First Foundation Inc.
Form 10-Q
May 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from to

Commission File Number 001-36461

FIRST FOUNDATION INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-8639702 (I.R.S. Employer Identification Number)
18101 Von Karman Avenue, Suite 700 Irvine, CA 92612 (Address of principal executive offices)	92612 (Zip Code)

(949) 202-4160

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.) (Check one):

Large accelerated filer ¨ Accelerated filer x

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 x

As of May 5, 2016, there were 16,087,941 shares of registrant’s common stock outstanding.

FIRST FOUNDATION INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
FIRST FOUNDATION INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	March 31, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash and cash equivalents	$52,817	$215,748
Securities available-for-sale (“AFS”)	548,295	565,135
Loans held for sale	260,075	—
Loans, net of deferred fees	1,793,002	1,765,483
Allowance for loan and lease losses (“ALLL”)	(11,000)	(10,600)
Net loans	1,782,002	1,754,883
Investment in FHLB stock	17,091	21,492
Premises and equipment, net	4,450	2,653
Deferred taxes	11,072	15,392
Real estate owned (“REO”)	334	4,036
Goodwill and intangibles	2,351	2,416
Other assets	11,686	10,824
Total Assets	$2,690,173	$2,592,579
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Deposits	$1,773,106	$1,522,176
Borrowings	633,000	796,000
Accounts payable and other liabilities	13,887	14,667
Total Liabilities	2,419,993	2,332,843
Commitments and contingencies	—	—
Shareholders’ Equity		
		16

Common Stock, par value $.001: 70,000,000 shares authorized; 16,049,131 and 15,980,526 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	16	
Additional paid-in-capital	228,506	227,262
Retained earnings	37,549	33,762
Accumulated other comprehensive income (loss), net of tax	4,109	(1,304)
Total Shareholders' Equity	270,180	259,736
Total Liabilities and Shareholders' Equity	$2,690,173	$2,592,579

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED INCOME STATEMENTS - UNAUDITED

(In thousands, except share and per share amounts)

	For the Quarter Ended March 31, 2016	2015
Interest income:		
Loans	$18,170	$12,101
Securities	3,121	815
FHLB stock, fed funds and deposits	407	242
Total interest income	21,698	13,158
Interest expense:		
Deposits	1,795	923
Borrowings	542	364
Total interest expense	2,337	1,287
Net interest income	19,361	11,871
Provision for loan losses	400	150
Net interest income after provision for loan losses	18,961	11,721
Noninterest income:		
Asset management, consulting and other fees	6,001	5,850
Other income	984	354
Total noninterest income	6,985	6,204
Noninterest expense:		
Compensation and benefits	12,724	9,180
Occupancy and depreciation	2,815	1,957
Professional services and marketing costs	1,723	1,058
Other expenses	2,155	1,163
Total noninterest expense	19,417	13,358
Income before taxes on income	6,529	4,567
Taxes on income	2,742	1,941
Net income	$3,787	$2,626
Net income per share:		
Basic	$0.24	$0.33
Diluted	$0.23	$0.32
Shares used in computation:		
Basic	16,003,088	7,855,457

Diluted	16,467,732	8,211,145

(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, 2015	15,980,526	$ 16	$ 227,262	$ 33,762	$ (1,304)	$ 259,736
Net income	—	—	—	3,787	—	3,787
Other comprehensive income	—	—	—	—	5,413	5,413
Stock based compensation	—	—	317	—	—	317
Issuance of common stock:						
Exercise of options	66,305	—	927	—	—	927
Stock grants	2,300	—	—	—	—	—
Balance: March 31, 2016	16,049,131	$ 16	$ 228,506	$ 37,549	$ 4,109	$ 270,180

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME - UNAUDITED

(In thousands)

	For the Quarter Ended March 31,	
	2016	2015
Net income	$3,787	$2,626
Other comprehensive income:		
Unrealized holding gains (losses) on securities arising during the period	9,199	1,265
Other comprehensive income before tax	9,199	1,265
Income tax (expense) benefit related to items of other comprehensive income	(3,786)	(520)
Other comprehensive income	5,413	745
Reclassification adjustment for (gains) losses included in net earnings (1)	(310)	—
Income tax (expense) benefit related to reclassification adjustment	130	—
Reclassification adjustment for (gains) losses included in net earnings, net of tax	(180)	—
Other comprehensive income (loss), net of tax	5,233	745
Total comprehensive income	$9,020	$3,371

(1) Entire amounts are recognized in “Other Income” in the Consolidated Income Statements.

(See accompanying notes to the consolidated financial statements)

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FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

	For the Three Months Ended March 31, 2016			2015		
Cash Flows from Operating Activities:						
Net income	$	3,787		$	2,626	
Adjustments to reconcile net income to net cash provided by operating activities:						
Provision for loan losses		400			150	
Stock–based compensation expense		317			152	
Depreciation and amortization		396			326	
Deferred tax expense (benefit)		534			(185	)
Accretion of discounts on purchased loans, net		(95	)		(231	)
Gain on sale of securities		(310	)		—	
(Increase) decrease in other assets		(503	)		126	
Decrease in accounts payable and other liabilities		(780	)		(713	)
Net cash provided by operating activities		3,746			2,251	
Cash Flows from Investing Activities:						
Net increase in loans (including changes in loans held for sale)		(287,499	)		(102,506	)
Proceeds from sale of REO		3,702			—	
Purchases of premises and equipment		(2,193	)		(623	)

Purchase of securities AFS	(27,278)	—
Proceeds from sale of securities AFS	39,456	—
Principal payments – securities AFS	13,877	2,837
Net (purchases) redemptions of FHLB stock	4,401	(4,700)
Net cash used in investing activities	(255,534)	(104,992)
Cash Flows from Financing Activities:		
Increase (decrease) in deposits	250,930	(1,797)
FHLB Advances – net increase (decrease)	(163,000)	100,000
Proceeds – term note	—	10,114
Proceeds from sale of stock, net	927	50
Net cash provided by financing activities	88,857	108,367
Increase (decrease) in cash and cash equivalents	(162,931)	5,626
Cash and cash equivalents at beginning of year	215,748	29,692
Cash and cash equivalents at end of period	$ 52,817	$ 35,318
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 2,201	$ 1,180
Income taxes	$ 2,150	$ 750
Noncash transactions:		
Transfer of loans to loans held for sale	$ 260,075	$ —

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2016 - 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 2016 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, 2015.

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the 2016 presentation.

In March 2016, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09 “Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” as part of the Simplification Initiative to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. Areas of simplification as it relates to share-based compensation address, among other items, the tax effects of exercised or vested awards, classification of excess tax benefits on the Statement of Cash Flows, forfeitures, minimum statutory tax withholding requirements, expected term and intrinsic value. The amendments in this Update are effective for the Company for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently evaluating the effects of ASU 2016-09 on its financial statements and disclosures.

On February 25, 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under current lease accounting guidance. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the effects of ASU 2016-02 on its financial statements and disclosures.

