First Foundation Inc.
Form 10-Q
May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-36461

FIRST FOUNDATION INC.

(Exact name of Registrant as specified in its charter)

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

(949) 202-4160

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 7, 2018, there were 39,078,436 shares of registrant’s common stock outstanding.

FIRST FOUNDATION INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
FIRST FOUNDATION INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Cash and cash equivalents	$177,356	$120,394
Securities available-for-sale ("AFS")	513,067	519,364
Loans held for sale	148,266	154,380
Loans, net of deferred fees	3,914,970	3,663,727
Allowance for loan and lease losses ("ALLL")	(20,000)	(18,400)
Net loans	3,894,970	3,645,327
Premises and equipment, net	6,716	6,581
Investment in FHLB stock	22,626	19,060
Deferred taxes	13,629	12,143
Real estate owned ("REO")	2,165	2,920
Goodwill and intangibles	33,551	33,576
Other assets	29,836	27,440
Total Assets	$4,842,182	$4,541,185
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$3,636,192	$3,443,527
Borrowings	769,000	678,000
Accounts payable and other liabilities	24,876	24,707
Total Liabilities	4,430,068	4,146,234
Commitments and contingencies	—	—
Shareholders' Equity		
		38

Common Stock, par value $.001: 70,000,000 shares authorized; 39,056,436 and 38,207,766 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	39	
Additional paid-in-capital	327,951	314,501
Retained earnings	94,479	85,503
Accumulated other comprehensive loss, net of tax	(10,355)	(5,091)
Total Shareholders' Equity	412,114	394,951
Total Liabilities and Shareholders' Equity	$4,842,182	$4,541,185

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED INCOME STATEMENTS - UNAUDITED

(In thousands, except share and per share amounts)

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

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

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENT OF CHANGES

IN SHAREHOLDERS' EQUITY - Unaudited

(In thousands, except share amounts)

	Common Stock		Additional		Accumulated Other	
	Number of Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Total
Balance: December 31, 2017	38,207,766	$ 38	$ 314,501	$ 85,503	$ (5,091)	$ 394,951
Net income	—	—	—	8,976	—	8,976
Other comprehensive income	—	—	—	—	(5,264)	(5,264)
Stock based compensation	—	—	1,165	—	—	1,165
Issuance of common stock:						
Exercise of options	123,000	—	944	—	—	944
Stock grants – vesting of RSUs	99,940					
Capital raise	625,730	1	11,341	—	—	11,342
Balance: March 31, 2018	39,056,436	$ 39	$ 327,951	$ 94,479	$ (10,355)	$ 412,114

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME - UNAUDITED

(In thousands)

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

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

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

Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$8,534	$3,827
Income taxes	18	255
Noncash transactions:		
Transfer of loans to (from) loans held for sale	$46,338	$(44,521)
Mortgage servicing rights created from loan sales	317	113
Chargeoffs (recoveries) against allowance for loans losses	88	(231)
C1B acquisition reconciliation – goodwill/deferred taxes	300	—

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 - UNAUDITED

NOTE 1: BASIS OF PRESENTATION

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

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

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

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

New Accounting Guidance

In February 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-05 “Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets” which clarifies that the guidance in Accounting Standards Codification (“ASC”) 610-20 on accounting for derecognition of a nonfinancial asset and in-substance nonfinancial asset applies only when the asset (or asset group) does not meet the definition of a business and provides guidance for partial sales of nonfinancial assets. The guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that period. The adoption of ASU No. 2017-05 did not have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04 “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” which provides updated guidance on how an entity is required to test goodwill for impairment. This update is effective for the Company for annual periods beginning after December 15, 2019, and interim periods within those annual periods. The adoption of ASU No. 2017-04 is not expected to have a material impact on the Company’s consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” which introduces new guidance for the accounting for credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The new model, referred to as the current expected credit losses (CECL) model, will apply to financial assets subject to credit losses and measured at amortized cost, and certain off-balance sheet credit exposures. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure. This update is effective for the Company for annual periods beginning after December 15, 2019, and interim periods within those annual periods. The Company has begun analyzing the data requirements needed to implement the adoption of ASU 2016-13 and we expect that the adoption of ASU 2016-13 may have a significant impact on the Company’s recording of its allowance for loan losses. The impact of the implementation of ASU 2016-13 is undeterminable at this time.

