TriState Capital Holdings, Inc.
Form 10-Q
August 06, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the period ended June 30, 2018
¨ 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: 001-35913

TRISTATE CAPITAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	20-4929029
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Oxford Centre
301 Grant Street, Suite 2700
Pittsburgh, Pennsylvania 15219
(Address of principal executive offices)
(Zip Code)

(412) 304-0304
(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. ý Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	ý
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	¨
		Emerging growth company	ý

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. ý

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

As of July 31, 2018, there were 28,949,383 shares of the registrant’s common stock, no par value, outstanding.

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TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands)	June 30, 2018	December 31, 2017
ASSETS		
Cash	$382	$380
Interest-earning deposits with other institutions	157,717	140,975
Federal funds sold	6,268	14,798
Cash and cash equivalents	164,367	156,153
Debt securities available-for-sale, at fair value (cost: $187,430 and $138,147, respectively)	186,467	138,850
Debt securities held-to-maturity, at cost (fair value: $77,283 and $60,141, respectively)	77,098	59,275
Equity securities, at fair value (cost: $9,040 and $8,910, respectively)	8,630	8,635
Federal Home Loan Bank stock	16,479	13,792
Total investment securities	288,674	220,552
Loans held-for-investment	4,552,928	4,184,244
Allowance for loan losses	(15,321)	(14,417)
Loans held-for-investment, net	4,537,607	4,169,827
Accrued interest receivable	16,187	13,519
Investment management fees receivable, net	7,835	7,720
Goodwill	41,659	38,724
Intangible assets, net of accumulated amortization of $7,424 and $6,461, respectively	27,208	26,634
Office properties and equipment, net of accumulated depreciation of $11,609 and $10,844, respectively	4,875	4,885
Bank owned life insurance	67,451	66,593
Prepaid expenses and other assets	78,073	73,290
Total assets	$5,233,936	$4,777,897
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$4,441,202	$3,987,611
Borrowings, net	264,814	335,913
Accrued interest payable on deposits and borrowings	2,433	2,499
Deferred tax liability, net	4,691	4,152
Acquisition earn out liability	3,138	—
Other accrued expenses and other liabilities	63,764	58,651
Total liabilities	4,780,042	4,388,826
Shareholders' Equity:		
Preferred stock, no par value; Shares authorized - 150,000; Series A shares issued and outstanding - 40,250 and 0, respectively	38,432	—
Common stock, no par value; Shares authorized - 45,000,000; Shares issued - 30,796,284 and 30,342,471, respectively;	291,608	289,507

Shares outstanding - 28,947,883 and 28,591,101, respectively		
Additional paid-in capital	13,038	10,290
Retained earnings	135,937	111,732
Accumulated other comprehensive income, net	1,045	1,246
Treasury stock (1,848,401 and 1,751,370 shares, respectively)	(26,166)	(23,704)
Total shareholders’ equity	453,894	389,071
Total liabilities and shareholders’ equity	$5,233,936	$4,777,897

See accompanying notes to unaudited condensed consolidated financial statements.

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TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2018	2017	2018	2017
Interest income:				
Loans	$44,614	$30,242	$83,641	$57,261
Investments	2,300	1,535	4,084	3,005
Interest-earning deposits	870	338	1,475	586
Total interest income	47,784	32,115	89,200	60,852
Interest expense:				
Deposits	16,696	8,496	30,097	15,209
Borrowings	2,297	1,586	4,050	2,694
Total interest expense	18,993	10,082	34,147	17,903
Net interest income	28,791	22,033	55,053	42,949
Provision for loan losses	415	516	610	759
Net interest income after provision for loan losses	28,376	21,517	54,443	42,190
Non-interest income:				
Investment management fees	9,686	9,130	18,594	18,470
Service charges on deposits	140	97	274	191
Net gain on the sale and call of debt securities	1	241	6	239
Swap fees	1,937	1,218	3,185	2,317
Commitment and other loan fees	331	409	663	817
Other income	407	617	869	1,087
Total non-interest income	12,502	11,712	23,591	23,121
Non-interest expense:				
Compensation and employee benefits	15,742	14,222	31,210	28,115
Premises and occupancy costs	1,264	1,240	2,554	2,506
Professional fees	1,554	823	2,649	1,674
FDIC insurance expense	1,134	1,000	2,280	1,953
General insurance expense	242	259	489	560
State capital shares tax	484	398	911	750
Travel and entertainment expense	1,006	747	1,652	1,362
Intangible amortization expense	502	462	963	925
Other operating expenses	3,390	2,633	6,460	5,097
Total non-interest expense	25,318	21,784	49,168	42,942
Income before tax	15,560	11,445	28,866	22,369
Income tax expense	968	3,024	3,873	6,456
Net income	$14,592	$8,421	$24,993	$15,913
Preferred stock dividends on Series A	762	—	762	—
Net income available to common shareholders	$13,830	$8,421	$24,231	$15,913
Earnings per common share:				
Basic	$0.50	$0.31	$0.88	$0.58
Diluted	$0.48	$0.29	$0.84	$0.55

See accompanying notes to unaudited condensed consolidated financial statements.

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TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net income	$14,592	$8,421	$24,993	$15,913
Other comprehensive income (loss):				
Unrealized holding gains (losses) on investment securities, net of tax expense (benefit) of $(174), $394, $(396) and $509	(567)	707	(1,325)	890
Reclassification adjustment for gains included in net income on investment securities, net of tax expense of $0, $(86), $(1) and $(85)	(1)	(155)	(5)	(154)
Unrealized holding gains (losses) on derivatives, net of tax expense (benefit) of $79, $(87), $299 and $(56)	261	(155)	983	(100)
Reclassification adjustment for gains included in net income on derivatives, net of tax expense of $(89), $(29), $(126) and $(44)	(293)	(52)	(414)	(79)
Other comprehensive income (loss)	(600)	345	(761)	557
Total comprehensive income	$13,992	$8,766	$24,232	$16,470

See accompanying notes to unaudited condensed consolidated financial statements.

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TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands)	Preferred Stock (Series A)	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 2016	$—	$285,480	$ 6,782	$73,744	$ 830	$(15,029)	$ 351,807
Net income	—	—	—	15,913	—	—	15,913
Other comprehensive income	—	—	—	—	557	—	557
Exercise of stock options	—	2,456	(1,504)	—	—	—	952
Purchase of treasury stock	—	—	—	—	—	(4,120)	(4,120)
Stock-based compensation	—	—	2,530	—	—	—	2,530
Balance, June 30, 2017	$—	$287,936	$ 7,808	$89,657	$ 1,387	$(19,149)	$ 367,639
Balance, December 31, 2017	$—	$289,507	$ 10,290	$111,732	$ 1,246	$(23,704)	$ 389,071
Impact of adoption of ASU 2014-09 (see Note 1)	—	—	—	534	—	—	534
Reclassification for equity securities under ASU 2016-01 (see Note 1)	—	—	—	(286)	286	—	—
Reclassification for certain income tax effects under ASU 2018-02 (see Note 1)	—	—	—	(274)	274	—	—
Net income	—	—	—	24,993	—	—	24,993
Other comprehensive loss	—	—	—	—	(761)	—	(761)
Issuance of preferred stock (net of offering costs of $1,818)	38,432	—	—	—	—	—	38,432
Preferred stock dividend	—	—	—	(762)	—	—	(762)
Exercise of stock options	—	2,101	(1,194)	—	—	—	907
Purchase of treasury stock	—	—	—	—	—	(2,462)	(2,462)
Stock-based compensation	—	—	3,942	—	—	—	3,942
Balance, June 30, 2018	$38,432	$291,608	$ 13,038	$135,937	$ 1,045	$(26,166)	$ 453,894

See accompanying notes to unaudited condensed consolidated financial statements.

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TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
(Dollars in thousands)	2018	2017
Cash flows from operating activities:		
Net income	$24,993	$15,913
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and intangible amortization expense	1,729	1,681
Amortization of deferred financing costs	101	101
Provision for loan losses	610	759
Net gain on the sale of loans	(19)	(17)
Stock-based compensation expense	3,942	2,530
Net gain on the sale or call of debt securities available-for-sale	(3)	(239)
Net gain on the call of debt securities held-to-maturity	(3)	—
Unrealized loss from equity securities	36	—
Net amortization of premiums and discounts on debt securities	431	442
Decrease (increase) in investment management fees receivable, net	(115)	331
Increase in accrued interest receivable	(2,668)	(993)
Increase (decrease) in accrued interest payable	(66)	52
Bank owned life insurance income	(858)	(899)
Increase in income taxes payable	—	9
Decrease in prepaid income taxes	9,424	35
Deferred tax provision	763	536
Decrease in accounts payable and other accrued expenses	(6,061)	(8,533)
Other, net	174	(2,819)
Net cash provided by operating activities	32,410	8,889
Cash flows from investing activities:		
Purchase of debt securities available-for-sale	(61,489)	(7,701)
Purchase of debt securities held-to-maturity	(19,878)	(7,467)
Purchase of equity securities	(130)	(144)
Proceeds from the sale of debt securities available-for-sale	2,037	—
Principal repayments and maturities of debt securities available-for-sale	9,837	41,844
Principal repayments and maturities of debt securities held-to-maturity	2,000	—
Investment in low income housing and historic tax credits	(1,930)	(856)
Investment in small business investment companies	—	(235)
Net purchase of Federal Home Loan Bank stock	(2,687)	(8,510)
Net increase in loans	(371,714)	(380,661)
Proceeds from loan sales	3,342	6,867
Proceeds from the sale of other real estate owned	—	307
Additions to office properties and equipment	(755)	(533)
Acquisition	(1,335)	—
Net cash used in investing activities	(442,702)	(357,089)
Cash flows from financing activities:		
Net increase in deposit accounts	453,591	243,089
Net increase (decrease) in Federal Home Loan Bank advances	(65,000)	120,000
Net increase (decrease) in line of credit advances	(6,200)	4,000
Net proceeds from issuance of preferred stock	38,432	—
Net proceeds from exercise of stock options	907	952

Purchase of treasury stock	(2,462)	(4,120)
Dividends paid on preferred stock [1]	(762)	—
Net cash provided by financing activities	418,506	363,921
Net change in cash and cash equivalents during the period	8,214	15,721
Cash and cash equivalents at beginning of the period	156,153	103,994
Cash and cash equivalents at end of the period	$164,367	$119,715

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(Dollars in thousands)	Six Months Ended June 30, 2018	2017
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Interest expense	$34,112	$17,750
Income taxes	$(6,314)	$5,876
Other non-cash activity:		
Contingent consideration	$3,138	$—

(1) The cash dividend payment was made to the Company's transfer agent on June 29, 2018, and subsequently paid to preferred shareholders on July 2, 2018.

See accompanying notes to unaudited condensed consolidated financial statements.

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[1] BASIS OF INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATION
TriState Capital Holdings, Inc. ("we," "us," "our," the "holding company," or the "Company") is a registered bank holding company pursuant to the Bank Holding Company Act of 1956, as amended. The Company has three wholly owned subsidiaries: TriState Capital Bank (the "Bank"), a Pennsylvania-chartered state bank; Chartwell Investment Partners, LLC ("Chartwell"), a registered investment advisor; and Chartwell TSC Securities Corp. ("CTSC Securities"), a registered broker/dealer.

