TriState Capital Holdings, Inc.
Form 10-Q
August 06, 2018
Table of Contents

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.

Table of Contents

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

Table of Contents

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.

Table of Contents

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.

4

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

(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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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

17

Table of Contents

(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, 2018	2017	Six Months Ended June 30, 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 Amortized Cost	Estimated Fair Value	Held-to-Maturity 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.

18

Table of Contents

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	Available-for-Sale Three Months Ended June 30, 2017	Held-to-Maturity Three Months Ended June 30, 2018	Held-to-Maturity Three Months Ended June 30, 2017	Available-for-Sale Six Months Ended June 30, 2018	Available-for-Sale Six Months Ended June 30, 2017	Held-to-Maturity Six Months Ended June 30, 2018	Held-to-Maturity Six Months Ended June 30, 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.

Table of Contents

December 31, 2017	
Less than 12 Months	12 Months or More