On January 5, 2016, the FASB issued ASU 2016-01, Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). Changes made to the current measurement model primarily affect the accounting for equity securities with readily determinable fair values, where changes in fair value will impact earnings instead of other comprehensive income. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The Update also changes the presentation and disclosure requirements for financial instruments including a requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is generally effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the effects of ASU 2016-01 on its financial statements and disclosures.

In September, 2015, the FASB issued 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 is 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.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2016 – UNAUDITED

NOTE 2: FAIR VALUE MEASUREMENTS

Assets Measured at Fair Value on a Recurring Basis

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

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

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

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

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

		Fair Value Measurement Level		
	Total	Level 1	Level 2	Level 3
(dollars in thousands)				
March 31, 2016:				

Investment securities available for sale:				
US Treasury securities	$300	$300	$—	$—
Agency mortgage-backed securities	535,416	—	535,416	—
Beneficial interest – FHLMC securitization	12,579	—	—	12,579
Total assets at fair value on a recurring basis	$548,295	$300	$535,416	$12,579
December 31, 2015:				
Investment securities available for sale:				
US Treasury securities	$300	$300	$—	$—
FNMA and FHLB Agency notes	16,013	—	16,013	—
Agency mortgage-backed securities	536,148	—	536,148	—
Beneficial interest – FHLMC securitization	12,674	—	—	12,674
Total assets at fair value on a recurring basis	$565,135	$300	$552,161	$12,674

The Company did not have any material assets measured at fair value on a nonrecurring basis as of March 31, 2016 and December 31, 2015.

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.

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. When a market is illiquid or there is a lack of transparency around the inputs to valuation, the securities are classified as Level 3 and reliance is placed upon internally developed models, and management judgment and evaluation for valuation. 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 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 beneficial interests – FHLMC securitization. Significant assumptions in the valuation of these Level 3 securities as of March 31, 2016 included a prepayment rate of 15% and discount rates ranging from 4.0% to 10%.

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. 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 estimated 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 Quarter Ended March 31, 2016 – UNAUDITED

Borrowings. The fair value of $633 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 carrying amounts and estimated fair values of financial instruments are as follows as of:

(dollars in thousands)	Carrying Value	Fair Value Measurement Level 1	2	3	Total
March 31, 2016:					
Assets:					
Cash and cash equivalents	$52,817	$52,817	$—	$—	$52,817
Securities AFS	548,295	300	535,416	12,579	548,295
Loans	1,782,002	—	—	1,808,212	1,808,212
Loans held for sale	260,075	—	—	263,326	263,326
Investment in FHLB stock	17,091	—	17,091	—	17,091
Liabilities:					
Deposits	1,773,106	1,296,953	476,058	—	1,773,011
Borrowings	633,000	—	633,000	—	633,000
December 31, 2015:					
Assets:					
Cash and cash equivalents	$215,748	$215,748	$—	$—	$215,748
Securities AFS	565,135	300	552,161	12,674	565,135
Loans	1,754,883	—	—	1,779,941	1,779,941
Investment in FHLB stock	21,492	—	21,492	—	21,492
Liabilities:					
Deposits	1,522,176	1,051,976	470,128	—	1,522,104
Borrowings	796,000	—	796,000	—	796,000

NOTE 3: SECURITIES

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

	Amortized	Gross Unrealized	Estimated

(dollars in thousands)	Cost	Gains	Losses	Fair Value
March 31, 2016:				
US Treasury securities	$300	$—	$—	$300
Agency mortgage-backed securities	528,385	7,057	(26)	535,416
Beneficial interests in FHLMC securitization	12,627	364	(412)	12,579
Total	$541,312	$7,421	$(438)	$548,295
December 31, 2015:				
US Treasury securities	$300	$—	$—	$300
FNMA and FHLB Agency notes	16,108	—	(95)	16,013
Agency mortgage-backed securities	538,269	909	(3,030)	536,148
Beneficial interests in FHLMC securitization	12,674	476	(476)	12,674
Total	$567,351	$1,385	$(3,601)	$565,135

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 Quarter Ended March 31, 2016 – UNAUDITED

The table below indicates, as of March 31, 2016 the gross unrealized losses and fair values of our investments, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

	Securities with Unrealized Loss at March 31, 2016					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Agency mortgage backed securities	$6,741	$(412)	$—	$—	$6,741	$(412)
Beneficial interests in FHLMC securitization	2,764	(26)	—	—	2,764	(26)
Total temporarily impaired securities	$9,505	$(438)	$—	$—	$9,505	$(438)

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 March 31, 2016:

(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
Weighted average yield	0.45%	—%	—%	—%	0.45%
Estimated Fair Value:					
US Treasury securities	$300	$ —	$ —	$ —	$300

Agency mortgage backed securities and beneficial interests in FHLMC securitization are excluded from the above table because such securities are not due at a single maturity date. The weighted average yield of the agency mortgage backed securities and beneficial interests in FHLMC securitization as of March 31, 2016 was 2.35%.

NOTE 4: LOANS

The following is a summary of our loans as of:

(dollars in thousands)	March 31, 2016	December 31, 2015
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties:		
Multifamily	$570,541	$627,311
Single family	537,108	533,257
Total real estate loans secured by residential properties	1,107,649	1,160,568
Commercial properties	406,815	358,791
Land and construction	21,072	12,320
Total real estate loans	1,535,536	1,531,679
Commercial and industrial loans	210,121	196,584
Consumer loans	47,390	37,206
Total loans	1,793,047	1,765,469
Premiums, discounts and deferred fees and expenses	(45)	14
Total	$1,793,002	$1,765,483

As of March 31, 2016 and December 31, 2015, the principal balances shown above are net of unaccreted discount related to loans acquired in an acquisition of $2.7 million and $2.8 million, respectively.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2016 – UNAUDITED

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:

(dollars in thousands)	March 31, 2016	December 31, 2015
Outstanding principal balance:		
Loans secured by real estate:		
Commercial properties	$304	$533
Land	—	1,616
Total real estate loans	304	2,149
Commercial and industrial loans	8,366	6,787
Consumer loans	12	14
Total loans	8,682	8,950
Unaccreted discount on purchased credit impaired loans	(2,230)	(2,291)
Total	$6,452	$6,659

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

(dollars in thousands)	March 31, 2016	December 31, 2015
Beginning balance	$582	$130
Accretion of income	(62)	(529)
Reclassifications from nonaccretable difference	—	176
Acquisition	—	805
Disposals	(6)	—
Ending balance	$514	$582

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

	Past Due and Still Accruing				Total Past		
(dollars in thousands)	30–59 Days	60-89 Days	90 Days or More	Nonaccrual	Due and Nonaccrual	Current	Total
March 31, 2016:							

Real estate loans:							
Residential properties	$3,234	$—	$—	$ —	$ 3,234	$1,104,415	$1,107,649
Commercial properties	378	—	790	1,730	2,898	403,917	406,815
Land and construction	—	—	—	—	—	21,072	21,072
Commercial and industrial loans	7,462	2,463	5,385	2,350	17,660	192,461	210,121
Consumer loans	2,104	—	1,000	—	3,104	44,286	47,390
Total	$13,178	$2,463	$ 7,175	$ 4,080	$ 26,896	$1,766,151	$1,793,047
Percentage of total loans	0.73 %	0.14 %	0.40 %	0.23 %	1.50 %		
December 31, 2015:							
Real estate loans:							
Residential properties	$—	$—	$—	$ —	$ —	$1,160,568	$1,160,568
Commercial properties	1,232	—	793	1,552	3,577	355,214	358,791
Land and construction	—	—	—	—	—	12,320	12,320
Commercial and industrial loans	2,425	1,639	5,713	2,509	12,286	184,298	196,584
Consumer loans	1,010	—	1,991	75	3,076	34,130	37,206
Total	$4,667	$1,639	$ 8,497	$ 4,136	$ 18,939	$1,746,530	$1,765,469
Percentage of total loans	0.26 %	0.09 %	0.48 %	0.23 %	1.07 %		

The level of delinquent loans and nonaccrual loans have been adversely impacted by the loans acquired in an acquisition. As of March 31, 2016, of the $11.3 million in loans over 90 days past due, including loans on nonaccrual, $5.6 million, or 49.6% were loans acquired in an acquisition.

