

First Foundation Inc.
Form 10-Q
November 16, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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)

Not Applicable

(Former name, former address and former fiscal year, if changed, since last year)

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

15,962,686 shares of Common Stock, par value \$0.001 per share, as of November 12, 2015

FIRST FOUNDATION INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

TABLE OF CONTENTS

	Exhibit No.
<u>Part I. Financial Information</u>	
Item 1. <u>Financial Statements</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	39
Item 4. <u>Controls and Procedures</u>	39
<u>Part II. Other Information</u>	
Item 1A <u>Risk Factors</u>	39
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
Item 6 <u>Exhibits</u>	40
<u>SIGNATURES</u>	S-1
<u>EXHIBITS</u>	E-1

(i)

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
FIRST FOUNDATION INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Cash and cash equivalents	\$206,338	\$29,692
Securities available-for-sale (“AFS”)	360,559	138,270
Loans held for sale	108,903	—
Loans, net of deferred fees	1,536,005	1,166,392
Allowance for loan and lease losses (“ALLL”)	(11,300)	(10,150)
Net loans	1,524,705	1,156,242
Investment in FHLB stock	17,820	12,361
Premises and equipment, net	2,397	2,187
Deferred taxes	11,969	9,748
Real estate owned (“REO”)	4,492	334
Goodwill and intangibles	2,481	197
Other assets	9,083	6,393
Total Assets	\$2,248,747	\$1,355,424
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Deposits	\$1,321,527	\$962,954
Borrowings	660,000	282,886
Accounts payable and other liabilities	9,924	10,088
Total Liabilities	1,991,451	1,255,928
Commitments and contingencies	—	—
Shareholders’ Equity	16	8

Edgar Filing: First Foundation Inc. - Form 10-Q

Common Stock, par value \$.001: 20,000,000 shares authorized; 15,962,686 and 7,845,182 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively

Additional paid-in-capital	226,796	78,204
Retained earnings	28,714	20,384
Accumulated other comprehensive income, net of tax	1,770	900
Total Shareholders' Equity	257,296	99,496
Total Liabilities and Shareholders' Equity	\$2,248,747	\$1,355,424

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED INCOME STATEMENTS - UNAUDITED

(In thousands, except share and per share amounts)

	Quarter Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Interest income:				
Loans	\$15,634	\$11,404	\$41,097	\$31,735
Securities AFS	1,107	799	2,744	1,741
Fed funds sold, FHLB stock and deposits	367	181	1,418	514
Total interest income	17,108	12,384	45,259	33,990
Interest expense:				
Deposits	1,328	953	3,366	2,595
Borrowings	319	284	1,137	682
Total interest expense	1,647	1,237	4,503	3,277
Net interest income	15,461	11,147	40,756	30,713
Provision for loan losses	570	—	1,473	235
Net interest income after provision for loan losses	14,891	11,147	39,283	30,478
Noninterest income:				
Asset management, consulting and other fees	5,870	6,309	17,642	17,388
Other income	998	428	1,850	1,316
Total noninterest income	6,868	6,737	19,492	18,704
Noninterest expense:				
Compensation and benefits	10,870	8,764	29,440	25,278
Occupancy and depreciation	2,561	1,867	6,486	5,499
Professional services and marketing costs	1,481	1,192	4,051	4,540
Other expenses	2,044	1,272	4,311	4,195
Total noninterest expense	16,956	13,095	44,288	39,512
Income before taxes on income	4,803	4,789	14,487	9,670
Taxes on income	2,041	2,130	6,157	4,282
Net income	\$2,762	\$2,659	\$8,330	\$5,388
Net income per share:				
Basic	\$0.22	\$0.34	\$0.87	\$0.70
Diluted	\$0.21	\$0.32	\$0.84	\$0.66

Edgar Filing: First Foundation Inc. - Form 10-Q

Shares used to compute net income per share:

Basic	12,623,924	7,735,350	9,534,056	7,734,372
Diluted	13,074,935	8,240,424	9,929,445	8,188,633

(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, 2014	7,485,182	\$ 8	\$78,204	\$20,384	\$ 900	\$99,496
Net income				8,330		8,330
Other comprehensive income					870	870
Stock based compensation			383			383
Issuance of common stock:						
Exercise of options	17,100		201			201
Payout of contingent consideration	31,064		452			452
Sale of stock	272,035		5,000			5,000
Stock issued in acquisition	621,345	1	11,805			11,806
Issuance of restricted stock	7,129					
Public Offering	7,168,831	7	130,751			130,758
Balance: September 30, 2015	15,962,686	\$ 16	\$226,796	\$28,714	\$ 1,770	\$257,296

(See accompanying notes to the consolidated financial statements)

3

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME - UNAUDITED

(In thousands)

	Quarter Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Net income	\$2,762	\$2,659	\$8,330	\$5,388
Other comprehensive income:				
Unrealized holding gains (losses) on securities arising during the period	2,690	(704)	1,477	2,249
Other comprehensive income (loss) before tax	2,690	(704)	1,477	2,249
Income tax (expense) benefit related to items of other comprehensive income	(1,107)	291	(607)	(926)
Other comprehensive income (loss)	1,583	(413)	870	1,323
Total comprehensive income	\$4,345	\$2,246	\$9,200	\$6,711

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

	For the Nine Months	
	Ended September 30, 2015	2014
Cash Flows from Operating Activities:		
Net income	\$8,330	\$5,388
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,473	235
Stock-based compensation expense	383	387
Depreciation and amortization	995	949
Deferred tax provision	(1,068)	487
Accretion of discounts on purchased loans, net	(523)	(1,581)
Gain on sale of loans	(205)	—
Gain on sale of REO	—	(1,038)
Increase in other assets	(2,076)	(793)
Increase/(decrease) in accounts payable and other liabilities	(14)	3,309
Net cash provided by operating activities	7,295	7,343
Cash Flows from Investing Activities:		
Net increase in loans (including changes in loans held for sale)	(402,543)	(198,383)
Proceeds from sale of loans	2,205	—
Proceeds from sale of REO	—	4,198
Purchase of loan secured by REO property	—	(1,285)
Purchases of premises and equipment	(1,142)	(152)
Purchase of securities AFS	(225,396)	(78,639)
Maturity / sale / payments – securities AFS	11,648	5,115
Cash acquired in acquisition	38,081	—
Purchases (net of redemptions) of FHLB stock	(5,307)	(3,055)
Net cash used in investing activities	(582,454)	(272,201)
Cash Flows from Financing Activities:		
Increase in deposits	238,732	149,127
FHLB Advances – net increase	397,000	74,000
Proceeds – term note	10,114	15,000
Principal payments – term note	(30,000)	(1,381)
Proceeds from sale of stock, net	135,959	-
Net cash provided by financing activities	751,805	236,746
Increase (decrease) in cash and cash equivalents	176,646	(28,112)
Cash and cash equivalents at beginning of year	29,692	56,954
Cash and cash equivalents at end of period	\$206,338	\$28,842

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$4,444	\$3,167
Income taxes	\$7,650	\$2,501
Noncash transactions:		
Chargeoffs against allowance for loans losses	\$323	\$—
Transfer of foreclosed loans to REO	\$—	\$1,834
Transfer of loans to loans held for sale	\$113,325	\$—

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 - UNAUDITED

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements include First Foundation Inc. (“FFI”) and its wholly owned subsidiaries: First Foundation Advisors (“FFA”), First Foundation Bank (“FFB” or the “Bank”) and First Foundation Insurance Services (“FFIS”), a wholly owned subsidiary of FFB (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 2015 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, 2014.

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the 2015 presentation.

In September, 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments”. The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2015, including interim periods within those fiscal periods. The adoption of ASU No. 2015-16 is not expected to have a material impact on the Company’s Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 660): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40)”. The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. This update was originally effective for annual reporting periods beginning on or after December 15, 2016 and interim periods therein and requires expanded disclosures. In July 2015 the FASB issued a deferral of ASU 2014-09 of one year making it effective for annual reporting periods beginning on or after December 15, 2017 while also providing for early adoption but not before the original effective date. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the

guidance to have a material impact on the Company's consolidated financial statements.

NOTE 2: ACQUISITIONS

On June 16, 2015, the Company completed the acquisition of Pacific Rim Bank ("PRB"), through a merger of PRB with and into the Bank, in exchange for 621,345 shares of its common stock with a fair value of \$19.00 per share and paid \$543,000 in cash, which was paid to dissenting shareholders. The primary reason for acquiring PRB was to expand our operations into Hawaii.

The acquisition is accounted for under the purchase method of accounting. The acquired assets, assumed liabilities and identifiable intangible assets are recorded at their respective acquisition date fair values. Goodwill of \$1.3 million, which is not tax deductible, is included in intangible assets in the table below. These amounts are based on current information and are subject to adjustment as the Company completes its analysis of the fair values of the assets acquired and liabilities assumed.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

The following table represents the assets acquired and liabilities assumed of PRB as of June 16, 2015 and the fair value adjustments and amounts recorded by the Bank in 2015 under the acquisition method of accounting:

(dollars in thousands)	PRB Book Fair Value		Fair Value
	Value	Adjustments	
Assets Acquired:			
Cash and cash equivalents	\$38,624	\$ —	\$38,624
Securities AFS	7,179	115	7,294
Loans, net of deferred fees	80,192	(2,419)	77,773
Allowance for loan losses	(2,034)	2,034	—
Premises and equipment, net	251	(188)	63
Investment in FHLB stock	152	—	152
Deferred taxes	—	1,802	1,802
REO	4,374	(216)	4,158
Intangible assets	—	2,399	2,399
Other assets	269	—	269
Total assets acquired	\$129,007	\$ 3,527	\$132,534
Liabilities Assumed:			
Deposits	\$119,663	\$ 178	\$119,841
Accounts payable and other liabilities	442	(98)	344
Total liabilities assumed	120,105	80	120,185
Excess of assets acquired over liabilities assumed	8,902	3,447	12,349
Total	\$129,007	\$ 3,527	\$132,534
Consideration:			
Stock issued			\$11,806
Cash paid			543
Total			\$12,349

In many cases, the fair values of assets acquired and liabilities assumed were determined by estimating the cash flows expected to result from those assets and liabilities and discounting them at appropriate market rates. The most significant category of assets for which this procedure was used was that of acquired loans. The excess of expected cash flows above the fair value of the majority of loans will be accreted to interest income over the remaining lives of the loans in accordance with FASB Accounting Standards Codification (“ASC”) 310-20.