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

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

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

In May, 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This update replaces most existing revenue recognition guidance in GAAP. The new standard was effective for the Company on January 1, 2018. Adoption of ASU 2014-09 did not have a material impact on the Company’s consolidated financial statements and related disclosures, as the Company’s primary sources of revenues are generated from financial instruments, such as loans and investment securities that are not within the scope of ASU 2014-09. Descriptions of our primary revenue-generating activities that are within the scope of this update, which are presented in our income statements as components of non-interest income are as follows:

Wealth management and trust fee income

Asset management fees are billed on a monthly or quarterly basis based on the amount of assets under management and the applicable contractual fee percentage. Asset management fees are recognized as revenue in the period in which they are billed and earned. Financial planning fees are due and billed at the completion of the planning project and are recognized as revenue at that time.

Service charges on deposit accounts

Service charges on deposit accounts represent general service fees for monthly account maintenance and activity or transaction-based fees. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

Gains and Losses on Sales of REO

The new guidance requires judgment in evaluating if: (a) a commitment on the buyer’s part exists, (b) collection is probable in circumstances where the initial investment is minimal and (c) the buyer has obtained control of the asset, including the significant risks and rewards of the ownership. If there is no commitment on the buyer’s part, collection is not probable or the buyer has not obtained control of the asset, then a gain cannot be recognized. The initial investment requirement for the buyer along with the various methods for profit recognition are no longer applicable. The Company does not expect the new guidance to have a significant impact on the consolidated financial statements.

Other non-interest income includes revenue related to mortgage servicing activities and gains on sales of loans, which are not subject to the requirements of ASU 2014-09.

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FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

NOTE 2: FAIR VALUE

Fair Value Measurements

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

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

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

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

Assets Measured at Fair Value on a Recurring Basis

Securities available for sale and effective with the adoption of ASU 2016-01 on January 1, 2018, investments in equity securities are measured at fair value on a recurring basis depending upon whether the inputs are Level 1, 2 or 3 as described above.

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

		Fair Value Measurement Level		
	Total	Level 1	Level 2	Level 3
(dollars in thousands)				
March 31, 2018:				
Investment securities available for sale:				
US Treasury securities	$493	$493	$—	$—
Agency mortgage-backed securities	438,868	—	438,868	—
Corporate bonds	39,100	—	39,100	—
Beneficial interest – FHLMC securitization	34,606	—	—	34,606
Investment in equity securities	400	400	—	—
Total assets at fair value on a recurring basis	$513,467	$893	$477,968	$34,606
December 31, 2017:				
Investment securities available for sale:				
US Treasury securities	$493	$493	$—	$—
Agency mortgage-backed securities	464,019	—	464,019	—
Corporate bonds	19,000	—	19,000	—
Beneficial interest – FHLMC securitization	35,852	—	—	35,852
Total assets at fair value on a recurring basis	$519,364	$493	$483,019	$35,852

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

Assets Measured at Fair Value on a Nonrecurring Basis

Additionally, from time to time, we may be required to measure at fair value other assets on a nonrecurring basis. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

Impaired Loans. ASC 820-10 applies to loans measured for impairment in accordance with ASC 310-10, "Accounting by Creditors for Impairment of a Loan", at the fair value of the loan's collateral (if the loan is collateral dependent) less estimated selling costs. When the fair value of the collateral is based on an observable market price or a current appraised value, we measure the impaired loan at nonrecurring Level 2. When an appraised value is not available, or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price or a discounted cash flow has been used to determine the fair value, we measure the impaired loan at nonrecurring Level 3. The total collateral dependent impaired Level 3 loans were $13.3 million and $13.4 million at March 31, 2018 and December 31, 2017, respectively. There were no specific reserves related to these loans at March 31, 2018 and December 31, 2017.