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.

The troubled debt restructure ("TDR") activity during the first quarter of 2016 consisted of 2 commercial and industrial loans with a recorded investment of $0.7 million, whose payment terms were restructured. There was no TDR activity in the first quarter of 2015.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2016 – UNAUDITED

NOTE 5: ALLOWANCE FOR LOAN LOSSES

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

(dollars in thousands)	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
2016:					
Real estate loans:					
Residential properties	$ 6,829	$ (357)	$ —	$ —	$ 6,472
Commercial properties	1,886	474	—	—	2,360
Commercial and industrial loans	1,649	140	—	—	1,789
Consumer loans	236	143	—	—	379
Total	$ 10,600	$ 400	$ —	$ —	$ 11,000
2015:					
Real estate loans:					
Residential properties	$ 6,586	$ (139)	$ —	$ —	$ 6,447
Commercial properties	1,526	(57)	—	—	1,469
Commercial and industrial loans	1,897	183	—	—	2,080
Consumer loans	141	163	—	—	304
Total	$ 10,150	$ 150	$ —	$ —	$ 10,300

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

(dollars in thousands)	Allowance for Loan Losses				Unaccreted Credit
	Evaluated for Impairment		Purchased		Component Other
	Individually	Collectively	Impaired	Total	Loans
March 31, 2016:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	$—	$ 6,390	$ —	$ 6,390	$ 189
Commercial properties	50	2,131	—	2,181	247
Land and construction	—	261	—	261	8
Commercial and industrial loans	—	1,789	—	1,789	185
Consumer loans	—	379	—	379	22

Total	$50	$10,950	$ —	$11,000	$ 651
Loans:					
Real estate loans:					
Residential properties	$—	$1,107,649	$ —	$1,107,649	$ 15,532
Commercial properties	1,730	404,896	189	406,815	34,538
Land and construction	—	21,072	—	21,072	2,162
Commercial and industrial loans	5,942	197,916	6,263	210,121	26,808
Consumer loans	—	47,390	—	47,390	1,776
Total	$7,672	$1,778,923	$ 6,452	$1,793,047	$ 80,816
December 31, 2015:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	$—	$6,799	$ —	$6,799	$ 127
Commercial properties	30	1,783	—	1,813	363
Land and construction	—	103	—	103	42
Commercial and industrial loans	—	1,649	—	1,649	187
Consumer loans	—	236	—	236	13
Total	$30	$10,570	$ —	$10,600	$ 732
Loans:					

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2016 – UNAUDITED

Real estate loans:					
Residential properties	$—	$1,160,568	$—	$1,160,568	$7,747
Commercial properties	6,275	352,162	354	358,791	43,287
Land and construction	—	11,180	1,140	12,320	4,267
Commercial and industrial loans	5,687	185,732	5,165	196,584	28,231
Consumer loans	76	37,130	—	37,206	1,761
Total	$12,038	$1,746,772	$6,659	$1,765,469	$85,293

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 0.81% and 0.86% of the stated principal balance of these loans as of March 31, 2016 and December 31, 2015, respectively. In addition to this unaccreted credit component discount, an additional $0.3 million of the ALLL has been provided for these loans as of both March 31, 2016 and December 31, 2015.

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

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

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2016 – UNAUDITED

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

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

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

Additionally, all loans classified as TDRs are considered impaired at the time they are restructured. Purchased credit impaired loans are not considered impaired loans for these purposes.

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

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

(dollars in thousands)	Pass	Special Mention	Substandard	Impaired	Total
March 31, 2016:					
Real estate loans:					
Residential properties	$1,103,779	$3,870	$ —	$—	$1,107,649
Commercial properties	404,896	—	189	1,730	406,815
Land and construction	21,072	—	—	—	21,072
Commercial and industrial loans	189,808	8,108	6,263	5,942	210,121
Consumer loans	46,130	1,260	—	—	47,390
Total	$1,765,685	$13,238	$ 6,452	$7,672	$1,793,047
December 31, 2015:					
Real estate loans:					
Residential properties	$1,159,029	$1,539	$ —	$—	$1,160,568
Commercial properties	351,988	174	354	6,275	358,791
Land and construction	11,180	—	1,140	—	12,320
Commercial and industrial loans	180,755	4,977	5,165	5,687	196,584
Consumer loans	37,130	—	—	76	37,206
Total	$1,740,082	$6,690	$ 6,659	$12,038	$1,765,469

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For the Quarter Ended March 31, 2016 – UNAUDITED

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

	With No Allowance Recorded		With an Allowance Recorded		
(dollars in thousands)	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Related Allowance
March 31, 2016:					
Real estate loans:					
Commercial properties	$1,380	$ 1,380	$590	$ 350	$ 50
Commercial and industrial loans	5,942	5,942	—	—	—
Total	$7,322	$ 7,322	$590	$ 350	$ 50
December 31, 2015:					
Real estate loans:					
Commercial properties	$5,925	$ 5,925	$590	$ 350	$ 30
Commercial and industrial loans	7,770	5,687	—	—	—
Consumer loans	114	76	—	—	—
Total	$13,809	$ 11,688	$590	$ 350	$ 30

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:

	Three months Ended March 31, 2016		Year Ended December 31, 2015	
(dollars in thousands)	Average Recorded Investment	Interest Income after Impairment	Average Recorded Investment	Interest Income after Impairment
Real estate loans:				
Residential properties	$—	$ —	$27	$ 2
Commercial properties	1,734	—	6,487	281
Commercial and industrial loans	5,551	46	7,850	394
Consumer loans	—	—	105	—
Total	$7,285	$ 46	$14,469	$ 677

There was no interest income recognized on a cash basis in either 2016 or 2015 on impaired loans.