Certain loans, for which specific credit-related deterioration since origination was identified, are recorded at fair value reflecting the present value of the amounts expected to be collected. Income recognition on these “purchased credit impaired” loans is based on a reasonable expectation about the timing and amount of cash flows to be collected. Acquired loans deemed impaired and considered collateral dependent, with the timing of the sale of loan collateral

indeterminate, remain on nonaccrual status and have no accretable yield. All purchased credit impaired loans were classified as accruing loans as of and subsequent to the acquisition date.

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

The Company recorded a deferred income tax asset of \$1.8 million related to PRB's operating loss carry-forward and other tax attributes of PRB, along with the effects of fair value adjustments resulting from applying the purchase method of accounting.

The fair value of savings and transaction deposit accounts acquired from PRB were assumed to approximate their carrying value as these accounts have no stated maturity and are payable on demand. Certificates of deposit accounts were valued by comparing the contractual cost of the portfolio to an identical portfolio bearing current market rates. The portfolio was segregated into pools based on remaining maturity. For each pool, the projected cash flows from maturing certificates were then calculated based on contractual rates and prevailing market rates. The valuation adjustment for each pool is equal to the present value of the difference of these two cash flows, discounted at the assumed market rate for a certificate with a corresponding maturity. This valuation adjustment

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

will be accreted to reduce interest expense over the remaining maturities of the respective pools. The Company also recorded a core deposit intangible, which represents the value of the deposit relationships acquired from PRB, of \$1.1 million. The core deposit intangible will be amortized over a period of 7 years.

Pro Forma Information (unaudited)

The following table presents unaudited pro forma information as if the acquisition of PRB had occurred on January 1, 2015, and January 1, 2014, for the nine months periods ending September 30, 2015 and 2014, respectively, after giving effect to certain adjustments. The unaudited pro forma information for these periods includes adjustments for interest income on loans acquired, amortization of intangibles arising from the transaction, adjustments for interest expense on deposits acquired, and the related income tax effects of all these items and the income tax benefits derived from PRB's loss before taxes. The net effect of these pro forma adjustments were increases of \$0.2 million and \$33,000 in net income for the nine months ended September 30, 2015 and 2014, respectively. The unaudited pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been effected on the assumed dates.

	Nine Months Ended September 30,	
	2015	2014
(dollars in thousands)		
Net interest income	\$42,386	\$33,616
Provision for loan losses	1,473	235
Noninterest income	19,610	19,074
Noninterest expenses	47,050	43,330
Income before taxes	13,473	9,125
Taxes on income	5,728	4,051
Net income	\$7,745	\$5,074
Net income per share:		
Basic	\$0.76	\$0.61
Diluted	\$0.73	\$0.58

The revenues (net interest income and noninterest income) and net income for the period from June 16, 2015 to September 30, 2015 related to the operations acquired from PRB and included in the results of operations for the nine months ended September 30, 2015 was approximately \$1.6 million and \$0.5 million, respectively.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

NOTE 3: FAIR VALUE MEASUREMENTS

Assets Measured at Fair Value on a Recurring Basis

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

	Total	Fair Value Measurement Level		
		Level 1	Level 2	Level 3
(dollars in thousands)				
September 30, 2015:				
Investment securities available for sale:				
US Treasury securities	\$300	\$300	\$—	\$ —
FNMA and FHLB Agency notes	16,236	—	16,236	—
Agency mortgage-backed securities	344,023	—	344,023	—
Total assets at fair value on a recurring basis	\$360,559	\$300	\$360,259	\$ —
December 31, 2014:				
Investment securities available for sale:				
US Treasury securities	\$300	\$300	\$—	\$ —
FNMA and FHLB Agency notes	10,277	—	10,277	—
Agency mortgage-backed securities	127,693	—	127,693	—
Total assets at fair value on a recurring basis	\$138,270	\$300	\$137,970	\$ —

Fair Value of Financial Instruments

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

Fair value estimates are made at a discrete point in time based on relevant market information and other information about the financial instruments. Because no active market exists for a significant portion of our financial instruments,

fair value estimates are based in large part on judgments we make primarily regarding current economic conditions, risk characteristics of various financial instruments, prepayment rates, and future expected loss experience. These estimates are subjective in nature and invariably involve some inherent uncertainties. Additionally, unexpected changes in events or circumstances can occur that could require us to make changes to our assumptions and which, in turn, could significantly affect and require us to make changes to our previous estimates of fair value.

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

The Company does not currently have any assets measured at fair value on a nonrecurring basis.

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

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

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

Investment Securities Available for Sale. Investment securities available-for-sale are measured at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as level 3 include asset-backed securities in less liquid markets.

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

Loans Held for Sale. Mortgage loans originated or transferred and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

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

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

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

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

Borrowings. The fair value of \$660 million in borrowings is the carrying value of overnight FHLB advances that approximate fair value because of the short-term maturity of this instrument, resulting in a Level 2 classification. The fair value of term borrowings is derived by calculating the discounted value of future cash flows expected to be paid out by the Company. The term loan with a balance of \$19.9 million at December 31, 2014 was a variable rate loan for which the rate adjusted quarterly, and as such, its fair value was based on its carrying value resulting in a Level 3 classification. The carrying amounts and estimated fair values of financial instruments are as follows as of:

(dollars in thousands)	Carrying Value	Fair Value Measurement Level			Total
		1	2	3	
September 30, 2015:					
Assets:					
Cash and cash equivalents	\$206,338	\$206,338	\$—	\$—	\$206,338
Securities AFS	360,559	300	360,259	—	360,559
Loans	1,524,705	—	—	1,557,574	1,557,574
Loans held for sale	108,903	—	—	110,809	110,809
Investment in FHLB stock	17,820	17,820	—	—	17,820
Liabilities:					
Deposits	1,321,527	960,672	359,382	—	1,320,054
Borrowings	660,000	-	660,000	—	660,000
December 31, 2014:					
Assets:					
Cash and cash equivalents	\$29,692	\$29,692	\$—	\$—	\$29,692
Securities AFS	138,270	300	137,970	—	138,270
Loans	1,156,242	—	—	1,186,408	1,186,408
Investment in FHLB stock	12,361	12,361	—	—	12,361
Liabilities:					
Deposits	962,954	709,604	253,244	—	962,848
Borrowings	282,886	—	263,000	19,886	282,886

NOTE 4: SECURITIES

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

Edgar Filing: First Foundation Inc. - Form 10-Q

(dollars in thousands)	Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
September 30, 2015:				
US Treasury securities	\$ 300	\$—	\$—	\$ 300
FNMA and FHLB Agency notes	16,167	69	—	16,236
Agency mortgage-backed securities	341,085	3,126	(188)	344,023
Total	\$ 357,552	\$3,195	\$(188)	\$ 360,559
December 31, 2014:				
US Treasury securities	\$ 300	\$—	\$—	\$ 300
FNMA and FHLB Agency notes	10,496	—	(219)	10,277
Agency mortgage-backed securities	125,944	1,881	(132)	127,693
Total	\$ 136,740	\$1,881	\$(351)	\$ 138,270

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

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

The table below indicates, as of September 30, 2015 the gross unrealized losses and fair values of our investments, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

(dollars in thousands)	Securities with Unrealized Loss at September 30, 2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
FNMA and FHLB Agency notes	\$—	\$—	\$—	\$—	\$—	\$—
Agency mortgage backed securities	20,268	(188)	—	—	20,268	(188)
Total temporarily impaired securities	\$20,268	\$(188)	\$—	\$—	\$20,268	\$(188)

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

The scheduled maturities of securities AFS and the related weighted average yields were as follows as of September 30, 2015:

(dollars in thousands)	Less than 1 Year	1 Through 5 years	5 Through 10 Years	After 10 Years	Total
Amortized Cost:					
US Treasury securities	\$300	\$—	\$—	\$—	\$300
FNMA and FHLB Agency notes	—	12,760	2,748	659	16,167
Total	\$300	\$12,760	\$2,748	\$659	\$16,467
Weighted average yield	0.45 %	1.50 %	1.94 %	2.86 %	1.61 %
Estimated Fair Value:					
US Treasury securities	\$300	\$—	\$—	\$—	\$300
FNMA and FHLB Agency notes	—	12,798	2,763	675	16,236
Total	\$300	\$12,798	\$2,763	\$675	\$16,536

Agency mortgage backed securities are excluded from the above table because such securities are not due at a single maturity date. The weighted average yield of the agency mortgage backed securities as of September 30, 2015 was 2.29%.

NOTE 5: LOANS

The following is a summary of our loans as of:

(dollars in thousands)	September 30, 2015	December 31, 2014
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties:		
Multifamily	\$478,018	\$481,491
Single family	521,702	360,644
Total real estate loans secured by residential properties	999,720	842,135
Commercial properties	329,972	205,320
Land and construction	12,570	4,309
Total real estate loans	1,342,262	1,051,764
Commercial and industrial loans	158,259	93,537
Consumer loans	35,979	21,125
Total loans	1,536,500	1,166,426
Premiums, discounts and deferred fees and expenses	(495)	(34)
Total	\$1,536,005	\$1,166,392

12

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

As of September 30, 2015 and December 31, 2014, the principal balances shown above are net of unaccreted discount related to loans acquired in an acquisition of \$2.9 million and \$0.8 million, respectively.