The Bank was established to serve the commercial banking needs of middle-market businesses and private banking needs of high-net-worth individuals. Chartwell provides investment management services primarily to institutional investors, mutual funds and individual investors. CTSC Securities supports marketing efforts for the proprietary investment products provided by Chartwell, including shares of mutual funds advised and/or administered by Chartwell.

The Company and the Bank are subject to regulatory examination by the Federal Deposit Insurance Corporation ("FDIC"), the Pennsylvania Department of Banking and Securities, and the Federal Reserve. Chartwell is a registered investment advisor regulated by the Securities and Exchange Commission ("SEC"). CTSC Securities is regulated by the SEC and Financial Industry Regulatory Authority ("FINRA").

The Bank conducts business through its main office located in Pittsburgh, Pennsylvania, as well as its four additional representative offices in Cleveland, Ohio; Philadelphia, Pennsylvania; Edison, New Jersey; and New York, New York. Chartwell conducts business through its office located in Berwyn, Pennsylvania, and CTSC Securities conducts business through its office located in Pittsburgh, Pennsylvania.

USE OF ESTIMATES
The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of related revenue and expense during the reporting period. Although our current estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that actual conditions could be different than those anticipated in the estimates, which could materially affect the financial results of our operations and financial condition.

The material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for loan losses, valuation of goodwill and other intangible assets and its evaluation for impairment, and deferred income taxes and its related recoverability, which are discussed later in this section.

CONSOLIDATION
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, the Bank, Chartwell and CTSC Securities, after elimination of inter-company accounts and transactions. The accounts of the Bank, in turn, include its wholly owned subsidiary, Meadowood Asset Management, LLC (established in 2011 to hold and manage the foreclosed properties for the Bank), after elimination of inter-company accounts and transactions. The unaudited consolidated financial statements of the Company presented herein have been prepared pursuant to rules of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP for a full year presentation. In the opinion of

management, all adjustments (consisting of normal, recurring adjustments) and disclosures, considered necessary for the fair presentation of the accompanying consolidated financial statements, have been included. Interim results are not necessarily reflective of the results of the entire year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2017, included in the Company's Annual Report on Form 10-K filed with the SEC on February 23, 2018.

CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, the Company has defined cash and cash equivalents as cash, interest-earning deposits with other institutions, federal funds sold, and short-term investments that have an original maturity of 90 days or less.

INVESTMENT SECURITIES

The Company's investments are classified as either: (1) held-to-maturity – debt securities that the Company intends to hold until maturity and are reported at amortized cost; (2) trading securities – debt securities bought and held principally for the purpose of selling them in the near term and reported at fair value, with unrealized gains and losses included in non-interest income; (3) available-for-sale – debt securities not classified as either held-to-maturity or trading securities and reported at fair value, with unrealized gains

and losses reported as a component of accumulated other comprehensive income (loss), on an after-tax basis; or (4) equity securities which are reported at fair value, with unrealized gains and losses included in non-interest income.

The cost of securities sold is determined on a specific identification basis. Amortization of premiums and accretion of discounts are recorded as interest income on investments over the estimated life of the security utilizing the level yield method. We evaluate impaired investment securities quarterly to determine if impairments are temporary or other-than-temporary. For impaired debt and equity securities, management first determines whether it intends to sell or if it is more-likely than not that it will be required to sell the impaired securities. This determination considers current and forecasted liquidity requirements, regulatory and capital requirements and securities portfolio management. If the Company intends to sell a security with a fair value below amortized cost or if it is more-likely than not that it will be required to sell such a security before recovery, an other-than-temporary impairment ("OTTI") charge is recorded through current period earnings for the full decline in fair value below amortized cost. For debt securities that the Company does not intend to sell or it is more likely than not that it will not be required to sell before recovery, an OTTI charge is recorded through current period earnings for the amount of the valuation decline below amortized cost that is attributable to credit losses. The remaining difference between the security's fair value and amortized cost (that is, the decline in fair value not attributable to credit losses) is recognized in other comprehensive income (loss), in the consolidated statements of comprehensive income and the shareholders' equity section of the consolidated statements of financial condition, on an after-tax basis. For equity securities an OTTI charge is recorded through current period earnings for the full decline in fair value below cost.

FEDERAL HOME LOAN BANK STOCK

The Company is a member of the Federal Home Loan Bank of Pittsburgh ("FHLB"). Member institutions are required to invest in FHLB stock. The stock is carried at cost, which approximates its liquidation value, and it is evaluated for impairment based on the ultimate recoverability of the par value. The following matters are considered by management when evaluating the FHLB stock for impairment: the ability of the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB; the impact of legislative and regulatory changes on the institution and its customer base; and the Company's intent and ability to hold its FHLB stock for the foreseeable future. Management believes the Company's holdings in the FHLB stock were recoverable at par value, as of June 30, 2018 and December 31, 2017. Cash and stock dividends are reported as interest income on investments, in the consolidated statements of income.

LOANS

Loans and leases held-for-investment are stated at unpaid principal balances, net of deferred loan fees and costs. Loans held-for-sale are stated at the lower of cost or fair value. Interest income on loans is accrued at the contractual rate on the principal amount outstanding and includes the amortization of deferred loan fees and costs. Deferred loan fees and costs are amortized to interest income over the estimated life of the loan, taking into consideration scheduled payments and prepayments.

The Company considers a loan to be a Troubled Debt Restructuring ("TDR") when there is a concession made to a financially troubled borrower without adequate consideration provided to the Company. Once a loan is deemed to be a TDR, the Company considers whether the loan should be placed on non-accrual status. In assessing accrual status, the Company considers the likelihood that repayment and performance according to the original contractual terms will be achieved, as well as the borrower's historical payment performance. A loan is designated and reported as a TDR until such loan is either paid-off or sold, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and it is fully expected that the remaining principal and interest will be collected according to the restructured agreement.

The recognition of interest income on a loan is discontinued when, in management's opinion, it is probable the borrower is unable to meet payments as they become due or when the loan becomes 90 days past due, whichever

occurs first. All accrued and unpaid interest on such loans is reversed. Such interest ultimately collected is applied to reduce principal if there is doubt about the collectability of principal. If a borrower brings a loan current for which accrued interest has been reversed, then the recognition of interest income on the loan is resumed, once the loan has been current for a period of six consecutive months or greater.

The Company is a party to financial instruments with off-balance sheet risk (commitments to extend credit) in the normal course of business to meet the financing needs of its customers. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses (i.e. demand loans) and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the unfunded commitment amount does not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis using the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary by the Company upon extension of a commitment, is based on management's credit evaluation of the borrower.

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OTHER REAL ESTATE OWNED

Real estate owned, other than bank premises, is recorded at fair value less estimated selling costs. Fair value is determined based on an independent appraisal. Expenses related to holding the property are charged against earnings when incurred. Depreciation is not recorded on other real estate owned ("OREO") properties.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established through provisions for loan losses that are recorded in the consolidated statements of income. Loans are charged off against the allowance for loan losses when management believes that the principal is uncollectible. If, at a later time, amounts are recovered with respect to loans previously charged off, the recovered amount is credited to the allowance for loan losses.

In management's judgment, the allowance was appropriate to cover probable losses inherent in the loan portfolio as of June 30, 2018 and December 31, 2017. Management's judgment takes into consideration general economic conditions, diversification and seasoning of the loan portfolio, historic loss experience, identified credit problems, delinquency levels and adequacy of collateral. Although management believes it has used the best information available to it in making such determinations, and that the present allowance for loan losses is adequate, future adjustments to the allowance may be necessary, and net income may be adversely affected if circumstances differ substantially from the assumptions used in determining the level of the allowance. In addition, as an integral part of their periodic examination, certain regulatory agencies review the adequacy of the Bank's allowance for loan losses and may direct the Bank to make additions to the allowance based on their judgments about information available to them at the time of their examination.

The two components of the allowance for loan losses represent estimates of general reserves based upon Accounting Standards Codification ("ASC") Topic 450, Contingencies; and specific reserves based upon ASC Topic 310, Receivables. ASC Topic 450 applies to homogeneous loan pools such as commercial loans, consumer lines of credit and residential mortgages that are not individually evaluated for impairment. ASC Topic 310 is applied to commercial and consumer loans that are individually evaluated for impairment.

In management's opinion, a loan is impaired, based upon current information and events, when it is probable that the loan will not be repaid according to its original contractual terms, including both principal and interest, or if a loan is designated as a TDR. Management performs individual assessments of impaired loans to determine the existence of loss exposure based upon a discounted cash flows method or where a loan is collateral dependent, based upon the fair value of the collateral less estimated selling costs.

In estimating probable loan loss of general reserves management considers numerous factors, including historical charge-offs and subsequent recoveries. Management also considers, but is not limited to, qualitative factors that influence our credit quality, such as delinquency and non-performing loan trends, changes in loan underwriting guidelines and credit policies, the results of internal loan reviews, etc. Finally, management considers the impact of changes in current local and regional economic conditions in the markets that we serve.

Management bases the computation of the allowance for loan losses of general reserves on two factors: the primary factor and the secondary factor. The primary factor is based on the inherent risk identified by management within each of the Company's three loan portfolios based on the historical loss experience of each loan portfolio and the loss emergence period. Management has developed a methodology that is applied to each of the three primary loan portfolios: private banking, commercial and industrial, and commercial real estate. As the loan loss history, mix, and risk ratings of each loan portfolio change, the primary factor adjusts accordingly. The allowance for loan losses related to the primary factor is based on our estimates as to probable losses for each loan portfolio. The secondary factor is intended to capture risks related to events and circumstances that management believes have an impact on the performance of the loan portfolio. Although this factor is more subjective in nature, the methodology focuses on

internal and external trends in pre-specified categories (risk factors) and applies a quantitative percentage that drives the secondary factor. There are nine risk factors and each risk factor is assigned a reserve level based on management's judgment as to the probable impact of each risk factor on each loan portfolio and is monitored on a quarterly basis. As the trend in any risk factor changes, a corresponding change occurs in the reserve associated with each respective risk factor, such that the secondary factor remains current to changes in each loan portfolio.

The Company also maintains a reserve for losses on unfunded commitments. This reserve is reflected as a component of other liabilities and, in management's judgment, is sufficient to cover probable losses inherent in the commitments. Management tracks the level and trends in unused commitments and takes into consideration the same factors as those considered for purposes of the allowance for loan losses on outstanding loans.

INVESTMENT MANAGEMENT FEES

The Company recognizes investment management fee revenue when the advisory services are performed. Fees are based on assets under management and are calculated pursuant to individual client contracts. Investment management fees are generally received

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on a quarterly basis. Certain incremental costs incurred to acquire some of our investment management contracts are deferred and amortized to non-interest expense over the estimated life of the contract.

Investment management fees receivable represent amounts due for contractual investment management services provided to the Company’s clients, primarily institutional investors, mutual funds and individual investors. Management performs credit evaluations of its customers’ financial condition when it is deemed to be necessary, and does not require collateral. The Company provides an allowance for uncollectible accounts based on specifically identified receivables. Bad debt expense is recorded to other non-interest expense on the consolidated statements of income and the allowance for uncollectible accounts is recorded to investment management fees receivable, net on the consolidated statements of financial position. Investment management fees receivable are considered delinquent when payment is not received within contractual terms and are charged off against the allowance for uncollectible accounts when management determines that recovery is unlikely and the Company ceases its collection efforts. There was no bad debt expense recorded for the six months ended June 30, 2018, and no allowance for uncollectible accounts as of June 30, 2018. There was $150,000 bad debt expense associated with a single relationship recorded for the six months ended June 30, 2017, and there was no allowance for uncollectible accounts as of December 31, 2017.