NOTE 6: DEPOSITS

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

	March 31, 2016		December 31, 2015	
(dollars in thousands)	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Demand deposits:				
Noninterest-bearing	$508,141	—	$299,794	—
Interest-bearing	243,156	0.480 %	260,167	0.359 %
Money market and savings	545,656	0.609 %	492,015	0.531 %
Certificates of deposits	476,153	0.582 %	470,200	0.554 %
Total	$1,773,106	0.409 %	$1,522,176	0.404 %

At March 31, 2016, of the $155.6 million of certificates of deposits of $250,000 or more, $134.5 million mature within one year and $21.1 million mature after one year. Of the $320.6 million of certificates of deposit of less than $250,000, $303.2 million mature within one year and $17.4 million mature after one year. At December 31, 2015, of the $149.2 million of certificates of deposits of $250,000 or more, $137.8 million mature within one year and $11.4 million mature after one year. Of the $321 million of certificates of deposit of less than $250,000, $292.5 million mature within one year and $28.5 million mature after one year.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2016 – UNAUDITED

NOTE 7: BORROWINGS

At March 31, 2016, our borrowings consisted of $633.0 million of overnight FHLB advances. At December 31, 2015, our borrowings consisted of $796.0 million of overnight FHLB advances. The FHLB advances were paid in full in the early part of April 2016 and January 2016, respectively, and bore interest rates of 0.48% and 0.27%, respectively. Because the Bank utilizes overnight borrowings, the balance of outstanding borrowings fluctuates on a daily basis. The average balance of overnight borrowings during the first three months of 2016 was $505 million, as compared to $306 million during all of 2015.

NOTE 8: EARNINGS PER SHARE

Basic earnings per share excludes dilution and is computed by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if contracts to issue common stock were exercised or converted into common stock that would then share in earnings. The following table sets forth the Company's unaudited earnings per share calculations for the quarters ended March 31:

	2016		2015	
(dollars in thousands, except per share amounts)	Basic	Diluted	Basic	Diluted
Net income	$3,787	$3,787	$2,626	$2,626
Basic common shares outstanding	16,003,088	16,003,088	7,855,457	7,855,457
Effect of contingent shares issuable		796		—
Effect of options and restricted stock		463,848		355,688
Diluted common shares outstanding		16,467,732		8,211,145
Earnings per share	$0.24	$0.23	$0.33	$0.32

Based on a weighted average basis, options to purchase 13,250 and 79,125 shares of common stock were excluded for the quarter ended March 31, 2016 and 2015, respectively, because their effect would have been anti-dilutive.

NOTE 9: SEGMENT REPORTING

For the quarters ended March 31, 2016 and 2015, 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 March 31, 2016:				
Interest income	$21,698	$ —	$—	$21,698
Interest expense	2,337	—	—	2,337
Net interest income	19,361	—	—	19,361
Provision for loan losses	400	—	—	400
Noninterest income	1,752	5,376	(143)	6,985
Noninterest expense	13,344	5,223	850	19,417
Income (loss) before taxes on income	$7,369	$ 153	$(993)	$6,529

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2016 – UNAUDITED

Quarter ended March 31, 2015:				
Interest income	$13,158	$—	$—	$13,158
Interest expense	1,047	—	240	1,287
Net interest income	12,111	—	(240)	11,871
Provision for loan losses	150	—	-	150
Noninterest income	1,278	5,067	(141)	6,204
Noninterest expense	7,919	4,715	724	13,358
Income (loss) before taxes on income	$5,320	$352	$(1,105)	$4,567

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

The following discussion and analysis is intended to facilitate the understanding and assessment of significant changes and trends in our businesses that accounted for the changes in our results of operations in the quarter ended March 31, 2016 as compared to our results of operations in the quarter ended March 31, 2015; and our financial condition at March 31, 2016 as compared to our financial condition at December 31, 2015. 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, 2015, and the notes thereto, which are set forth in Item 8 of our Annual Report on Form 10-K (our "2015 10-K") which we filed with the Securities and Exchange Commission (or SEC) on March 15, 2016.

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 2015 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 2015 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 2015 10-K, except as may otherwise be required by applicable law or government regulations.

Critical Accounting Policies

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

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

Allowance for Loan and Lease Losses. Our ALLL is established through a provision for loan losses charged to expense and may be increased by a recovery of previously established charge-offs. 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.

Recent Developments and Overview

We experienced strong growth during the first quarter of 2016 with loan originations of $379 million and deposit growth of $251 million. We classified $260 million of multifamily loans as loans held for sale as part of a planned sale and securitization of these loans through Freddie Mac which we expect to occur in either the second or third quarter of 2016. Our assets under management ("AUM") in Wealth Management remained flat as we experienced lower levels of new accounts and a higher level of withdrawals due in part to the volatility occurring in the equity and debt markets. Revenues and income before taxes continue to increase as our investments in staffing and systems are resulting in higher levels of interest earnings assets.

Results of Operations

Our net income and income before taxes in the first quarter of 2016 was $3.8 million and $6.5 million, respectively, as compared to $2.6 million and $4.6 million, respectively, in the first quarter of 2015. The effective tax rate was 42.0% for the first quarter of 2016, as compared to 42.5% in the first quarter of 2015. The increase in income before taxes was primarily the result of a higher net interest income and higher noninterest income, which were partially offset by a higher provision for loan losses and higher noninterest expenses.

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 quarter of 2016.

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

(dollars in thousands)	Banking	Wealth Management	Other	Total
2016:				
Interest income	$21,698	$ —	$—	$21,698
Interest expense	2,337	—	—	2,337
Net interest income	19,361	—	—	19,361
Provision for loan losses	400	—	—	400
Noninterest income	1,752	5,376	(143)	6,985
Noninterest expense	13,344	5,223	850	19,417
Income (loss) before taxes on income	$7,369	$ 153	$(993)	$6,529
2015:				
Interest income	$13,158	$ —	$—	$13,158
Interest expense	1,047	—	240	1,287
Net interest income	12,111	—	(240)	11,871
Provision for loan losses	150	—	—	150
Noninterest income	1,278	5,067	(141)	6,204
Noninterest expense	7,919	4,715	724	13,358
Income (loss) before taxes on income	$5,320	$ 352	$(1,105)	$4,567

General. Consolidated income before taxes for the first quarter of 2016 was $6.5 million, as compared to $4.6 million for the first quarter of 2015. The increase in income before taxes was primarily the result of a $2.0 million increase in income before taxes for Banking. This increase was due to higher net interest income and higher noninterest income, which were partially offset by a higher provision for loan losses and higher noninterest expenses. Income before taxes for Wealth Management decreased by $0.2 million as higher noninterest expenses were only partially offset by higher noninterest income. Corporate interest expense decreased by $0.2 million due to the payoff of a term note in 2015, while corporate noninterest expenses increased by $0.1 million.