In 2012 and 2015, 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 for the periods indicated:

	Nine Months Ended September 30, 2015	Year Ended December 31, 2014
(dollars in thousands)		
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties	\$ —	\$ —
Commercial properties	537	206
Land	1,616	—
Total real estate loans	2,153	206
Commercial and industrial loans	6,788	2,002
Consumer loans	19	249
Total loans	8,960	2,457
Unaccreted discount on purchased credit impaired loans	(2,298)	(651)
Total	\$ 6,662	\$ 1,806

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

	September 30, 2015	December 31, 2014
(dollars in thousands)		
Beginning balance	\$ 130	\$ 2,349
Accretion of income	(207)	(1,076)
Reclassifications from nonaccretable difference	—	(391)
Acquisition	789	—
Disposals	(56)	(752)
Ending balance	\$ 656	\$ 130

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – 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		Total
	30-59 Days	60-89 Days	90 Days or More		Nonaccrual	Current	
September 30, 2015:							
Real estate loans:							
Residential properties	\$—	\$—	\$—	\$—	\$—	\$999,720	\$999,720
Commercial properties	—	—	797	1,579	2,376	327,596	329,972
Land and construction	—	—	965	—	965	11,605	12,570
Commercial and industrial loans	984	76	2,365	2,550	5,975	152,284	158,259
Consumer loans	—	—	—	89	89	35,890	35,979
Total	\$984	\$76	\$4,127	\$4,218	\$9,405	\$1,527,095	\$1,536,500
Percentage of total loans	0.06 %	0.00 %	0.27 %	0.27 %	0.61 %		
December 31, 2014:							
Real estate loans:							
Residential properties	\$—	\$—	\$—	\$—	\$—	\$842,135	\$842,135
Commercial properties	—	805	200	596	1,601	203,719	205,320
Land and construction	—	—	651	—	651	3,658	4,309
Commercial and industrial loans	2,092	289	700	342	3,423	90,114	93,537
Consumer loans	—	—	637	163	800	20,325	21,125
Total	\$2,092	\$1,094	\$2,188	\$1,101	\$6,475	\$1,159,951	\$1,166,426
Percentage of total loans	0.18 %	0.09 %	0.19 %	0.09 %	0.56 %		

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

As of September 30, 2015 and December 31, 2014, the Company had two loans with a balance of \$0.5 million and \$0.5 million, respectively, classified as a troubled debt restructuring (“TDR”) which are included as nonaccrual in the table above. Both loans were classified as a TDR as a result of a reduction in required principal payments and an extension of the maturity date of the loans.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

NOTE 6: ALLOWANCE FOR LOAN LOSSES

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

(dollars in thousands)	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Quarter Ended September 30, 2015:					
Real estate loans:					
Residential properties	\$ 6,628	\$ 291	\$ —	\$ —	\$ 6,919
Commercial properties	1,912	298	(70)	—	2,140
Commercial and industrial loans	1,917	77	—	—	1,994
Consumer loans	343	(96)	—	—	247
Total	\$ 10,800	\$ 570	\$ (70)	\$ —	\$ 11,300
Nine Months Ended September 30, 2015:					
Real estate loans:					
Residential properties	\$ 6,586	\$ 333	\$ —	\$ —	\$ 6,919
Commercial properties	1,526	924	(310)	—	2,140
Commercial and industrial loans	1,897	110	(13)	—	1,994
Consumer loans	141	106	—	—	247
Total	\$ 10,150	\$ 1,473	\$ (323)	\$ —	\$ 11,300
Year Ended December 31, 2014:					
Real estate loans:					
Residential properties	\$ 6,157	\$ 429	\$ —	\$ —	\$ 6,586
Commercial properties	1,440	86	—	—	1,526
Commercial and industrial loans	2,149	(252)	—	—	1,897
Consumer loans	169	(28)	—	—	141
Total	\$ 9,915	\$ 235	\$ —	\$ —	\$ 10,150

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – 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				Component
	Individual	Impaired	Other	Loans	
September 30, 2015:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	\$—	\$6,849	\$—	\$6,849	\$ 141
Commercial properties	—	2,092	—	2,092	409
Land and construction	—	118	—	118	46
Commercial and industrial loans	807	1,187	—	1,994	299
Consumer loans	—	247	—	247	14
Total	\$807	\$10,493	\$—	\$11,300	\$ 909
Loans:					
Real estate loans:					
Residential properties	\$—	\$999,720	\$—	\$999,720	\$ 7,958
Commercial properties	6,366	323,248	358	329,972	45,983
Land and construction	—	11,429	1,141	12,570	3,856
Commercial and industrial loans	7,748	145,348	5,163	158,259	30,360
Consumer loans	89	35,890	—	35,979	1,965
Total	\$14,203	\$1,515,635	\$ 6,662	\$1,536,500	\$ 90,122
December 31, 2014:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	\$—	\$6,586	\$—	\$6,586	\$ 26
Commercial properties	26	1,500	—	1,526	193
Land and construction	—	—	—	—	4
Commercial and industrial loans	686	1,211	—	1,897	45
Consumer loans	—	141	—	141	—
Total	\$712	\$9,438	\$—	\$10,150	\$ 268
Loans:					
Real estate loans:					
Residential properties	\$43	\$842,092	\$—	\$842,135	\$ 2,861
Commercial properties	5,742	199,378	200	205,320	21,126
Land and construction	—	4,309	—	4,309	1,099

Edgar Filing: First Foundation Inc. - Form 10-Q

Commercial and industrial loans	5,635	86,343	1,559	93,537	5,893
Consumer loans	116	20,962	47	21,125	8
Total	\$11,536	\$1,153,084	\$ 1,806	\$1,166,426	\$ 30,987

The column labeled “Unaccreted Credit Component Other Loans” represents the amount of unaccreted credit component discount for loans acquired in an acquisition that were not classified as purchased impaired or individually evaluated for impairment as of the dates indicated, and the stated principal balance of the related loans. The unaccreted credit component discount is equal to 1.01% and 0.86% of the stated principal balance of these loans as of September 30, 2015 and December 31, 2014, respectively. In addition to this unaccreted credit component discount, an additional \$0.4 million of the ALLL has been provided for these loans as of September 30, 2015 and December 31, 2014.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

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

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

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

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

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

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

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

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

(dollars in thousands)	Pass	Special Mention	Substandard	Impaired	Total
September 30, 2015:					
Real estate loans:					
Residential properties	\$998,220	\$ 1,500	\$ —	\$—	\$999,720
Commercial properties	323,248	—	358	6,366	329,972
Land and construction	11,429	—	1,141	—	12,570
Commercial and industrial loans	143,747	1,601	5,163	7,748	158,259
Consumer loans	35,890	—	—	89	35,979
Total	\$1,512,534	\$ 3,101	\$ 6,662	\$ 14,203	\$1,536,500

Edgar Filing: First Foundation Inc. - Form 10-Q

December 31, 2014:

Real estate loans:

Residential properties	\$841,538	\$ 554	\$ —	\$43	\$842,135
Commercial properties	198,112	1,266	200	5,742	205,320
Land and construction	4,309	—	—	—	4,309
Commercial and industrial loans	81,067	5,276	1,559	5,635	93,537
Consumer loans	20,962	—	47	116	21,125
Total	\$1,145,988	\$ 7,096	\$ 1,806	\$11,536	\$1,166,426

17

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – 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
September 30, 2015:					
Real estate loans:					
Residential properties	\$—	\$ —	\$—	\$ —	\$ —
Commercial properties	6,607	6,367	—	—	—
Commercial and industrial loans	4,455	4,291	3,457	3,457	807
Consumer loans	125	88	—	—	—
Total	\$11,187	\$ 10,746	\$3,457	\$ 3,457	\$ 807
December 31, 2014:					
Real estate loans:					
Residential properties	\$43	\$ 43	\$—	\$ —	\$ —
Commercial properties	5,568	5,568	174	174	26
Commercial and industrial loans	2,094	2,094	3,541	3,451	686
Consumer loans	116	116	—	—	—
Total	\$7,821	\$ 7,821	\$3,715	\$ 3,715	\$ 712

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

(dollars in thousands)	Nine months Ended September 30, 2015		Year Ended December 31, 2014	
	Interest Recorded after Investment	Income Impairment	Average Recorded after Investment	Interest Income Impairment
Real estate loans:				
Residential properties	\$36	\$ 2	\$3,000	\$ 25
Commercial properties	6,588	220	3,217	140
Commercial and industrial loans	8,067	343	1,196	241
Consumer loans	105	—	126	—
Total	\$14,796	\$ 565	\$7,539	\$ 406

There was no interest income recognized on a cash basis in either 2015 or 2014 on impaired loans.

NOTE 7: DEPOSITS

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

(dollars in thousands)	September 30, 2015		December 31, 2014	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Demand deposits:				
Noninterest-bearing	\$322,798	—	\$246,137	—
Interest-bearing	293,565	0.476 %	291,509	0.502 %
Money market and savings	344,309	0.556 %	171,958	0.626 %
Certificates of deposits	360,855	0.549 %	253,350	0.619 %
Total	\$1,321,527	0.400 %	\$962,954	0.427 %

At September 30, 2015, of the \$110.6 million of certificates of deposits of \$250,000 or more, \$103.8 million mature within one year and \$6.8 million mature after one year. Of the \$250.2 million of certificates of deposit of less than \$250,000, \$231.2 million mature within one year and \$19.0 million mature after one year. At December 31, 2014, of the \$117.0 million of certificates of

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

deposits of \$250,000 or more, \$96.9 million mature within one year and \$20.1 million mature after one year. Of the \$136.4 million of certificates of deposit of less than \$250,000, \$127.1 million mature within one year and \$9.3 million mature after one year.

NOTE 8: BORROWINGS

At September 30, 2015, our borrowings consisted of \$660.0 million of overnight FHLB advances. At December 31, 2014, our borrowings consisted of \$263.0 million of overnight FHLB advances and a \$19.9 million term note payable by FFI. The FHLB advances were paid in full in the early part of October 2015 and January 2015, respectively, and bore interest rates of 0.20% and 0.27%, respectively. Because the Bank utilizes overnight borrowings, the balance of outstanding borrowings fluctuates on a daily basis.

