 | 438 |
| Purchase of premises and equipment | (799) | (693) |
| Purchases of AFS securities | (20,000) | (1,654) |
| Maturities of AFS securities | 18,880 | 16,544 |
| Sale (purchases) of FHLB stock, net | (3,566) | 16,424 |
| Net cash used in investing activities | (250,373) | (234,474) |
| Cash Flows from Financing Activities: | | |
| Increase in deposits | 192,665 | 353,582 |
| FHLB Advances – net increase (decrease) | 111,000 | (668,000) |
| Line of credit net change – borrowings (paydowns), net | (20,000) | 20,000 |
| Proceeds from sale of stock, net | 12,286 | 1,419 |
| Net cash provided by (used in) financing activities | 295,951 | (292,999) |
| Increase (decrease) in cash and cash equivalents | 56,962 | (521,974) |
| Cash and cash equivalents at beginning of year | 120,394 | 597,946 |
| Cash and cash equivalents at end of period | \$177,356 | \$75,972 |

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Supplemental disclosures of cash flow information:

Cash paid during the period for:

| | | |
|--|----------|-------------|
| Interest | \$8,534 | \$3,827 |
| Income taxes | 18 | 255 |
| Noncash transactions: | | |
| Transfer of loans to (from) loans held for sale | \$46,338 | \$(44,521) |
| Mortgage servicing rights created from loan sales | 317 | 113 |
| Chargeoffs (recoveries) against allowance for loans losses | 88 | (231) |
| 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 Quarter Ended March 31, 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. Those financial statements assume that readers of this Report 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.

New Accounting Guidance

In February 2017, the Financial Accounting Standards Board (“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 guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that period. The adoption of ASU No. 2017-05 did not have a material impact on the Company’s consolidated 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 No. 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. The impact of the implementation of ASU 2016-13 is undeterminable at this time.

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 and the Company is evaluating the effects of the adoption of ASU 2016-02 on its financial statements and disclosures.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

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 Quarter Ended March 31, 2018 – UNAUDITED

NOTE 2: FAIR VALUE

Fair Value Measurements

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.

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

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| | Total | Fair Value Measurement Level | | |
|---|-----------|------------------------------|-----------|----------|
| | | Level 1 | Level 2 | Level 3 |
| (dollars in thousands) | | | | |
| March 31, 2018: | | | | |
| Investment securities available for sale: | | | | |
| US Treasury securities | \$493 | \$493 | \$— | \$— |
| Agency mortgage-backed securities | 438,868 | — | 438,868 | — |
| Corporate bonds | 39,100 | — | 39,100 | — |
| Beneficial interest – FHLMC securitization | 34,606 | — | — | 34,606 |
| Investment in equity securities | 400 | 400 | — | — |
| Total assets at fair value on a recurring basis | \$513,467 | \$893 | \$477,968 | \$34,606 |
| December 31, 2017: | | | | |
| Investment securities available for sale: | | | | |
| US Treasury securities | \$493 | \$493 | \$— | \$— |
| Agency mortgage-backed securities | 464,019 | — | 464,019 | — |
| Corporate bonds | 19,000 | — | 19,000 | — |
| Beneficial interest – FHLMC securitization | 35,852 | — | — | 35,852 |
| 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 at fair value other assets on a nonrecurring basis. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

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 \$13.3 million and \$13.4 million at March 31, 2018 and December 31, 2017, respectively. There were no specific reserves related to these loans at March 31, 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 March 31, 2018 and December 31, 2017, the fair value of real estate owned was \$2.2 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 changes in events or circumstances can occur that could require us to make changes to our assumptions and which, in turn, could significantly affect and require us to make changes to our previous estimates of fair value.

The methods of determining the fair value of assets and liabilities presented in this note as of March 31, 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:

| (dollars in thousands) | Carrying Value | Fair Value Measurement Level | | | Total |
|---------------------------|-------------------|------------------------------|---------|-----------|-----------|
| | 1 | 2 | 3 | | |
| March 31, 2018: | | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$177,356 | \$177,356 | \$— | \$— | \$177,356 |
| Securities AFS | 513,067 | 493 | 477,968 | 34,606 | 513,067 |
| Loans held for sale | 148,266 | — | 149,193 | — | 149,193 |
| Loans, net | 3,894,970 | — | — | 3,865,188 | 3,865,188 |
| Investment in FHLB Stock | 22,626 | — | 22,626 | — | 22,626 |

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| | | | | | |
|---------------------------------|------------|------------|-----------|-----------|------------|
| Investment in equity securities | 400 | 400 | — | — | — |
| Liabilities: | | | | | |
| Deposits | 3,636,192 | 2,598,821 | 1,038,615 | — | 3,637,436 |
| Borrowings | 769,000 | — | 739,000 | 30,000 | 769,000 |
| 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 | — | 154,380 |
| 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 |

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

NOTE 3: 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 |
|--|-------------------|----------------|----------------------|----------------------------|
| March 31, 2018: | | | | |
| US Treasury securities | \$ 499 | \$— | \$(6) | \$493 |
| Agency mortgage-backed securities | 453,596 | — | (14,728) | 438,868 |
| Beneficial interests in FHLMC securitization | 34,608 | 1,927 | (1,929) | 34,606 |
| Corporate bonds | 39,000 | 100 | — | 39,100 |
| Total | \$ 527,703 | \$2,027 | \$(16,663) | \$513,067 |
| December 31, 2017: | | | | |
| US Treasury securities | \$ 499 | \$— | \$(6) | \$493 |
| Agency mortgage-backed securities | 471,131 | 287 | (7,399) | 464,019 |
| Corporate bonds | 35,930 | 1,811 | (1,889) | 35,852 |
| Beneficial interests in FHLMC securitization | 19,000 | — | — | 19,000 |
| Total | \$ 526,560 | \$2,098 | \$(9,294) | \$519,364 |

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

The table below indicates 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, for the periods indicated:

| (dollars in thousands) | Securities with Unrealized Loss at March 31, 2018 | | | | | |
|--|---|-----------------|-------------------|-----------------|------------|-----------------|
| | Less than 12 months | | 12 months or more | | Total | |
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| US Treasury securities | \$197 | \$(2) | \$296 | \$(4) | \$493 | \$(6) |
| Agency mortgage backed securities | 193,370 | (4,542) | 245,498 | (10,186) | 438,868 | (14,728) |
| Beneficial interest – FHLMC securitization | — | — | 8,235 | (1,929) | 8,235 | (1,929) |
| Total temporarily impaired securities | \$193,567 | \$(4,544) | \$254,029 | \$(12,119) | \$447,596 | \$(16,663) |

| (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 |
| US Treasury securities | \$197 | \$ (2) | \$296 | \$ (4) | \$493 | \$ (6) |
| Agency mortgage backed securities | 158,984 | (1,394) | 259,213 | (6,005) | 418,197 | (7,399) |
| Beneficial interest – FHLMC securitization | — | — | 8,738 | (1,889) | 8,738 | (1,889) |
| Total temporarily impaired securities | \$159,181 | \$ (1,396) | \$268,247 | \$ (7,898) | \$427,428 | \$ (9,294) |