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

(dollars in thousands)	2016 Average Balances	Interest	Average Yield / Rate		2015 Average Balances	Interest	Average Yield / Rate	
Interest-earning assets:								
Loans	$1,860,838	$18,170	3.91	%	$1,201,965	$12,101	4.03	%
Securities	533,823	3,121	2.34	%	135,526	815	2.41	%
Fed funds, FHLB stock, and deposits	52,006	407	3.15	%	28,662	242	3.42	%
Total interest-earning assets	2,446,667	21,698	3.55	%	1,366,153	13,158	3.86	%
Noninterest-earning assets:								
Nonperforming assets	4,902				1,384			
Other	32,594				18,907			
Total assets	$2,484,163				$1,386,444			
Interest-bearing liabilities:								
Demand deposits	$254,790	300	0.47	%	$289,101	308	0.43	%
Money market and savings	531,910	813	0.61	%	185,158	270	0.59	%
Certificates of deposit	474,344	682	0.58	%	248,418	345	0.56	%
Total interest-bearing deposits	1,261,044	1,795	0.57	%	722,677	923	0.52	%
Borrowings	505,201	542	0.43	%	305,906	364	0.48	%
Total interest-bearing liabilities	1,766,245	2,337	0.53	%	1,028,583	1,287	0.51	%
Noninterest-bearing liabilities:								
Demand deposits	438,029				246,225			
Other liabilities	15,421				10,551			
Total liabilities	2,219,695				1,285,359			
Shareholders’ equity	264,468				101,085			
Total liabilities and equity	$2,484,163				$1,386,444			
Net Interest Income		$19,361				$11,871		
Net Interest Rate Spread			3.02	%			3.35	%
Net Yield on Interest-earning Assets			3.17	%			3.48	%

Net interest income is impacted by the volume (changes in volume multiplied by prior rate), interest rate (changes in rate multiplied by prior volume) and mix of interest-earning assets and interest-bearing liabilities. The following table provides a breakdown of the changes in net interest income due to volume and rate changes for the first quarter of 2016, as compared to the first quarter of 2015:

(dollars in thousands)	Increase (Decrease) due to Volume	Rate	Net Increase (Decrease)
Interest earned on:			
Loans	$6,457	$(388)	$ 6,069
Securities	2,330	(24)	2,306
FHLB stock, fed funds and deposits	187	(22)	165
Total interest-earning assets	8,974	(434)	8,540
Interest paid on:			
Demand deposits	(36)	28	(8)
Money market and savings	532	11	543
Certificates of deposit	328	9	337
Borrowings	220	(42)	178
Total interest-bearing liabilities	1,044	6	1,050
Net interest income	$7,930	$(440)	$ 7,490

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Net interest income increased 63% from $11.9 million in the first quarter of 2015, to $19.4 million in the first quarter of 2016 due primarily to a 79% increase in interest-earning assets and an increase in noninterest-bearing deposits and equity which were partially offset by a decrease in our net interest rate spread. The decrease in the net interest rate spread from 3.35% in the first quarter of 2015 to 3.02% in the first quarter of 2016 was due to a decrease in yield on total interest earning assets. The decrease in yield on interest earning assets from 3.86% to 3.55% was due to an increase in the proportion of lower yielding securities to total interest earning assets and 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 increased slightly due to an increase in the rates paid on deposits which was offset by a decrease in the rate paid on borrowings. Rates paid on deposits increased from 0.52% in the first quarter of 2015 to 0.57% in the first quarter of 2016 due to increases in rates we pay in our efforts to attract more deposits. The decrease in the rates paid on borrowings was due to the payoff of a term loan in August of 2015 which was partially offset by a 30 basis point increase in rates paid on FHLB advances. The increase in rates paid on FHLB advances is in line with the 25 basis point increase in Fed Funds rates experienced in December 2015.

Provision for loan losses. The provision for loan losses represents our estimate of the amount necessary to be charged against the current period's earnings to maintain the ALLL at a level that we consider adequate in relation to the estimated losses inherent in the loan portfolio. The provision for loan losses is impacted by changes in loan balances as well as changes in estimated loss assumptions and charge-offs and recoveries. The amount of the provision also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions and certain other subjective factors that may affect the ability of borrowers to meet their repayment obligations to us. The provision for loan losses in the first quarter of 2016 and 2015 was $0.4 million and $0.2 million, respectively. We did not recognize any loan charge-offs in the first quarters of 2016 and 2015.

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 quarters ended March 31:

(dollars in thousands)	2016	2015
Trust fees	$544	$581
Consulting fees	185	289
Deposit charges	121	95
Gain on sale of securities	310	—
Prepayment fees	373	186
Other	219	127
Total noninterest income	$1,752	$1,278

The $0.5 million increase in noninterest income for Banking in the first quarter of 2016 as compared to the first quarter of 2015 was due to a $0.3 million gain on the sale of securities in the first quarter of 2016 and a $0.2 million increase in prepayment fees. In the first quarter of 2016, we took advantage of favorable market conditions to sell, at a net gain, longer-term mortgage backed securities and all of the Bank's agency bullet securities, which were acquired through bank acquisitions. Included in noninterest income for Banking is $0.1 million of fees related to our insurance agency operations.

Noninterest income for Wealth Management includes fees charged to high net-worth clients for managing their assets and for providing financial planning consulting services. The following table provides a breakdown of noninterest income for Wealth Management for the quarters ended March 31:

(dollars in thousands)	2016	2015
Asset management fees	$5,349	$5,039
Consulting and administration fees	28	39
Other	(1)	(11)
Total noninterest income	$5,376	$5,067

The $0.3 million increase in noninterest income in Wealth Management in the first quarter of 2016 as compared to the corresponding period in 2015 was primarily due to a 6% increase in billable AUM.

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

	Banking		Wealth Management	
(dollars in thousands)	2016	2015	2016	2015
Quarter Ended March 31:				
Compensation and benefits	$8,408	$5,190	$4,037	$3,732
Occupancy and depreciation	2,227	1,446	547	464
Professional services and marketing	951	484	497	373
Other expenses	1,758	799	142	146
Total noninterest expense	$13,344	$7,919	$5,223	$4,715

Noninterest expense in Banking increased from $7.9 million in the first quarter of 2015 to $13.3 million in the first quarter of 2016 due primarily to increases in staffing and costs associated with the Bank's expansion, the growth of its balances of loans and deposits and costs associated with the our property and casualty insurance agency operations which started during the second quarter of 2015. Compensation and benefits for Banking increased $3.2 million or 62% during the first quarter of 2016 as compared to the first quarter of 2015 as the number of full time equivalent employees ("FTE") in Banking increased to 241.3 from 158.0 as a result of the acquisition of Pacific Rim Bank ("PRB") and increased staffing to support the growth in loans and deposits. A $3.2 million increase in occupancy and depreciation, professional services and marketing and other expenses were related to increased costs related to the acquisition of PRB, costs associated with our expansion into additional corporate space and opening of new offices, and costs related to the higher levels of loans and deposits, including FDIC insurance. Included in noninterest expense is $0.5 million of costs related to our insurance agency operations.

Noninterest expense in Wealth Management increased from $4.7 million in the first quarter of 2015 to $5.2 million in the first quarter of 2016 due to costs associated with higher staffing levels as FTE increased from 54.0 in the first quarter of 2015 to 60.2 in the first quarter of 2016.