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 periods indicated:

(dollars in thousands, except per share amounts)	Quarter Ended		Quarter Ended	
	September 30, 2015		September 30, 2014	
	Basic	Diluted	Basic	Diluted
Net income	\$2,762	\$2,762	\$2,659	\$2,659
Basic common shares outstanding	12,623,924	12,623,924	7,735,350	7,735,350
Effect of contingent shares issuable		796		64,000
Effect of options and restricted stock		450,215		441,074
Diluted common shares outstanding		13,074,935		8,240,424
Earnings per share	\$0.22	\$0.21	\$0.34	\$0.32

Based on a weighted average basis, options to purchase 14,500 and 65,407 shares of common stock were excluded for the quarter ended September 30, 2015 and 2014, respectively, because their effect would have been anti-dilutive.

(dollars in thousands, except per share amounts)	Nine Months Ended		Nine Months Ended	
	September 30, 2015		September 30, 2014	
	Basic	Diluted	Basic	Diluted
Net income	\$8,330	\$8,330	\$5,388	\$5,388
Basic common shares outstanding	9,534,056	9,534,056	7,734,372	7,734,372
Effect of contingent shares issuable		796		64,000
Effect of options and restricted stock		394,593		390,261
Diluted common shares outstanding		9,929,445		8,188,633
Earnings per share	\$0.87	\$0.84	\$0.70	\$0.66

Based on a weighted average basis, options to purchase 56,847 and 65,633 shares of common stock were excluded for the nine months ended September 30, 2015 and 2014, respectively, because their effect would have been anti-dilutive.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

NOTE 10: SEGMENT REPORTING

For the nine months ended September 30, 2015 and 2014, 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)	Banking	Wealth Management	Other	Total
Quarter ended September 30, 2015:				
Interest income	\$ 17,108	\$ —	\$—	\$ 17,108
Interest expense	1,509	—	138	1,647
Net interest income	15,599	—	(138)	15,461
Provision for loan losses	570	—	—	570
Noninterest income	1,839	5,171	(142)	6,868
Noninterest expense	11,653	4,685	618	16,956
Income (loss) before taxes on income	\$ 5,215	\$ 486	\$(898)	\$ 4,803

Quarter ended September 30, 2014:				
Interest income	\$ 12,384	\$—	\$—	\$ 12,384
Interest expense	1,014	—	223	1,237
Net interest income	11,370	—	(223)	11,147
Provision for loan losses	-	—	-	-
Noninterest income	1,765	5,113	(141)	6,737
Noninterest expense	8,216	4,351	528	13,095
Income (loss) before taxes on income	\$ 4,919	\$ 762	\$(892)	\$ 4,789

	Banking	Wealth Management	Other	Total
Nine months ended September 30, 2015:				
Interest income	\$ 45,259	\$ —	\$ —	\$ 45,259
Interest expense	3,829	—	674	4,503
Net interest income	41,430	—	(674)	40,756
Provision for loan losses	1,473	—	—	1,473
Noninterest income	4,501	15,426	(435)	19,492
Noninterest expense	28,138	13,950	2,200	44,288
Income (loss) before taxes on income	\$ 16,320	\$ 1,476	\$ (3,309)	\$ 14,487

Nine months ended September 30, 2014:

Edgar Filing: First Foundation Inc. - Form 10-Q

Interest income	\$	33,990	\$	—	\$	—	\$33,990
Interest expense		2,753		—		524	3,277
Net interest income		31,237		—		(524)	30,713
Provision for loan losses		235		—		-	235
Noninterest income		4,694		14,400		(390)	18,704
Noninterest expense		22,773		13,576		3,163	39,512
Income (loss) before taxes on income	\$	12,923	\$	824	\$	(4,077)	\$9,670

NOTE 11: CAPITAL

On July 1, 2015, the Company filed a “shelf” registration statement with the SEC on Form S-3 for the purpose of registering, under the Securities Act of 1933, as amended, an aggregate of \$150 million of shares of its common stock that would be available for possible sale, in one or more transactions, in the future. The registration statement was declared effective on July 20, 2015. Pursuant to this registration statement, the Company commenced a public offering in which it sold a total of 6,233,766 shares of its common stock, at a public offering price of \$19.25 per share, on August 12, 2015. The offering resulted in gross proceeds of \$120.0 million and net proceeds of approximately \$113.7 million, after underwriting discounts and estimated expenses of the offering. The Company used a portion of the net proceeds from this offering to repay all of its \$29 million of outstanding term debt and intends to use the remaining proceeds for general corporate purposes, including support of organic growth and possible acquisitions. On August 14, 2015, the

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

underwriters exercised their option to purchase an additional 935,065 shares of the Company's common stock, at a price of \$19.25 per share, to cover any over-allotments in the public offering. As a result, the Company received additional gross proceeds of \$18.0 million and net proceeds of \$17.1 million, after underwriting discounts.

-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to facilitate the understanding and assessment of significant changes and trends in our businesses that accounted for the changes in our results of operations in the quarter and nine months ended September 30, 2015 as compared to our results of operations in the quarter and nine months ended September 30, 2014; and our financial condition at September 30, 2015 as compared to our financial condition at December 31, 2014. 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, 2014, and the notes thereto, which are set forth in Item 8 of our Annual Report on Form 10-K (our "2014 10-K") which we filed with the Securities and Exchange Commission (or SEC) on March 16, 2015.

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 2014 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 2014 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 2014 10-K, except as may otherwise be required by applicable law or government regulations.

Recent Developments and Overview

On July 1, 2015, the Company filed a "shelf" registration statement with the SEC on Form S-3 for the purpose of registering, under the Securities Act of 1933, as amended, an aggregate of \$150 million of shares of its common stock that would be available for possible sale, in one or more transactions, in the future. The registration statement was declared effective on July 20, 2015. Pursuant to this registration statement, the Company commenced a public offering in which it sold a total of 6,233,766 shares of its common stock, at a public offering price of \$19.25 per share, on August 12, 2015. The offering resulted in gross proceeds of \$120.0 million and net proceeds of approximately \$113.7 million, after underwriting discounts and estimated expenses of the offering. The Company used a portion of the net proceeds from this offering to repay all of its \$29 million of outstanding term debt and intends to use the remaining proceeds for general corporate purposes, including supporting organic growth and possible acquisitions. On August

14, 2015, the underwriters exercised their option to purchase an additional 935,065 shares of the Company's common stock, at a price of \$19.25 per share, to cover any over-allotments in the public offering. As a result, the Company received additional gross proceeds of \$18.0 million and net proceeds of \$17.1 million, after underwriting discounts.

We have continued to grow our operations. Comparing the first nine months of 2015 to the corresponding period in 2014, we have increased our revenues (net interest income and noninterest income) by 22%. This growth in revenues is the result of the growth in Banking's total interest-earning assets. During the first nine months of 2015, total loans in Banking increased by \$479 million or 41% while securities available for sale increased 161%. Wealth Management's assets under management (or "AUM") increased by \$73 million or 2% during the first nine months of 2015 as compared to the first nine months of 2014, and totaled \$3.29 billion as of September 30, 2015, as, during the first nine months of 2015, the addition of \$411 million of AUM from new accounts was offset in part by portfolio losses of \$122 million which reflected the overall downturn in the equity markets during the first nine months of 2015.

The results of operations for Banking and Wealth Management reflect the benefits of this growth. Income before taxes for Banking increased \$3.4 million from \$12.9 million in the first nine months of 2014 to \$16.3 million in the first nine months of 2015. Income before taxes for Wealth Management increased from \$0.8 million in the first nine months of 2014 to \$1.5 million in the first nine months of 2015. On a consolidated basis, income before taxes increased \$4.8 million from \$9.7 million in the first nine months of 2014 to \$14.5 million in the first nine months of 2015.

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 increased by a recapture of previously established chargeoffs. Loans are charged against the ALLL when management believes that collectability of the principal is unlikely. The ALLL is an amount that management believes will be adequate to absorb estimated losses on existing loans that may become uncollectible based on an evaluation of the collectability of loans and prior loan loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions and certain other subjective factors that may affect the borrower’s ability to pay. While we use the best information available to make this evaluation, future adjustments to

our ALLL may be necessary if there are significant changes in economic or other conditions that can affect the collectability in full of loans in our loan portfolio.

Adoption of new or revised accounting standards. We have elected to take advantage of the extended transition period afforded by the Jumpstart our Business Startups Act of 2012 (or “JOBS Act”), for the implementation of new or revised accounting standards. As a result, we will not be required to comply with new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies or we cease to be an “emerging growth” company as defined in the JOBS Act. As a result of this election, our financial statements may not be comparable to the financials statements of companies that comply with public company effective dates.

We have two business segments, “Banking” and “Investment Management and Wealth Planning” (“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.

Results of Operations

Our net income for the quarter and nine months ending September 30, 2015 was \$2.8 million and \$8.3 million, respectively as compared to \$2.7 million and \$5.4 million for the corresponding periods in 2014. Income before taxes for the quarter and nine months ending September 30, 2015 was \$4.8 million and \$14.5 million, respectively, as compared to \$4.8 million and \$9.7 million for the corresponding periods in 2014. The effective tax rate was 42.5% and 44.0% for the nine month periods ending September 30, 2015 and 2014, respectively.

The primary sources of revenue for Banking are net interest income, fees from its deposits, trust and insurance services, and certain loan fees. The primary sources of revenue for Wealth Management are asset management fees assessed on the balance of AUM and fees charged for consulting and administrative services. Compensation and benefit costs, which represent the largest component of noninterest expense accounted for 63% and 77%, respectively, of the total noninterest expense for Banking and Wealth Management in the first nine months of 2015.

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

(dollars in thousands)	Banking	Wealth Management	Other	Total
2015:				
Interest income	\$ 17,108	\$ —	\$ —	\$ 17,108
Interest expense	1,509	—	138	1,647
Net interest income	15,599	—	(138)	15,461
Provision for loan losses	570	—	—	570
Noninterest income	1,839	5,171	(142)	6,868
Noninterest expense	11,653	4,685	618	16,956
Income (loss) before taxes on income	\$ 5,215	\$ 486	\$(898)	\$ 4,803
2014:				
Interest income	\$ 12,384	\$ —	\$ —	\$ 12,384
Interest expense	1,014	—	223	1,237
Net interest income	11,370	—	(223)	11,147
Provision for loan losses	-	—	-	-
Noninterest income	1,765	5,113	(141)	6,737
Noninterest expense	8,216	4,351	528	13,095
Income (loss) before taxes on income	\$ 4,919	\$ 762	\$(892)	\$ 4,789

General. Consolidated income before taxes was \$4.8 million for both the third quarter of 2015 and the third quarter of 2014. The \$0.3 million increase in income before taxes of Banking was offset by a \$0.3 million decrease in income before taxes of Wealth Management. The \$0.3 million increase in income before taxes for Banking was due primarily to higher net interest income, which was partially offset by higher noninterest expenses. The \$0.3 million decrease in income before taxes for Wealth Management was primarily due to higher noninterest expenses.