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

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

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 |
|------------------------|---------------------|----------------------|-----------------------|-------------------|-----------|
| March 31, 2018 | | | | | |
| Amortized Cost: | | | | | |
| US Treasury securities | \$ — | \$ 499 | \$ — | \$ — | \$ 499 |
| Corporate bonds | — | — | 19,000 | 20,000 | 39,000 |
| Total | — | 499 | 19,000 | 20,000 | 39,499 |
| Weighted average yield | — % | 1.03 % | 5.24 % | 5.00 % | 5.06 % |
| Estimated Fair Value: | | | | | |
| US Treasury securities | \$ — | \$ 493 | \$ — | \$ — | \$ 493 |
| Corporate bonds | — | — | 19,000 | 20,100 | 39,100 |
| Total | \$ — | \$ 493 | \$ 19,000 | \$ 20,100 | \$ 39,593 |

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

Agency mortgage backed securities and beneficial interests in FHLMC securitization 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 securitization as of March 31, 2018 was 2.56%.

NOTE 4: LOANS

The following is a summary of our loans as of:

| (dollars in thousands) | March 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------------|
| Outstanding principal balance: | | |
| Loans secured by real estate: | | |
| Residential properties: | | |
| Multifamily | \$2,124,719 | \$1,935,429 |
| Single family | 674,651 | 645,816 |
| Total real estate loans secured by residential properties | 2,799,370 | 2,581,245 |
| Commercial properties | 708,458 | 696,748 |
| Land | 31,200 | 37,160 |
| Total real estate loans | 3,539,028 | 3,315,153 |
| Commercial and industrial loans | 337,295 | 310,779 |
| Consumer loans | 29,361 | 29,330 |
| Total loans | 3,905,684 | 3,655,262 |
| Deferred expenses, net | 9,286 | 8,465 |
| Total | \$3,914,970 | \$3,663,727 |

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

As of March 31, 2018 and December 31, 2017, the principal balances shown above are net of unaccreted discount related to loans acquired in an acquisition of \$3.4 million and \$4.0 million, respectively.

In 2015 and 2017 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:

| (dollars in thousands) | March 31, 2018 | December 31, 2017 |
|--|----------------------|-------------------------|
| Outstanding principal balance: | | |
| Loans secured by real estate: | | |
| Commercial properties | \$976 | \$ 1,525 |
| Land | 1,111 | 1,096 |
| Total real estate loans | 2,087 | 2,621 |
| Commercial and industrial loans | 2,716 | 2,774 |
| Total loans | 4,803 | 5,395 |
| Unaccreted discount on purchased credit impaired loans | (1,448) | (1,638) |
| Total | \$3,355 | \$ 3,757 |

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

| (dollars in thousands) | As of and for the Quarter ended March 31, 2018 | As of and for the Year ended December 31, 2017 |
|---|---|--|
| Beginning balance | \$ 850 | \$ 289 |
| Accretion of income | (74) | (108) |
| Reclassifications from nonaccretable difference | — | 66 |
| Acquisition | — | 603 |
| Disposals | (26) | — |

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| | | |
|----------------|--------|--------|
| Ending balance | \$ 750 | \$ 850 |
|----------------|--------|--------|

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FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

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

| (dollars in thousands) | Past Due and Still Accruing | | | Nonaccrual | Total Past Due and Nonaccrual | Current | Total |
|------------------------------------|--------------------------------|---------------|--------------------|------------------|-------------------------------------|--------------------|--------------------|
| | 30-59 Days | 60-89 Days | 90 Days or More | | | | |
| March 31, 2018: | | | | | | | |
| Real estate loans: | | | | | | | |
| Residential properties | \$62 | \$— | \$— | \$— | \$ 62 | \$2,799,308 | \$2,799,370 |
| Commercial properties | 752 | — | 1,312 | 1,918 | 3,982 | 704,476 | 708,458 |
| Land | — | — | — | — | — | 31,200 | 31,200 |
| Commercial and industrial loans | — | 138 | 302 | 9,342 | 9,782 | 327,513 | 337,295 |
| Consumer loans | — | — | — | — | — | 29,361 | 29,361 |
| Total | \$814 | \$138 | \$ 1,614 | \$ 11,260 | \$ 13,826 | \$3,891,858 | \$3,905,684 |
| Percentage of total loans | 0.02% | 0.00% | 0.04% | 0.29% | 0.35% | | |
| 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 March 31, 2018 and December 31, 2017, the Company had seven loans with a balance of \$4.4 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) | March 31, 2018 | | | December 31, 2017 | | |
|------------------------------|----------------|------------|---------|-------------------|------------|---------|
| | Accrual | Nonaccrual | Total | Accrual | Nonaccrual | Total |
| Commercial real estate loans | \$— | \$1,572 | \$1,572 | \$— | \$ 1,598 | \$1,598 |

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| | | | | | | |
|---------------------------------|------------|--------------|--------------|------------|--------------|--------------|
| Commercial and industrial loans | 165 | 2,648 | 2,813 | 195 | 2,698 | 2,893 |
| Total | 165 | 4,220 | 4,385 | 195 | 4,296 | 4,491 |

No TDRs were modified in the first quarter of 2018. The following table provides information on loans that were modified as TDRs for the year ended December 31, 2017:

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

NOTE 5: ALLOWANCE FOR LOAN LOSSES

The following is a roll forward of the Bank's allowance for loan losses for the quarters ended March 31:

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

| (dollars in thousands) | Beginning Balance | Provision for Loan Losses | Charge-offs | Recoveries | Ending Balance |
|---------------------------------|----------------------|------------------------------------|-------------|------------|-------------------|
| 2018: | | | | | |
| Real estate loans: | | | | | |
| Residential properties | \$ 9,715 | \$ 193 | \$ — | \$ — | \$ 9,908 |
| Commercial properties | 4,399 | (9) | — | — | 4,390 |
| Land | 395 | (60) | — | — | 335 |
| Commercial and industrial loans | 3,624 | 1,557 | (88) | — | 5,093 |
| Consumer loans | 267 | 7 | — | — | 274 |
| Total | \$ 18,400 | \$ 1,688 | \$ (88) | \$ — | \$ 20,000 |
| 2017 | | | | | |
| Real estate loans: | | | | | |
| Residential properties | \$ 6,669 | \$ 1,748 | \$ — | \$ — | \$ 8,417 |
| Commercial properties | 2,983 | 339 | — | — | 3,322 |
| Land | 233 | 30 | — | — | 263 |
| Commercial and industrial loans | 5,227 | (2,057) | — | 231 | 3,401 |
| Consumer loans | 288 | 9 | — | — | 297 |
| Total | \$ 15,400 | \$ 69 | \$ — | \$ 231 | \$ 15,700 |