BUSINESS COMBINATIONS

The Company accounts for business combinations using the acquisition method of accounting. Under this method of accounting, the acquired company’s net assets are recorded at fair value as of the date of acquisition, and the results of operations of the acquired company are combined with our results from that date forward. Acquisition costs are expensed when incurred. The difference between the purchase price and the fair value of the net assets acquired (including identified intangibles) is recorded as goodwill. The change in the initial estimate of any contingent earn out amounts is reflected in the consolidated statements of income.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Goodwill is not amortized and is subject to at least annual assessments for impairment by applying a fair value based test. The Company reviews goodwill annually and again at any quarter-end if a material event occurs during the quarter that may affect goodwill. If goodwill testing is required, an assessment of qualitative factors can be completed before performing the two step goodwill impairment test. If an assessment of qualitative factors determines it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, then the two step goodwill impairment test is not required. Goodwill is evaluated for potential impairment by determining if the fair value has fallen below carrying value.

Other intangible assets represent purchased assets that may lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. The Company has determined that certain of its acquired mutual fund client relationships meet the criteria to be considered indefinite-lived assets because the Company expects both the renewal of these contracts and the cash flows generated by these assets to continue indefinitely. Accordingly, the Company does not amortize these intangible assets, but instead reviews these assets annually or more frequently whenever events or circumstances occur indicating that the recorded indefinite-lived assets may be impaired. Each reporting period, the Company assesses whether events or circumstances have occurred which indicate that the indefinite life criteria are no longer met. If the indefinite life criteria are no longer met, the Company would assess whether the carrying value of these assets exceeds its fair value, an impairment loss would be recorded in an amount equal to any such excess and these assets would be reclassified to finite-lived. Other intangible assets that the Company has determined to have finite lives, such as trade name, client lists and non-compete agreements are amortized over their estimated useful lives. These finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, which range from four to twenty-five years. Finite-lived intangibles are evaluated for impairment on an annual basis or more frequently whenever events or circumstances occur indicating that the carrying amount may not be recoverable.

OFFICE PROPERTIES AND EQUIPMENT
Office properties and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, except for leasehold improvements which are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Estimated useful lives are dependent upon the nature and condition of the asset and range from three to ten years. Repairs and maintenance are charged to expense as incurred, while improvements that extend the useful life are capitalized and depreciated to non-interest expense over the estimated remaining life of the asset. When the Bank receives an allowance for improvements to be made to one of its leased offices, we record the allowance as a deferred liability and recognize it as a reduction to rent expense over the life of the related lease.

BANK OWNED LIFE INSURANCE
Bank owned life insurance ("BOLI") policies on certain officers and employees are recorded at net cash surrender value on the consolidated statements of financial condition. Upon termination of the BOLI policy the Company receives the cash surrender value. BOLI benefits are payable to the Company upon death of the insured. Changes in net cash surrender value are recognized as non-interest income in the consolidated statements of income.

DEPOSITS
Deposits are stated at principal outstanding. Interest on deposits is accrued and charged to interest expense daily and is paid or credited in accordance with the terms of the respective accounts.

BORROWINGS
The Company records FHLB advances, line of credit borrowings and subordinated notes payable at their principal amount net of debt issuance costs. Interest expense is recognized based on the coupon rate of the obligations. Costs associated with the acquisition of subordinated notes payable are amortized to interest expense over the expected term of the borrowing.

EARNINGS PER COMMON SHARE
Earnings per common share ("EPS") is computed using the two-class method, where net income is reduced by dividends declared on our preferred stock to derive net income available to common shareholders. Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period, excluding non-vested restricted stock. Diluted EPS reflects the potential dilution upon the exercise of stock options and the vesting of restricted stock awards granted utilizing the treasury stock method.

INCOME TAXES
The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities with regard to a change in tax rates is recognized in income in the period that includes the enactment date. Management assesses all available evidence to determine the amount of deferred tax assets that are more-likely-than-not to be realized. The available evidence used in connection with the assessments includes taxable income in prior periods, projected taxable income, potential tax planning strategies and projected reversals of deferred tax items. These assessments involve a degree of subjectivity and may undergo significant change. Changes to the evidence used in the assessments could have a material adverse effect on the Company's results of operations in the period in which they occur. The Company considers uncertain tax positions that it has taken or expects to take on a tax return. Any interest and penalties related to unrecognized tax benefits would be recognized in income tax expense in the consolidated statements of income.

DERIVATIVES AND HEDGING ACTIVITIES
All derivatives are evaluated at inception as to whether or not they are hedging or non-hedging activities, and appropriate documentation is maintained to support the final determination. All derivatives are recognized as either assets or liabilities on the consolidated statements of financial condition and measured at fair value. For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. Any hedge ineffectiveness would be recognized in the income statement line item pertaining to the hedged item. For derivatives designated as cash flow hedges, changes in fair value of the effective portion of the cash flow hedges are reported in accumulated other comprehensive income (loss). When the cash flows associated with the hedged item are realized, the gain or loss included in accumulated other comprehensive income (loss) is recognized in the consolidated statements of income. The Company also has interest rate derivative positions that are not designated as hedging instruments. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings.

FAIR VALUE MEASUREMENT
Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in a principal or most advantageous market for the asset or liability in an orderly transaction between market participants as of the measurement date, using assumptions market participants would use when pricing an asset or liability. An

orderly transaction assumes exposure to the market for a customary period for marketing activities prior to the measurement date and not a forced liquidation or distressed sale. Fair value measurement and disclosure guidance provides a three-level hierarchy that prioritizes the inputs of valuation techniques used to measure fair value into three broad categories:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs such as quoted prices for similar assets and liabilities in active markets, quoted prices for similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

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Fair value must be recorded for certain assets and liabilities every reporting period on a recurring basis or under certain circumstances, on a non-recurring basis.

STOCK-BASED COMPENSATION
The Company accounts for its stock-based compensation awards based on estimated fair values of share-based awards made to employees and directors.

Compensation cost for all share-based payments is based on the estimated grant-date fair value. The value of the portion of the award that is ultimately expected to vest is included in stock-based compensation expense in the consolidated statements of income and recorded as a component of additional paid-in capital, for equity-based awards. Compensation expense for all awards is recognized on a straight-line basis over the requisite service period for the entire grant.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
Unrealized holding gains and the non-credit component of unrealized losses on the Company's debt securities available-for-sale are included in accumulated other comprehensive income (loss), net of applicable income taxes. Also included in accumulated other comprehensive income (loss) is the remaining unamortized balance of the unrealized holding gains (non-credit losses), net of applicable income taxes, that existed on the transfer date for debt securities reclassified into the held-to-maturity category from the available-for-sale category.

Unrealized holding gains (losses) on the effective portion of the Company's cash flow hedge derivatives are included in accumulated other comprehensive income (loss), net of applicable income taxes, which will be reclassified to interest expense as interest payments are made on the Company's debt.

Income tax effects in accumulated other comprehensive income are released as investments are sold or matured and liabilities are extinguished.

TREASURY STOCK
The repurchase of the Company's common stock is recorded at cost. At the time of reissuance, the treasury stock account is reduced using the average cost method. Gains and losses on the reissuance of common stock are recorded in additional paid-in capital, to the extent additional paid-in capital from any previous net gains on treasury share transactions exists. Any net deficiency is charged to retained earnings.

RECENT ACCOUNTING DEVELOPMENTS
In June 2018, the FASB issued Accounting Standard Update ("ASU") 2018-07, "Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting" which more closely aligns the accounting for employee and nonemployee share-based payments. This standard is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2018. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

In February 2018, the FASB issued ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" to address a narrow-scope financial reporting issue that arose as a consequence of the change in the tax law. The standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This standard is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued. The changes could be applied either in the period of adoption or retrospectively to each period (or periods) in which the

effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company early adopted this standard on January 1, 2018, and elected to reclassify the effect of the change in the U.S. federal corporate income tax rate from accumulated other comprehensive income to retained earnings of $274,000, which is reflected in the Consolidated Statements of Changes in Shareholders' Equity in the period of adoption.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," which changes the recognition and presentation requirements of hedge accounting, including: eliminating the requirement to separately measure and report hedge ineffectiveness; and presenting all items that affect earnings in the same income statement line item as the hedged item. The standard also provides new alternatives for: applying hedge accounting to additional hedging strategies; measuring the hedged item in fair value hedges of interest rate risk; reducing the cost and complexity of applying hedge accounting by easing the requirements for effectiveness testing, hedge documentation and application of the critical terms match method; and reducing the risk of material error correction if a company applies the shortcut method inappropriately. This standard is effective for public business entities, for annual and interim periods in fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

In March 2017, the FASB issued ASU 2017-08, “Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,” which shortens the premium amortization period for purchased non-contingently callable debt securities. Shortening the amortization period is generally expected to more closely align the interest income recognition with the expectations incorporated in the market pricing on the underlying securities. This standard is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

In January 2017, the FASB issued ASU 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which requires an entity to no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. The changes are effective for public business entities, for annual and interim periods in fiscal years beginning after December 15, 2019. All entities may early adopt the standard for goodwill impairment tests with measurement dates after January 1, 2017. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

In June 2016, the FASB issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments,” which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life. The changes are effective for public business entities that are SEC filers, for annual and interim periods in fiscal years beginning after December 15, 2019. Management created a formal working group to govern the implementation of this standard consisting of key stakeholders from finance, risk and credit. We are currently in the process of designing current expected credit loss estimation methodologies and systems, and collecting data to be able to comply with this standard. The Company is currently evaluating the impact this standard will have on our results of operations, financial position and related disclosure.

In February 2016, the FASB issued ASU 2016-02, “Leases,” which, among other things, requires lessees to recognize most leases on-balance sheet. This will increase their reported assets and liabilities - in some cases very significantly. Lessor accounting remains substantially similar to current U.S. GAAP. ASU 2016-02 supersedes Topic 840, Leases. This standard is effective for public business entities, certain not-for-profit entities, and certain employee benefit plans for annual and interim periods in fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” which makes targeted amendments to the guidance for recognition, measurement, presentation and disclosure of financial instruments. This standard is effective for public business entities for interim and annual periods in fiscal years beginning after December 15, 2017. The Company was impacted by two main provisions of this standard as follows. (1) This standard requires a public entity to use the exit price notion to measure fair value of financial instruments for disclosure purposes. Accordingly, the Company refined the calculation used to determine the disclosed fair value of loans held-for-investment as part of adopting this standard. The refined calculation did not have a significant impact on our fair value disclosures. (2) This standard requires equity investments, other than equity method investments, to be measured at fair value with changes in fair value recognized in net income. This standard requires a cumulative effect adjustment to retained earnings as of the beginning of the reporting period of adoption to reclassify the cumulative change in fair value of equity securities previously recognized in accumulated other comprehensive income. The Company adopted this standard on January 1, 2018, which resulted in a cumulative effect adjustment from accumulated other comprehensive income to retained earnings of $286,000, which is reflected in the Consolidated Statements of Changes in Shareholders' Equity in the period of adoption.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” This standard implements a common approach that clarifies the principles for recognizing revenue. The core principle of this update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard establishes a five-step model that entities must follow to recognize revenue. This update is effective for annual periods and interim periods in fiscal years beginning after December 15, 2017, for public business entities. A significant amount of the Company’s revenues are derived from net interest income on financial assets and liabilities, which are excluded from the scope of the amended guidance. The Company completed its assessment of revenue streams and associated incremental costs of contracts affected by the standard. The Company’s adoption of this standard did not change the method in which we recognize revenue. This standard requires that certain incremental costs incurred to acquire some of our investment management contracts to be capitalized and deferred over the estimated life of the contract. The adoption of this standard altered the timing, measurement and recognition of these costs in the income statement; however, the impact is not material. The Company adopted this standard on January 1, 2018, utilizing the modified retrospective approach with a cumulative effect adjustment to retained earnings of $534,000.

