First Foundation Inc.
Form 10-Q
November 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 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 No

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

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

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

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

As of November 7th, 2016, there were 16,327,658 shares of registrant’s common stock outstanding

FIRST FOUNDATION INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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)

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash and cash equivalents	$496,813	$215,748
Securities available-for-sale (“AFS”)	542,703	565,135
Loans held for sale	200,002	—
Loans, net of deferred fees	2,308,829	1,765,483
Allowance for loan and lease losses (“ALLL”)	(13,600)	(10,600)
Net loans	2,295,229	1,754,883
Investment in FHLB stock	25,677	21,492
Premises and equipment, net	5,342	2,653
Deferred taxes	10,156	15,392
Real estate owned (“REO”)	544	4,036
Goodwill and intangibles	2,232	2,416
Other assets	14,970	10,824
Total Assets	$3,593,668	$2,592,579
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Deposits	$2,338,737	$1,522,176
Borrowings	951,000	796,000
Accounts payable and other liabilities	16,637	14,667
Total Liabilities	3,306,374	2,332,843
Commitments and contingencies	—	—
Shareholders’ Equity		

Common Stock, par value $0.001: 70,000,000 shares authorized; 16,300,833 and 15,980,526 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	16	
Additional paid-in-capital	231,631	227,262
Retained earnings	50,548	33,762
Accumulated other comprehensive income (loss), net of tax	5,099	(1,304)
Total Shareholders’ Equity	287,294	259,736
Total Liabilities and Shareholders’ Equity	$3,593,668	$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)

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Interest income:				
Loans	$22,231	$15,634	$61,362	$41,097
Securities AFS	3,202	1,107	9,423	2,744
Fed funds sold, FHLB stock and deposits	571	367	1,490	1,418
Total interest income	26,004	17,108	72,275	45,259
Interest expense:				
Deposits	2,426	1,328	6,194	3,366
Borrowings	415	319	1,636	1,137
Total interest expense	2,841	1,647	7,830	4,503
Net interest income	23,163	15,461	64,445	40,756
Provision for loan losses	1,231	570	2,881	1,473
Net interest income after provision for loan losses	21,932	14,891	61,564	39,283
Noninterest income:				
Asset management, consulting and other fees	6,141	5,870	18,127	17,642
Gain on sale of loans	7,238	205	7,238	205
Gain (loss) on capital markets activities	993	(2)	(1,055)	(28)
Other income	707	795	2,664	1,673
Total noninterest income	15,079	6,868	26,974	19,492
Noninterest expense:				
Compensation and benefits	12,059	10,870	36,707	29,440
Occupancy and depreciation	3,072	2,561	8,783	6,486
Professional services and marketing costs	3,525	1,481	7,808	4,051
Other expenses	2,880	2,044	7,505	4,311
Total noninterest expense	21,536	16,956	60,803	44,288
Income before taxes on income	15,475	4,803	27,735	14,487
Taxes on income	5,800	2,041	10,949	6,157
Net income	$9,675	$2,762	$16,786	$8,330

Net income per share:

Basic	$0.60	$0.22	$1.04	$0.87
Diluted	$0.58	$0.21	$1.01	$0.84
Shares used to compute net income per share:				
Basic	16,257,008	12,623,924	16,132,112	9,534,056
Diluted	16,787,947	13,074,935	16,682,807	9,929,445

(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	—	—	—	16,786	—	16,786
Other comprehensive income	—	—	—	—	6,403	6,403
Stock based compensation	—	—	712	—	—	712
Issuance of common stock:						
Exercise of options	293,471	—	3,657	—	—	3,657
Issuance of restricted stock	26,836	—	—	—	—	—
Balance: September 30, 2016	16,300,833	$ 16	$ 231,631	$ 50,548	$ 5,099	$ 287,294

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME - UNAUDITED

(In thousands)

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income	$9,675	$2,762	$16,786	$8,330
Other comprehensive income:				
Unrealized holding gains (loss) on securities arising during the period	(1,033)	2,690	9,805	1,477
Other comprehensive income (loss) before tax	(1,033)	2,690	9,805	1,477
Income tax (expense) benefit related to items of other comprehensive income	425	(1,107)	(4,035)	(607)
Other comprehensive income (loss)	(608)	1,583	5,770	870
Less: Reclassification adjustment for gains (loss) included in net earnings	(993)	(2)	1,055	(28)
Income tax (expense) benefit related to reclassification adjustment	397	1	(422)	12
Reclassification adjustment for gains included in net earnings, net of tax	(596)	(1)	633	(16)
Other comprehensive income (loss), net of tax	(1,204)	1,582	6,403	854
Total comprehensive income	$8,471	$4,344	$23,189	$9,184