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 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:

| (dollars in thousands) | Allowance for Loan Losses | | | | Unaccrued |
|---------------------------------|---------------------------|--------------|-----------|-------------|-----------|
| | Evaluated for | | Purchased | Total | Credit |
| | Impairment | Collectively | | | |
| | Individual | Collectively | Impaired | Total | Other |
| March 31, 2018: | | | | | |
| Allowance for loan losses: | | | | | |
| Real estate loans: | | | | | |
| Residential properties | \$— | \$9,908 | \$— | \$9,908 | \$229 |
| Commercial properties | — | 4,390 | — | 4,390 | 1,343 |
| Land | — | 335 | — | 335 | 5 |
| Commercial and industrial loans | 1,931 | 3,162 | — | 5,093 | 789 |
| Consumer loans | — | 274 | — | 274 | 25 |
| Total | \$1,931 | \$18,069 | \$— | \$20,000 | \$2,391 |
| Loans: | | | | | |
| Real estate loans: | | | | | |
| Residential properties | \$— | \$2,799,370 | \$— | \$2,799,370 | \$26,407 |
| Commercial properties | 3,982 | 703,781 | 695 | 708,458 | 167,910 |
| Land | — | 30,372 | 828 | 31,200 | 531 |
| Commercial and industrial loans | 9,342 | 326,121 | 1,832 | 337,295 | 54,025 |
| Consumer loans | — | 29,361 | — | 29,361 | 2,686 |
| Total | \$13,324 | \$3,889,005 | \$3,355 | \$3,905,684 | \$251,559 |
| 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 March 31, 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 March 31, 2018 and December 31, 2017, respectively.

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.

FIRST FOUNDATION INC.

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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 |
|---------------------------------|--------------------|--------------------|------------------|------------------|--------------------|
| March 31, 2018: | | | | | |
| Real estate loans: | | | | | |
| Residential properties | \$2,796,111 | \$ 3,259 | \$ — | \$ — | \$2,799,370 |
| Commercial properties | 693,082 | 5,885 | 5,509 | 3,982 | 708,458 |
| Land | 30,372 | — | 828 | — | 31,200 |
| Commercial and industrial loans | 325,731 | 160 | 2,062 | 9,342 | 337,295 |
| Consumer loans | 29,361 | — | — | — | 29,361 |
| Total | \$3,874,657 | \$ 9,304 | \$ 8,399 | \$ 13,324 | \$3,905,684 |
| 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 |

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

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

| (dollars in thousands) | With No Allowance | | With an Allowance Recorded | | |
|---------------------------------|-----------------------------------|---------------------|-----------------------------------|---------------------|-------------------|
| | Recorded Unpaid Principal Balance | Recorded Investment | Recorded Unpaid Principal Balance | Recorded Investment | Related Allowance |
| March 31, 2018: | | | | | |
| Real estate loans: | | | | | |
| Residential properties | \$— | \$ — | \$— | \$ — | \$ — |
| Commercial properties | 3,982 | 3,982 | — | — | — |
| Commercial and industrial loans | 250 | 250 | 9,092 | 9,092 | 1,931 |
| Total | \$4,232 | \$ 4,232 | \$9,092 | \$ 9,092 | \$ 1,931 |
| December 31, 2017: | | | | | |
| Real estate loans: | | | | | |
| Residential properties | \$— | \$ — | \$— | \$ — | \$ — |
| 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:

| (dollars in thousands) | Three months Ended | | Year Ended | |
|---------------------------------|------------------------------------|-------------------------|------------------------------------|-------------------------|
| | March 31, 2018 | | December 31, 2017 | |
| | Interest Recorded after Investment | Income after Impairment | Interest Recorded after Investment | Income after Impairment |
| Real estate loans: | | | | |
| Residential properties | \$— | \$ — | \$1,323 | \$ 20 |
| Commercial properties | 4,021 | 34 | 2,403 | 50 |
| Commercial and industrial loans | 9,360 | — | 5,503 | 5 |
| Total | \$13,381 | \$ 34 | \$9,229 | \$ 75 |

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

NOTE 6: LOAN SALES AND MORTGAGE SERVICING RIGHTS

In the first quarter of 2018, FFB recognized a gain of \$0.5 million 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 March 31, 2018 and December 31, 2017, mortgage servicing rights were \$4.9 million and \$4.8 million, respectively and the amount of loans serviced for others totaled \$793 million and \$745 million at March 31, 2018 and December 31, 2017, respectively. Servicing fees collected for the quarter ended March 31, 2018, and in 2017 were \$0.2 million and \$0.7 million, respectively.

FIRST FOUNDATION INC.

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For the Quarter Ended March 31, 2018 – UNAUDITED

NOTE 7: DEPOSITS

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

| (dollars in thousands) | March 31, 2018 | | December 31, 2017 | |
|--------------------------|----------------|-----------------------|-------------------|-----------------------|
| | Amount | Weighted Average Rate | Amount | Weighted Average Rate |
| Demand deposits: | | | | |
| Noninterest-bearing | \$1,170,927 | — | \$1,097,196 | — |
| Interest-bearing | 353,080 | 0.678 % | 235,294 | 0.411 % |
| Money market and savings | 1,074,814 | 0.868 % | 1,210,240 | 0.840 % |
| Certificates of deposits | 1,037,371 | 1.419 % | 900,797 | 1.189 % |
| Total | \$3,636,192 | 0.727 % | \$3,443,527 | 0.634 % |

At March 31, 2018, of the \$296 million of certificates of deposits of \$250,000 or more, \$270 million mature within one year and \$26 million mature after one year. Of the \$741 million of certificates of deposit of less than \$250,000, \$699 million mature within one year and \$42 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 8: BORROWINGS

At March 31, 2018, our borrowings consisted of \$739 million of overnight FHLB advances at the Bank and \$30 million outstanding on 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 FHLB advances were paid in full in the early part of April 2018 and January 2018, respectively, and bore interest rates of 1.87% and 1.41%, respectively. At March 31, 2018, the interest rate on the holding company line of credit was 5.19%. 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 \$3.2 billion as of March 31, 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 March 31, 2018 was \$1.8 billion. In addition to the \$739 million borrowing at March 31, 2018, the Bank had in place \$169 million of letters of credit from the FHLB which are used to meet collateral requirements for borrowings from the State of

California and local agencies.

During 2017, FFI entered into a loan agreement with an unaffiliated lender that provides for a revolving line of credit for up to \$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 March 31, 2018. Combined, the Bank's unused lines of credit as of March 31, 2018 and December 31, 2017 were \$1.0 billion and \$943 million, respectively. The average balance of overnight borrowings during the first three months of 2018 was \$693 million, as compared to \$499 million during all of 2017.