Financial Condition

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

(dollars in thousands)	Banking	Wealth Management	Other and Eliminations	Total
March 31, 2016:				
Cash and cash equivalents	$52,618	$ 5,141	$ (4,942)	$52,817
Securities AFS	548,295	—	—	548,295
Loans held for sale	260,075	—	—	260,075
Loans, net	1,782,002	—	—	1,782,002
FHLB Stock	17,091	—	—	17,091
Premises and equipment	3,638	687	125	4,450
Deferred taxes	9,995	623	454	11,072
REO	334	—	—	334
Goodwill and intangibles	2,351	—	—	2,351
Other assets	9,504	300	1,882	11,686
Total assets	$2,685,903	$ 6,751	$ (2,481)	$2,690,173
Deposits	$1,815,934	$ —	$ (42,828)	$1,773,106
Borrowings	633,000	—	—	633,000
Intercompany balances	2,341	580	(2,921)	—
Other liabilities	8,933	1,649	3,305	13,887
Shareholders’ equity	225,695	4,522	39,963	270,180
Total liabilities and equity	$2,685,903	$ 6,751	$ (2,481)	$2,690,173
December 31, 2015:				
Cash and cash equivalents	$215,671	$ 5,682	$ (5,605)	$215,748
Securities AFS	565,135	—	—	565,135
Loans, net	1,754,883	—	—	1,754,883
FHLB Stock	21,492	—	—	21,492
Premises and equipment	1,996	545	112	2,653
Deferred taxes	14,466	630	296	15,392
REO	4,036	—	—	4,036
Goodwill and intangibles	2,416	—	—	2,416
Other assets	8,645	314	1,865	10,824
Total assets	$2,588,740	$ 7,171	$ (3,332)	$2,592,579
Deposits	$1,569,932	$ —	$ (47,756)	$1,522,176
Borrowings	796,000	—	—	796,000
Intercompany balances	2,748	121	(2,869)	—
Other liabilities	9,309	2,634	2,724	14,667
Shareholders’ equity	210,751	4,416	44,569	259,736
Total liabilities and equity	$2,588,740	$ 7,171	$ (3,332)	$2,592,579

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 quarter of 2016, total assets increased by $97 million as loans and loans held for sale increased by $288 million, deposits increased by $251 million, securities decreased by $17 million, and both cash and cash equivalents and FHLB advances decreased by $163 million. The $379 million of loan originations and funding of existing credit commitments in the first quarter of 2016, resulted in a net increase in loans, including loans held for sale, of $288 million during the first quarter of 2016. The growth in deposits was due primarily to the organic growth in deposits from our specialty deposit group and our branch offices.

Cash and cash equivalents, certificates of deposit and securities. Cash and cash equivalents, which primarily consist of funds held at the Federal Reserve Bank or at correspondent banks, including fed funds, decreased $163 million during the first quarter of 2016. Changes in cash equivalents are primarily affected by the funding of loans, investments in securities, and changes in our sources of funding: deposits and FHLB advances.

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 Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2016:				
US Treasury security	$ 300	$—	$—	$ 300
Agency mortgage-backed securities	528,385	7,057	(26)	535,416
Beneficial interest – FHLMC securitization	12,627	364	(412)	12,579
Total	$ 541,312	$ 7,421	$ (438)	$ 548,295
December 31, 2015:				
US Treasury security	$ 300	$—	$—	$ 300
Agency notes	16,108	—	(95)	16,013
Agency mortgage-backed securities	538,269	909	(3,030)	536,148
Beneficial interest – FHLMC securitization	12,674	476	(476)	12,674
Total	$ 567,351	$ 1,385	$ (3,601)	$ 565,135

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

The scheduled maturities of securities AFS, other than agency mortgage-backed securities, and the related weighted average yield is as follows as of March 31, 2016:

(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
Weighted average yield	0.45 %	— %	— %	—%	0.45 %
Estimated Fair Value:					
US Treasury securities Total	$ 300	$ —	$ —	$ —	$ 300

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 March 31, 2016 was 2.35%.

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

(dollars in thousands)	March 31, 2016	December 31, 2015

Outstanding principal balance:		
Loans secured by real estate:		
Residential properties:		
Multifamily	$570,541	$627,311
Single family	537,108	533,257
Total real estate loans secured by residential properties	1,107,649	1,160,568
Commercial properties	406,815	358,791
Land and construction	21,072	12,320
Total real estate loans	1,535,536	1,531,679
Commercial and industrial loans	210,121	196,584
Consumer loans	47,390	37,206
Total loans	1,793,047	1,765,469
Premiums, discounts and deferred fees and expenses	(45)	14
Total	$1,793,002	$1,765,483

The $28 million increase in loans during the first three months of 2016 was the result of loan originations and funding of existing credit commitments of $379 million, offset by $92 million of payoffs and scheduled principal payments, and the classification of $260 million of multifamily loans as loans held for sale.

The scheduled maturities, as of December 31, 2015, of the performing loans categorized as land loans and as commercial and industrial loans, are as follows:

	Scheduled Maturity			Loans With a Scheduled Maturity After One Year	
(dollars in thousands)	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	$8,709	$ 2,224	$1,895	$3,395	$ 724
Commercial and industrial loans	$81,085	$ 69,854	$42,625	$46,081	$ 66,398

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

	March 31, 2016		December 31, 2015	
(dollars in thousands)	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Demand deposits:				
Noninterest-bearing	$508,141	—	$299,794	—
Interest-bearing	243,156	0.480 %	260,167	0.359 %
Money market and savings	545,656	0.609 %	492,015	0.531 %
Certificates of deposits	476,153	0.582 %	470,200	0.554 %
Total	$1,773,106	0.409 %	$1,522,176	0.404 %

During the first quarter of 2016, our deposit rates have increased slightly as we have raised rates to attract deposits. The weighted average rate of our interest bearing deposits increased from 0.50% at December 31, 2015 to 0.57% at March 31, 2016, while the weighted average interest rates of both interest-bearing and noninterest-bearing deposits have increased slightly from 0.40% at December 31, 2015 to 0.41% at March 31, 2016.

The maturities of our certificates of deposit of $100,000 or more were as follows as of March 31, 2016:

(dollars in thousands)	
3 months or less	$236,676
Over 3 months through 6 months	22,881
Over 6 months through 12 months	80,295
Over 12 months	33,907
Total	$373,759

FFB utilizes third party programs called CDARs and ICS which allows FFB to transfer funds of its clients in excess of the FDIC insurance limit (currently $250,000) to other institutions in exchange for an equal amount of funds from clients of these other institutions. This has allowed FFB to provide FDIC insurance coverage to its clients. Under certain regulatory guidelines, these deposits are considered brokered deposits. From time to time, the Bank will utilize brokered deposits as a source of funding. As of March 31, 2016 the Bank held $295.5 million of deposits which are classified as brokered deposits, including $85.9 million of CDARs and ICS reciprocal deposits.

Borrowings. At March 31, 2016 and December 31, 2015, our borrowings consisted of $633 million and $796 million, respectively, of overnight FHLB advances. The FHLB advances were paid in full in the early parts of April 2016 and January 2016, 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 three months of 2016 was $505 million, as compared to $282 million for the first quarter of 2015. The weighted average interest rate on these overnight borrowings was 0.43% and 0.18% for the first quarters of 2016 and 2015, respectively. The maximum amount of overnight borrowings outstanding at any month-end during the first quarters of 2016 and 2015 was $633 million and $363 million, respectively. On December 31, 2015, the Bank borrowed an additional $160 million from the FHLB and this additional amount was paid back on January 4, 2016.