Real Estate Owned. The fair value of real estate owned is based on external appraised values that include adjustments for estimated selling costs and assumptions of market conditions that are not directly observable, resulting in a Level 3 classification. As of March 31, 2018 and December 31, 2017, the fair value of real estate owned was $2.2 million and $2.9 million, respectively.

Fair Value of Financial Instruments

Fair value estimates are made at a discrete point in time based on relevant market information and other information about the financial instruments. Considerable judgment is required to interpret market data to develop estimates of fair value. These estimates are subjective in nature and invariably involve some inherent uncertainties. Additionally, unexpected changes in events or circumstances can occur that could require us to make changes to our assumptions and which, in turn, could significantly affect and require us to make changes to our previous estimates of fair value.

The methods of determining the fair value of assets and liabilities presented in this note as of March 31, 2018 are consistent with Note 3 of the Company's 2017 Form 10-K except for the valuation of investment in equity securities. We refined the calculation used to determine the disclosed fair value of our investment in equity securities as part of adopting ASU 2016-01. The refined calculation did not have a significant impact on our fair value disclosures.

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

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

Investment in equity securities	400	400	—	—	—
Liabilities:					
Deposits	3,636,192	2,598,821	1,038,615	—	3,637,436
Borrowings	769,000	—	739,000	30,000	769,000
December 31, 2017:					
Assets:					
Cash and cash equivalents	$120,394	$120,394	$—	$—	$120,934
Securities AFS	519,364	493	483,019	35,852	519,364
Loans held for sale	154,380	—	155,345	—	154,380
Loans, net	3,645,327	—	—	3,617,060	3,617,060
Investment in FHLB Stock	19,060	—	19,060	—	19,060
Liabilities:					
Deposits	3,443,527	2,542,730	901,877	—	3,444,607
Borrowings	678,000	—	628,000	50,000	678,000

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

NOTE 3: SECURITIES

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

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

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

The table below indicates the gross unrealized losses and fair values of our investments, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, for the periods indicated:

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

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

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

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

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

(dollars in thousands)	Less than 1 Year	1 Through 5 years	5 Through 10 Years	After 10 Years	Total
March 31, 2018					
Amortized Cost:					
US Treasury securities	$ —	$ 499	$ —	$ —	$ 499
Corporate bonds	—	—	19,000	20,000	39,000
Total	—	499	19,000	20,000	39,499
Weighted average yield	— %	1.03 %	5.24 %	5.00 %	5.06 %
Estimated Fair Value:					
US Treasury securities	$ —	$ 493	$ —	$ —	$ 493
Corporate bonds	—	—	19,000	20,100	39,100
Total	$ —	$ 493	$ 19,000	$ 20,100	$ 39,593

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

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

NOTE 4: LOANS

The following is a summary of our loans as of:

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

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

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

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

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

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

Ending balance	$ 750	$ 850

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FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

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

(dollars in thousands)	Past Due and Still Accruing 30–59 Days	60-89 Days	90 Days or More	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
March 31, 2018:							
Real estate loans:							
Residential properties	$62	$—	$ —	$ —	$ 62	$2,799,308	$2,799,370
Commercial properties	752	—	1,312	1,918	3,982	704,476	708,458
Land	—	—	—	—	—	31,200	31,200
Commercial and industrial loans	—	138	302	9,342	9,782	327,513	337,295
Consumer loans	—	—	—	—	—	29,361	29,361
Total	$814	$138	$ 1,614	$ 11,260	$ 13,826	$3,891,858	$3,905,684
Percentage of total loans	0.02%	0.00%	0.04 %	0.29 %	0.35 %		
December 31, 2017:							
Real estate loans:							
Residential properties	$78	$—	$ —	$ —	$ 78	$2,581,167	$2,581,245
Commercial properties	—	—	1,320	1,742	3,062	693,686	696,748
Land	—	—	—	—	—	37,160	37,160
Commercial and industrial loans	—	—	789	9,617	10,406	300,373	310,779
Consumer loans	—	—	—	—	—	29,330	29,330
Total	$78	$—	$ 2,109	$ 11,359	$ 13,546	$3,641,716	$3,655,262
Percentage of total loans	0.00%	— %	0.06 %	0.31 %	0.37 %		

As of March 31, 2018 and December 31, 2017, the Company had seven loans with a balance of $4.4 million and seven loans with a balance of $4.5 million, respectively, that were classified as troubled debt restructurings (“TDR”). All loans were classified as a TDR as a result of a reduction in required principal payments and an extension of the maturity date of the loans. These loans have been paying in accordance with the terms of their restructure.