NOTE 9: 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 quarters ended March 31:

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

| (dollars in thousands, except per share amounts) | 2018 | | 2017 | |
|--|------------|------------|------------|------------|
| | Basic | Diluted | Basic | Diluted |
| Net income | \$8,976 | \$8,976 | \$6,113 | \$6,113 |
| Basic common shares outstanding | 38,577,271 | 38,577,271 | 32,805,010 | 32,805,010 |
| Effect of contingent shares issuable | | 1,592 | | 1,592 |
| Effect of options and restricted stock | | 545,869 | | 1,154,618 |
| Diluted common shares outstanding | | 39,124,732 | | 33,961,220 |
| Earnings per share | \$0.23 | \$0.23 | \$0.19 | \$0.18 |

NOTE 10: SEGMENT REPORTING

For the quarters ended March 31, 2018 and 2017, the Company had two reportable business segments: Banking (FFB) and Wealth Management (FFA). The results of FFI and any elimination entries are included in the column labeled Other. The 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) | Wealth | | | Total |
|--------------------------------------|----------|------------|-----------|----------|
| | Banking | Management | Other | |
| Quarter ended March 31, 2018: | | | | |
| Interest income | \$43,319 | \$ — | \$— | \$43,319 |
| Interest expense | 8,520 | — | 531 | 9,051 |
| Net interest income | 34,799 | — | (531) | 34,268 |
| Provision for loan losses | 1,688 | — | — | 1,688 |
| Noninterest income | 2,557 | 6,414 | 11 | 8,982 |
| Noninterest expense | 21,811 | 5,817 | 1,360 | 28,988 |
| Income (loss) before taxes on income | \$13,857 | \$ 597 | \$(1,880) | \$12,574 |
| Quarter ended March 31, 2017: | | | | |
| Interest income | \$30,360 | \$— | \$— | \$30,360 |
| Interest expense | 4,277 | — | 25 | 4,302 |
| Net interest income | 26,083 | — | (25) | 26,058 |

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| | | | | |
|--------------------------------------|-----------|--------|------------|----------|
| Provision for loan losses | 69 | — | — | 69 |
| Noninterest income | 2,516 | 5,457 | (190) | 7,783 |
| Noninterest expense | 18,331 | 5,190 | 1,188 | 24,709 |
| Income (loss) before taxes on income | \$ 10,199 | \$ 267 | \$ (1,403) | \$ 9,063 |

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 ended March 31, 2018 as compared to our results of operations in the quarter ended March 31, 2017; and our financial condition at March 31, 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

We experienced strong growth in Banking during the first quarter of 2018 with loan originations of \$420 million and deposit growth of \$193 million. Total revenues (net interest income and noninterest income) increased by 28% in the first quarter of 2018 when compared to the first quarter of 2017.

Results of Operations

Our net income and income before taxes in the first quarter of 2018 was \$9.0 million and \$12.6 million, respectively, as compared to \$6.1 million and \$9.1 million, respectively, in the first quarter of 2017. The increase in income before taxes was primarily the result of higher net interest income and higher noninterest income, which were partially offset by higher noninterest expenses. The effective tax rate for the first quarter of 2018 was 28.6% as compared to 32.5% for the first quarter of 2017. As a result of reduced federal tax rates, our statutory tax rate decreased from 41.6% in 2017 to 29.0% in 2018. During the first quarter of 2017, we realized a 930 basis point reduction in our effective tax rate related to excess tax benefits resulting from the exercise 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 assets under management ("AUM"). Compensation and benefit costs, which represent the largest component of noninterest expense, accounted for 57% and 73%, respectively, of the total

noninterest expense for Banking and Wealth Management in the first quarter of 2018.

The following table shows key operating results for each of our business segments for the quarters ended March 31:

| (dollars in thousands) | Banking | Wealth Management | Other | Total |
|--------------------------------------|----------|----------------------|-----------|----------|
| 2018: | | | | |
| Interest income | \$43,319 | \$ — | \$— | \$43,319 |
| Interest expense | 8,520 | — | 531 | 9,051 |
| Net interest income | 34,799 | — | (531) | 34,268 |
| Provision for loan losses | 1,688 | — | — | 1,688 |
| Noninterest income | 2,557 | 6,414 | 11 | 8,982 |
| Noninterest expense | 21,811 | 5,817 | 1,360 | 28,988 |
| Income (loss) before taxes on income | \$13,857 | \$ 597 | \$(1,880) | \$12,574 |
| 2017: | | | | |
| Interest income | \$30,360 | \$ — | \$— | \$30,360 |
| Interest expense | 4,277 | — | 25 | 4,302 |
| Net interest income | 26,083 | — | (25) | 26,058 |
| Provision for loan losses | 69 | — | — | 69 |
| Noninterest income | 2,516 | 5,457 | (190) | 7,783 |
| Noninterest expense | 18,331 | 5,190 | 1,188 | 24,709 |
| Income (loss) before taxes on income | \$10,199 | \$ 267 | \$(1,403) | \$9,063 |

General. Consolidated income before taxes for the first quarter of 2018 was \$12.6 million as compared to \$9.1 million for the first quarter of 2017. The \$3.5 million increase in income before taxes was the result of a \$3.7 million increase in income before taxes for Banking and a \$0.3 million increase in income before taxes for Wealth Management which were partially offset by a \$0.5 million increase in corporate interest expense. The increase in Banking was due to higher net interest income which was partially offset by a higher provision for loan losses and higher noninterest expenses. The increase in Wealth Management was due to higher noninterest income which was partially offset by higher noninterest expenses.

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

| (dollars in thousands) | 2018 | | | 2017 | | |
|---|--------------------|-----------------|----------------------|--------------------|-----------------|----------------------|
| | Average Balances | Interest | Average Yield / Rate | Average Balances | Interest | Average Yield / Rate |
| Interest-earning assets: | | | | | | |
| Loans | \$3,942,402 | \$38,971 | 3.96 % | \$2,932,011 | \$26,491 | 3.62 % |
| Securities | 519,259 | 3,422 | 2.64 % | 511,962 | 3,031 | 2.37 % |
| FHLB stock, fed funds, and deposits | 158,425 | 926 | 2.37 % | 72,234 | 838 | 4.70 % |
| Total interest-earning assets | 4,620,086 | 43,319 | 3.76 % | 3,516,207 | 30,360 | 3.46 % |
| Noninterest-earning assets: | | | | | | |
| Nonperforming assets | 11,579 | | | 7,908 | | |
| Other | 66,751 | | | 27,570 | | |
| Total assets | \$4,698,416 | | | \$3,551,685 | | |
| Interest-bearing liabilities: | | | | | | |
| Demand deposits | \$226,618 | 305 | 0.55 % | \$244,905 | 287 | 0.48 % |
| Money market and savings | 1,110,910 | 2,254 | 0.82 % | 953,978 | 1,681 | 0.71 % |
| Certificates of deposit | 984,523 | 3,313 | 1.36 % | 717,539 | 1,224 | 0.69 % |
| Total interest-bearing deposits | 2,322,051 | 5,872 | 1.03 % | 1,916,422 | 3,192 | 0.68 % |
| Borrowings | 735,024 | 3,179 | 1.75 % | 634,422 | 1,110 | 0.71 % |
| Total interest-bearing liabilities | 3,057,075 | 9,051 | 1.20 % | 2,550,844 | 4,302 | 0.68 % |
| Noninterest-bearing liabilities: | | | | | | |
| Demand deposits | 1,220,435 | | | 700,613 | | |
| Other liabilities | 21,650 | | | 14,212 | | |
| Total liabilities | 4,299,160 | | | 3,265,669 | | |
| Shareholders' equity | 399,256 | | | 286,016 | | |
| Total liabilities and equity | \$4,698,416 | | | \$3,551,685 | | |
| Net Interest Income | | \$34,268 | | | \$26,058 | |
| Net Interest Rate Spread | | | 2.56 % | | | 2.78 % |
| Net Yield on Interest-earning Assets | | | 2.96 % | | | 2.96 % |