Delinquent Loans, Nonperforming Assets and Provision for Credit Losses

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

	Past Due and Still Accruing				Total Past		
(dollars in thousands)	30–59 Days	60-89 Days	90 Days or More	Nonaccrual	Due and Nonaccrual	Current	Total
March 31, 2016:							
Real estate loans:							
Residential properties	$3,234	$—	$—	$ —	$ 3,234	$1,104,415	$ 1,107,649
Commercial properties	378	—	790	1,730	2,898	403,917	406,815
Land and construction	—	—	—	—	—	21,072	21,072
Commercial and industrial loans	7,462	2,463	5,385	2,350	17,660	192,461	210,121
Consumer loans	2,104	—	1,000	—	3,104	44,286	47,390
Total	$13,178	$2,463	$7,175	$ 4,080	$ 26,896	$1,766,151	$ 1,793,047
Percentage of total loans	0.73 %	0.14 %	0.40 %	0.23 %	1.50 %		
December 31, 2015:							
Real estate loans:							
Residential properties	$—	$—	$—	$ —	$ —	$1,160,568	$ 1,160,568
Commercial properties	1,232	—	793	1,552	3,577	355,214	358,791
Land and construction	—	—	—	—	—	12,320	12,320
Commercial and industrial loans	2,425	1,639	5,713	2,509	12,286	184,298	196,584
Consumer loans	1,010	—	1,991	75	3,076	34,130	37,206
Total	$4,667	$1,639	$8,497	$ 4,136	$ 18,939	$1,746,530	$ 1,765,469
Percentage of total loans	0.26 %	0.09 %	0.48 %	0.23 %	1.07 %		

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

	March 31, 2016			December 31, 2015		
(dollars in thousands)	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Commercial and industrial	$493	$652	$1,145	$—	$ 344	$344

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

(dollars in thousands)	Pass	Special Mention	Substandard	Impaired	Total
March 31, 2016:					
Real estate loans:					
Residential properties	$1,103,779	$3,870	$ —	$—	$1,107,649
Commercial properties	404,896	—	189	1,730	406,815
Land and construction	21,072	—	—	—	21,072
Commercial and industrial loans	189,808	8,108	6,263	5,942	210,121
Consumer loans	46,130	1,260	—	—	47,390
Total	$1,765,685	$13,238	$ 6,452	$7,672	$1,793,047
December 31, 2015:					
Real estate loans:					
Residential properties	$1,159,029	$1,539	$ —	$—	$1,160,568
Commercial properties	351,988	174	354	6,275	358,791
Land and construction	11,180	—	1,140	—	12,320
Commercial and industrial loans	180,755	4,977	5,165	5,687	196,584
Consumer loans	37,130	—	—	76	37,206
Total	$1,740,082	$6,690	$ 6,659	$12,038	$1,765,469

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)	March 31, 2016	December 31, 2015
Outstanding principal balance:		
Loans secured by real estate:		
Commercial properties	$304	$ 533
Land	—	1,616
Total real estate loans	304	2,149
Commercial and industrial loans	8,366	6,787
Consumer loans	12	14
Total loans	8,682	8,950
Unaccreted discount on purchased credit impaired loans	(2,230)	(2,291)
Total	$6,452	$ 6,659

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

(dollars in thousands)	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Quarter ended March 31, 2016:					
Real estate loans:					
Residential properties	$ 6,829	$ (357)	$ —	$ —	$6,472
Commercial properties	1,886	474	—	—	2,360
Commercial and industrial loans	1,649	140	—	—	1,789
Consumer loans	236	(143)	—	—	379
Total	$ 10,600	$ 400	$ —	$ —	$11,000

Year ended December 31, 2015:

Real estate loans:					
Residential properties	$ 6,586	$ 243	$ —	$ —	$ 6,829
Commercial properties/land	1,526	670	(310)	—	1,886
Commercial and industrial loans	1,897	1,665	(1,913)	—	1,649
Consumer loans	141	95	—	—	236
Total	$ 10,150	$ 2,673	$ (2,223)	$ —	$ 10,600

Excluding the loans acquired in acquisitions, our ALLL represented 0.63%, and 0.61% of total loans outstanding as of March 31, 2016 and December 31, 2015, respectively.

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

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

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

(dollars in thousands)	Allowance for Loan Losses Evaluated for Impairment		Purchased		Unaccreted Credit Component Other Loans
	Individually	Collectively	Impaired	Total	
March 31, 2016:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	$—	$ 6,390	$ —	$ 6,390	$ 189
Commercial properties	50	2,131	—	2,181	247
Land and construction	—	261	—	261	8
Commercial and industrial loans	—	1,789	—	1,789	185
Consumer loans	—	379	—	379	22
Total	$ 50	$ 10,950	$ —	$ 11,000	$ 651
Loans:					
Real estate loans:					
Residential properties	$—	$ 1,107,649	$ —	$ 1,107,649	$ 15,532
Commercial properties	1,730	404,896	189	406,815	34,538
Land and construction	—	21,072	—	21,072	2,162
Commercial and industrial loans	5,942	197,916	6,263	210,121	26,808
Consumer loans	—	47,390	—	47,390	1,776
Total	$ 7,672	$ 1,778,923	$ 6,452	$ 1,793,047	$ 80,816

(dollars in thousands)	Allowance for Loan Losses				Unaccreted Credit
	Evaluated for Impairment		Purchased		Component Other
	Individually	Collectively	Impaired	Total	Loans
December 31, 2015:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	$—	$6,799	$ —	$6,799	$ 127
Commercial properties	30	1,783	—	1,813	363
Land and construction	—	103	—	103	42
Commercial and industrial loans	—	1,649	—	1,649	187
Consumer loans	—	236	—	236	13
Total	$30	$10,570	$ —	$10,600	$ 732
Loans:					
Real estate loans:					
Residential properties	$—	$1,160,568	$ —	$1,160,568	$ 7,747
Commercial properties	6,275	352,162	354	358,791	43,287
Land and construction	—	11,180	1,140	12,320	4,267
Commercial and industrial loans	5,687	185,732	5,165	196,584	28,231
Consumer loans	76	37,130	—	37,206	1,761
Total	$12,038	$1,746,772	$ 6,659	$1,765,469	$ 85,293

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 0.81% and 0.86% of the stated principal balances of these loans as of March 31, 2016 and December 31, 2015, respectively. In addition to this unaccreted credit component discount, an additional $0.3 million of the ALLL were provided for these loans as of March 31, 2016 and December 31, 2015, respectively.

Liquidity

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

We monitor our liquidity in accordance with guidelines established by our Board of Directors and applicable regulatory requirements. Our need for liquidity is affected by our loan activity, net changes in deposit levels and the maturities of our borrowings. The principal sources of our liquidity consist of deposits, loan interest and principal payments and prepayments, investment management and consulting fees, FHLB advances and proceeds from borrowings and sales of shares by FFI. The remaining balances of the Company's lines of credit available to draw down totaled $417.5 million at March 31, 2016.