The majority of our revenue-generating transactions are not subject to ASC Topic 606, including revenue generated from financial instruments, such as our loans, derivatives and investment securities as these activities are subject to other GAAP discussed elsewhere

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within our disclosures. Descriptions of our other revenue-generating activities that are within the scope of ASC Topic 606, which are presented in our consolidated statements of income as components of non-interest income are as follows:

- Investment management fees - this represents monthly fees due from investment management customers as consideration for managing the customers' assets. Revenue is recognized when our performance obligation is completed each month.

- Service charges on deposits - these represent general service fees for monthly account maintenance and activity- or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

- Commitment and other loan fees - this represents letters of credit fees and unused loan commitment fees. Revenue is recognized upon the issuance or renewal of a letter of credit and monthly for unused commitment fees.

- Other non-interest income primarily includes items such as income on swap fees, BOLI, gains on sale of loans, and other miscellaneous items, which are not subject to the requirements of ASC Topic 606 or no modification was required under this standard.

RECLASSIFICATION

Certain items previously reported have been reclassified to conform with the current year’s reporting presentation and are considered immaterial.

[2] BUSINESS COMBINATION

On April 6, 2018, TriState Capital Holdings, Inc. through its wholly owned subsidiary, Chartwell Investment Partners, LLC, completed the acquisition of investment management contracts, select personnel and related assets from Columbia Partners, L.L.C. Investment Management (the "Columbia acquisition"), totaling approximately $1.07 billion in assets under management. Under the terms of the agreement with Columbia Partners, L.L.C. Investment Management (“Columbia”) investment management contracts were acquired for a purchase price consisting of $1.3 million paid in cash at closing based on a multiple of run-rate revenue plus an earn out. The earn out, which is limited to $3.8 million under the terms of the agreement, will be calculated based on a multiple of run-rate revenue at December 31, 2018. The earn out was estimated, at closing, to be approximately $3.1 million. Any change to the earn out calculation from the estimated $3.1 million recorded at closing will be recorded in the statement of income in the period in which it is deemed probable to occur. The foregoing summary of the agreement and the transactions contemplated by it does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the agreement.

The following table summarizes total consideration at closing and assets acquired for the Columbia acquisition on April 6, 2018:

(Dollars in thousands)	Columbia Acquisition
Consideration paid:	
Cash	$ 1,334
Estimated earn out, at closing	3,138
Fair value of total consideration	$ 4,472

Intangible assets acquired	$ 1,537
Goodwill	2,935
Total net assets purchased	$ 4,472

In connection with the Columbia acquisition, total acquisition-related transaction costs incurred by TriState Capital were not significant. Since the acquisition, the Columbia acquired operations contributed revenues of $516,000 and approximate earnings of $24,000 which were included in the consolidated statement of income for the six months ended June 30, 2018.

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Goodwill is not amortized for book purposes, but is deductible for tax purposes. The following table shows the amount of other intangible assets acquired through the Columbia acquisition on April 6, 2018, by class and estimated useful life.

(Dollars in thousands)	Gross Amount	Weighted Average Estimated Useful Life (months)
Client Relationships:		
Sub-advisory client list	$ 115	132
Separate managed accounts client list	1,365	108
Non-compete agreements	57	48
Total finite-lived intangibles	$ 1,537	108

The following table presents unaudited pro forma financial information which combines the historical consolidated statements of income of the Company and the Columbia contracts acquired to give effect to the acquisition as if it had occurred on January 1, 2017, for the periods indicated.

	Pro Forma Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2018	2017
Total revenue	$79,244	$67,229
Net income available to common shareholders	$24,314	$16,124
Earnings per common share:		
Basic	$0.88	$0.58
Diluted	$0.84	$0.56

Total revenue is defined as net interest income and non-interest income, excluding gains and losses on the sale and call of debt securities. Pro forma adjustments include intangible amortization expense and income tax expense.

[3] INVESTMENT SECURITIES

Debt securities available-for-sale and held-to-maturity were comprised of the following:

	June 30, 2018			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Debt securities available-for-sale:				
Corporate bonds	$99,737	$ 13	$ 1,136	$98,614
Trust preferred securities	17,903	514	—	18,417
Non-agency collateralized loan obligations	626	—	4	622
Agency collateralized mortgage obligations	36,742	60	4	36,798
Agency mortgage-backed securities	21,942	102	427	21,617
Agency debentures	10,480	5	86	10,399
Total debt securities available-for-sale	187,430	694	1,657	186,467
Debt securities held-to-maturity:				
Corporate bonds	32,186	360	33	32,513
Agency debentures	21,870	10	40	21,840
Municipal bonds	23,042	11	123	22,930
Total debt securities held-to-maturity	77,098	381	196	77,283
Total debt securities	$264,528	$ 1,075	$ 1,853	$263,750

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(Dollars in thousands)	December 31, 2017			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Debt securities available-for-sale:				
Corporate bonds	$61,616	$ 216	$ 143	$61,689
Trust preferred securities	17,840	741	—	18,581
Non-agency collateralized loan obligations	811	—	6	805
Agency collateralized mortgage obligations	38,873	25	76	38,822
Agency mortgage-backed securities	19,007	96	150	18,953
Total debt securities available-for-sale	138,147	1,078	375	138,850
Debt securities held-to-maturity:				
Corporate bonds	32,189	785	33	32,941
Agency debentures	1,984	3	—	1,987
Municipal bonds	25,102	122	11	25,213
Total debt securities held-to-maturity	59,275	910	44	60,141
Total debt securities	$197,422	$ 1,988	$ 419	$198,991

Interest income on investment securities was as follows:

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Taxable interest income	$1,901	$1,206	$3,314	$2,384
Non-taxable interest income	105	113	216	226
Dividend income	294	216	554	395
Total interest income on investment securities	$2,300	$1,535	$4,084	$3,005

As of June 30, 2018, the contractual maturities of the debt securities were:

(Dollars in thousands)	June 30, 2018			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$20,211	$20,158	$6,230	$ 6,253
Due from one to five years	58,347	58,049	31,938	31,912
Due from five to ten years	31,174	30,613	38,930	39,118
Due after ten years	77,698	77,647	—	—
Total debt securities	$187,430	$186,467	$77,098	$ 77,283

The $77.6 million fair value of debt securities available-for-sale with a contractual maturity due after ten years as of June 30, 2018, included $53.7 million, or 69.1%, that are floating-rate securities. The $38.9 million amortized cost of debt securities held-to-maturity with a contractual maturity due from five to ten years as of June 30, 2018, included $20.8 million that have call provisions in one to five years that would either mature, if called, or become floating-rate securities after the call date.

Prepayments may shorten the contractual lives of the collateralized mortgage obligations, mortgage-backed securities and collateralized loan obligations.

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Proceeds from the sale and call of debt securities available-for-sale and held-to-maturity and related realized gains and losses were:

(Dollars in thousands)	Available-for-Sale Three Months Ended June 30, 2018	2017	Held-to-Maturity Three Months Ended June 30, 2018	2017	Available-for-Sale Six Months Ended June 30, 2018	2017	Held-to-Maturity Six Months Ended June 30, 2018	2017
Proceeds from sales	$ —	$ —	$ —	$ —	$ 2,037	$ —	$ —	$ —
Proceeds from calls	4,081	16,675	105	—	4,081	21,675	1,000	—
Total proceeds	$ 4,081	$ 16,675	$ 105	$ —	$ 6,118	$ 21,675	$ 1,000	$ —
Gross realized gains	$ 4	$ 241	$ —	$ —	$ 6	$ 241	$ 3	$ —
Gross realized losses	3	—	—	—	3	2	—	—
Net realized gains (losses)	$ 1	$ 241	$ —	$ —	$ 3	$ 239	$ 3	$ —

Debt securities available-for-sale of $3.7 million, as of June 30, 2018, were held in safekeeping at the FHLB and were included in the calculation of borrowing capacity.

The following tables show the fair value and gross unrealized losses on temporarily impaired debt securities available-for-sale and held-to-maturity and equity securities, by investment category and length of time that the individual securities have been in a continuous unrealized loss position as of June 30, 2018 and December 31, 2017, respectively:

	June 30, 2018					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Debt securities available-for-sale:						
Corporate bonds	$86,824	$ 1,136	$—	$ —	$86,824	$ 1,136
Non-agency collateralized loan obligations	—	—	622	4	622	4
Agency collateralized mortgage obligations	1,731	1	3,928	3	5,659	4
Agency mortgage-backed securities	5,551	93	8,026	334	13,577	427
Agency debentures	7,300	86	—	—	7,300	86
Total debt securities available-for-sale	101,406	1,316	12,576	341	113,982	1,657
Debt securities held-to-maturity:						
Corporate bonds	5,404	33	—	—	5,404	33
Agency debentures	10,841	40	—	—	10,841	40
Municipal bonds	15,091	123	—	—	15,091	123
Total debt securities held-to-maturity	31,336	196	—	—	31,336	196
Equity securities	—	—	8,630	410	8,630	410
Total temporarily impaired securities [(1)]	$132,742	$ 1,512	$21,206	$ 751	$153,948	$ 2,263

(1) The number of investment positions with unrealized losses totaled 63 for available-for-sale securities, 25 for held-to-maturity securities and 2 for equity securities.

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(Dollars in thousands)	December 31, 2017					
	Less than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Debt securities available-for-sale:						
Corporate bonds	$29,995	$ 143	$—	$ —	$29,995	$ 143
Non-agency collateralized loan obligations	—	—	805	6	805	6
Agency collateralized mortgage obligations	1,593	1	32,816	75	34,409	76
Agency mortgage-backed securities	2,960	10	9,437	140	12,397	150
Total debt securities available-for-sale	34,548	154	43,058	221	77,606	375
Debt securities held-to-maturity:						
Corporate bonds	2,406	33	—	—	2,406	33
Municipal bonds	6,051	11	—	—	6,051	11
Total debt securities held-to-maturity	8,457	44	—	—	8,457	44
Equity securities	—	—	8,635	275	8,635	275
Total temporarily impaired securities (1)	$43,005	$ 198	$51,693	$ 496	$94,698	$ 694

(1) The number of investment positions with unrealized losses totaled 28 for available-for-sale securities, 8 for held-to-maturity securities and 2 for equity securities.

The change in the fair values of our municipal bonds, agency debentures, agency collateralized mortgage obligation and agency mortgage-backed securities are primarily the result of interest rate fluctuations. To assess for credit impairment, management evaluates the underlying issuer's financial performance and the related credit rating information through a review of publicly available financial statements and other publicly available information. This most recent review did not identify any issues related to the ultimate repayment of principal and interest on these securities. In addition, the Company has the ability and intent to hold debt securities in an unrealized loss position until recovery of their amortized cost. Based on this, the Company considers all of the unrealized losses to be temporary.