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

(dollars in thousands)	Banking	Wealth Management	Other	Total
2015:				
Interest income	\$45,259	\$ —	\$—	\$45,259
Interest expense	3,829	—	674	4,503
Net interest income	41,430	—	(674)	40,756
Provision for loan losses	1,473	—	—	1,473
Noninterest income	4,501	15,426	(435)	19,492
Noninterest expense	28,138	13,950	2,200	44,288
Income (loss) before taxes on income	\$16,320	\$ 1,476	\$(3,309)	\$14,487
2014:				
Interest income	\$33,990	\$ —	\$—	\$33,990
Interest expense	2,753	—	524	3,277
Net interest income	31,237	—	(524)	30,713
Provision for loan losses	235	—	-	235
Noninterest income	4,694	14,400	(390)	18,704
Noninterest expense	22,773	13,576	3,163	39,512
Income (loss) before taxes on income	\$12,923	\$ 824	\$(4,077)	\$9,670

General. Consolidated income before taxes for the first nine months of 2015 was \$14.5 million as compared to \$9.7 million for the first nine months of 2014. This increase was due to increases in income before taxes for Banking and Wealth Management of \$3.4 million and \$0.6 million, respectively, and a \$0.8 million decrease in corporate interest and noninterest expenses. The \$3.4 million increase in income before taxes for Banking was due primarily to higher net interest income, which was partially offset by a higher provision for loans losses and higher noninterest expenses. The \$0.6 million increase in income before taxes for Wealth Management was due to higher noninterest income which was partially offset by noninterest expenses. The \$0.8 million decrease in corporate interest and noninterest expenses was primarily due to the expensing of \$1.0 million in IPO costs in the second quarter of 2014.

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

(dollars in thousands)	Quarter Ended September 30: 2015			2014			
	Average Balances	Interest	Average Yield / Rate	Average Balances	Interest	Average Yield / Rate	
Interest-earning assets:							
Loans	\$ 1,562,960	\$ 15,634	4.00 %	\$ 1,038,829	\$ 11,404	4.39 %	
Securities	190,107	1,107	2.33 %	133,430	799	2.37 %	
Fed funds, FHLB stock, and deposits	49,917	367	2.91 %	21,919	181	3.30 %	
Total interest-earning assets	1,802,984	17,108	3.79 %	1,194,178	12,384	4.14 %	
Noninterest-earning assets:							
Nonperforming assets	2,553			4,066			
Other	31,529			16,588			
Total assets	\$ 1,837,066			\$ 1,214,832			
Interest-bearing liabilities:							
Demand deposits	\$ 315,933	379	0.48 %	\$ 246,148	317	0.51 %	
Money market and savings	310,962	452	0.58 %	165,477	262	0.63 %	
Certificates of deposit	370,959	497	0.53 %	263,014	374	0.56 %	
Total interest-bearing deposits	997,854	1,328	0.53 %	674,639	953	0.56 %	
Borrowings	334,022	319	0.38 %	206,320	284	0.55 %	
Total interest-bearing liabilities	1,331,876	1,647	0.49 %	880,959	1,237	0.56 %	
Noninterest-bearing liabilities:							
Demand deposits	300,414			232,226			
Other liabilities	10,492			9,293			
Total liabilities	1,642,782			1,122,478			
Shareholders' equity	194,284			92,354			
Total liabilities and equity	\$ 1,837,066			\$ 1,214,832			
Net Interest Income		\$ 15,461			\$ 11,147		

Edgar Filing: First Foundation Inc. - Form 10-Q

Net Interest Rate Spread	3.30 %	3.58 %
Net Yield on Interest-earning Assets	3.43 %	3.73 %

26

Edgar Filing: First Foundation Inc. - Form 10-Q

(dollars in thousands)	Nine Months Ended September 30:						
	2015			2014			
	Average Balances	Interest	Average Yield / Rate		Average Balances	Interest	Average Yield / Rate
Interest-earning assets:							
Loans	\$ 1,378,191	\$41,097	3.98 %		\$978,725	\$31,735	4.33 %
Securities	154,538	2,744	2.37 %		96,111	1,741	2.42 %
Fed funds, FHLB stock, and deposits	41,837	1,418	4.53 %		36,989	514	1.86 %
Total interest-earning assets	1,574,566	45,259	3.83 %		1,111,825	33,990	4.08 %
Noninterest-earning assets:							
Nonperforming assets	1,724				3,774		
Other	22,886				16,021		
Total assets	\$ 1,599,176				\$ 1,131,620		
Interest-bearing liabilities:							
Demand deposits	\$298,613	1,022	0.46 %		\$236,267	898	0.51 %
Money market and savings	236,699	1,030	0.58 %		139,922	572	0.55 %
Certificates of deposit	315,488	1,314	0.56 %		261,601	1,125	0.57 %
Total interest-bearing deposits	850,800	3,366	0.53 %		637,790	2,595	0.54 %
Borrowings	334,260	1,137	0.45 %		178,709	682	0.51 %
Total interest-bearing liabilities	1,185,060	4,503	0.51 %		816,499	3,277	0.54 %
Noninterest-bearing liabilities:							
Demand deposits	269,930				217,625		
Other liabilities	10,075				7,493		
Total liabilities	1,465,065				1,041,617		
Shareholders' equity	134,111				90,003		
Total liabilities and equity	\$ 1,599,176				\$ 1,131,620		
Net Interest Income		\$40,756				\$30,713	
Net Interest Rate Spread			3.33 %				3.54 %
Net Yield on Interest-earning Assets			3.45 %				3.68 %

Net interest income is impacted by the volume (changes in volume multiplied by prior rate), interest rate (changes in rate multiplied by prior volume) and mix of interest-earning assets and interest-bearing liabilities. The following table provides a breakdown of the changes in net interest income due to volume and rate changes for the quarter and nine months ended September 30, 2015, as compared to corresponding periods in 2014:

Edgar Filing: First Foundation Inc. - Form 10-Q

(dollars in thousands)	Quarter Ended September 30, 2015 vs. 2014			Nine Months Ended September 30, 2015 vs. 2014		
	Increase (Decrease) due to:			Increase (Decrease) due to:		
	Volume	Rate	Total	Volume	Rate	Total
Interest earned on:						
Loans	\$5,321	\$(1,091)	\$4,230	\$12,055	\$(2,693)	\$9,362
Securities	323	(15)	308	1,035	(32)	1,003
Fed funds, FHLB stock, and deposits	209	(23)	186	75	829	904
Total interest-earning assets	5,853	(1,129)	4,724	13,165	(1,896)	11,269
Interest paid on:						
Demand deposits	84	(22)	62	220	(96)	124
Money market and savings	213	(23)	190	418	40	458
Certificates of deposit	145	(22)	123	226	(37)	189
Borrowings	140	(105)	35	535	(80)	455
Total interest-bearing liabilities	582	(172)	410	1,399	(173)	1,226
Net interest income	\$5,271	\$(957)	\$4,314	\$11,766	\$(1,723)	\$10,043

Net interest income increased 39% from \$11.1 million in the third quarter of 2014, to \$15.5 million in the third quarter of 2015 due primarily to a 41% increase in interest-earning assets which was partially offset by a decrease in our net interest rate spread. The decrease in the net interest rate spread from 3.58% in the third quarter of 2014 to 3.30% in the third quarter of 2015 was due to a decrease in yield on total interest earning assets. The decrease in yield on interest earning assets from 4.14% to 3.79% was due to a decrease in the yield on loans. The decrease in yield on loans was due to prepayments of higher yielding loans and the addition of loans at current market rates which are lower than the current yield on our loan portfolio. The rate paid on interest bearing liabilities decreased slightly due to a decrease in the rates paid on borrowings. The decrease in the rates paid on borrowings was primarily due to the higher proportion of borrowings being from FHLB advances, which had a weighted average borrowing rate of 0.26% during the third quarter of 2015, as compared to the term loan which bears interest at ninety day Libor plus 3.75% per annum. The term loan was paid off in August 2015. The weighted average rate on total deposits was 0.41% for the third quarter of 2015 as compared to 0.42% for the third quarter of 2014.

Net interest income increased 33% from \$30.7 million in the first nine months of 2014, to \$40.8 million in the first nine months of 2015 because of a 36% increase in interest-earning assets, which was partially offset by a decrease in our net interest rate spread. The decrease in the net interest rate spread from 3.54% in the first nine months of 2014 to 3.33% in the first nine months of 2015 was due to a decrease in yield on total interest earning assets. The yield on interest earning assets decreased from 4.08% in the first nine months of 2014 to 3.83% in the first nine months of 2015 due to a decrease in the yield on loans which was partially offset by an increase in yield on Fed funds, FHLB stock, and deposits. The decrease in yield on loans was due to prepayments of higher yielding loans and the addition of loans at current market rates which are lower than the current yield on our loan portfolio. The increase in yield on Fed funds, FHLB stock, and deposits during the third quarter of 2015 as compared to the third quarter of 2014 was primarily the result of a special \$0.5 million dividend the Bank received on its FHLB stock holdings in the second quarter of 2015. The rate paid on interest bearing liabilities decreased slightly due to a decrease in the rates paid on borrowings. The decrease in the rates paid on borrowings was primarily due to the higher proportion of borrowings being from FHLB advances, which had a weighted average borrowing rate of 0.20% during the first nine months of 2015, as compared to the term loan which bears interest at ninety day Libor plus 3.75% per annum. The term loan was paid off in August 2015. The weighted average rate on total deposits was 0.40% for the nine months ended September 30, 2015 as compared to 0.41% for the corresponding period in 2014.