Cash Flows Provided by Operating Activities. During the quarter ended March 31, 2016, operating activities provided net cash of $3.7 million, comprised primarily of our net income of $3.8 million. During the quarter ended March 31, 2015 operating activities provided net cash of $2.3 million, comprised primarily of our net income of $2.6 million.

Cash Flows Used in Investing Activities. During the quarter ended March 31, 2016, investing activities used net cash of $255.5 million, primarily to fund a $287.5 million net increase in loans and $27.3 million of securities purchases, offset partially by $53.3 million in cash received from the sale, principal collection, and maturities of securities. During the quarter ended March 31, 2015, investing activities used net cash of $105.0 million, primarily to fund a $102.5 million net increase in loans and FHLB stock purchases of $4.7 million, partially offset by securities maturities and payments of $2.8 million.

Cash Flow Provided by Financing Activities. During the quarter ended March 31, 2016, financing activities provided net cash of $88.9 million, consisting primarily of a net increase of $250.9 million in deposits, offset by a $163.0 million decrease in FHLB advances. During the quarter ended March 31, 2015, financing activities provided net cash of $108.4 million, consisting primarily of a net increase of $100.0 million in borrowings, and $10.1 million in term note proceeds.

Ratio of Loans to Deposits. The relationship between gross loans and total deposits can provide a useful measure of a bank's liquidity. Since repayment of loans tends to be less predictable than the maturity of investments and other liquid resources, the higher the loan-to-deposit ratio the less liquid are our assets. On the other hand, since we realize greater yields on loans than we do on other interest-earning assets, a lower loan-to-deposit ratio can adversely affect interest income and earnings. As a result, our goal is to achieve a loan-to-deposit ratio that appropriately balances the requirements of liquidity and the need to generate a fair return on our assets. At March 31, 2016 and December 31, 2015, the loan-to-deposit ratios were 115.8% and 116.0%, respectively.

Off-Balance Sheet Arrangements

The following table provides the off-balance sheet arrangements of the Company as of March 31, 2016:

(dollars in thousands)	
Commitments to fund new loans	$44,815
Commitments to fund under existing loans, lines of credit	171,854
Commitments under standby letters of credit	8,217

Some of the commitments to fund existing loans, lines of credit and letters of credit are expected to expire without being drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. As of March 31, 2016, the Bank was obligated on $101.5 million of letters of credit to the FHLB which were being used as collateral for public fund deposits, including $86.0 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.

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 Amount	Ratio	Minimum Regulatory Capital Ratios Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
FFI						
March 31, 2016						
CET1 capital ratio	$261,027	14.93%	$78,683	4.50%		
Tier 1 leverage ratio	261,027	10.52%	99,250	4.00%		
Tier 1 risk-based capital ratio	261,027	14.93%	104,910	6.00%		
Total risk-based capital ratio	272,497	15.58%	139,880	8.00%		
December 31, 2015						
CET1 capital ratio	$256,007	17.44%	$66,072	4.50%		
Tier 1 leverage ratio	256,007	11.81%	86,736	4.00%		
Tier 1 risk-based capital ratio	256,007	17.44%	88,096	6.00%		
Total risk-based capital ratio	267,027	18.19%	117,461	8.00%		
FFB						
March 31, 2016						
CET1 capital ratio	$215,936	12.38%	$78,472	4.50%	$113,349	6.50%
Tier 1 leverage ratio	215,936	8.72%	99,041	4.00%	123,801	5.00%
Tier 1 risk-based capital ratio	215,936	12.38%	104,630	6.00%	139,506	8.00%
Total risk-based capital ratio	227,406	13.04%	139,506	8.00%	174,383	10.00%
December 31, 2015						
CET1 capital ratio	$206,341	14.10%	$65,872	4.50%	$95,148	6.50%
Tier 1 leverage ratio	206,341	9.54%	86,543	4.00%	108,179	5.00%
Tier 1 risk-based capital ratio	206,341	14.10%	87,829	6.00%	117,106	8.00%
Total risk-based capital ratio	217,361	14.85%	117,106	8.00%	146,382	10.00%

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

As of March 31, 2016, the amount of capital at FFB in excess of amounts required to be Well Capitalized was $102.6 million for the CET-1 capital ratio, $92.1 million for the Tier 1 leverage ratio, $76.4 million for the Tier 1 risk-based capital ratio and $53.0 million for the Total risk-based capital ratio. No conditions or events have occurred since March 31, 2016 which we believe have changed FFI's or FFB's capital adequacy classifications from those set forth in the above table.

The "Basel III" rules adopted by the Federal Reserve Board and the FDIC (the "New Capital Rules") introduced a capital conservation buffer which is an increment added to the minimum capital ratios. If a banking organization does not hold a capital conservation buffer composed of common equity tier 1 capital above its minimum risk-based capital requirements, it will face constraints on dividends, equity repurchases and executive compensation based on the amount of the shortfall. The capital buffer is measured against risk weighted assets and is therefore not applicable to the tier 1 leverage ratio. The implementation of the capital conservation buffer began on January 1, 2016 at 0.625%, and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019. The following table sets forth the minimum capital ratios plus the applicable increment of the capital conservation buffer as of the current year and when it is fully implemented in 2019:

	2016	2019
CET-1 to risk-weighted assets	5.125%	7.000%
Tier 1 capital (i.e., CET-1 plus Additional Tier 1) to risk-weighted assets	6.625%	8.500%
Total capital (i.e., Tier 1 plus Tier 2) to risk-weighted assets	8.625%	10.50%

During the first quarter of 2016, and during the entirety of 2015, FFI made cash capital contributions to FFB of $5.0 million and $76.5 million, respectively. As of March 31, 2016, FFI had $43.5 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 2016 or 2015 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 March 31, 2016.

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 15, 2016. There have been no material changes to our quantitative and qualitative disclosures about market risk since December 31, 2015.

ITEM 4. CONTROLS AND PROCEDURES

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

In accordance with SEC rules, an evaluation was performed under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer of the effectiveness, as of March 31 2016, of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2016, the Company’s disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There was no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2016 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, 2015, which we filed with the SEC on March 15, 2016.

ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit
10.1	Third Amendment to Employment Agreement, dated January 26, 2016, by and between the Company, FFB and Scott F. Kavanaugh (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K, filed on February 1, 2016.
10.2	Third Amendment to Employment Agreement, dated January 26, 2016, by and between the Company, FFA, FFB and John M. Michel (incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K, filed on February 1, 2016).
10.3	Third Amendment to Employment Agreement, dated January 26, 2016, by and between FFA and John A. Hakopian (incorporated by reference to Exhibit 10.3 to the Company’s Current Report on Form 8-K, filed on February 1, 2016).
10.4	Third Amendment to Employment Agreement, dated January 26, 2016, by and between the Company, FFA and Ulrich E. Keller, Jr. (incorporated by reference to Exhibit 10.4 to the Company’s Current Report on Form 8-K, filed on February 1, 2016).
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 March 31, 2016, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Loss, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.

*Furnished and not filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST FOUNDATION INC.

Dated: May 9, 2016 By: /s/ JOHN M. MICHEL
John M. Michel
Executive Vice President and
Chief Financial Officer

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INDEX TO EXHIBITS

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