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

	For the Nine Months Ended September 30, 2016	2015
Cash Flows from Operating Activities:		
Net income	$16,786	$8,330
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,881	1,473
Stock–based compensation expense	712	383
Depreciation and amortization	1,338	995
Deferred tax provision	758	(1,068)
Accretion of discounts on purchased loans, net	(755)	(523)
Gain on sale of loans	(7,238)	(205)
Gain on sale of capital market activities	(1,307)	—
Increase in other assets	(1,429)	(2,076)
Increase (decrease) in accounts payable and other liabilities	1,970	(14)
Net cash provided by operating activities	13,716	7,295
Cash Flows from Investing Activities:		
Net increase in loans	(1,008,136)	(402,543)
Proceeds from sale of REO	4,442	2,205
Proceeds from sale of loans	270,005	—
Purchases of premises and equipment	(4,027)	(1,142)
Purchases of securities AFS	(130,829)	(225,396)
Proceeds from sale of securities AFS	104,146	—
Maturities / payments – securities AFS	60,715	11,648
Cash acquired in acquisition	—	38,081
Purchases (net of redemptions) of FHLB stock	(4,185)	(5,307)
Net cash used in investing activities	(707,869)	(582,454)
Cash Flows from Financing Activities:		
Increase in deposits	816,561	238,732
FHLB Advances – net increase	155,000	397,000
Proceeds – term note	—	10,114
Principal payments – term note	—	(30,000)
Proceeds from sale of stock, net	3,657	135,959
Net cash provided by financing activities	975,218	751,805
Increase in cash and cash equivalents	281,065	176,646
Cash and cash equivalents at beginning of year	215,748	29,692
Cash and cash equivalents at end of period	$496,813	$206,338

Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$7,334	$4,444
Income taxes	$10,050	$7,650
Noncash transactions:		
Recoveries (net of chargeoffs) added to allowance for loans losses	$119	$323
Transfer of loans to REO	$950	$—
Transfer of loans to loans held for sale	$468,743	$113,325
Mortgage servicing rights created from sale of loans	$1,945	$—

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 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, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, Compensation - Stock Compensation (Topic 718): Improvement to Employee Share-Based Payment Accounting. The new standard contains several amendments that will simplify the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The changes in the new standard eliminate the accounting for excess tax benefits to be recognized in additional paid-in capital and tax deficiencies recognized either in the income tax provision or in additional paid-in capital. The Company elected early adoption of ASU 2016-09 in the third quarter of 2016 which was applied using a modified retrospective approach. For the quarter and nine months ended September 30, 2016, we recognized all excess tax benefits and tax deficiencies that occurred in 2016 as income tax expense or benefit as a discrete event. An income tax benefit of approximately $0.8 million was recognized for the quarter and nine months ended September 30, 2016 as a result of the adoption of ASU 2016-09. There was no change to retained earnings with respect to excess tax benefits, as this is not applicable to the Company. In addition there was no cumulative effect on retained earnings as a result of the election by the Company to adopt an accounting policy to account for forfeitures as they occur. With the early adoption of 2016-09, we have elected to present the cash flow statement on a prospective transition method and no prior periods have been adjusted. ASU 2016-09 requires the recognition of any tax benefits or deficiencies to be recognized in the period in which they occur. As a result of the adoption of ASU 2016-09, our effective tax rate for the quarter and nine months ended September 30, 2016 was decreased by 4.5% and 2.5%, respectively.

In August 2016, the FASB issued ASU 2016-15 "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" which provides guidance for eight specific cash flow issues. FASB issued the standard to clarify areas where GAAP has been either unclear or lacking in specific guidance. This update is effective for the Company for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company is currently evaluating the effects of ASU 2016-15 on its financial statements and disclosures.

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 is currently evaluating the effects of ASU 2016-13 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 adoption of ASU No. 2016-01 is not expected to have a material impact on the Company's Consolidated Financial Statements.

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.