Provision for loan losses. The provision for loan losses represents our estimate of the amount necessary to be charged against the current period's earnings to maintain the ALLL at a level that we consider adequate in relation to the estimated losses inherent in the loan portfolio. The provision for loan losses is impacted by changes in loan balances as well as changes in estimated loss assumptions and charge-offs and recoveries. The amount of the provision also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions and certain other subjective factors that may affect the ability of borrowers to meet their repayment obligations to us. For the quarter and nine months ended September 30, 2015, we recorded provisions for loan losses of \$0.6 million and \$1.5 million, respectively, as compared to no provision for loans losses recorded for the quarter ended September 30, 2014 and a \$0.2 million provision for loan losses recorded for the nine months ended September 30, 2014. The increases in the provision for loan losses for the quarter and nine months ended September 30, 2015 as compared to the corresponding periods in 2014 reflects the significant increase in loans and a small increase in loan chargeoffs, which were partially offset by a decrease in estimated loss assumptions. Since September 30, 2014, excluding the loans acquired in the acquisition of PRB, our loans have increased by 35%. We recognized \$0.3 million in chargeoffs the first nine months of 2015, as compared to no loan chargeoffs recognized in the first nine months of 2014.

Noninterest income. Noninterest income for Banking includes fees charged to clients for trust services and deposit services, consulting fees, prepayment and late fees charged on loans and insurance commissions. The following table provides a breakdown of noninterest income for Banking for the quarter and nine months ended September 30:

(dollars in thousands)	2015	2014
Quarter Ended September 30:		
Trust fees	\$555	\$558
Consulting fees	243	240
Deposit charges	125	114
Gain on sale of REO	—	383
Prepayment fees	503	341
Other	413	129
Total noninterest income	\$1,839	\$1,765
Nine Months Ended September 30:		
Trust fees	\$1,755	\$1,564
Consulting fees	736	350
Deposit charges	315	304
Gain on sale of REO	—	1,038
Prepayment fees	998	801
Other	697	637
Total noninterest income	\$4,501	\$4,694

Edgar Filing: First Foundation Inc. - Form 10-Q

Noninterest income for Banking in the third quarter of 2015, as compared to the third quarter of 2014, did not change significantly as a \$0.2 million gain on sale of loan and an \$0.2 million increase in prepayment fees offset a \$0.4 million gain on sale of REO recognized in the third quarter of 2014. The \$0.2 million decrease in noninterest income for Banking in the first nine months of 2015 as compared to the corresponding period in 2014 was due primarily to a \$1.0 million gain on sale of REO in 2014, with no comparable amounts in 2015. This was partially offset by increased trust, consulting fees and prepayments fees realized during the first nine months of 2015, when compared to the corresponding period in 2014, and a \$0.2 million gain on sale of loan realized during the first nine months of 2015. In June of 2014, the foundation and family consulting activities were transferred from Wealth Management to Banking and, as a result, the related revenues are now recognized under Banking.

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

(dollars in thousands)	2015	2014
Quarter Ended September 30:		
Asset management fees	\$5,146	\$5,074
Consulting and administration fees	27	39
Other	(2)	-
Total noninterest income	\$5,171	\$5,113
Nine Months Ended September 30:		
Asset management fees	\$15,360	\$13,909
Consulting and administration fees	94	498
Other	(28)	(7)
Total noninterest income	\$15,426	\$14,400

The \$1.0 million increase in noninterest income in Wealth Management in the first nine months of 2015 as compared to the corresponding period in 2014 was primarily due to increases in asset management fees of 10% which was partially offset by a decrease in consulting and administration fees. The increases in asset management fees were primarily due to a 12% increase in the AUM balances on which the assets management fees are calculated for the nine months ended September 30, 2015, as compared to the corresponding period in 2014. In June of 2014, the foundation and family consulting activities were transferred from Wealth Management to Banking and, as a result, the related revenues are now recognized under Banking.

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

(dollars in thousands)	Banking		Wealth Management	
	2015	2014	2015	2014
Quarter Ended September 30:				
Compensation and benefits	\$7,084	\$5,198	\$3,508	\$3,360

Edgar Filing: First Foundation Inc. - Form 10-Q

Occupancy and depreciation	2,003	1,373	508	441
Professional services and marketing	900	651	388	399
Other expenses	1,666	994	281	151
Total noninterest expense	\$11,653	\$8,216	\$4,685	\$4,351

Nine Months Ended September 30:

Compensation and benefits	\$17,819	\$13,984	\$10,753	\$10,438
Occupancy and depreciation	4,910	3,950	1,445	1,444
Professional services and marketing	2,222	1,833	1,153	1,236
Other expenses	3,187	3,006	599	458
Total noninterest expense	\$28,138	\$22,773	\$13,950	\$13,576

The \$3.4 million increase in noninterest expense in Banking in the third quarter of 2015 as compared to the third quarter of 2014, was due primarily to increases in staffing and costs associated with the Bank's expansion of its operations and increased costs due to the acquisition of PRB. Compensation and benefits for Banking increased \$1.9 million during in the third quarter of 2015 as compared to the third quarter of 2014 as the number of full-time equivalent employees (or FTE) in Banking increased to 208 in the third quarter of 2015 as compared to 150 in the third quarter of 2014. Increases in occupancy and depreciation, professional services and marketing and other expenses were primarily related to increased costs related to the acquisition of PRB. In addition, \$0.3 million of costs related to the conversion of PRB core processing systems were included in other expenses in the third quarter of 2015.

The \$5.4 million increase in noninterest expense in Banking in the first nine months of 2015 as compared to the corresponding period in 2014 was due primarily to increases in staffing and costs associated with the Bank's expansion of its

operations and increased costs due to the acquisition of PRB. Compensation and benefits for Banking increased \$3.8 million during the first nine months of 2015 as compared to the corresponding period in 2014 as the number of FTE in Banking increased to 180.1 during the first nine months of 2015 from 142.1 during the corresponding period in 2014. Increases in occupancy and depreciation, professional services and marketing and other expenses were primarily related to increased costs related to the acquisition of PRB. In addition, \$0.3 million of costs related to the conversion of PRB core processing systems were included in other expenses in the third quarter of 2015 while a \$1.0 million provision related to contingent consideration to be paid to the former shareholders of DCB was recorded in the first nine months of 2014.

Noninterest expense in Wealth Management in the quarter and nine months ended September 30, 2015 were \$0.3 million and \$0.4 million higher than the corresponding periods in 2014 as increased costs related to increased staff levels which were partially offset by the reduced costs related to the transfer of foundation and family consulting activities to Banking in June of 2014. FTE for the quarter and nine months ended September 30, 2015, were 56.5 and 55.3, respectively, as compared to 51.7 and 53.2 for the corresponding periods in 2014.

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, as of:

(dollars in thousands)	Banking	Wealth Management	Other and Eliminations	Total
September 30, 2015:				
Cash and cash equivalents	\$206,219	\$ 5,452	\$ (5,333)	) \$206,338
Securities AFS	360,559	—	—	360,559
Loans Held For Sale	108,903	—	—	108,903
Loans, net	1,524,705	—	—	1,524,705
FHLB Stock	17,820	—	—	17,820
Premises and equipment	1,755	542	100	2,397
Deferred taxes	10,995	896	78	11,969
REO	4,492	—	—	4,492
Goodwill and intangibles	2,481	—	—	2,481
Other assets	7,126	110	1,847	9,083
Total assets	\$2,245,055	\$ 7,000	\$ (3,308)	) \$2,248,747
Deposits	\$1,407,659	\$ —	\$ (86,132)	) \$1,321,527
Borrowings	660,000	—	—	660,000
Intercompany balances	2,569	622	(3,191)) —
Other liabilities	6,346	2,417	1,161	9,924
Shareholders' equity	168,481	3,961	84,854	257,296
Total liabilities and equity	\$2,245,055	\$ 7,000	\$ (3,308)	) \$2,248,747
December 31, 2014:				
Cash and cash equivalents	\$29,585	\$ 3,750	\$ (3,643)	) \$29,692
Securities AFS	138,270	—	—	138,270
Loans, net	1,156,021	221	—	1,156,242
FHLB Stock	12,361	—	—	12,361

Edgar Filing: First Foundation Inc. - Form 10-Q

Premises and equipment	1,539	548	100	2,187
Deferred taxes	9,196	601	(49)	) 9,748
REO	334	—	—	334
Other assets	4,827	500	1,263	6,590
Total assets	\$1,352,133	\$ 5,620	\$ (2,329)	) \$1,355,424
Deposits	\$972,319	\$ —	\$ (9,365)	) \$962,954
Borrowings	263,000	—	19,886	282,886
Intercompany balances	1,287	73	(1,360)) —
Other liabilities	6,352	2,486	1,250	10,088
Shareholders' equity	109,175	3,061	(12,740)	) 99,496
Total liabilities and equity	\$1,352,133	\$ 5,620	\$ (2,329)	) \$1,355,424

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

During the first nine months of 2015, total assets for the Company and FFB increased by \$893 million. For FFB, during the first nine months of 2015, loans and deposits increased \$479 million and \$435 million, respectively, cash and cash equivalents increased by \$177 million, securities AFS increased by \$222 million and FHLB advances increased by \$397 million. These increases included \$69 million and of loans and \$127 million of deposits related to the acquisition of PRB. Borrowings at FFI decreased by \$20 million during the first nine months of 2015.

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 \$177 million during the first nine months of 2015. 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. At the end of the third quarter of 2015, the Bank borrowed an additional \$160 million from the FHLB for one day as this additional amount was paid back on October 1, 2015.