There were no debt securities classified as trading outstanding as of June 30, 2018 and December 31, 2017.

Equity securities consists of mutual funds investing in short-duration, corporate bonds. There were $8.6 million and $8.6 million in equity securities outstanding as of June 30, 2018 and December 31, 2017, respectively.

There was $16.5 million and $13.8 million in FHLB stock outstanding as of June 30, 2018 and December 31, 2017, respectively.

[4] LOANS

The Company generates loans through the private banking and middle-market banking channels. The private banking channel primarily includes loans made to high-net-worth individuals, trusts and businesses that are typically secured by cash, marketable securities or cash value life insurance. The middle-market banking channel consists of our commercial and industrial ("C&I") and commercial real estate ("CRE") loan portfolios that serve middle-market businesses and real estate developers in our primary markets.

Loans held-for-investment were comprised of the following:

(Dollars in thousands)	June 30, 2018			
	Private Banking	Commercial and	Commercial Real Estate	Total

		Industrial		
Loans held-for-investment, before deferred fees and costs	$2,483,285	$741,445	$1,326,318	$4,551,048
Deferred loan costs (fees)	4,877	456	(3,453)	1,880
Loans held-for-investment, net of deferred fees and costs	2,488,162	741,901	1,322,865	4,552,928
Allowance for loan losses	(1,557)	(8,786)	(4,978)	(15,321)
Loans held-for-investment, net	$2,486,605	$733,115	$1,317,887	$4,537,607

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(Dollars in thousands)	December 31, 2017 Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Loans held-for-investment, before deferred fees and costs	$2,261,625	$667,028	$1,254,184	$4,182,837
Deferred loan costs (fees)	4,112	656	(3,361)	1,407
Loans held-for-investment, net of deferred fees and costs	2,265,737	667,684	1,250,823	4,184,244
Allowance for loan losses	(1,577)	(8,043)	(4,797)	(14,417)
Loans held-for-investment, net	$2,264,160	$659,641	$1,246,026	$4,169,827

The Company's customers have unused loan commitments based on the availability of eligible collateral or other terms and conditions under the loan agreement. Often these commitments are not fully utilized and therefore the total amount does not necessarily represent future cash requirements. The amount of unfunded commitments, including standby letters of credit, as of June 30, 2018 and December 31, 2017, was $2.96 billion and $2.37 billion, respectively. The interest rate for each commitment is based on the prevailing market conditions at the time of funding. The reserve for losses on unfunded commitments was $504,000 and $504,000 as of June 30, 2018 and December 31, 2017, respectively, which includes reserves for probable losses on unfunded loan commitments, including standby letters of credit and also risk participations.

The total unfunded commitments above included loans in the process of origination totaling approximately $72.5 million and $53.3 million as of June 30, 2018 and December 31, 2017, respectively, which extend over varying periods of time.

The Company issues standby letters of credit in the normal course of business. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party. The Company would be required to perform under the standby letters of credit when drawn upon by the guaranteed party in the case of non-performance by the Company's customer. Collateral may be obtained based on management's credit assessment of the customer. The amount of unfunded commitments related to standby letters of credit as of June 30, 2018 and December 31, 2017, included in the total unfunded commitments above, was $66.8 million and $74.8 million, respectively. Should the Company be obligated to perform under the standby letters of credit the Company will seek repayment from the customer for amounts paid. During the six months ended June 30, 2018 and 2017, there were draws on standby letters of credit totaling $5.7 million and $191,000, respectively, which were repaid by the borrower. Most of these commitments are expected to expire without being drawn upon and the total amount does not necessarily represent future cash requirements. The potential liability for losses on standby letters of credit was included in the reserve for losses on unfunded commitments.

The Company has entered into risk participation agreements with financial institution counterparties for interest rate swaps related to loans in which we are a participant. The risk participation agreements provide credit protection to the financial institution counterparties should the customers fail to perform on their interest rate derivative contracts. The potential liability for outstanding obligations was included in the reserve for losses on unfunded commitments.

[5] ALLOWANCE FOR LOAN LOSSES

Our allowance for loan losses represents our estimate of probable loan losses inherent in the loan portfolio at a specific point in time. This estimate includes losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the loan portfolio. Additions are made to the allowance through both periodic provisions recorded in the consolidated statements of income and recoveries of losses previously incurred. Reductions to the allowance occur as loans are charged off or when the credit history of any of the three loan

portfolios improves. Management evaluates the adequacy of the allowance quarterly, and in doing so relies on various factors including, but not limited to, assessment of historical loss experience, delinquency and non-accrual trends, portfolio growth, underlying collateral coverage and current economic conditions. This evaluation is subjective and requires material estimates that may change over time. In addition, management evaluates the overall methodology for the allowance for loan losses on an annual basis. The calculation of the allowance for loan losses takes into consideration the inherent risk identified within each of the Company’s three primary loan portfolios: private banking, commercial and industrial, and commercial real estate. In addition, management takes into account the historical loss experience of each loan portfolio, to ensure that the allowance for loan losses is sufficient to cover probable losses inherent in such loan portfolios. Refer to Note 1, Summary of Significant Accounting Policies, for more details on the Company’s allowance for loan losses policy.

The following discusses key characteristics and risks within each primary loan portfolio:

Private Banking Loans

Our private banking lending activities are conducted on a national basis. This loan portfolio primarily includes loans made to high-net-worth individuals, trusts and businesses that are typically secured by cash, marketable securities or cash value life insurance.

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This portfolio also has some loans that are secured by residential real estate or other financial assets, lines of credit and unsecured loans. The primary sources of repayment for these loans are the income and/or assets of the borrower.

The underlying collateral is the most important indicator of risk for this loan portfolio. The overall lower risk profile of this portfolio is driven by loans secured by cash, marketable securities or cash value life insurance, which were 95.7% and 94.6% of total private banking loans as of June 30, 2018 and December 31, 2017, respectively.

Middle-Market Banking: Commercial and Industrial Loans
This loan portfolio primarily includes loans made to service companies or manufacturers generally for the purposes of financing production, operating capacity, accounts receivable, inventory, equipment, acquisitions and recapitalizations. Cash flow from the borrower’s operations is the primary source of repayment for these loans.

The borrower’s industry and local and regional economic conditions are important indicators of risk for this loan portfolio. Collateral for these types of loans at times does not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt. C&I loans collateralized by marketable securities are treated the same as private banking loans for purposes of the allowance for loan loss calculation.

Middle-Market Banking: Commercial Real Estate Loans
This loan portfolio includes loans secured by commercial purpose real estate, including both owner-occupied properties and investment properties for various purposes including office, industrial, multifamily, retail, hospitality, healthcare and self-storage. The primary source of repayment for commercial real estate loans secured by owner-occupied properties is cash flow from the borrower’s operations. Individual project cash flows, global cash flows and liquidity from the developer, or the sale of the property are the primary sources of repayment for commercial real estate loans secured by investment properties. Also included are commercial construction loans to finance the construction or renovation of structures as well as to finance the acquisition and development of raw land for various purposes. The increased level of risk for these loans is generally confined to the construction period. If there are problems the project may not be completed, and as such, may not provide sufficient cash flow on its own to service the debt or have sufficient value in a liquidation to cover the outstanding principal.

The underlying purpose and collateral of the loans are important indicators of risk for this loan portfolio. Additional risks exist and are dependent on several factors such as the condition of the local and regional economies, whether or not the project is owner-occupied, the type of project, and the experience and resources of the developer.

On a monthly basis, management monitors various credit quality indicators for the loan portfolio, including delinquency, non-performing status, changes in risk ratings, changes in the underlying performance of the borrowers and other relevant factors. On a daily basis, the Company monitors the collateral of loans secured by cash, marketable securities or cash value life insurance within the private banking portfolio, which further reduces the risk profile of that portfolio. Refer to Note 1, Summary of Significant Accounting Policies, for the Company’s policy for determining past due status of loans.

Loan risk ratings are assigned based upon the creditworthiness of the borrower and the quality of the collateral for loans secured by marketable securities. Loan risk ratings are reviewed on an ongoing basis according to internal policies. Loans within the pass rating are believed to have a lower risk of loss than loans that are risk rated as special mention, substandard and doubtful, which are believed to have an increasing risk of loss. Our internal risk ratings are consistent with regulatory guidance. Management also monitors the loan portfolio through a formal periodic review process. All non-pass rated loans are reviewed monthly and higher risk-rated loans within the pass category are reviewed three times a year.

The Company’s risk ratings are consistent with regulatory guidance and are as follows:

Pass – The loan is currently performing in accordance with its contractual terms.

Special Mention – A special mention loan has potential weaknesses that warrant management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects or in our credit position at some future date. Economic and market conditions, beyond the customer's control, may in the future necessitate this classification.

Substandard – A substandard loan is not adequately protected by the net worth and/or paying capacity of the obligor or by the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. These loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – A doubtful loan has all the weaknesses inherent in a loan categorized as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

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The following tables present the recorded investment in loans by credit quality indicator:

	June 30, 2018			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Pass	$2,487,864	$ 714,039	$1,321,015	$4,522,918
Special mention	—	22,506	1,850	24,356
Substandard	298	5,356	—	5,654
Loans held-for-investment	$2,488,162	$ 741,901	$1,322,865	$4,552,928

	December 31, 2017			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Pass	$2,265,369	$ 639,987	$1,248,972	$4,154,328
Special mention	—	24,882	1,851	26,733
Substandard	368	2,815	—	3,183
Loans held-for-investment	$2,265,737	$ 667,684	$1,250,823	$4,184,244

Changes in the allowance for loan losses were as follows for the three months ended June 30, 2018 and 2017:

	Three Months Ended June 30, 2018			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Balance, beginning of period	$1,556	$ 8,466	$ 4,796	$14,818
Provision for loan losses	1	232	182	415
Charge-offs	—	—	—	—
Recoveries	—	88	—	88
Balance, end of period	$1,557	$ 8,786	$ 4,978	$15,321

	Three Months Ended June 30, 2017			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Balance, beginning of period	$1,421	$ 10,436	$ 4,328	$16,185
Provision for loan losses	27	198	291	516
Charge-offs	—	(1,000)	—	(1,000)
Recoveries	—	267	—	267
Balance, end of period	$1,448	$ 9,901	$ 4,619	$15,968

Changes in the allowance for loan losses were as follows for the six months ended June 30, 2018 and 2017:

	Six Months Ended June 30, 2018			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Balance, beginning of period	$1,577	$ 8,043	$ 4,797	$14,417
Provision (credit) for loan losses	(20)	449	181	610

Charge-offs	—	—	—	—
Recoveries	—	294	—	294
Balance, end of period	$1,557	$ 8,786	$ 4,978	$15,321

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(Dollars in thousands)	Six Months Ended June 30, 2017 Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Balance, beginning of period	$1,424	$ 12,326	$ 5,012	$18,762
Provision (credit) for loan losses	24	1,128	(393)	759
Charge-offs	—	(3,889)	—	(3,889)
Recoveries	—	336	—	336
Balance, end of period	$1,448	$ 9,901	$ 4,619	$15,968

The following tables present the age analysis of past due loans segregated by class of loan:

(Dollars in thousands)	June 30, 2018 30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due	Current	Total
Private banking	$280	$ 90	$—	$370	$2,487,792	$2,488,162
Commercial and industrial	—	—	2,139	2,139	739,762	741,901
Commercial real estate	—	—	—	—	1,322,865	1,322,865
Loans held-for-investment	$280	$ 90	$2,139	$2,509	$4,550,419	$4,552,928

(Dollars in thousands)	December 31, 2017 30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due	Current	Total
Private banking	$1,266	$ —	$ —	$1,266	$2,264,471	$2,265,737
Commercial and industrial	—	—	—	—	667,684	667,684
Commercial real estate	1,849	—	—	1,849	1,248,974	1,250,823
Loans held-for-investment	$3,115	$ —	$ —	$3,115	$4,181,129	$4,184,244

Non-Performing and Impaired Loans

Management monitors the delinquency status of the loan portfolio on a monthly basis. Loans are considered non-performing when interest and principal were 90 days or more past due or management has determined that it is probable the borrower is unable to meet payments as they become due. The risk of loss is generally highest for non-performing loans.