NOTE 2: ACQUISITIONS

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

The acquisition is accounted for under the purchase method of accounting. The acquired assets, assumed liabilities and identifiable intangible assets are recorded at their respective acquisition date fair values. Goodwill of $1.3 million, which is not tax deductible, is included in intangible assets in the table below.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2016 – UNAUDITED

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

(dollars in thousands)	PRB Book Value	Fair Value Adjustments	Fair Value
Assets Acquired:			
Cash and cash equivalents	$38,624	$ —	$38,624
Securities AFS	7,179	115	7,294
Loans, net of deferred fees	80,192	(2,419)	77,773
Allowance for loan losses	(2,034)	2,034	—
Premises and equipment, net	251	(188)	63
Investment in FHLB stock	152	—	152
Deferred taxes	—	2,258	2,258
REO	4,374	(672)	3,702
Goodwill	—	1,300	1,300
Core deposit intangible	—	1,099	1,099
Other assets	269	—	269
Total assets acquired	$129,007	$ 3,527	$132,534
Liabilities Assumed:			
Deposits	$119,663	$ 178	$119,841
Accounts payable and other liabilities	442	(98)	344
Total liabilities assumed	120,105	80	120,185
Excess of assets acquired over liabilities assumed	8,902	3,447	12,349
Total	$129,007	$ 3,527	$132,534
Consideration:			
Stock issued			$11,806
Cash paid			543
Total			$12,349

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

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

Acquired loans deemed impaired and considered collateral dependent, with the timing of the sale of loan collateral indeterminate, remain on nonaccrual status and have no accretable yield. All purchased credit impaired loans were classified as accruing loans as of and subsequent to the acquisition date.

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

The Company recorded a deferred income tax asset of $2.3 million related to PRB's operating loss carry-forward and other tax attributes of PRB, along with the effects of fair value adjustments resulting from applying the purchase method of accounting.

The fair value of savings and transaction deposit accounts acquired from PRB were assumed to approximate their carrying value as these accounts have no stated maturity and are payable on demand. Certificates of deposit accounts were valued by comparing the contractual cost of the portfolio to an identical portfolio bearing current market rates. The portfolio was segregated into pools based on remaining maturity. For each pool, the projected cash flows from maturing certificates were then calculated based on contractual rates and prevailing market rates. The valuation adjustment for each pool is equal to the present value of the difference of these two cash flows, discounted at the assumed market rate for a certificate with a corresponding maturity. This valuation adjustment will be accreted to reduce interest expense over the remaining maturities of the respective pools. The Company also recorded a core deposit intangible, which represents the value of the deposit relationships acquired from PRB, of $1.1 million. The core deposit intangible will be amortized over a period of 7 years.

Pro Forma Information (unaudited)

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

	Pro Forma
(dollars in thousands)	
Net interest income	$42,386
Provision for loan losses	1,473
Noninterest income	19,610
Noninterest expenses	47,050
Income before taxes	13,473
Taxes on income	5,728
Net income	$7,745
Net income per share:	
Basic	$0.76
Diluted	$0.73

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

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2016 – UNAUDITED

NOTE 3: FAIR VALUE MEASUREMENTS

Assets Measured at Fair Value on a Recurring Basis

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable 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 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 requiring significant judgment or estimation 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)				
September 30, 2016:				
Investment securities available for sale:				
US Treasury securities	$300	$300	$—	$—
Agency mortgage-backed securities	498,886	—	498,886	—
Beneficial interest – FHLMC securitizations	43,517	—	—	43,517

Total assets at fair value on a recurring basis	$542,703	$300	$498,886	$43,517
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 securitizations	12,674	—	—	12,674
Total assets at fair value on a recurring basis	$565,135	$300	$552,161	$12,674

The increase in level 3 assets from December 31, 2015 was due to Beneficial interest – FHLMC securitization purchases. The Company did not have any material assets measured at fair value on a nonrecurring basis as of September 30, 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.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2016 – UNAUDITED

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 material 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 September 30, 2016 included a prepayment rate of 15% and discount rates ranging from 4.0% to 10%.

Federal Home Loan Bank Stock. The Bank is a member of the Federal Home Loan Bank (the "FHLB"). As a member, we are required to own stock of the FHLB, the amount of which is based primarily on the level of our borrowings from this institution. The fair value of that stock is equal to the carrying amount, is classified as restricted securities and is periodically evaluated for impairment based on our assessment of the ultimate recoverability of our investments in that stock. Any cash or stock dividends paid to us on such stock are reported as income.

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

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

Impaired Loans. ASC 820-10 applies to loans measured for impairment in accordance with ASC 310-10, “Accounting by Creditors for Impairment of a Loan”, including impaired loans measured at an observable market price (if available), and at the fair value of the loan’s collateral (if the loan is collateral dependent) less 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.

FIRST FOUNDATION INC.

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Mortgage Servicing Rights. Fair values are measured using independent pricing models or other model-based valuation techniques that would incorporate assumptions that market participants would use in estimating the fair value of servicing. These assumptions might include estimates of prepayment speeds, discount rate, costs to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. Mortgage servicing rights are considered a Level 3 measurement at September 30, 2016 and are included in other assets in the accompanying consolidated balance sheets

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, using current market rates.

Borrowings. The fair value of $951 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:

	Carrying	Fair Value Measurement Level			
(dollars in thousands)	Value	1	2	3	Total
September 30, 2016:					
Assets:					
Cash and cash equivalents	$496,813	$496,813	$—	$—	$496,813
Securities AFS	542,703	300	498,886	43,517	542,703
Loans	2,295,229	—	—	2,313,425	2,313,425
Loans held for sale	200,002	—	—	200,002	200,002
Investment in FHLB stock	25,677	—	25,677	—	25,677
Liabilities:					
Deposits	2,338,737	1,787,742	551,051	—	2,338,737
Borrowings	951,000	—	951,000	—	951,000
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

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NOTE 4: SECURITIES

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

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2016:				
US Treasury securities	$300	$—	$—	$300
Agency mortgage-backed securities	489,233	9,749	(96)	498,886
Beneficial interests in FHLMC securitization	44,505	121	(1,109)	43,517
Total	$534,038	$9,870	$(1,205)	$542,703
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.

The tables below indicate, as of September 30, 2016 and December 31, 2015 the gross unrealized losses and fair values of our investments, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

	Securities with Unrealized Loss at September 30, 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 and FHLB Agency notes	$46,649	$(96)	$—	$—	$46,649	$(96)
Beneficial interests in FHLMC securitization	31,645	(1,109)	—	—	31,645	(1,109)
	$78,294	$(1,205)	$—	$—	$78,294	$(1,205)

	Securities with Unrealized Loss at December 31, 2015					
	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 notes	$16,013	$(95)	$—	$—	$16,013	$(95)
Agency mortgage backed securities	397,850	(3,030)	—	—	397,850	(3,030)
Beneficial interests in FHLMC securitization	12,674	(476)	—	—	12,674	(476)
	$426,537	$(3,601)	$—	$—	$426,537	$(3,601)

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

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The scheduled maturities of securities AFS and the related weighted average yields were as follows as of September 30, 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	—%	0.90 %	— %	—%	0.90%
Estimated Fair Value:					
US Treasury Securities	$ —	$ 300	$ —	$ —	$ 300

Agency mortgage backed securities and beneficial interests in FHLMC securitizations are excluded from the above table because such securities are not due at a single maturity date. The weighted average yield of the agency mortgage backed securities and beneficial interests in FHLMC securitizations as of September 30, 2016 was 2.59%.

NOTE 5: LOANS

The following is a summary of our loans as of:

(dollars in thousands)	September 30, 2016	December 31, 2015
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties:		
Multifamily	$ 986,921	$ 627,311
Single family	576,886	533,257
Total real estate loans secured by residential properties	1,563,807	1,160,568
Commercial properties	459,703	358,791
Land and construction	20,034	12,320
Total real estate loans	2,043,544	1,531,679
Commercial and industrial loans	228,579	196,584
Consumer loans	34,248	37,206
Total loans	2,306,371	1,765,469
Premiums, discounts and deferred fees and expenses	2,458	14

Total	$2,308,829	$1,765,483

As of September 30, 2016 and December 31, 2015, the principal balances shown above are net of unaccreted discount related to loans acquired in an acquisition of $2.1 million and $2.8 million, respectively.

In 2012 and 2015, the Company purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of these purchased credit impaired loans is as follows as of:

(dollars in thousands)	September 30, 2016	December 31, 2015
Outstanding principal balance:		
Loans secured by real estate:		
Commercial properties	$ 298	$ 533
Land	—	1,616
Total real estate loans	298	2,149
Commercial and industrial loans	6,192	6,787
Consumer loans	5	14
Total loans	6,495	8,950
Unaccreted discount on purchased credit impaired loans	(1,625)	(2,291)
Total	$ 4,870	$ 6,659

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

(dollars in thousands)	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
Beginning balance	$ 582	$ 130
Accretion of income	(155)	(529)
Reclassifications from nonaccretable difference	—	176
Acquisition	—	805
Disposals	(108)	—
Ending balance	$ 319	$ 582

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

	Past Due and Still Accruing						
(dollars in thousands)	30–59 Days	60-89 Days	90 Days or More	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
September 30, 2016:							
Real estate loans:							
Residential properties	$—	$—	$ —	$ 4,021	$ 4,021	$1,559,786	$1,563,807
Commercial properties	1,363	—	780	1,187	3,330	456,373	459,703
Land and construction	—	—	—	—	—	20,034	20,034
Commercial and industrial loans	4,145	5	3,136	4,184	11,470	217,109	228,579
Consumer loans	18	—	—	14	32	34,216	34,248
Total	$5,526	$5	$ 3,916	$ 9,406	$ 18,853	$2,287,518	$2,306,371
Percentage of total loans	0.24 %	— %	0.17 %	0.41 %	0.82 %		
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
	2,425	1,639	5,713	2,509	12,286	184,298	196,584

Commercial and industrial loans							
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 from acquisitions. As of September 30, 2016, of the $13.3 million in loans over 90 days past due, including loans on nonaccrual, $4.5 million, or 34% were loans acquired from acquisitions.

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 nine months of 2016 consisted of 6 commercial and industrial loans, with a recorded investment of $3.9 million, whose payment terms were restructured. The TDR activity during the first nine months of 2015 consisted of two commercial and industrial loans, with a recorded investment of $0.5 million, whose payment terms were restructured.

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NOTE 6: ALLOWANCE FOR LOAN LOSSES

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

(dollars in thousands)	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Quarter Ended September 30, 2016:					
Real estate loans:					
Residential properties	$ 5,353	$ 951	$ —	$ —	$ 6,304
Commercial properties	1,887	572	—	169	2,628
Land and construction	272	(70)			202
Commercial and industrial loans	4,139	31	—	—	4,170
Consumer loans	549	(253)	—	—	296
Total	$ 12,200	$ 1,231	$ —	$ 169	$ 13,600
Nine Months Ended September 30, 2016:					
Real estate loans:					
Residential properties	$ 6,799	$ (495)	$ —	$ —	$ 6,304
Commercial properties	1,813	696	(50)	169	2,628
Land and construction	103	99			202
Commercial and industrial loans	1,649	2,521	—	—	4,170
Consumer loans	236	60	—	—	296
Total	$ 10,600	$ 2,881	$ (50)	$ 169	$ 13,600
Year Ended December 31, 2015:					
Real estate loans:					
Residential properties	$ 6,546	$ 253	$ —	$ —	$ 6,799
Commercial properties	1,499	624	(310)	—	1,813
Land and construction	67	36	—	—	103
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

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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
September 30, 2016:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	$—	$6,304	$ —	$6,304	$ 148
Commercial properties	—	2,628	—	2,628	149
Land and construction	—	202	—	202	3
Commercial and industrial loans	—	4,170	—	4,170	161
Consumer loans	—	296	—	296	20
Total	$—	$13,600	$ —	$13,600	$ 481
Loans:					
Real estate loans:					
Residential properties	$3,844	$1,559,963	$ —	$1,563,807	$ 13,472
Commercial properties	1,187	458,334	182	459,703	24,982
Land and construction	—	20,034	—	20,034	436
Commercial and industrial loans	2,653	221,238	4,688	228,579	24,157
Consumer loans	14	34,234	—	34,248	1,477
Total	$7,698	$2,293,803	$ 4,870	$2,306,371	$ 64,524
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 balance of the related loans. The unaccreted credit component discount is equal to 0.75% and 0.86% of the stated principal balance of these loans as of September 30, 2016 and December 31, 2015, respectively. In addition to this unaccreted credit component discount, an additional $0.4 million and $0.3 million of the ALLL has been provided for these loans as of September 30, 2016 and December 31, 2015, respectively.

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

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

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

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

Impaired: A loan is considered impaired, when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Purchased credit impaired loans are not considered impaired loans for these purposes.

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

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

(dollars in thousands)	Pass	Special Mention	Substandard	Impaired	Total
September 30, 2016:					
Real estate loans:					
Residential properties	$1,556,117	$ 3,846	$ —	$3,844	$1,563,807
Commercial properties	456,548	—	1,968	1,187	459,703
Land and construction	20,034	—	—	—	20,034
Commercial and industrial loans	207,574	1,913	16,439	2,653	228,579
Consumer loans	34,234	—	—	14	34,248
Total	$2,274,507	$ 5,759	$ 18,407	$7,698	$2,306,371
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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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
September 30, 2016:					
Real estate loans:					
Residential properties	$3,844	$ 3,844	$	$	$
Commercial properties	1,187	1,187	—	—	—
Commercial and industrial loans	2,653	2,653	—	—	—
Consumer	14	14	—	—	—
Total	$7,698	$ 7,698	$—	$ —	$ —
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:

	Nine months Ended September 30, 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	1,788	5	6,487	281
Commercial and industrial loans	1,600	19	7,850	394
Consumer loans	3	—	105	—
Total	$3,391	$ 24	$14,469	$ 677

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

NOTE 7: DEPOSITS

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

	September 30, 2016		December 31, 2015	
(dollars in thousands)	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Demand deposits:				
Noninterest-bearing	$775,466	—	$299,794	—
Interest-bearing	175,782	0.436 %	260,167	0.359 %
Money market and savings	836,494	0.697 %	492,015	0.531 %
Certificates of deposits	550,995	0.587 %	470,200	0.554 %
Total	$2,338,737	0.420 %	$1,522,176	0.404 %

At September 30, 2016, of the $179.5 million of certificates of deposits of $250,000 or more, $174.3 million mature within one year and $5.2 million mature after one year. Of the $371.4 million of certificates of deposit of less than $250,000, $360.4 million mature within one year and $11.0 million mature after one year. At December 31, 2015, of the $149.2 million of certificates of

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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.

NOTE 8: BORROWINGS

At September 30, 2016, our borrowings consisted of $951 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 October 2016 and January 2016, respectively, and bore interest rates of 0.38% 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 nine months of 2016 was $499 million, as compared to $353 million during all of 2015.

NOTE 9: EARNINGS PER SHARE

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

	Quarter Ended September 30, 2016		Quarter Ended September 30, 2015	
(dollars in thousands, except per share amounts)	Basic	Diluted	Basic	Diluted
Net income	$9,675	$9,675	$2,762	$2,762
Basic common shares outstanding	16,257,008	16,257,008	12,623,924	12,623,924
Effect of contingent shares issuable		796		796
Effect of options and restricted stock		530,143		450,215
Diluted common shares outstanding		16,787,947		13,074,935

Earnings per share	$0.60	$0.58	$0.22	$0.21

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

	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
(dollars in thousands, except per share amounts)	Basic	Diluted	Basic	Diluted
Net income	$16,786	$16,786	$8,330	$8,330
Basic common shares outstanding	16,132,112	16,132,112	9,534,056	9,534,056
Effect of contingent shares issuable		796		796
Effect of options and restricted stock		549,899		394,593
Diluted common shares outstanding		16,682,807		9,929,445
Earnings per share	$1.04	$1.01	$0.87	$0.84

Based on a weighted average basis, options to purchase 4,401 and 56,847 shares of common stock were excluded for the nine months ended September 30, 2016 and 2015, respectively, because their effect would have been anti-dilutive.

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NOTE 10: SEGMENT REPORTING

For the quarter and nine months ended September 30, 2016 and 2015, the Company had two reportable business segments: Banking (FFB and FFIS) and Wealth Management (FFA). The results of FFI and any elimination entries are included in the column labeled Other. The following tables show key operating results for each of our business segments used to arrive at our consolidated totals for the following periods:

(dollars in thousands)	Banking	Wealth Management	Other	Total
Quarter ended September 30, 2016:				
Interest income	$26,004	$ —	$—	$26,004
Interest expense	2,841	—	—	2,841
Net interest income	23,163	—	—	23,163
Provision for loan losses	1,231	—	—	1,231
Noninterest income	9,923	5,319	(163)	15,079
Noninterest expense	16,134	4,697	705	21,536
Income (loss) before taxes on income	$15,721	$ 622	$(868)	$15,475

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

	Banking	Wealth Management	Other	Total
Nine months ended September 30, 2016:				
Interest income	$ 72,275	$ —	$ —	$ 72,275
Interest expense	7,830	—	—	7,830

Net interest income	64,445	—	—	64,445
Provision for loan losses	2,881	—		