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

(dollars in thousands)	March 31, 2018 Accrual	Nonaccrual	Total	December 31, 2017 Accrual	Nonaccrual	Total
Commercial real estate loans	$—	$1,572	$1,572	$—	$ 1,598	$1,598

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

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

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

NOTE 5: ALLOWANCE FOR LOAN LOSSES

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

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FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

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

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

(dollars in thousands)	Allowance for Loan Losses				Unaccreted Credit
	Evaluated for Impairment		Purchased		Component Other
	Individually	Collectively	Impaired	Total	Loans
March 31, 2018:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	$—	$ 9,908	$ —	$ 9,908	$ 229
Commercial properties	—	4,390	—	4,390	1,343
Land	—	335	—	335	5
Commercial and industrial loans	1,931	3,162	—	5,093	789
Consumer loans	—	274	—	274	25
Total	$ 1,931	$ 18,069	$ —	$ 20,000	$ 2,391
Loans:					
Real estate loans:					
Residential properties	$—	$ 2,799,370	$ —	$ 2,799,370	$ 26,407
Commercial properties	3,982	703,781	695	708,458	167,910
Land	—	30,372	828	31,200	531
Commercial and industrial loans	9,342	326,121	1,832	337,295	54,025
Consumer loans	—	29,361	—	29,361	2,686
Total	$ 13,324	$ 3,889,005	$ 3,355	$ 3,905,684	$ 251,559
December 31, 2017:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	$—	$ 9,715	$ —	$ 9,715	$ 248
Commercial properties	—	4,399	—	4,399	1,449
Land	—	395	—	395	4
Commercial and industrial loans	909	2,715	—	3,624	1,204
Consumer loans	—	267	—	267	100
Total	$ 909	$ 17,491	$ —	$ 18,400	$ 3,005
Loans:					
Real estate loans:					
Residential properties	$—	$ 2,581,245	$ —	$ 2,581,245	$ 26,605
Commercial properties	4,037	691,632	1,079	696,748	168,057
Land	—	36,323	837	37,160	167
Commercial and industrial loans	9,399	299,539	1,841	310,779	62,849
Consumer loans	—	29,330	—	29,330	2,899

Total	$13,436	$3,638,069	$ 3,757	$3,655,262	$ 260,577

The column labeled “Unaccreted Credit Component Other Loans” represents the amount of unaccreted credit component discount for the other loans acquired in a business combination, and the stated principal balance of the related loans. The discount is equal to 0.95% and 1.15% of the stated principal balance of these loans as of March 31, 2018 and December 31, 2017, respectively. In addition to this unaccreted credit component discount, an additional $0.4 million and $0.2 million of ALLL has been provided for these loans March 31, 2018 and December 31, 2017, respectively.

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – 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, 2018:					
Real estate loans:					
Residential properties	$2,796,111	$ 3,259	$ —	$—	$2,799,370
Commercial properties	693,082	5,885	5,509	3,982	708,458
Land	30,372	—	828	—	31,200
Commercial and industrial loans	325,731	160	2,062	9,342	337,295
Consumer loans	29,361	—	—	—	29,361
Total	$3,874,657	$ 9,304	$ 8,399	$13,324	$3,905,684
December 31, 2017:					
Real estate loans:					
Residential properties	$2,578,773	$ 192	$ 2,280	$—	$2,581,245
Commercial properties	680,449	6,326	5,936	4,037	696,748
Land	36,321	—	839	—	37,160
Commercial and industrial loans	298,408	865	2,107	9,399	310,779
Consumer loans	29,330	—	—	—	29,330
Total	$3,623,281	$ 7,383	$ 11,162	$13,436	$3,655,262