Management determines loans to be impaired when, based upon current information and events, it is probable that the loan will not be repaid according to the original contractual terms of the loan agreement, including both principal and interest, or if a loan is designated as a TDR. Refer to Note 1, Summary of Significant Accounting Policies, for the Company's policy on evaluating loans for impairment and interest income.

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The following tables present the Company's investment in loans considered to be impaired and related information on those impaired loans:

(Dollars in thousands)	As of and for the Six Months Ended June 30, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Private banking	$298	$ 477	$ 298	$ 328	$ —
Commercial and industrial	2,139	2,485	2,139	2,139	—
Commercial real estate	—	—	—	—	—
Total with a related allowance recorded	2,437	2,962	2,437	2,467	—
Without a related allowance recorded:					
Private banking	—	—	—	—	—
Commercial and industrial	3,217	5,072	—	3,321	112
Commercial real estate	—	—	—	—	—
Total without a related allowance recorded	3,217	5,072	—	3,321	112
Total:					
Private banking	298	477	298	328	—
Commercial and industrial	5,356	7,557	2,139	5,460	112
Commercial real estate	—	—	—	—	—
Total	$5,654	$ 8,034	$ 2,437	$ 5,788	$ 112

(Dollars in thousands)	As of and for the Twelve Months Ended December 31, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Private banking	$368	$ 541	$ 368	$ 438	$ —
Commercial and industrial	2,815	3,135	2,139	3,067	—
Commercial real estate	—	—	—	—	—
Total with a related allowance recorded	3,183	3,676	2,507	3,505	—
Without a related allowance recorded:					
Private banking	—	—	—	—	—
Commercial and industrial	3,371	5,330	—	4,224	146
Commercial real estate	—	—	—	—	—
Total without a related allowance recorded	3,371	5,330	—	4,224	146
Total:					
Private banking	368	541	368	438	—
Commercial and industrial	6,186	8,465	2,139	7,291	146
Commercial real estate	—	—	—	—	—
Total	$6,554	$ 9,006	$ 2,507	$ 7,729	$ 146

Impaired loans as of June 30, 2018 and December 31, 2017, were $5.7 million and $6.6 million, respectively. There was no interest income recognized on impaired loans that were also on non-accrual status for the six months ended June 30, 2018, and the twelve months ended December 31, 2017. As of June 30, 2018 and December 31, 2017, there were no loans 90 days or more past due and still accruing interest income.

Impaired loans were evaluated using a discounted cash flow method or based on the fair value of the collateral less estimated selling costs. Based on those evaluations there were specific reserves totaling $2.4 million and $2.5 million as of June 30, 2018 and December 31, 2017.

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The following tables present the allowance for loan losses and recorded investment in loans by class:

	June 30, 2018			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Allowance for loan losses:				
Individually evaluated for impairment	$298	$ 2,139	$—	$2,437
Collectively evaluated for impairment	1,259	6,647	4,978	12,884
Total allowance for loan losses	$1,557	$ 8,786	$4,978	$15,321
Loans held-for-investment:				
Individually evaluated for impairment	$298	$ 5,356	$—	$5,654
Collectively evaluated for impairment	2,487,864	736,545	1,322,865	4,547,274
Loans held-for-investment	$2,488,162	$ 741,901	$1,322,865	$4,552,928

	December 31, 2017			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Allowance for loan losses:				
Individually evaluated for impairment	$368	$ 2,139	$—	$2,507
Collectively evaluated for impairment	1,209	5,904	4,797	11,910
Total allowance for loan losses	$1,577	$ 8,043	$4,797	$14,417
Loans held-for-investment:				
Individually evaluated for impairment	$368	$ 6,186	$—	$6,554
Collectively evaluated for impairment	2,265,369	661,498	1,250,823	4,177,690
Loans held-for-investment	$2,265,737	$ 667,684	$1,250,823	$4,184,244

Troubled Debt Restructuring

The following table provides additional information on the Company's loans designated as troubled debt restructurings:

(Dollars in thousands)	June 30, 2018	December 31, 2017
Aggregate recorded investment of impaired loans with terms modified through a troubled debt restructuring:		
Performing loans accruing interest	$ 3,217	$ 3,371
Non-accrual loans	2,437	3,183
Total troubled debt restructurings	$ 5,654	$ 6,554

There were unused commitments of $706,000 and $708,000 on loans designated as troubled debt restructurings as of June 30, 2018 and December 31, 2017, respectively.

The modifications made to restructured loans typically consist of an extension of the payment terms or the deferral of principal payments. There was a loan totaling $186,000 modified as a TDR within twelve months of the corresponding balance sheet date with a payment default during the six months ended June 30, 2018, and no loans modified as a TDR within twelve months of the corresponding balance sheet date with a payment default during the six months ended June 30, 2017.

There were no loans newly designated as TDRs during six months ended June 30, 2018 and 2017.

Other Real Estate Owned

As of June 30, 2018 and December 31, 2017, the balance of the other real estate owned portfolio was $3.6 million and $3.6 million, respectively. There were no residential mortgage loans in the process of foreclosure as of June 30, 2018.

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[6] DEPOSITS

As of June 30, 2018 and December 31, 2017, deposits were comprised of the following:

	Interest Rate Range	Weighted Average Interest Rate		Balance	
(Dollars in thousands)	June 30, 2018	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Demand and savings accounts:					
Noninterest-bearing checking accounts	—	—	—	$247,705	$ 248,092
Interest-bearing checking accounts	0.05 to 2.49%	1.95%	1.42%	612,501	455,341
Money market deposit accounts	0.10 to 2.90%	1.82%	1.37%	2,494,927	2,289,789
Total demand and savings accounts				3,355,133	2,993,222
Certificates of deposit	1.10 to 3.22%	2.10%	1.40%	1,086,069	994,389
Total deposits				$4,441,202	$ 3,987,611
Weighted average rate on interest-bearing accounts		1.91%	1.38%		

As of June 30, 2018 and December 31, 2017, the Bank had total brokered deposits of $496.6 million and $1.07 billion, respectively. Reciprocal deposits through Certificate of Deposit Account Registry Service® ("CDARS®") and Insured Cash Sweep® ("ICS®") totaled $655.8 million and $627.5 million as of June 30, 2018 and December 31, 2017, respectively. As of December 31, 2017, these reciprocal deposits were included in the total brokered deposits above, however were considered non-brokered as of June 30, 2018, resulting from recent legislation.

As of June 30, 2018 and December 31, 2017, certificates of deposit with balances of $100,000 or more, excluding brokered deposits, totaled $472.4 million and $440.2 million, respectively. As of June 30, 2018 and December 31, 2017, certificates of deposit with balances of $250,000 or more, excluding brokered deposits, totaled $173.1 million and $191.4 million.

The contractual maturity of certificates of deposit was as follows:

(Dollars in thousands)	June 30, 2018	December 31, 2017
12 months or less	$849,394	$ 874,733
12 months to 24 months	159,786	96,766
24 months to 36 months	76,889	22,890
Total	$1,086,069	$ 994,389

Interest expense on deposits was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2018	2017	2018	2017
Interest-bearing checking accounts	$2,576	$759	$4,198	$1,121
Money market deposit accounts	9,722	5,150	17,834	9,248
Certificates of deposit	4,398	2,587	8,065	4,840
Total interest expense on deposits	$16,696	$8,496	$30,097	$15,209

[7] BORROWINGS

As of June 30, 2018 and December 31, 2017, borrowings were comprised of the following:

(Dollars in thousands)	June 30, 2018			December 31, 2017		
	Interest Rate	Ending Balance	Maturity Date	Interest Rate	Ending Balance	Maturity Date
FHLB borrowings:						
Issued 6/29/2018	2.05%	$ 80,000	7/2/2018		$ —	
Issued 6/29/2018	2.20%	100,000	10/1/2018		—	
Issued 4/9/2018	2.01%	50,000	7/9/2018		—	
Issued 12/29/2017		—		1.57%	195,000	1/2/2018
Issued 12/29/2017		—		1.66%	100,000	3/29/2018
Line of credit borrowings		—		4.56%	6,200	12/28/2018
Subordinated notes payable (net of debt issuance costs of $186 and $287)	5.75%	34,814	7/1/2019	5.75%	34,713	7/1/2019
Total borrowings, net		$ 264,814			$ 335,913	

The Bank's FHLB borrowing capacity is based on the collateral value of certain securities held in safekeeping at the FHLB and loans pledged to the FHLB. The Bank submits a quarterly Qualified Collateral Report ("QCR") to the FHLB to update the value of the loans pledged. As of June 30, 2018, the Bank's borrowing capacity is based on the information provided in the March 31, 2018, QCR filing. As of June 30, 2018, the Bank had securities held in safekeeping at the FHLB with a fair value of $3.7 million, combined with pledged loans of $1.09 billion, for a gross borrowing capacity of $776.7 million, of which $230.0 million was outstanding in advances. As of December 31, 2017, there was $295.0 million outstanding in advances from the FHLB. When the Bank borrows from the FHLB, interest is charged at the FHLB's posted rates at the time of the borrowing.

The Bank maintains an unsecured line of credit of $10.0 million with M&T Bank and an unsecured line of credit of $20.0 million with Texas Capital Bank. As of June 30, 2018, the full amount of these established lines were available to the Bank. In addition, the Bank maintains a $2.0 million unsecured line of credit with PNC Bank for private label credit card facilities for certain commercial clients of the Bank.

The holding company maintains an unsecured line of credit of $25.0 million, with Texas Capital Bank, of which the full amount was available as of June 30, 2018.

In June 2014, the Company completed a private placement of subordinated notes payable, raising $35.0 million. The subordinated notes have a term of 5 years at a fixed rate of 5.75%. The proceeds qualified as Tier 2 capital for the holding company, under federal regulatory capital rules.