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 first quarter of 2018, as compared to the first quarter of 2017:

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| (dollars in thousands) | Increase | | Net Increase (Decrease) |
|------------------------------------|-----------------------------|-----------|----------------------------|
| | (Decrease) due to Volume | Rate | |
| Interest earned on: | | | |
| Loans | \$9,824 | \$2,656 | \$ 12,480 |
| Securities | 49 | 342 | 391 |
| FHLB stock, fed funds and deposits | 650 | (562) | 88 |
| Total interest-earning assets | 10,523 | 2,436 | 12,959 |
| Interest paid on: | | | |
| Demand deposits | (23) | 41 | 18 |
| Money market and savings | 298 | 275 | 573 |
| Certificates of deposit | 577 | 1,512 | 2,089 |
| Borrowings | 200 | 1,869 | 2,069 |
| Total interest-bearing liabilities | 1,052 | 3,697 | 4,749 |
| Net interest income | \$9,471 | \$(1,261) | \$ 8,210 |

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Net interest income for Banking increased 33% from \$26.1 million in the first quarter of 2017, to \$34.8 million in the first quarter of 2018 due to a 31% increase in interest-earning assets. On a consolidated basis, a decrease in our net interest rate spread was offset by a higher proportion of noninterest-bearing deposits and equity balances. As a result, our net yield on interest earning assets was 2.96% in both the first quarter of 2017 and the first quarter of 2018. The decrease in the net interest rate spread from 2.78% in the first quarter of 2017 to 2.56% in the first quarter of 2018 was due to an increase in the cost of interest-bearing liabilities from 0.68% in the first quarter of 2017 to 1.20% in the first quarter of 2018 which was partially offset by an increase in yield on total interest-earning assets from 3.46% in the first quarter of 2017 to 3.76% in the first quarter of 2018. The yield on interest-earning assets increased as new loans and securities added to the portfolio bear interest rates higher than the current portfolio rates as a result of increases in market rates. 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 0.70% in the first quarter of 2017 to 1.55% in the first quarter of 2018. The average balance outstanding under the holding company line of credit increased from \$2.2 million in the first quarter of 2017 to \$41.6 million in the first quarter of 2018, resulting in a \$0.5 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. The provision for loan losses in the first quarter of 2018 and 2017 was \$1.7 million and \$0.1 million, respectively. The provision in the first quarter of 2018, during which we increased our loan balances by 7%, allowed us to maintain an ALLL equal to 54 basis points of non-acquired loans as compared to a decrease in our ALLL percentage in the first quarter of 2017.

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

| (dollars in thousands) | 2018 | 2017 |
|--------------------------|---------|---------|
| Trust fees | \$822 | \$789 |
| Consulting fees | 118 | 112 |
| Deposit charges | 120 | 121 |
| Gain on sale of loans | 545 | 300 |
| Gain on sale of REO | — | 104 |
| Loan related fees | 564 | 750 |
| Other | 388 | 340 |
| Total noninterest income | \$2,557 | \$2,516 |

Noninterest income in Banking in the first quarter of 2018 was comparable to the first quarter of 2017 as a \$0.2 million increase in gain on sale of loans was offset by decrease in insurance commissions. During the first quarter of 2018, we realized \$0.5 million in gains on the sale of \$52 million of multifamily loans, while in the first quarter of 2017, we realized \$0.3 million of gains on the sale of \$21 million of multifamily loans.

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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 quarters ended March 31:

| (dollars in thousands) | 2018 | 2017 |
|--------------------------|---------|---------|
| Asset management fees | \$6,406 | \$5,454 |
| Other | 8 | 3 |
| Total noninterest income | \$6,414 | \$5,457 |

The \$1.0 million increase in noninterest income in Wealth Management in the first quarter of 2018 when compared to the corresponding period in 2017 was due to higher levels of AUM.

Noninterest Expense. The following table provides a breakdown of noninterest expense for Banking and Wealth Management for the periods indicated:

| (dollars in thousands) | Banking | | Wealth Management | |
|-------------------------------------|----------|----------|-------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Quarter Ended March 31: | | | | |
| Compensation and benefits | \$12,539 | \$10,305 | \$4,267 | \$4,105 |
| Occupancy and depreciation | 3,577 | 2,883 | 548 | 519 |
| Professional services and marketing | 1,226 | 2,411 | 815 | 415 |
| Customer service costs | 2,771 | 693 | — | — |
| Other expenses | 1,698 | 2,039 | 187 | 151 |
| Total noninterest expense | \$21,811 | \$18,331 | \$5,817 | \$5,190 |