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

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

	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, 2018:					
Real estate loans:					
Residential properties	$—	$ —	$—	$ —	$ —
Commercial properties	3,982	3,982	—	—	—
Commercial and industrial loans	250	250	9,092	9,092	1,931
Total	$4,232	$ 4,232	$9,092	$ 9,092	$ 1,931
December 31, 2017:					
Real estate loans:					
Residential properties	$—	$ —	$—	$ —	$ —
Commercial properties	4,037	4,037	—	—	—
Commercial and industrial loans	250	250	9,149	9,149	909
Total	$4,287	$ 4,287	$9,149	$ 9,149	$ 909

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

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

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

NOTE 6: LOAN SALES AND MORTGAGE SERVICING RIGHTS

In the first quarter of 2018, FFB recognized a gain of $0.5 million on the sale of $52 million of multifamily loans and recorded mortgage servicing rights of $0.3 million on the sale of those loans. In 2017, FFB sold $453 million of multifamily loans to financial institutions and recognized a gain of $7.0 million.

For the sales of multifamily loans, FFB retained servicing rights for the majority of these loans and recognized mortgage servicing rights as part of the transactions. As of March 31, 2018 and December 31, 2017, mortgage servicing rights were $4.9 million and $4.8 million, respectively and the amount of loans serviced for others totaled $793 million and $745 million at March 31, 2018 and December 31, 2017, respectively. Servicing fees collected for the quarter ended March 31, 2018, and in 2017 were $0.2 million and $0.7 million, respectively.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

NOTE 7: DEPOSITS

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

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

At March 31, 2018, of the $296 million of certificates of deposits of $250,000 or more, $270 million mature within one year and $26 million mature after one year. Of the $741 million of certificates of deposit of less than $250,000, $699 million mature within one year and $42 million mature after one year. At December 31, 2017, of the $288 million of certificates of deposits of $250,000 or more, $230 million mature within one year and $58 million mature after one year. Of the $613 million of certificates of deposit of less than $250,000, $543 million mature within one year and $70 million mature after one year.

NOTE 8: BORROWINGS

At March 31, 2018, our borrowings consisted of $739 million of overnight FHLB advances at the Bank and $30 million outstanding on a holding company line of credit. At December 31, 2017, our borrowings consisted of $628 million of overnight FHLB advances at the Bank and $50 million outstanding on a holding company line of credit. The FHLB advances were paid in full in the early part of April 2018 and January 2018, respectively, and bore interest rates of 1.87% and 1.41%, respectively. At March 31, 2018, the interest rate on the holding company line of credit was 5.19%. Because the Bank utilizes overnight borrowings, the balance of outstanding borrowings fluctuates on a daily basis.

FHLB advances are collateralized by loans secured by multifamily and commercial real estate properties with a carrying value of $3.2 billion as of March 31, 2018. As a matter of practice, the Bank provides substantially all of its qualifying loans as collateral to the FHLB. The Bank's total borrowing capacity from the FHLB at March 31, 2018 was $1.8 billion. In addition to the $739 million borrowing at March 31, 2018, the Bank had in place $169 million of letters of credit from the FHLB which are used to meet collateral requirements for borrowings from the State of

California and local agencies.

During 2017, FFI entered into a loan agreement with an unaffiliated lender that provides for a revolving line of credit for up to $50 million. The loan agreement matures in five years, with an option to extend the maturity date subject to certain conditions, and bears interest at 90 day LIBOR plus 350 basis points (3.50%). We are required to meet certain financial covenants during the term of the loan, including minimum capital levels and limits on classified assets. FFI's obligations under the loan agreement are secured by, among other things, a pledge of all of its equity in FFB. In April 2018, the line was increased by $25 million, to $75 million.