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 Unrealized		Estimated Fair Value
		Gains	Losses	
September 30, 2015:				
US Treasury security	\$ 300	\$—	\$—	\$ 300
FNMA and FHLB Agency notes	16,167	69	—	16,236
Agency mortgage-backed securities	341,085	3,126	(188)	344,023
Total	\$ 357,552	\$ 3,195	\$ (188)	\$ 360,559
December 31, 2014:				
US Treasury security	\$ 300	\$—	\$—	\$ 300
FNMA and FHLB Agency notes	10,496	—	(219)	10,277
Agency mortgage-backed securities	125,944	1,881	(132)	127,693
Total	\$ 136,740	\$ 1,881	\$ (351)	\$ 138,270

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 September 30, 2015:

(dollars in thousands)	Less than 1 Year	1 Through		5 Through		After 10 Years	Total
		5 years	10 Years	10 Years	Years		
Amortized Cost:							
US Treasury securities	\$ 300	\$—	\$—	\$—	\$—	\$ 300	
FNMA and FHLB Agency notes	—	12,760	2,748	659	16,167		
Total	\$ 300	\$ 12,760	\$ 2,748	\$ 659	\$ 16,467		
Weighted average yield	0.45 %	1.50 %	1.94 %	2.86 %	1.61 %		

Estimated Fair Value:

US Treasury securities	\$300	\$—	\$—	\$—	\$300
FNMA and FHLB Agency notes	—	12,798	2,763	675	16,236
Total	\$300	\$12,798	\$2,763	\$675	\$16,536

Agency mortgage backed securities are excluded from the above table because such securities are not due at a single maturity date. The weighted average yield of the agency mortgage backed securities as of September 30, 2015 was 2.29%.

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

(dollars in thousands)	September 30, 2015	December 31, 2014
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties:		
Multifamily	\$478,018	\$481,491
Single family	521,702	360,644
Total real estate loans secured by residential properties	999,720	842,135
Commercial properties	329,972	205,320
Land and construction	12,570	4,309
Total real estate loans	1,342,262	1,051,764
Commercial and industrial loans	158,259	93,537
Consumer loans	35,979	21,125
Total loans	1,536,500	1,166,426
Premiums, discounts and deferred fees and expenses	(495)	(34)
Total	\$1,536,005	\$1,166,392

The \$479 million increase in loans, including loans classified as held for sale, during the first nine months of 2015 was the result of loan originations and funding of existing credit commitments of \$626 million and \$80 million of loans added from the acquisition, offset by \$228 million of payoffs and scheduled principal payments.

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

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

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

(dollars in thousands)	September 30, 2015		December 31, 2014	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate

Edgar Filing: First Foundation Inc. - Form 10-Q

Demand deposits:						
Noninterest-bearing	\$322,798	—		\$246,137	—	
Interest-bearing	293,565	0.476	%	291,509	0.502	%
Money market and savings	344,309	0.556	%	171,958	0.626	%
Certificates of deposits	360,855	0.549	%	253,350	0.619	%
Total	\$1,321,527	0.400	%	\$962,954	0.427	%

Due primarily to the acquisition of PRB, which is located in a market with lower deposit interest rates, the weighted average rate of our interest bearing deposits decreased from 0.57% at December 31, 2014 to 0.53% at September 30, 2015, while the weighted average interest rates of both interest-bearing and noninterest-bearing deposits have decreased from 0.43% at December 31, 2014 to 0.40% at September 30, 2015.

The maturities of our Certificates of deposit of \$100,000 or more were as follows as of September 30, 2015:

(dollars in thousands)

3 months or less	\$90,318
Over 3 months through 6 months	72,021
Over 6 months through 12 months	144,729
Over 12 months	22,247
Total	\$329,315

FFB utilizes a third party program called CDARs which allows FFB to transfer funds of its clients in excess of the FDIC insurance limit (currently \$250,000) to other institutions in exchange for an equal amount of funds from clients of these other institutions. This has allowed FFB to provide FDIC insurance coverage to its clients. 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 September 30, 2015 the Bank held \$223 million of deposits which are classified as brokered deposits, including \$47 million of CDARs reciprocal deposits.

Borrowings. At September 30, 2015, our borrowings consisted of \$660.0 million of overnight FHLB advances. At December 31, 2014, our borrowings consisted of \$263 million of overnight FHLB advances at FFB and a \$20 million term loan at FFI. The FHLB advances were paid in full in the early parts of October 2015 and January 2015, respectively. Because FFB utilizes overnight borrowings, the balance of outstanding borrowings fluctuates on a daily basis. The average balance of overnight borrowings during the first nine months of 2015 was \$312 million, as compared to \$162 million during 2014. The weighted average interest rate on these overnight borrowings was 0.20% for the first nine months of 2015, as compared to 0.13% during 2014. The maximum amount of overnight borrowings outstanding at any month-end during the first nine months of 2015 and during 2014, was \$660 million and \$226 million, respectively. At the end of the third quarter of 2015, the Bank borrowed an additional \$160 million from the FHLB for one day and this additional amount was paid back on October 1, 2015.

Term Loan. In the second quarter of 2013, we entered into a secured loan agreement with an unaffiliated lender to borrow \$7.5 million for a term of five years. In the first quarter of 2014, we entered into an amendment to this loan agreement pursuant to which we obtained an additional \$15.0 million of borrowings. This amendment did not alter any of the terms of the loan agreement or the loan, other than to increase the principal amount and to correspondingly increase the amount of the monthly installments of principal and interest payable on the loan. In the first quarter of 2015, we entered into a second amendment to this loan agreement pursuant to which, we obtained an additional \$10.3 million of borrowings, bringing the outstanding balance of this loan to \$30.0 million as of February 28, 2015. This second amendment also reduced the interest rate on this loan to 3.75% over ninety day LIBOR from 4.00% over ninety day LIBOR, extended the maturity date of this loan to May 1, 2022 and made corresponding changes to the amount of the principal payments required to be made by us on this loan. This loan was paid off in full on August 13, 2015.

Delinquent Loans, Nonperforming Assets and Provision for Credit Losses

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

(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
September 30, 2015:							
Real estate loans:							
Residential properties	\$—	\$—	\$—	\$ —	\$ —	\$999,720	\$ 999,720
Commercial properties	—	—	797	1,579	2,376	327,596	329,972
Land and construction	—	—	965	—	965	11,605	12,570

Edgar Filing: First Foundation Inc. - Form 10-Q

Commercial and industrial loans	984	76	2,365	2,550	5,975	152,284	158,259
Consumer loans	—	—	—	89	89	35,890	35,979
Total	\$984	\$76	\$4,127	\$ 4,218	\$ 9,405	\$1,527,095	\$ 1,536,500

Percentage of total loans 0.06 % 0.00 % 0.27 % 0.27 % 0.61 %

December 31, 2014:

Real estate loans:

Residential properties	\$—	\$—	\$—	\$ —	\$ —	\$842,135	\$ 842,135
Commercial properties	—	805	200	596	1,601	203,719	205,320
Land and construction	—	—	651	—	651	3,658	4,309
Commercial and industrial loans	2,092	289	700	342	3,423	90,114	93,537
Consumer loans	—	—	637	163	800	20,325	21,125
Total	\$2,092	\$1,094	\$2,188	\$ 1,101	\$ 6,475	\$1,159,951	\$ 1,166,426

Percentage of total loans 0.18 % 0.09 % 0.19 % 0.09 % 0.56 %

As of September 30, 2015 and December 31, 2014, the Company had two loans with an aggregate balance of \$0.4 million and \$0.5 million, respectively, classified as troubled debt restructurings (“TDR”), all of which are included as nonaccrual in the table above.

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

(dollars in thousands)	Pass	Special Mention	Substandard	Impaired	Total
September 30, 2015:					
Real estate loans:					
Residential properties	\$998,220	\$ 1,500	\$ —	\$—	\$999,720
Commercial properties	323,248	—	358	6,366	329,972
Land and construction	11,429	—	1,141	—	12,570
Commercial and industrial loans	143,747	1,601	5,163	7,748	158,259
Consumer loans	35,890	—	—	89	35,979
Total	\$1,512,534	\$ 3,101	\$ 6,662	\$ 14,203	\$ 1,536,500
December 31, 2014:					
Real estate loans:					
Residential properties	\$841,538	\$ 554	\$ —	\$43	\$842,135
Commercial properties	198,112	1,266	200	5,742	205,320
Land and construction	4,309	—	—	—	4,309
Commercial and industrial loans	81,067	5,276	1,559	5,635	93,537
Consumer loans	20,962	—	47	116	21,125
Total	\$1,145,988	\$ 7,096	\$ 1,806	\$ 11,536	\$ 1,166,426

We consider a loan to be impaired when, based upon current information and events, we believe that it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan. We measure impairment using either the present value of the expected future cash flows discounted at the loan's effective interest rate, or the fair value of the properties collateralizing the loan. Impairment losses are included in the 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 2012 and in 2015, we purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of these purchased credit impaired loans is as follows as of:

(dollars in thousands)	September 30, 2015	December 31, 2014
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties	\$ —	\$ —
Commercial properties	537	206
Land	1,616	—

Edgar Filing: First Foundation Inc. - Form 10-Q

Total real estate loans	2,153	206
Commercial and industrial loans	6,788	2,002
Consumer loans	19	249
Total loans	8,960	2,457
Unaccreted discount on purchased credit impaired loans	(2,298)	(651)
Total	\$ 6,662	\$ 1,806

34

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

(dollars in thousands)	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Quarter ended September 30, 2015:					
Real estate loans:					
Residential properties	\$ 6,628	\$ 291	\$ —	\$ —	\$ 6,919
Commercial properties	1,912	298	(70)	—	2,140
Commercial and industrial loans	1,917	77	—	—	1,994
Consumer loans	343	(96)	—	—	247
Total	\$ 10,800	\$ 570	\$ (70)	\$ —	\$ 11,300
Nine months ended September 30, 2015:					
Real estate loans:					
Residential properties	\$ 6,586	\$ 333	\$ —	\$ —	\$ 6,919
Commercial properties	1,526	924	(310)	—	2,140
Commercial and industrial loans	1,897	110	(13)	—	1,994
Consumer loans	141	106	—	—	247
Total	\$ 10,150	\$ 1,475	\$ (323)	\$ —	\$ 11,300
Year ended December 31, 2014:					
Real estate loans:					
Residential properties	\$ 6,157	\$ 429	\$ —	\$ —	\$ 6,586
Commercial properties	1,440	86	—	—	1,526
Commercial and industrial loans	2,149	(252)	—	—	1,897
Consumer loans	169	(28)	—	—	141
Total	\$ 9,915	\$ 235	\$ —	\$ —	\$ 10,150

Excluding the loans acquired in acquisitions, our ALLL represented 0.76%, and 0.87% of total loans outstanding as of September 30, 2015 and December 31, 2014, respectively.

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

ALLL, it could become necessary for us to incur additional, and possibly significant, charges to increase the ALLL, which would have the effect of reducing our income.

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

35

Edgar Filing: First Foundation Inc. - Form 10-Q

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				Impaired	Component
	Individual	Collectively	Impaired	Total	Other
September 30, 2015:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	\$—	\$6,849	\$ —	\$6,849	\$ 141
Commercial properties	—	2,092	—	2,092	409
Land and construction	—	118	—	118	46
Commercial and industrial loans	807	1,187	—	1,994	299
Consumer loans	—	247	—	247	14
Total	\$807	\$ 10,493	\$ —	\$ 11,300	\$ 909
Loans:					
Real estate loans:					
Residential properties	\$—	\$999,720	\$ —	\$999,720	\$ 7,958
Commercial properties	6,366	323,248	358	329,972	45,983
Land and construction	—	11,429	1,141	12,570	3,856
Commercial and industrial loans	7,748	145,348	5,163	158,259	30,360
Consumer loans	89	35,890	—	35,979	1,965
Total	\$14,203	\$ 1,515,635	\$ 6,662	\$ 1,536,500	\$ 90,122
December 31, 2014:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	\$—	\$6,586	\$ —	\$6,586	\$ 26
Commercial properties	26	1,500	—	1,526	193
Land and construction	—	—	—	—	4
Commercial and industrial loans	686	1,211	—	1,897	45
Consumer loans	—	141	—	141	—
Total	\$712	\$9,438	\$ —	\$ 10,150	\$ 268
Loans:					
Real estate loans:					
Residential properties	\$43	\$842,092	\$ —	\$842,135	\$ 2,861
Commercial properties	5,742	199,378	200	205,320	21,126
Land and construction	—	4,309	—	4,309	1,099
Commercial and industrial loans	5,635	86,343	1,559	93,537	5,893

Edgar Filing: First Foundation Inc. - Form 10-Q

Consumer loans	116	20,962	47	21,125	8
Total	\$11,536	\$1,153,084	\$ 1,806	\$1,166,426	\$ 30,987

The column labeled “Unaccreted Credit Component Other Loans” represents the amount of unaccreted credit component discount for loans acquired in an acquisition that were not classified as purchased impaired or individually evaluated for impairment as of the dates indicated, and the stated principal balances of the related loans. The unaccreted credit component discount is equal to 1.01% and 0.86% of the stated principal balances of these loans as of September 30, 2015 and December 31, 2014, respectively. In addition to this unaccreted credit component discount, an additional \$0.4 million of the ALLL was provided for these loans as of September 30, 2015.

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 \$38.0 million at September 30, 2015.

Cash Flows Provided by Operating Activities. During the nine months ended September 30, 2015, operating activities provided net cash of \$7.3 million, comprised primarily of our net income of \$8.3 million, and \$2.9 million of non-cash charges, including provisions for loan losses, stock based compensation expense, bonus and other accruals, and depreciation and amortization, offset partially by a \$2.1 million increase in other assets. During the year ended December 31, 2014, operating activities provided net cash of \$9.4 million, comprised primarily of our net income of \$8.4 million.

Cash Flows Used in Investing Activities. During the nine months ended September 30, 2015, investing activities used net cash of \$582.5 million, primarily to fund a \$400.5 million net increase in loans and \$225.4 million of securities purchases, offset partially by \$38.1 million in cash received as a result of our acquisition of PRB. During the year ended December 31, 2014, investing activities used net cash of \$340.3 million, primarily to fund a \$262.3 million net increase in loans and a \$83.5 million net increase in securities AFS.

Cash Flow Provided by Financing Activities. During the nine months ended September 30, 2015, financing activities provided net cash of \$751.8 million, consisting primarily of a net increase of \$238.7 million in deposits, proceeds of \$136.0 million from the sale of stock, and a \$397.0 million increase in FHLB advances. During the year ended December 31, 2014, financing activities provided net cash of \$303.7 million, consisting primarily of a net increase of \$160.9 million in deposits and a net increase of \$141.8 million in borrowings.

Ratio of Loans to Deposits. The relationship between gross loans and total deposits can provide a useful measure of a bank's liquidity. Since repayment of loans tends to be less predictable than the maturity of investments and other liquid resources, the higher the loan-to-deposit ratio the less liquid are our assets. On the other hand, since we realize greater yields on loans than we do on other interest-earning assets, a lower loan-to-deposit ratio can adversely affect interest income and earnings. As a result, our goal is to achieve a loan-to-deposit ratio that appropriately balances the requirements of liquidity and the need to generate a fair return on our assets. At September 30, 2015 and December 31, 2014, the loan-to-deposit ratios at the Bank were 108.3% and 118.9%, respectively.

Off-Balance Sheet Arrangements

The following table provides the off-balance sheet arrangements of the Company as of September 30, 2015:

(dollars in thousands)	
Commitments to fund new loans	\$24,142
Commitments to fund under existing loans, lines of credit	160,531
Commitments under standby letters of credit	8,196

Some of the commitments to fund existing loans, lines of credit and letters of credit are expected to expire without being drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. As of September 30, 2015, the Bank was obligated on \$68.5 million of letters of credit to the FHLB which were being used as collateral for public fund deposits, including \$56.0 million of deposits from the State of California.

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 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.

Edgar Filing: First Foundation Inc. - Form 10-Q

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

(dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
FFI						
September 30, 2015						
CET1 capital ratio	\$250,886	20.02 %	\$56,406	4.50 %		
Tier 1 leverage ratio	250,886	13.68 %	73,382	4.00 %		
Tier 1 risk-based capital ratio	250,886	20.02 %	75,208	6.00 %		
Total risk-based capital ratio	262,606	20.95 %	100,278	8.00 %		
December 31, 2014						
Tier 1 leverage ratio	\$95,582	7.32 %	\$52,200	4.00 %		
Tier 1 risk-based capital ratio	95,582	11.02 %	34,700	4.00 %		
Total risk-based capital ratio	106,132	12.23 %	69,399	8.00 %		
FFB						
September 30, 2015						
CET1 capital ratio	\$161,599	12.93 %	\$56,224	4.50 %	\$81,213	6.50 %
Tier 1 leverage ratio	161,599	8.83 %	73,176	4.00 %	91,470	5.00 %
Tier 1 risk-based capital ratio	161,599	12.93 %	74,966	6.00 %	99,954	8.00 %
Total risk-based capital ratio	173,319	13.87 %	99,954	8.00 %	124,943	10.00 %
December 31, 2014						
Tier 1 leverage ratio	\$105,261	8.09 %	\$52,036	4.00 %	\$65,045	5.00 %
Tier 1 risk-based capital ratio	105,261	12.18 %	34,572	4.00 %	51,858	6.00 %
Total risk-based capital ratio	115,811	13.40 %	69,144	8.00 %	86,340	10.00 %

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.

The CET-1 capital ratio means the ratio of Common Equity Tier 1 to risk weighted assets. It is a new capital measure that became applicable to most banking institutions in the United States, including the Company and FFB, as of January 1, 2015, pursuant to what is commonly referred to as the “Basel III” rules adopted by the Federal Reserve Board and the FDIC.

As of September 30, 2015, the amount of capital at FFB in excess of amounts required to be Well Capitalized was \$80.4 million for the CET-1 capital ratio, \$70.1 million for the Tier 1 leverage ratio, \$61.6 million for the Tier 1 risk-based capital ratio and \$48.4 million for the Total risk-based capital ratio. No conditions or events have occurred since September 30, 2015 which we believe have changed FFI’s or FFB’s capital adequacy classifications from those set forth in the above table.

During the nine months of 2015, and during the entirety of 2014, FFI made cash capital contributions to FFB of \$36.0 million and \$10.0 million, respectively. In addition, FFI contributed the assets, liabilities and operations of PRB to FFB, resulting in a capital contribution of \$12.4 million. As of September 30, 2015, FFI had \$88.7 million of available capital and, therefore, has the ability and financial resources to contribute additional capital to FFB, if needed.

We did not pay dividends in 2015 or 2014 and we have no plans to pay dividends at least for the foreseeable future. Instead, it is our intention to retain internally generated cash flow to support our growth. Moreover, the payment of dividends is subject to certain regulatory restrictions.

We had no material commitments for capital expenditures as of September 30, 2015.

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, 2015. There have been no material changes to our quantitative and qualitative disclosures about market risk since December 31, 2014.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In accordance with SEC rules, an evaluation was performed under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer of the effectiveness, as of September 30 2015, of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2015, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2015 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, 2014, which we filed with the SEC on March 16, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On August 12, 2015, we issued 6,233,766 shares of common stock, at a price of \$19.25 per share, in a registered, underwritten public offering. The offering resulted in gross proceeds of \$120.0 million and net proceeds of approximately \$113.7 million, after underwriting discounts and estimated expenses of the offering. The Company used a portion of the net proceeds from this offering to repay all of its \$29 million of outstanding term debt and intends to use the remaining proceeds for general corporate purposes, including to support of organic growth and possible acquisitions.

On August 14, 2015, the underwriters exercised their option to purchase an additional 935,065 shares of the Company's common stock, at a price of \$19.25 per share, to cover any over-allotments in the public offering. As a result, the Company received additional gross proceeds of \$18.0 million and net proceeds of \$17.1 million, after underwriting discounts. The Company intends to use the proceeds for general corporate purposes, including to support of organic growth and possible acquisitions.

ITEM 6. EXHIBITS

Exhibit

No. Description of Exhibit

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

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

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

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

101 XBRL (eXtensive Business Reporting Language). The following financial materials from the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2015, 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: November 13, 2015 By: /s/ JOHN M. MICHEL
John M. Michel
Executive Vice President and
Chief Financial Officer

S-1

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibits
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002
101	XBRL (eXtensive Business Reporting Language). The following financial materials from the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2015, 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.