Noninterest expense in Banking increased from \$18.3 million in the first quarter of 2017 to \$21.8 million in the first quarter of 2018, due to increases in staffing and costs associated with the Bank's expansion, including the acquisition of Community 1st Bank ("C1B") in November 2017, and the growth of its balances of loans and deposits. Compensation and benefits for Banking increased \$2.2 million or 22% during the first quarter of 2018 as compared to the first quarter of 2017 due to salary increases and an increase in the number of full time equivalent employees ("FTE") in Banking, which increased to 338.4 in the first quarter of 2018 from 290.0 in the first quarter of 2017 as a result of the increased staffing related to the C1B acquisition and additional personnel added to support the growth in loans and deposits. A \$0.7 million increase in occupancy and depreciation for Banking in the first quarter of 2018 as compared to the first quarter of 2017 was due to costs related to the C1B acquisition and increases in our data processing costs due to increased volumes and the implementation of enhancements. The \$1.2 million decrease in professional services and marketing was due to costs incurred in the first quarter of 2017 related to the resolution of an outstanding litigation matter. Customer service costs for Banking increased from \$0.7 million in the first quarter of 2017 to \$2.8 million in the first quarter of 2018 due to a 70% increase in average balances and increases in the earnings credit rates paid on the balances. The increases in the earnings credit rates reflects the increases in short term market rates during the first quarter of 2018 when compared to the first quarter of 2017. The increase in noninterest expense for Wealth Management was due to a \$0.2 million increase in compensation and benefits and a \$0.4 million increase in professional services and marketing costs. The increase in compensation and benefits for Wealth Management was due to raises given in the first quarter of 2018. The increase in professional services and marketing for Wealth Management was due to legal related costs 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 |
|-------------------------------------|---------------------|----------------------|---------------------------|---------------------|
| March 31, 2018: | | | | |
| Cash and cash equivalents | \$ 177,197 | \$ 3,479 | \$ (3,320) | \$ 177,356 |
| Securities AFS | 513,067 | — | — | 513,067 |
| Loans held for sale | 148,266 | — | — | 148,266 |
| Loans, net | 3,894,970 | — | — | 3,894,970 |
| Premises and equipment | 5,660 | 920 | 136 | 6,716 |
| FHLB stock | 22,626 | — | — | 22,626 |
| Deferred taxes | 13,354 | 118 | 157 | 13,629 |
| REO | 2,165 | — | — | 2,165 |
| Goodwill and intangibles | 33,551 | — | — | 33,551 |
| Other assets | 27,287 | 515 | 2,034 | 29,836 |
| Total assets | \$ 4,838,143 | \$ 5,032 | \$ (993) | \$ 4,842,182 |
| | | | | |
| Deposits | \$ 3,646,631 | \$ — | \$ (10,439) | \$ 3,636,192 |
| Borrowings | 739,000 | — | 30,000 | 769,000 |
| Intercompany balances | 2,807 | 724 | (3,531) | — |
| Other liabilities | 16,327 | 1,767 | 6,782 | 24,876 |
| Shareholders' equity | 433,378 | 2,541 | (23,805) | 412,114 |
| Total liabilities and equity | \$ 4,838,143 | \$ 5,032 | \$ (993) | \$ 4,842,182 |
| | | | | |
| 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 quarter of 2018, total assets increased by \$301 million primarily due to increases in cash and cash equivalents and loans. Cash and cash equivalents increased to \$177 million at March 31, 2018 from \$120 million at December 31, 2017 as we increased our on balance sheet liquidity to maintain compliance with regulatory guidelines. Loans and loans held for sale increased by \$245 million as a result of \$420 million of originations which were partially offset by the sale of \$52 million of multifamily loans and payoffs or scheduled payments of \$123 million. Deposits increased by \$193 million as our specialty deposits, branch deposits and wholesale deposits increased by \$52 million, \$16 million and \$125 million, respectively. Borrowings increased by \$91 million due primarily to the additional borrowings utilized to support our loan growth.

Cash and cash equivalents, certificates of deposit and securities. Cash and cash equivalents, which primarily consist of funds held at the Federal Reserve Bank or at correspondent banks, including fed funds, increased \$57 million during the first quarter 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 |
|--|-------------------|----------------|-------------------|----------------------|
| March 31, 2018: | | | | |
| US Treasury security | \$ 499 | \$— | \$(6) | \$493 |
| Agency mortgage-backed securities | 453,596 | — | (14,728) | 438,868 |
| Beneficial interest – FHLMC securitization | 34,608 | 1,927 | (1,929) | 34,606 |
| Corporate bonds | 39,000 | 100 | — | 39,100 |
| Total | \$ 527,703 | \$2,027 | \$(16,663) | \$513,067 |
| December 31, 2017: | | | | |
| US Treasury security | \$ 499 | \$— | \$(6) | \$493 |
| Agency mortgage-backed securities | 471,131 | 287 | (7,399) | 464,019 |
| Beneficial interest – FHLMC securitization | 35,930 | 1,811 | (1,889) | 35,852 |
| Corporate bonds | 19,000 | — | — | 19,000 |
| Total | \$ 526,560 | \$2,098 | \$(9,294) | \$519,364 |

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

The scheduled maturities of securities AFS, other than agency mortgage-backed securities, and the related weighted average yield is as follows as of March 31, 2018:

| (dollars in thousands) | Less than 1 Year | 1 Through 5 years | 5 Through 10 Years | After 10 Years | Total |
|-------------------------------|------------------|-------------------|--------------------|-----------------|-----------------|
| Amortized Cost: | | | | | |
| US Treasury securities | \$ — | \$ 499 | \$— | \$— | \$499 |
| Corporate bonds | — | — | 19,000 | 20,000 | 39,000 |
| Total | — | 499 | 19,000 | 20,000 | 39,499 |
| Weighted average yield | —% | 1.03 % | 5.24 % | 5.00 % | 5.06 % |
| Estimated Fair Value: | | | | | |
| US Treasury securities | \$ — | \$ 493 | \$— | \$— | \$493 |
| Corporate bonds | — | — | 19,000 | 20,100 | 39,100 |
| Total | \$ — | \$ 493 | \$ 19,000 | \$20,100 | \$39,593 |

Agency mortgage backed securities and beneficial interests in FHLMC securitizations are excluded from the above table because such securities are not due at a single maturity date. The weighted average yield of the agency mortgage backed securities and beneficial interests in FHLMC securitizations as of March 31, 2018 was 2.56%.

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

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| (dollars in thousands) | March 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------------|
| Outstanding principal balance: | | |
| Loans secured by real estate: | | |
| Residential properties: | | |
| Multifamily | \$2,124,719 | \$1,935,429 |
| Single family | 674,651 | 645,816 |
| Total real estate loans secured by residential properties | 2,799,370 | 2,581,245 |
| Commercial properties | 708,458 | 696,748 |
| Land | 31,200 | 37,160 |
| Total real estate loans | 3,539,028 | 3,315,153 |
| Commercial and industrial loans | 337,295 | 310,779 |
| Consumer loans | 29,361 | 29,330 |
| Total loans | 3,905,684 | 3,655,262 |
| Premiums, discounts and deferred fees and expenses | 9,286 | 8,465 |
| Total | \$3,914,970 | \$3,663,727 |

The \$251 million increase in loans during the first three months of 2018 was the result of loan originations and funding of existing credit commitments of \$420 million, offset by \$123 million of payoffs and scheduled principal payments, and the sale of \$52 million of multifamily loans.

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

| (dollars in thousands) | March 31, 2018 | | December 31, 2017 | |
|--------------------------|--------------------|-----------------------|--------------------|-----------------------|
| | Amount | Weighted Average Rate | Amount | Weighted Average Rate |
| Demand deposits: | | | | |
| Noninterest-bearing | \$1,170,927 | — | \$1,097,196 | — |
| Interest-bearing | 353,080 | 0.678 % | 235,294 | 0.411 % |
| Money market and savings | 1,074,814 | 0.868 % | 1,210,240 | 0.840 % |
| Certificates of deposits | 1,037,371 | 1.419 % | 900,797 | 1.189 % |
| Total | \$3,636,192 | 0.727 % | \$3,443,527 | 0.634 % |

During the first quarter of 2018, our deposit rates increased slightly as we have raised rates to attract deposits. The weighted average rate of our interest bearing deposits increased from 0.93% at December 31, 2017 to 1.07% at March 31, 2018, while the weighted average interest rates of both interest-bearing and noninterest-bearing deposits have increased from 0.63% at December 31, 2017 to 0.73% at March 31, 2018.