Interest expense on borrowings was as follows:

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
FHLB borrowings	$ 1,743	$ 1,016	$ 2,890	$ 1,570
Line of credit borrowings	—	16	52	16
Subordinated notes payable	554	554	1,108	1,108
Total interest expense on borrowings	$ 2,297	$ 1,586	$ 4,050	$ 2,694

[8] STOCK TRANSACTIONS

In March 2018, the Company completed the issuance and sale of a registered, underwritten public offering of 1,400,000 depositary shares, each representing a 1/40th interest in a share of its 6.75% Fixed-to-Floating Rate Series A Non-Cumulative Perpetual Preferred Stock, no par value (the "Series A Preferred Stock"), with a liquidation preference of $1,000 per share (equivalent to $25 per depository share). In addition, the Company granted the underwriters an option to purchase additional depositary shares of 210,000 which was exercised. The Company received net proceeds of $38.4 million from the sale of 40,250 shares of its Series A Preferred Stock (equivalent to 1,610,000 depositary shares), after deducting underwriting discounts, commissions and direct offering expenses. The preferred stock provides Tier 1 capital for the holding company, under federal regulatory capital rules.

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When, as, and if declared by the board of directors of the Company, dividends will be payable on the Series A Preferred Stock from the date of issuance to, but excluding April 1, 2023, at a rate of 6.75% per annum, payable quarterly, in arrears, and from and including April 1, 2023, dividends will accrue and be payable at a floating rate equal to three-month LIBOR plus a spread of 398.5 basis points per annum, payable quarterly, in arrears. The Company may redeem the Series A Preferred Stock at its option, subject to regulatory approval, on or after April 1, 2023, as described in the prospectus supplement relating to the offering filed with the SEC on March 19, 2018.

On April 27, 2018, the board of directors declared a dividend payable of approximately $762,000, or $0.47 per depositary share, on its Series A Non-Cumulative Perpetual Preferred Stock, which is payable on July 2, 2018, to preferred shareholders of record as of the close of business on June 15, 2018.

Under authorization by the Board of Directors, the Company was permitted to repurchase its common stock up to prescribed amounts, of which $2.5 million remained available as of June 30, 2018. During the six months ended June 30, 2018, the Company repurchased a total of 97,031 shares for approximately $2.5 million, at an average cost of $25.37 per share, which are held as treasury stock. During the six months ended June 30, 2017, the Company repurchased a total of 174,603 shares for approximately $4.1 million, at an average cost of $23.60 per share, which are held as treasury stock.

The tables below show the changes in the Company’s preferred and common shares outstanding during the periods indicated:

	Number of Preferred Shares (Series A) Outstanding	Number of Common Shares Outstanding
Balance, December 31, 2016	—	28,415,654
Issuance of restricted common stock	—	324,675
Exercise of stock options	—	100,000
Purchase of treasury stock	—	(174,603)
Balance, June 30, 2017	—	28,665,726
Balance, December 31, 2017	—	28,591,101
Issuance of preferred stock	40,250	—
Issuance of restricted common stock	—	389,113
Forfeitures of restricted common stock	—	(22,000)
Exercise of stock options	—	86,700
Purchase of treasury stock	—	(97,031)
Balance, June 30, 2018	40,250	28,947,883

[9] REGULATORY CAPITAL

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company’s and the Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company’s and the Bank’s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company’s and the Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the tables below) of Common Equity Tier 1 ("CET 1"), Tier 1 and Total risk-based capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). As of June 30, 2018 and December 31, 2017, TriState Capital Holdings, Inc. and TriState Capital Bank exceeded all capital adequacy requirements to which they were subjected.

Financial depository institutions are categorized as well capitalized if they meet minimum capital ratios as set forth in the tables below. The Bank exceeded the capital ratios necessary to be well capitalized under the regulatory framework for prompt corrective action. There have been no conditions or events since the filing of the most recent Call Report that management believes have changed the Bank's capital, as presented in the tables below.

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Basel III, which began phasing in on January 1, 2015, has replaced the regulatory capital rules for the Company and the Bank. The Basel III final rules required new minimum capital ratio standards, established a new common equity tier 1 to total risk-weighted assets ratio, subjected banking organizations to certain limitations on capital distributions and discretionary bonus payments, and established a new standardized approach for risk weightings.

The final rules subject a banking organization to certain limitations on capital distributions and discretionary bonus payments to executive officers if the organization does not maintain a capital conservation buffer of risk-based capital ratios in an amount greater than 2.5% of its total risk-weighted assets. The implementation of the capital conservation buffer began on January 1, 2016, at 0.625%, and will be phased in over a four-year period (increasing by that amount ratably on each subsequent January 1, until it reaches 2.5% on January 1, 2019). As of June 30, 2018 and December 31, 2017, the capital conservation buffer was 1.875% and 1.25%, respectively, in addition to the minimum capital adequacy levels in the tables below. Thus, both the Company and the Bank were above the levels required to avoid limitations on capital distributions and discretionary bonus payments.

The following tables set forth certain information concerning the Company's and the Bank's regulatory capital as of June 30, 2018 and December 31, 2017:

	June 30, 2018					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ratio						
Company	$402,817	12.66%	$254,606	8.00%	N/A	N/A
Bank	$405,480	12.82%	$252,976	8.00%	$316,220	10.00%
Tier 1 risk-based capital ratio						
Company	$383,895	12.06%	$190,954	6.00%	N/A	N/A
Bank	$391,440	12.38%	$189,732	6.00%	$252,976	8.00 %
Common equity tier 1 risk-based capital ratio						
Company	$348,211	10.94%	$143,216	4.50%	N/A	N/A
Bank	$391,440	12.38%	$142,299	4.50%	$205,543	6.50 %
Tier 1 leverage ratio						
Company	$383,895	7.68 %	$199,902	4.00%	N/A	N/A
Bank	$391,440	7.87 %	$199,077	4.00%	$248,846	5.00 %

	December 31, 2017					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ratio						
Company	$343,758	11.72%	$234,576	8.00%	N/A	N/A
Bank	$348,378	11.99%	$232,392	8.00%	$290,490	10.00%
Tier 1 risk-based capital ratio						
Company	$326,594	11.14%	$175,932	6.00%	N/A	N/A
Bank	$337,656	11.62%	$174,294	6.00%	$232,392	8.00 %

Common equity tier 1 risk-based capital ratio						
Company	$326,594	11.14%	$131,949	4.50%	N/A	N/A
Bank	$337,656	11.62%	$130,720	4.50%	$188,818	6.50 %
Tier 1 leverage ratio						
Company	$326,594	7.25 %	$180,090	4.00%	N/A	N/A
Bank	$337,656	7.55 %	$178,979	4.00%	$223,723	5.00 %

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[10] EARNINGS PER COMMON SHARE

The computation of basic and diluted earnings per common share for the periods presented was as follows:

(Dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income available to common shareholders	$13,830	$ 8,421	$24,231	$ 15,913
Weighted average common shares outstanding:				
Basic	27,628,120	27,601,702	27,611,498	27,614,423
Restricted stock - dilutive	741,050	636,596	696,278	594,335
Stock options - dilutive	479,799	547,327	478,412	544,159
Diluted	28,848,969	28,785,625	28,786,188	28,752,917
Earnings per common share:				
Basic	$0.50	$ 0.31	$0.88	$ 0.58
Diluted	$0.48	$ 0.29	$0.84	$ 0.55

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Anti-dilutive shares [(1)]	19,000	—	22,500	—

(1) Includes stock options and/or restricted stock not considered for the calculation of diluted EPS as their inclusion would have been anti-dilutive.

[11] DERIVATIVES AND HEDGING ACTIVITY

RISK MANAGEMENT OBJECTIVE OF USING DERIVATIVES

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk primarily by managing the amount, sources, and duration of its debt funding and through the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company’s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company’s known or expected cash receipts related to certain of the Company’s fixed-rate loan assets and differences in the amount, timing, and duration of the Company's known or expected cash payments related to certain of the Company's FHLB borrowings. The Company also has derivatives that are a result of a service the Company provides to certain qualifying customers while at the same time the Company enters into an offsetting derivative transaction in order to eliminate its interest rate risk exposure resulting from such transactions.

FAIR VALUES OF DERIVATIVE INSTRUMENTS ON THE STATEMENTS OF FINANCIAL CONDITION

The tables below present the fair value of the Company’s derivative financial instruments as well as their classification on the consolidated statements of financial condition as of June 30, 2018 and December 31, 2017:

Asset Derivatives	Liability Derivatives

	as of June 30, 2018		as of June 30, 2018	
(Dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate products	Other assets	$2,493	Other liabilities	$—
Derivatives not designated as hedging instruments:				
Interest rate products	Other assets	22,424	Other liabilities	22,474
Total	Other assets	$24,917	Other liabilities	$22,474

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(Dollars in thousands)	Asset Derivatives as of December 31, 2017 Balance Sheet Location	Fair Value	Liability Derivatives as of December 31, 2017 Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate products	Other assets	$1,650	Other liabilities	$9
Derivatives not designated as hedging instruments:				
Interest rate products	Other assets	12,111	Other liabilities	12,069
Total	Other assets	$13,761	Other liabilities	$12,078

The following tables show the impact legally enforceable master netting agreements had on the Company’s derivative financial instruments as of June 30, 2018 and December 31, 2017:

Offsetting of Derivative Assets

(Dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Cash Collateral Received	Net Amount
June 30, 2018	$24,917	$ —	$ 24,917	$(3,137)	$ —	$21,780
December 31, 2017	$13,761	$ —	$ 13,761	$(5,677)	$ —	$8,084

Offsetting of Derivative Liabilities

(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Cash Collateral Posted	Net Amount
June 30, 2018	$22,474	$ —	$ 22,474	$(3,137)	$ —	$19,337
December 31, 2017	$12,078	$ —	$ 12,078	$(5,677)	$ (124)	$6,277

FAIR VALUE HEDGES OF INTEREST RATE RISK

The Company is exposed to changes in the fair value of certain of its fixed-rate obligations due to changes in benchmark interest rates, which relate predominantly to LIBOR. Interest rate swaps designated as fair value hedges involve the receipt of variable-rate payments from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. As of June 30, 2018, the Company no longer had interest rate swaps that were designated as fair value hedges of interest rate risk

associated with the Company’s fixed-rate loan assets.

For the derivatives that were designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings by applying the “fair value long haul” method. The Company includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives.

The table below presents the effect of the Company’s fair value hedge instruments in the consolidated statements of income:

		Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)		2018	2017	2018	2017
Derivatives designated as hedging instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives		Amount of Gain (Loss) Recognized in Income on Derivatives	
Interest rate products	Interest income	$ —	$ (16)	$ (9)	$ (31)
Interest rate products	Non-interest income	—	1	—	3
Total		$ —	$ (15)	$ (9)	$ (28)

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CASH FLOW HEDGES OF INTEREST RATE RISK

The Company's objectives in using certain interest rate derivatives are to add stability to net interest income and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. The Company has entered into derivative contracts to hedge the variable cash flows associated with certain FHLB borrowings. These interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company effectively making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. The Company's cash flow hedge derivatives did not have any hedge ineffectiveness recognized in earnings during the six months ended June 30, 2018.