The Bank also has $120 million available borrowing capacity through unsecured fed funds lines, ranging in size from $20 million to $25 million, with five other financial institutions. None of these lines had outstanding borrowings as of March 31, 2018. Combined, the Bank's unused lines of credit as of March 31, 2018 and December 31, 2017 were $1.0 billion and $943 million, respectively. The average balance of overnight borrowings during the first three months of 2018 was $693 million, as compared to $499 million during all of 2017.

NOTE 9: EARNINGS PER SHARE

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

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

NOTE 10: SEGMENT REPORTING

For the quarters ended March 31, 2018 and 2017, the Company had two reportable business segments: Banking (FFB) and Wealth Management (FFA). The results of FFI and any elimination entries are included in the column labeled Other. The following tables show key operating results for each of our business segments used to arrive at our consolidated totals for the following periods:

(dollars in thousands)	Banking	Wealth Management	Other	Total
Quarter ended March 31, 2018:				
Interest income	$43,319	$ —	$—	$43,319
Interest expense	8,520	—	531	9,051
Net interest income	34,799	—	(531)	34,268
Provision for loan losses	1,688	—	—	1,688
Noninterest income	2,557	6,414	11	8,982
Noninterest expense	21,811	5,817	1,360	28,988
Income (loss) before taxes on income	$13,857	$ 597	$(1,880)	$12,574
Quarter ended March 31, 2017:				
Interest income	$30,360	$—	$—	$30,360
Interest expense	4,277	—	25	4,302
Net interest income	26,083	—	(25)	26,058

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

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

The following discussion and analysis is intended to facilitate the understanding and assessment of significant changes and trends in our businesses that accounted for the changes in our results of operations in the quarter ended March 31, 2018 as compared to our results of operations in the quarter ended March 31, 2017; and our financial condition at March 31, 2018 as compared to our financial condition at December 31, 2017. This discussion and analysis is based on and should be read in conjunction with our consolidated financial statements and the accompanying notes thereto contained elsewhere in this report and our audited consolidated financial statements for the year ended December 31, 2017, and the notes thereto, which are set forth in Item 8 of our Annual Report on Form 10-K (our "2017 10-K") which we filed with the Securities and Exchange Commission ("SEC") on March 16, 2018.

Forward-Looking Statements

Statements contained in this report that are not historical facts or that discuss our expectations, beliefs or views regarding our future financial performance or future financial condition, or financial or other trends in our business or in the markets in which we operate, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Often, they include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," "project," "forecast" or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could," or "may." Such forward-looking statements are based on current information that is available to us, and on assumptions that we make, about future events or economic or financial conditions or trends over which we do not have control. In addition, our businesses and the markets in which we operate are subject to a number of risks and uncertainties. Those risks and uncertainties, and unexpected future events, could cause our financial condition or actual operating results in the future to differ, possibly significantly, from our expected financial condition and operating results that are set forth in the forward-looking statements contained in this report.

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

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

Critical Accounting Policies

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

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

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

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

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

Recent Developments and Overview

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

Results of Operations

Our net income and income before taxes in the first quarter of 2018 was $9.0 million and $12.6 million, respectively, as compared to $6.1 million and $9.1 million, respectively, in the first quarter of 2017. The increase in income before taxes was primarily the result of higher net interest income and higher noninterest income, which were partially offset by higher noninterest expenses. The effective tax rate for the first quarter of 2018 was 28.6% as compared to 32.5% for the first quarter of 2017. As a result of reduced federal tax rates, our statutory tax rate decreased from 41.6% in 2017 to 29.0% in 2018. During the first quarter of 2017, we realized a 930 basis point reduction in our effective tax rate related to excess tax benefits resulting from the exercise of stock awards.

The primary sources of revenue for Banking are net interest income, fees from its deposits, trust and insurance services, certain loan fees, and consulting fees. The primary source of revenue for Wealth Management is asset management fees assessed on the balance of assets under management (“AUM”). Compensation and benefit costs, which represent the largest component of noninterest expense, accounted for 57% and 73%, respectively, of the total noninterest expense for Banking and Wealth Management in the first quarter of 2018.

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

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