The maturities of our certificates of deposit of \$100,000 or more were as follows as of March 31, 2018:

(dollars in thousands)

| | |
|---------------------------------|------------------|
| 3 months or less | \$154,849 |
| Over 3 months through 6 months | 87,301 |
| Over 6 months through 12 months | 180,906 |
| Over 12 months | 58,249 |
| Total | \$481,305 |

FFB utilizes third party programs called CDARs and ICS, which allows FFB to transfer funds of its clients in excess of the FDIC insurance limit (currently \$250,000) to other institutions in exchange for an equal amount of funds from clients of these other institutions. This has allowed FFB to provide FDIC insurance coverage to its clients. Under certain regulatory guidelines, these deposits are considered brokered deposits. From time to time, the Bank will utilize brokered deposits as a source of funding. As of March 31, 2018 the Bank held \$608 million of deposits which are classified as brokered deposits, including \$132 million of CDARs and ICS reciprocal deposits.

Borrowings. At March 31, 2018 our borrowings consisted of \$739 million of FHLB advances at the Bank and \$30 million of borrowings under our holding company line of credit. At December 31, 2017 our borrowings consisted of \$628 million of FHLB advances at the Bank and \$50 million of borrowings under our holding company line of credit. The FHLB advances were paid in full in the early part of April 2018 and January 2018, respectively. Because FFB primarily utilizes overnight FHLB advances, the balance of outstanding borrowings fluctuates on a daily basis. The average balance of FHLB advances outstanding during the first quarter of 2018 was \$693 million, as compared to \$632 million for the first quarter of 2017. The weighted average interest rate on these overnight borrowings was 1.55% and 0.71% for the first quarters of 2018 and 2017, respectively. The maximum amount of borrowings outstanding at the Bank at any month-end during the first quarter of 2018 and during all of 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 table provides a summary of past due and nonaccrual loans as of:

| (dollars in thousands) | Past Due and Still Accruing | | | Nonaccrual | Total Past | | |
|------------------------------------|--------------------------------|---------------|--------------------------|------------------|-----------------------|--------------------|---------------------|
| | 30-59 Days | 60-89 Days | 90 Days or More | | Due and Nonaccrual | Current | Total |
| March 31, 2018: | | | | | | | |
| Real estate loans: | | | | | | | |
| Residential properties | \$62 | \$— | \$— | \$— | \$ 62 | \$2,799,308 | \$ 2,799,370 |
| Commercial properties | 752 | — | 1,312 | 1,918 | 3,982 | 704,476 | 708,458 |
| Land | — | — | — | — | — | 31,200 | 31,200 |
| Commercial and industrial loans | — | 138 | 302 | 9,342 | 9,782 | 327,513 | 337,295 |
| Consumer loans | — | — | — | — | — | 29,361 | 29,361 |
| Total | \$814 | \$138 | \$1,614 | \$ 11,260 | \$ 13,826 | \$3,891,858 | \$ 3,905,684 |
| Percentage of total loans | 0.02% | 0.00% | 0.04 % | 0.29 % | 0.35 % | | |
| 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) | March 31, 2018 | | | December 31, 2017 | | |
|---------------------------------|----------------|------------|---------|-------------------|------------|---------|
| | Accrual | Nonaccrual | Total | Accrual | Nonaccrual | Total |
| Commercial real estate loans | \$— | \$1,572 | \$1,572 | \$— | \$ 1,598 | \$1,598 |
| Commercial and industrial loans | 165 | 2,648 | 2,813 | 195 | 2,698 | 2,893 |

| | | | | | | |
|-------|-----|-------|-------|-----|-------|-------|
| Total | 165 | 4,220 | 4,385 | 195 | 4,296 | 4,491 |
|-------|-----|-------|-------|-----|-------|-------|

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

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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 |
|---------------------------------|--------------------|--------------------|------------------|------------------|--------------------|
| March 31, 2018: | | | | | |
| Real estate loans: | | | | | |
| Residential properties | \$2,796,111 | \$ 3,259 | \$ — | \$ — | \$2,799,370 |
| Commercial properties | 693,082 | 5,885 | 5,509 | 3,982 | 708,458 |
| Land | 30,372 | — | 828 | — | 31,200 |
| Commercial and industrial loans | 325,731 | 160 | 2,062 | 9,342 | 337,295 |
| Consumer loans | 29,361 | — | — | — | 29,361 |
| Total | \$3,874,657 | \$ 9,304 | \$ 8,399 | \$ 13,324 | \$3,905,684 |
| 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 and 2017 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) | March 31, 2018 | December 31, 2017 |
|---------------------------------------|----------------------|-------------------------|
| Outstanding principal balance: | | |
| Loans secured by real estate: | | |
| Commercial properties | \$976 | \$ 1,525 |
| Land | 1,111 | 1,096 |
| Total real estate loans | 2,087 | 2,621 |

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| | | |
|---------------------------------|---------|----------|
| Commercial and industrial loans | 2,716 | 2,774 |
| Total loans | 4,803 | 5,395 |
| Unaccreted discount | (1,448) | (1,638) |
| Total | \$3,355 | \$ 3,757 |

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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 March 31, 2018: | | | | | |
| Real estate loans: | | | | | |
| Residential properties | \$ 9,715 | \$ 193 | \$ — | \$ — | \$ 9,908 |
| Commercial properties | 4,399 | (9) | — | — | 4,390 |
| Land | 395 | (60) | — | — | 335 |
| Commercial and industrial loans | 3,624 | 1,557 | (88) | — | 5,093 |
| Consumer loans | 267 | 7 | — | — | 274 |
| Total | \$ 18,400 | \$ 1,688 | \$ (88) | \$ — | \$ 20,000 |

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 0.54% of total loans outstanding as of March 31, 2018 and December 31, 2017.

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.

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

| (dollars in thousands) | Allowance for Loan Losses | | | | Unaccrued |
|---------------------------------|---------------------------|--------------------|-----------------|--------------------|-------------------|
| | Evaluated for | | Purchased | Total | Credit |
| | Impairment | Collectively | | | |
| | Individually | Collectively | Impaired | Total | Other |
| | | | | | Loans |
| March 31, 2018: | | | | | |
| Allowance for loan losses: | | | | | |
| Real estate loans: | | | | | |
| Residential properties | \$— | \$9,908 | \$ — | \$9,908 | \$ 229 |
| Commercial properties | — | 4,390 | — | 4,390 | 1,343 |
| Land | — | 335 | — | 335 | 5 |
| Commercial and industrial loans | 1,931 | 3,162 | — | 5,093 | 789 |
| Consumer loans | — | 274 | — | 274 | 25 |
| Total | \$1,931 | \$18,069 | \$ — | \$20,000 | \$ 2,391 |
| Loans: | | | | | |
| Real estate loans: | | | | | |
| Residential properties | \$— | \$2,799,370 | \$ — | \$2,799,370 | \$ 26,407 |
| Commercial properties | 3,982 | 703,781 | 695 | 708,458 | 167,910 |
| Land and construction | — | 30,372 | 828 | 31,200 | 531 |
| Commercial and industrial loans | 9,342 | 326,121 | 1,832 | 337,295 | 54,025 |
| Consumer loans | — | 29,361 | — | 29,361 | 2,686 |
| Total | \$13,324 | \$3,889,005 | \$ 3,355 | \$3,905,684 | \$ 251,559 |
| | | | | | |
| (dollars in thousands) | Allowance for Loan Losses | | | | Unaccrued |
| | Evaluated for | | Purchased | Total | Credit |
| | Impairment | Collectively | | | |
| | Individually | Collectively | Impaired | Total | Other |
| | | | | | Loans |
| 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 |

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| | | | | | |
|----------------|----------|-------------|----------|-------------|------------|
| 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 0.95% and 1.15% of the stated principal balances of these loans as of March 31, 2018 and December 31, 2017, respectively. In addition to this unaccreted credit component discount, an additional \$0.4 million and \$0.2 million of the ALLL were provided for these loans as of March 31, 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 Company's lines of credit available to draw down totaled \$1.0 billion at March 31, 2018.

Cash Flows Provided by Operating Activities. During the quarter ended March 31, 2018, operating activities provided net cash of \$11.4 million, comprised primarily of our net income of \$9.0 million. During the quarter ended March 31, 2017, operating activities provided net cash of \$5.5 million, comprised primarily of our net income of \$6.1 million.

Cash Flows Used in Investing Activities. During the quarter ended March 31, 2018, investing activities used net cash of \$250 million, primarily to fund a \$298 million net increase in loans and \$20 million in purchases of securities, offset partially by \$19 million in cash received from the sale, principal collection, and maturities of securities, and \$52 million in loan sales. During the quarter ended March 31, 2017, investing activities used net cash of \$235 million, primarily to fund a \$287 million net increase in loans, offset partially by \$17 million in cash received from the sale, principal collection, and maturities of securities, \$21 million in loan sales, and \$16 million in sales of FHLB stock.

Cash Flow Provided by Financing Activities. During the quarter ended March 31, 2018, financing activities provided net cash of \$296 million, consisting primarily of net increases of \$193 million in deposits and \$111 million in FHLB advances, and \$12 million in proceeds from the sale of stock, offset by a net decrease of \$20 million in our line of credit. During the quarter ended March 31, 2017, financing activities used net cash of \$293 million, consisting primarily of a net decrease of \$668 million in FHLB advances, offset partially by a \$354 million increase in deposits.

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 March 31, 2018 and December 31, 2017, the loan-to-deposit ratios were 111.7% and 110.9%, respectively.

Off-Balance Sheet Arrangements

The following table provides the off-balance sheet arrangements of the Company as of March 31, 2018:

| | |
|---|----------|
| (dollars in thousands) | |
| Commitments to fund new loans | \$23,669 |
| Commitments to fund under existing loans, lines of credit | 232,487 |
| Commitments under standby letters of credit | 3,374 |

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 March 31, 2018, the Bank was obligated on \$169 million of letters of credit to the FHLB which were being used as collateral for public fund deposits, including \$143 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.

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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 | | Minimum Regulatory Capital Ratios | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---------------------------------|-----------|---------|-----------------------------------|--------|--|---------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| FFI | | | | | | |
| March 31, 2018 | | | | | | |
| CET1 capital ratio | \$388,186 | 11.65 % | \$149,915 | 4.50 % | | |
| Tier 1 leverage ratio | 388,186 | 8.31 % | 186,783 | 4.00 % | | |
| Tier 1 risk-based capital ratio | 388,186 | 11.65 % | 199,887 | 6.00 % | | |
| Total risk-based capital ratio | 408,786 | 12.27 % | 266,515 | 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 | | | | | | |
| March 31, 2018 | | | | | | |
| CET1 capital ratio | \$409,363 | 12.30 % | \$149,736 | 4.50 % | \$216,285 | 6.50 % |
| Tier 1 leverage ratio | 409,363 | 8.78 % | 186,532 | 4.00 % | 233,165 | 5.00 % |
| Tier 1 risk-based capital ratio | 409,363 | 12.30 % | 199,648 | 6.00 % | 266,197 | 8.00 % |
| Total risk-based capital ratio | 429,963 | 12.92 % | 266,197 | 8.00 % | 332,747 | 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 March 31, 2018, the amount of capital at FFB in excess of amounts required to be Well Capitalized was \$193 million for the CET-1 capital ratio, \$176 million for the Tier 1 leverage ratio, \$143 million for the Tier 1 risk-based capital ratio and \$97 million for the Total risk-based capital ratio.

During the entirety of 2017, FFI made cash capital contributions to FFB of \$65 million. As of March 31, 2018, FFI had \$8.6 million of available capital and \$45 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% | 10.50% |

We did not pay dividends in 2018 or 2017 and we have no plans to pay dividends for the foreseeable future. Instead, it is our intention to retain internally generated cash flow to support our growth. Moreover, the payment of dividends is subject to certain regulatory restrictions.

We had no material commitments for capital expenditures as of March 31, 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.

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 quarter of 2018 are as follows:

| | Number of Shares Sold | Weighted Average Price | Net Proceeds |
|--|-----------------------|---------------------------|------------------|
| (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 March 31, 2018, the remaining dollar value of common stock we had available to sell under the ATM Program was \$45.2 million.

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 March 31, 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 March 31, 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 March 31, 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 |
|-------|--|
| 10.1 | <u>Fourth Amendment to Employment Agreement, dated February 7, 2018 by and between the Company, FFB and Scott F. Kavanaugh (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on February 7, 2018).</u> |
| 10.2 | <u>Fourth Amendment to Employment Agreement, dated February 7, 2018 by and between the Company, FFA, FFB and John M. Michel (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on February 7, 2018).</u> |
| 10.3 | <u>Fourth Amendment to Employment Agreement, dated February 7, 2018 by and between FFA and John A. Hakopian (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed on February 7, 2018).</u> |
| 10.4 | <u>Fourth Amendment to Employment Agreement, dated February 7, 2018 by and between the Company, FFA and Ulrich E. Keller, Jr. (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed on February 7, 2018).</u> |
| 10.5 | <u>First Amendment to Employment Agreement, dated February 7, 2018 by and between FFB and David DePillo (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K, filed on February 7, 2018).</u> |
| 31.1 | <u>Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| 31.2 | <u>Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| 32.1* | <u>Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| 32.2* | <u>Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| 101 | XBRL (eXtensive Business Reporting Language). The following financial materials from the Company's Quarterly Report on Form 10-Q for the period ended March 31, 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. |

*Furnished and not filed.

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: May 9, 2018 By: /s/ JOHN M. MICHEL
John M. Michel
Executive Vice President and
Chief Financial Officer

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