Characteristics of the Company's interest rate derivative transactions designated as cash flow hedges of interest rate risk as of June 30, 2018 were as follows:

(Dollars in thousands)	Notional Amount	Estimated Increase/(Decrease) to Interest Expense in the Next Twelve Months	Maturity Date	Remaining Term (in Months)
Interest rate products:				
Issued 6/29/2016	$100,000	$ (1,736)	6/29/2019	12
Issued 1/8/2018	50,000	(177)	1/8/2021	30
Total	$150,000	$ (1,913)		

The tables below present the effective portion of the Company's cash flow hedge instruments in the consolidated statements of income and accumulated other comprehensive income:

(Dollars in thousands)		Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
Derivatives designated as hedging instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Realized Gain (Loss) Recognized in Income on Derivatives		Unrealized Gain (Loss) Recognized in Accumulated Other Comprehensive Income on Derivatives	
Interest rate products	Interest expense	$ 382	$ 81	$ 340	$ (242)
Total		$ 382	$ 81	$ 340	$ (242)

(Dollars in thousands)	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017

Derivatives designated as hedging instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Realized Gain (Loss) Recognized in Income on Derivatives		Unrealized Gain (Loss) Recognized in Accumulated Other Comprehensive Income on Derivatives	
Interest rate products	Interest expense	$ 540	$ 123	$ 1,282	$ (156)
Total		$ 540	$ 123	$ 1,282	$ (156)

NON-DESIGNATED HEDGES

The Company does not use derivatives for trading or speculative purposes. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate derivatives with its commercial banking customers to facilitate their respective risk management strategies. Those derivatives are simultaneously and economically hedged by offsetting derivatives that the Company executes with a third party, such that the Company eliminates its interest rate exposure resulting from such transactions. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of June 30, 2018, the Company had derivative transactions with an aggregate notional amount of $1.70 billion related to this program.

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The table below presents the effect of the Company's non-designated hedge instruments in the consolidated statements of income:

(Dollars in thousands)		Three Months Ended June 30,		Six Months Ended June 30,	
		2018	2017	2018	2017
Derivatives not designated as hedging instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives		Amount of Gain (Loss) Recognized in Income on Derivatives	
Interest rate products	Non-interest income	$ (3)	$ 106	$ 22	$ 12
Total		$ (3)	$ 106	$ 22	$ 12

CREDIT-RISK-RELATED CONTINGENT FEATURES

The Company has agreements with each of its derivative counterparties that contain a provision where, if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

The Company has agreements with certain of its derivative counterparties that contain a provision where, if either the Company or the counterparty fails to maintain its status as a well/adequately capitalized institution, then the Company or the counterparty could be required to terminate any outstanding derivative positions and settle its obligations under the agreement.

As of June 30, 2018, the termination value of derivatives for which we had master netting arrangements with the counterparty and in a net liability position was $145,000, including accrued interest. As of June 30, 2018, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $1.1 million. If the Company had breached any of these provisions as of June 30, 2018, it could have been required to settle its obligations under the agreements at their termination value.

[12] DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates of financial instruments are based on the present value of expected future cash flows, quoted market prices of similar financial instruments, if available, and other valuation techniques. These valuations are significantly affected by discount rates, cash flow assumptions and risk assumptions used. Therefore, fair value estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realized in an immediate settlement of instruments. Accordingly, the aggregate fair value amounts presented below do not represent the underlying value of the Company.

FAIR VALUE MEASUREMENTS

In accordance with U.S. GAAP the Company must account for certain financial assets and liabilities at fair value on a recurring and non-recurring basis. The Company utilizes a three-level fair value hierarchy of valuation techniques to estimate the fair value of its financial assets and liabilities based on whether the inputs to those valuation techniques are observable or unobservable. The fair value hierarchy gives the highest priority to quoted prices with readily available independent data in active markets for identical assets or liabilities (Level 1) and the lowest priority to

unobservable market inputs (Level 3). When various inputs for measurement fall within multiple levels of the fair value hierarchy, the lowest level input that has a significant impact on fair value measurement is used.

Financial assets and liabilities are categorized based upon the following characteristics or inputs to the valuation techniques:

- Level 1 – Financial assets and liabilities for which inputs are observable and are obtained from reliable quoted prices for identical assets or liabilities in actively traded markets. This is the most reliable fair value measurement and includes, for example, active exchange-traded equity securities.
- Level 2 – Financial assets and liabilities for which values are based on quoted prices in markets that are not active or for which values are based on similar assets or liabilities that are actively traded. Level 2 also includes pricing models in which the inputs are corroborated by market data, for example, matrix pricing.
- Level 3 – Financial assets and liabilities for which values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Level 3 inputs include assumptions of a source independent of the reporting entity or the reporting entity's own assumptions that are supported by little or no market activity or observable inputs.

The Company is responsible for the valuation process and as part of this process may use data from outside sources in establishing fair value. The Company performs due diligence to understand the inputs used or how the data was calculated or derived. The Company corroborates the reasonableness of external inputs in the valuation process.

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RECURRING FAIR VALUE MEASUREMENTS

The following tables represent assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017:

	June 30, 2018			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total Assets / Liabilities at Fair Value
Financial assets:				
Debt securities available-for-sale:				
Corporate bonds	$ —	$ 98,614	$ —	$ 98,614
Trust preferred securities	—	18,417	—	18,417
Non-agency collateralized loan obligations	—	622	—	622
Agency collateralized mortgage obligations	—	36,798	—	36,798
Agency mortgage-backed securities	—	21,617	—	21,617
Agency debentures	—	10,399	—	10,399
Equity securities	8,630	—	—	8,630
Interest rate swaps	—	24,917	—	24,917
Total financial assets	8,630	211,384	—	220,014
Financial liabilities:				
Interest rate swaps	—	22,474	—	22,474
Acquisition earn out liability	—	—	3,138	3,138
Total financial liabilities	$ —	$ 22,474	$ 3,138	$ 25,612

	December 31, 2017			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total Assets / Liabilities at Fair Value
Financial assets:				
Debt securities available-for-sale:				
Corporate bonds	$ —	$ 61,689	$ —	$ 61,689
Trust preferred securities	—	18,581	—	18,581
Non-agency collateralized loan obligations	—	805	—	805
Agency collateralized mortgage obligations	—	38,822	—	38,822
Agency mortgage-backed securities	—	18,953	—	18,953
Equity securities	8,635	—	—	8,635
Interest rate swaps	—	13,761	—	13,761
Total financial assets	8,635	152,611	—	161,246
Financial liabilities:				
Interest rate swaps	—	12,078	—	12,078
Total financial liabilities	$ —	$ 12,078	$ —	$ 12,078

INVESTMENT SECURITIES

Generally, debt securities are valued using pricing for similar securities, recently executed transactions, and other pricing models utilizing observable inputs and therefore are classified as Level 2. Equity securities (including mutual funds) are classified as Level 1 because these securities are in actively traded markets.

INTEREST RATE SWAPS
The fair value of interest rate swaps is estimated using inputs that are observable or that can be corroborated by observable market data and therefore are classified as Level 2. These fair value estimations include primarily market observable inputs such as the forward LIBOR swap curve.

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ACQUISITION EARN OUT LIABILITY
The fair value of the acquisition earn out liability is estimated based on management's estimate of the projected annualized run-rate revenue of Columbia at December 31, 2016, and therefore, are classified as Level 3. For additional information on the calculation of the earn out, refer to Note 2, Business Combination.

NON-RECURRING FAIR VALUE MEASUREMENTS

Certain financial assets and financial liabilities are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

The following tables represent the balances of assets measured at fair value on a non-recurring basis as of June 30, 2018 and December 31, 2017:

	June 30, 2018			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total Assets at Fair Value
Loans measured for impairment, net	$ —	$ —	$ 3,217	$ 3,217
Other real estate owned	—	—	3,576	3,576
Total assets	$ —	$ —	$ 6,793	$ 6,793

	December 31, 2017			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total Assets at Fair Value
Loans measured for impairment, net	$ —	$ —	$ 4,047	$ 4,047
Other real estate owned	—	—	3,576	3,576
Total assets	$ —	$ —	$ 7,623	$ 7,623

As of June 30, 2018 and December 31, 2017, the Company recorded $2.4 million and $2.5 million, respectively, of specific reserves to allowance for loan losses as a result of adjusting the fair value of impaired loans.

IMPAIRED LOANS
A loan is considered impaired when management determines it is probable that all of the principal and interest due under the original terms of the loan may not be collected or if a loan is designated as a TDR. Impairment is measured based on a discounted cash flows method or the fair value of the underlying collateral less estimated selling costs. Our policy is to obtain appraisals on collateral supporting impaired loans on an annual basis, unless circumstances dictate a shorter time frame. Appraisals are reduced by estimated costs to sell the collateral, and, under certain circumstances, additional factors that may arise and cause us to believe our recoverable value may be less than the independent appraised value. Accordingly, impaired loans are classified as Level 3. The Company measures impairment on all loans as part of the allowance for loan losses.

OTHER REAL ESTATE OWNED
Real estate owned is comprised of property acquired through foreclosure or voluntarily conveyed by borrowers. These assets are recorded on the date acquired at fair value, less estimated disposition costs, with the fair value being determined by appraisal. Our policy is to obtain appraisals on collateral supporting OREO on an annual basis, unless circumstances dictate a shorter time frame. Appraisals are reduced by estimated costs to sell the collateral, and, under

certain circumstances, additional factors that may arise and cause us to believe our recoverable value may be less than the independent appraised value. Accordingly, other real estate owned is classified as Level 3.

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LEVEL 3 VALUATION

The following tables present additional quantitative information about assets measured at fair value on a recurring and non-recurring basis and for which we have utilized Level 3 inputs to determine fair value as of June 30, 2018 and December 31, 2017:

	June 30, 2018				
(Dollars in thousands)	Fair Value	Valuation Techniques (1)	Significant Unobservable Inputs	Weighted Average Multiple/ Discount Rate	
Acquisition earn out liability	$3,138	Income approach	Run-rate revenue multiple; client retention	1.6 times	
Loans measured for impairment, net	$3,217	Discounted cash flow	Discount due to restructured nature of operations	6	%
Other real estate owned	$3,576	Appraisal value	Discount due to salability conditions	10	%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which may include level 3 inputs that are not identifiable, or by using the discounted cash flow method if the loan is not collateral dependent.

	December 31, 2017					
(Dollars in thousands)	Fair Value		Valuation Techniques (1)	Significant Unobservable Inputs	Weighted Average Discount Rate	
Loans measured for impairment, net	$	676	Appraisal value	Discount due to salability conditions	—	%
Loans measured for impairment, net	$	3,371	Discounted cash flow	Discount due to restructured nature of operations	6	%
Other real estate owned	$	3,576	Appraisal value	Discount due to salability conditions	10	%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which may include level 3 inputs that are not identifiable, or by using the discounted cash flow method if the loan is not collateral dependent.

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FAIR VALUE OF FINANCIAL INSTRUMENTS

A summary of the carrying amounts and estimated fair values of financial instruments was as follows:

(Dollars in thousands)	Fair Value Level	June 30, 2018		December 31, 2017	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	1	$164,367	$164,367	$156,153	$156,153
Debt securities available-for-sale	2	186,467	186,467	138,850	138,850
Debt securities held-to-maturity	2	77,098	77,283	59,275	60,141
Equity securities	1	8,630	8,630	8,635	8,635
Federal Home Loan Bank stock	2	16,479	16,479	13,792	13,792
Loans held-for-investment, net	3	4,537,607	4,540,877	4,169,827	4,167,775
Accrued interest receivable	2	16,187	16,187	13,519	13,519
Investment management fees receivable, net	2	7,835	7,835	7,720	7,720
Bank owned life insurance	2	67,451	67,451	66,593	66,593
Other real estate owned	3	3,576	3,576	3,576	3,576
Interest rate swaps	2	24,917	24,917	13,761	13,761

Financial liabilities: