TriState Capital Holdings, Inc.
Form 10-Q
July 31, 2017
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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, 2017
¨ 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

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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 14, 2017, there were 28,665,726 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, 2017	December 31, 2016
ASSETS		
Cash	$378	$ 183
Interest-earning deposits with other institutions	115,363	96,244
Federal funds sold	3,974	7,567
Cash and cash equivalents	119,715	103,994
Investment securities available-for-sale, at fair value (cost: $141,056 and $175,158, respectively)	141,922	174,892
Investment securities held-to-maturity, at cost (fair value: $62,445 and $54,498, respectively)	61,336	53,940
Federal Home Loan Bank stock	18,151	9,641
Total investment securities	221,409	238,473
Loans held-for-investment	3,771,312	3,401,054
Allowance for loan losses	(15,968)	(18,762)
Loans held-for-investment, net	3,755,344	3,382,292
Accrued interest receivable	10,607	9,614
Investment management fees receivable, net	7,418	7,749
Goodwill and other intangibles, net	66,283	67,209
Office properties and equipment, net	5,249	5,471
Bank owned life insurance	65,714	64,815
Deferred tax asset, net	6,344	7,204
Prepaid expenses and other assets	49,752	43,636
Total assets	$4,307,835	$ 3,930,457
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$3,529,868	$ 3,286,779
Borrowings, net	363,612	239,510
Accrued interest payable on deposits and borrowings	1,919	1,867
Other accrued expenses and other liabilities	44,797	50,494
Total liabilities	3,940,196	3,578,650
Shareholders' Equity:		
Preferred stock, no par value; Shares authorized - 150,000; Shares issued - none	—	—
Common stock, no par value; Shares authorized - 45,000,000; Shares issued - 30,215,058 and 29,790,383, respectively; Shares outstanding - 28,665,726 and 28,415,654, respectively	287,936	285,480
Additional paid-in capital	7,808	6,782
Retained earnings	89,657	73,744

Accumulated other comprehensive income, net	1,387	830
Treasury stock (1,549,332 and 1,374,729 shares, respectively)	(19,149)	(15,029)
Total shareholders' equity	367,639	351,807
Total liabilities and shareholders' equity	$4,307,835	$3,930,457

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)	2017	2016	2017	2016
Interest income:				
Loans	$30,242	$22,343	$57,261	$44,320
Investments	1,535	1,312	3,005	2,557
Interest-earning deposits	338	140	586	278
Total interest income	32,115	23,795	60,852	47,155
Interest expense:				
Deposits	8,496	4,603	15,209	8,741
Borrowings	1,586	973	2,694	1,818
Total interest expense	10,082	5,576	17,903	10,559
Net interest income	22,033	18,219	42,949	36,596
Provision for loan losses	516	80	759	202
Net interest income after provision for loan losses	21,517	18,139	42,190	36,394
Non-interest income:				
Investment management fees	9,130	9,462	18,470	16,481
Service charges	97	123	191	259
Net gain on the sale and call of investment securities	241	62	239	63
Swap fees	1,218	1,205	2,317	2,445
Commitment and other fees	409	507	817	1,009
Other income	617	88	1,087	105
Total non-interest income	11,712	11,447	23,121	20,362
Non-interest expense:				
Compensation and employee benefits	14,222	12,807	28,115	24,740
Premises and occupancy costs	1,240	1,169	2,506	2,298
Professional fees	823	989	1,674	1,790
FDIC insurance expense	1,000	568	1,953	1,090
General insurance expense	259	265	560	510
State capital shares tax	398	328	750	657
Travel and entertainment expense	747	845	1,362	1,422
Intangible amortization expense	462	438	925	828
Other operating expenses	2,633	2,048	5,097	4,128
Total non-interest expense	21,784	19,457	42,942	37,463
Income before tax	11,445	10,129	22,369	19,293
Income tax expense	3,024	3,356	6,456	6,677
Net income	$8,421	$6,773	$15,913	$12,616
Earnings per common share:				
Basic	$0.31	$0.25	$0.58	$0.46
Diluted	$0.29	$0.24	$0.55	$0.45

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, 2017	2016	Six Months Ended June 30, 2017	2016
Net income	$8,421	$6,773	$15,913	$12,616
Other comprehensive income:				
Unrealized holding gains on investment securities, net of tax expense of $394, $605, $509 and $279	707	1,085	890	434
Reclassification adjustment for gains included in net income on investment securities, net of tax expense of ($86), ($5), ($85) and ($6)	(155)	(11)	(154)	(11)
Unrealized holding losses on derivatives, net of tax benefit of ($87), $(31), ($56) and $(31)	(155)	(56)	(100)	(56)
Reclassification adjustment for gains included in net income on derivatives, net of tax expense of $(29), $0, $(44) and $0	(52)	—	(79)	—
Other comprehensive income	345	1,018	557	367
Total comprehensive income	$8,766	$7,791	$16,470	$12,983

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)	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 2015	$281,412	$ 10,809	$ 45,103	$ (1,443)	$ (9,904)	$ 325,977
Net income	—	—	12,616	—	—	12,616
Other comprehensive income	—	—	—	367	—	367
Exercise of stock options	296	(82)	—	—	—	214
Purchase of treasury stock	—	—	—	—	(3,177)	(3,177)
Stock-based compensation	—	1,697	—	—	—	1,697
Balance, June 30, 2016	$281,708	$ 12,424	$ 57,719	$ (1,076)	$ (13,081)	$ 337,694
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

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)	2017	2016
Cash Flows from Operating Activities:		
Net income	$15,913	$12,616
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and intangible amortization expense	1,681	1,461
Amortization of deferred financing costs	101	101
Provision for loan losses	759	202
Net gain on the sale of loans	(17)	—
Stock-based compensation expense	2,530	1,697
Net gain on the sale or call of investment securities available-for-sale	(239)	(17)
Net gain on the call of investment securities held-to-maturity	—	(46)
Net amortization of premiums and discounts	442	458
Decrease (increase) in investment management fees receivable, net	331	(571)
Increase in accrued interest receivable	(993)	(718)
Increase in accrued interest payable	52	165
Bank owned life insurance income	(899)	(886)
Increase (decrease) in income taxes payable	9	(353)
Decrease (increase) in prepaid income taxes	35	(3,045)
Deferred tax provision	536	467
Decrease in accounts payable and other accrued expenses	(9,389)	(6,961)
Other, net	(2,735)	589
Net cash provided by operating activities	8,117	5,159
Cash Flows from Investing Activities:		
Purchase of investment securities available-for-sale	(7,845)	(22,354)
Purchase of investment securities held-to-maturity	(7,467)	—
Proceeds from the sale of investment securities available-for-sale	—	3,040
Principal repayments and maturities of investment securities available-for-sale	41,844	4,140
Principal repayments and maturities of investment securities held-to-maturity	—	2,500
Investment in low income housing tax credit	(84)	—
Investment in small business investment company	(235)	—
Net purchase of Federal Home Loan Bank stock	(8,510)	(3,830)
Net increase in loans	(380,661)	(158,182)
Proceeds from loan sales	6,867	1,196
Proceeds from the sale of other real estate owned	307	—
Additions to office properties and equipment	(533)	(338)
Acquisition, net of acquired cash	—	(14,095)
Net cash used in investing activities	(356,317)	(187,923)
Cash Flows from Financing Activities:		
Net increase in deposit accounts	243,089	198,348
Net increase in Federal Home Loan Bank advances	120,000	5,000
Net increase in line of credit advances	4,000	—
Net proceeds from exercise of stock options	952	214
Purchase of treasury stock	(4,120)	(3,177)
Net cash provided by financing activities	363,921	200,385
Net change in cash and cash equivalents during the period	15,721	17,621

Cash and cash equivalents at beginning of the period	103,994	96,676
Cash and cash equivalents at end of the period	$119,715	$114,297

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(Dollars in thousands)	Six Months Ended June 30, 2017	2016
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	$17,750	$10,293
Income taxes	$5,876	$8,841
Acquisition of non-cash assets and liabilities:		
Assets acquired	$—	$1,038
Liabilities assumed	$—	$1,402
Other non-cash activity:		
Contingent consideration	$—	$3,687

See accompanying notes to unaudited condensed consolidated financial statements.

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

[1] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATION
TriState Capital Holdings, Inc. (“we”, “us”, “our” 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 with the Securities and Exchange Commission (“SEC”) and Financial Industry Regulatory Authority (“FINRA”).

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 to institutional, sub-advisory, and separately managed account clients and had assets under management of $8.00 billion as of June 30, 2017. CTSC Securities primary business is facilitating marketing efforts for the proprietary investment products provided by Chartwell, including shares of mutual funds advised and/or administered by Chartwell.

Regulatory approval was received and the Bank commenced operations on January 22, 2007. 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 SEC. Chartwell was established through the acquisition of substantially all the assets of Chartwell Investment Partners, LP on March 5, 2014. CTSC Securities was capitalized in May 2014, and its broker/dealer registration was approved on March 7, 2017. CTSC Securities is regulated by the SEC and 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 worse 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, 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, 2016, included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 14, 2017.

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.

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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 and certain equity 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 earnings; or (3) available-for-sale – debt and certain equity 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.

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 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, 2017 and December 31, 2016. 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 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.

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 the 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.

The allowance was appropriate, in management's judgment, to cover probable losses inherent in the loan portfolio as of June 30, 2017 and December 31, 2016. 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 components of the allowance for loan losses represent estimates based upon Accounting Standards Codification ("ASC") Topic 450, Contingencies, and ASC Topic 310, Receivables. ASC Topic 450 applies to homogeneous loan pools such as consumer installment, residential mortgages, consumer lines of credit and commercial loans that are not individually evaluated for impairment under ASC Topic 310. ASC Topic 310 is applied to commercial and consumer loans that are individually evaluated for impairment.

Under ASC Topic 310, a loan is impaired, based upon current information and events, in management's opinion, 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 under ASC Topic 450 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. Assessment of relevant economic factors indicates that some of the Company's primary markets may historically tend to lag the national economy, with local economies in our primary market areas also improving or weakening, as the case may be, but at a more measured rate than the national trends.

Management bases the computation of the allowance for loan losses under ASC Topic 450 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 paid on a quarterly basis.

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 $150,000 and $0 of bad debt expense recorded for the six months ended June 30, 2017 and 2016, respectively, and there was $150,000 and $0 of allowance for uncollectible accounts recorded as of June 30, 2017 and December 31, 2016, respectively.

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 operating 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, per ASU 2015-03. 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
Basic earnings per common share ("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. It is the Company's policy to recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense in the consolidated statements of income.

DERIVATIVES AND HEDGING ACTIVITIES
The Company accounts for derivative instruments and hedging activities in accordance with FASB ASC Topic 815, Derivatives and Hedging. 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 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.

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- 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.

Fair value may 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, for all share-based awards, including stock options and restricted shares, made to employees and directors.

The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of ASC Topic 718, Compensation – Stock Compensation. As a result, compensation cost for all share-based payments is based on the grant-date fair value estimated in accordance with ASC Topic 718. 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 investment 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 investment 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.

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 May 2017, the FASB issued Accounting Standard Update ("ASU") 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting," which clarifies what constitutes a modification of a share-based payment award. This ASU is effective for all entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company is currently in the process of evaluating the impact of this standard; however, any changes are not expected to have a significant impact 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 ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2018. All entities may early adopt the standard for annual or interim periods. If an entity early adopts the ASU in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. 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 that are SEC filers, for annual and interim periods in fiscal years beginning after

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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 January 2017, the FASB issued ASU 2017-03, “Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016, and November 17, 2016, EITF Meetings (SEC Update),” which incorporates into the FASB Accounting Standards Codification® recent SEC guidance about disclosing, under SEC SAB Topic 11.M, the effect on financial statements of adopting the revenue, leases, and credit losses standards. The SEC staff had previously announced that registrants should include the disclosures starting with their December 2017 financial statements. The Company is currently in the process of evaluating the impact of this standard; however, any changes are not expected to have a significant impact on our results of operations and financial position.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805),” which provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Entities may early adopt the ASU and apply it to transactions that have not been reported in financial statements that have been issued or made available for issuance. The Company is currently in the process of evaluating the impact of this standard; however, any changes are not expected to have a significant impact on our results of operations and financial position.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” which requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, adjustments should be reflected at the beginning of the fiscal year that includes that interim period. The Company is currently in the process of evaluating the impact this of standard; however, any changes are not expected to have a significant impact on our results of operations and financial position.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory,” which requires entities to recognize at the transaction date the income tax consequences of intercompany asset transfers other than inventory. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Entities may early adopt the ASU, but only at the beginning of an annual period for which no financial statements (interim or annual) have already been issued or made available for issuance. The Company is currently in the process of evaluating the impact of this standard; however, any changes are not expected to have a significant impact on our results of operations and financial position.

In September of 2016, the FASB issued ASU 2016-15, “Statement of Cash Flow (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” which addresses eight classification issues related to the statement of cash flows. The eight classification issues are as follows: debt prepayment or debt extinguishment costs; settlement of zero-coupon bonds; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the ASU in an interim period, adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. Entities should apply this ASU using a retrospective transition method to each period presented. If it is impracticable for an entity to apply the ASU retrospectively for some of the issues, it may apply the amendments for those issues prospectively as of the earliest date practicable. The Company is currently in the process of evaluating the impact of this standard; however, any changes are not expected to have a significant impact 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. All entities may early adopt the standard 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 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 ASU 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

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after December 15, 2018. This ASU mandates a modified retrospective transition method for all entities. 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 will significantly change the income statement impact of equity investments, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. This ASU is effective for public business entities for interim and annual periods in fiscal years beginning after December 15, 2017. The Company is currently in the process of evaluating the impact of this standard; however, any changes are not expected to have a significant impact on our results of operations and financial position.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” This ASU implements a common revenue standard 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. ASU 2014-09 establishes a five-step model that entities must follow to recognize revenue and removes inconsistencies and weaknesses in existing guidance. Per ASU 2015-14, this update is effective for annual periods and interim periods in fiscal years beginning after December 15, 2017, for public business entities, certain employee benefit plans, and certain not-for-profit entities applying U.S. GAAP. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. 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. With respect to non-interest income, the Company is in its preliminary stages of identifying and evaluating the revenue streams and underlying revenue contracts within the scope of the guidance. The Company is expecting to begin developing processes and procedures during 2017 to ensure it is fully compliant with these amendments. To date, the Company has not yet identified any significant changes in the timing of revenue recognition when considering the amended accounting guidance; however, the Company’s implementation efforts are ongoing and such assessments may change prior to the January 1, 2018, implementation date.

RECLASSIFICATION

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

[2] INVESTMENT SECURITIES

Investment securities available-for-sale and held-to-maturity are comprised of the following:

	June 30, 2017			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Investment securities available-for-sale:				
Corporate bonds	$44,732	$ 217	$ 9	$44,940
Trust preferred securities	17,776	1,009	—	18,785
Non-agency mortgage-backed securities	5,750	5	—	5,755
Non-agency collateralized loan obligations	983	—	25	958
Agency collateralized mortgage obligations	41,307	29	102	41,234
Agency mortgage-backed securities	21,720	191	183	21,728
Equity securities	8,788	—	266	8,522
Total investment securities available-for-sale	141,056	1,451	585	141,922

Investment securities held-to-maturity:				
Corporate bonds	31,191	791	—	31,982
Agency debentures	4,968	17	12	4,973
Municipal bonds	25,177	313	—	25,490
Total investment securities held-to-maturity	61,336	1,121	12	62,445
Total	$202,392	$ 2,572	$ 597	$204,367

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(Dollars in thousands)	December 31, 2016 Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Investment securities available-for-sale:				
Corporate bonds	$53,902	$ 164	$ 21	$54,045
Trust preferred securities	17,711	159	72	17,798
Non-agency mortgage-backed securities	5,750	14	—	5,764
Non-agency collateralized loan obligations	16,234	—	54	16,180
Agency collateralized mortgage obligations	44,051	49	279	43,821
Agency mortgage-backed securities	24,107	240	198	24,149
Agency debentures	4,760	23	—	4,783
Equity securities	8,643	—	291	8,352
Total investment securities available-for-sale	175,158	649	915	174,892
Investment securities held-to-maturity:				
Corporate bonds	28,693	596	30	29,259
Municipal bonds	25,247	88	96	25,239
Total investment securities held-to-maturity	53,940	684	126	54,498
Total	$229,098	$ 1,333	$ 1,041	$229,390

The equity securities noted in the tables above consisted of a mutual fund investing in short-duration, corporate bonds.

Income on investment securities included $1.2 million in taxable interest income, $113,000 in non-taxable interest income and $216,000 in dividend income for the three months ended June 30, 2017, as compared to taxable interest income of $1.0 million, non-taxable interest income of $118,000 and dividend income of $167,000 for the three months ended June 30, 2016.

Income on investment securities included $2.4 million in taxable interest income, $226,000 in non-taxable interest income and $395,000 in dividend income for the six months ended June 30, 2017, as compared to taxable interest income of $2.0 million, non-taxable interest income of $232,000 and dividend income of $337,000 for the six months ended June 30, 2016.

As of June 30, 2017, the contractual maturities of the debt securities are:

	June 30, 2017			
	Available-for-Sale		Held-to-Maturity	
(Dollars in thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$4,848	$4,855	$1,007	$ 1,007
Due from one to five years	40,834	41,033	16,585	16,935
Due from five to ten years	9,148	9,438	42,836	43,567
Due after ten years	77,438	78,074	908	936
Total debt securities	$132,268	$133,400	$61,336	$ 62,445

Included in the $78.1 million fair value of debt securities available-for-sale with a contractual maturity due after ten years as of June 30, 2017, were $68.0 million, or 87.0%, that are floating-rate securities. Included in the $42.8 million amortized cost of debt securities held-to-maturity with a contractual maturity due from five to ten years as of June 30, 2017, were $17.3 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.

Proceeds from the sale of investment securities available-for-sale during the three months ended June 30, 2017 and 2016, were $0 and $2.4 million, respectively. Proceeds from the call and prepayments of investment securities available-for-sale during the three months ended June 30, 2017 and 2016, were $16.7 million and $0, respectively. During the three months ended June 30, 2017, net gains of $241,000 on calls were comprised of gross gains of $241,000 and gross losses of $0, which were realized and reclassified out of accumulated other comprehensive income (loss). During the three months ended June 30, 2016, net gains of $16,000 on sales were comprised of gross gains of $19,000 and gross losses of $3,000.

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Proceeds from the sale of investment securities available-for-sale during the six months ended June 30, 2017 and 2016, were $0 and $3.0 million, respectively. Proceeds from the call and prepayments of investment securities available-for-sale during the six months ended June 30, 2017 and 2016, were $21.7 million and $0, respectively. During the six months ended June 30, 2017, net gains of $239,000 on calls were comprised of gross gains of $241,000 and gross losses of $2,000, which were realized and reclassified out of accumulated other comprehensive income (loss). During the six months ended June 30, 2016, net gains of $17,000 on sales were comprised of gross gains of $20,000 and gross losses of $3,000.

During the six months ended June 30, 2016, there was an investment securities held-to-maturity of $2.5 million, which was called and gross gains of $46,000 was realized on this call and reclassified out of accumulated other comprehensive income (loss).

Investment securities available-for-sale of $4.5 million, as of June 30, 2017, 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 investment securities available-for-sale and held-to-maturity, by investment category and length of time that the individual securities have been in a continuous unrealized loss position as of June 30, 2017 and December 31, 2016, respectively:

	June 30, 2017					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Investment securities available-for-sale:						
Corporate bonds	$9,186	$ 9	$—	$ —	$9,186	$ 9
Non-agency collateralized loan obligations	—	—	958	25	958	25
Agency collateralized mortgage obligations	—	—	34,436	102	34,436	102
Agency mortgage-backed securities	10,113	170	1,250	13	11,363	183
Equity securities	—	—	8,522	266	8,522	266
Total investment securities available-for-sale	19,299	179	45,166	406	64,465	585
Investment securities held-to-maturity:						
Agency debentures	2,973	12	—	—	2,973	12
Total investment securities held-to-maturity	2,973	12	—	—	2,973	12
Total temporarily impaired securities	$22,272	$ 191	$45,166	$ 406	$67,438	$ 597

	December 31, 2016					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Investment securities available-for-sale:						
Corporate bonds	$10,543	$ 21	$—	$ —	$10,543	$ 21
Trust preferred securities	—	—	9,038	72	9,038	72
Non-agency collateralized loan obligations	6,191	50	9,990	4	16,181	54
Agency collateralized mortgage obligations	4,593	12	34,408	267	39,001	279
Agency mortgage-backed securities	12,292	198	—	—	12,292	198
Equity securities	—	—	8,352	291	8,352	291
Total investment securities available-for-sale	33,619	281	61,788	634	95,407	915

Investment securities held-to-maturity:						
Corporate bonds	2,492	8	1,978	22	4,470	30
Municipal bonds	12,559	96	—	—	12,559	96
Total investment securities held-to-maturity	15,051	104	1,978	22	17,029	126
Total temporarily impaired securities	$48,670	$ 385	$63,766	$ 656	$112,436	$ 1,041

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 on municipal bonds, corporate

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bonds, single-issuer trust preferred securities, non-agency mortgage-backed securities, non-agency collateralized loan obligations and certain equity securities, 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 impairment losses. Within the available-for-sale portfolio, there were 22 positions, aggregating to $585,000 in unrealized losses that were temporarily impaired as of June 30, 2017, of which 12 positions were in an unrealized loss position for more than twelve months totaling $406,000. As of December 31, 2016, there were 30 positions, aggregating to $915,000 in unrealized losses that were temporarily impaired, of which 12 positions were in an unrealized loss position for more than twelve months totaling $634,000. Within the held-to-maturity portfolio, there was one position, aggregating to $12,000 in an unrealized loss that was temporarily impaired as of June 30, 2017, of which no positions were in an unrealized loss position for more than twelve months. As of December 31, 2016, there were 18 positions, aggregating to $126,000 in unrealized losses that were temporarily impaired, of which one position, for $22,000 was in an unrealized loss position for more than twelve months.

There were no investment securities classified as trading securities outstanding as of June 30, 2017 and December 31, 2016, respectively. There was no activity in investment securities classified as trading during the six months ended June 30, 2017 and 2016.

There was $18.2 million and $9.6 million in FHLB stock outstanding as of June 30, 2017 and December 31, 2016, respectively. There were $8.5 million of net purchases in FHLB stock during the six months ended June 30, 2017, and $3.8 million of net purchases during the six months ended June 30, 2016.

[3] LOANS

The Company generates loans through the private banking and middle-market banking channels. These channels provide risk diversification and offer significant growth opportunities. The private banking channel includes loans secured by cash, marketable securities and other asset-based loans to executives, high-net-worth individuals, trusts and businesses, for many of whom we receive referrals based on relationships with independent broker/dealers, wealth managers, family offices, trust companies and other financial intermediaries. 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.

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

	June 30, 2017			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Loans held-for-investment, before deferred fees	$1,964,487	$639,990	$1,166,621	$3,771,098
Deferred loan costs (fees)	3,652	(182)	(3,256)	214
Loans held-for-investment, net of deferred fees	1,968,139	639,808	1,163,365	3,771,312
Allowance for loan losses	(1,448)	(9,901)	(4,619)	(15,968)
Loans held-for-investment, net	$1,966,691	$629,907	$1,158,746	$3,755,344

	December 31, 2016			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total

Loans held-for-investment, before deferred fees	$1,732,578	$587,791	$1,080,637	$3,401,006
Deferred loan costs (fees)	3,350	(368)	(2,934)	48
Loans held-for-investment, net of deferred fees	1,735,928	587,423	1,077,703	3,401,054
Allowance for loan losses	(1,424)	(12,326)	(5,012)	(18,762)
Loans held-for-investment, net	$1,734,504	$575,097	$1,072,691	$3,382,292

The Company’s customers have unused loan commitments based on the availability of eligible collateral or other terms 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, 2017 and December 31, 2016, was $2.00 billion and $1.75 billion, respectively. The interest rate for each commitment is based on the prevailing market conditions at the time of funding. The lending commitment maturities as of June 30, 2017, were as follows: $1.65 billion in one year or less; $221.9 million in one to three years; and $120.7 million in greater than three years. The reserve for losses on unfunded commitments was

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$588,000 and $650,000 as of June 30, 2017 and December 31, 2016, respectively, which includes reserves for probable losses on unfunded loan commitments, including standby letters of credit and also risk participations.

Included in the unfunded commitment totals listed above, were loans in the process of origination totaling approximately $43.6 million and $59.8 million as of June 30, 2017 and December 31, 2016, 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, 2017 and December 31, 2016, included in the total unfunded commitments above, was $69.3 million and $77.4 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. As of June 30, 2017, $33.2 million in standby letters of credit will expire within one year, while the remaining standby letters of credit will expire in periods greater than one year. During the six months ended June 30, 2017, there were seven draws on standby letters of credit totaling $191,000, which were converted to loans and subsequently repaid by the borrowers. During the six months ended June 30, 2016, there was one draw on a standby letter of credit for $100,000, which was immediately 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.

[4] 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 resultant 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 and marketable securities. 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 and marketable securities, which were 92.7% and 91.3% of total private banking loans as of June 30, 2017 and December 31, 2016, 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 industry of the borrower is an important indicator of risk, but there are also more specific risks depending on the condition of the local/regional economy. Collateral for these types of loans at times does not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt. Any C&I loans collateralized by cash and marketable securities are treated the same as private banking loans for purposes of the allowance for loan loss calculation. In addition, shared national credit loans that also involve a private equity sponsor are combined as a homogeneous group and evaluated separately based on the historical loss trend of such loans.

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. 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 these loans. 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/collateral of the loans is an important indicator of risk for this loan portfolio. Additional risks exist and are dependent on several factors such as the condition of the local/regional economy, whether or not the project is owner occupied, the type of project, and the experience and resources of the developer.

Management further assesses risk within each loan portfolio using key inherent risk differentiators. The components of the allowance for loan losses represent estimates based upon ASC Topic 450, Contingencies, and ASC Topic 310, Receivables. ASC Topic 450 applies to homogeneous loan pools such as consumer installment, residential mortgages and consumer lines of credit, as well as commercial loans that are not individually evaluated for impairment under ASC Topic 310. Impaired loans are individually evaluated for impairment under ASC Topic 310.

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 margin loans secured by cash and marketable securities 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:

(Dollars in thousands)	June 30, 2017			
	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Pass	$1,967,696	$ 606,489	$1,163,365	$3,737,550
Special mention	—	25,932	—	25,932
Substandard	443	7,387	—	7,830
Loans held-for-investment	$1,968,139	$ 639,808	$1,163,365	$3,771,312

(Dollars in thousands)	December 31, 2016			
	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Pass	$1,735,404	$ 545,276	$1,077,703	$3,358,383
Special mention	—	18,776	—	18,776
Substandard	524	23,371	—	23,895
Loans held-for-investment	$1,735,928	$ 587,423	$1,077,703	$3,401,054

Changes in the allowance for loan losses were as follows for the three months ended June 30, 2017 and 2016:

(Dollars in thousands)	Three Months Ended June 30, 2017			
	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

(Dollars in thousands)	Three Months Ended June 30, 2016			
	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Balance, beginning of period	$1,416	$ 11,464	$ 5,666	$18,546
Provision (credit) for loan losses	86	788	(794)	80
Charge-offs	—	(1,543)	—	(1,543)
Recoveries	—	132	—	132
Balance, end of period	$1,502	$ 10,841	$ 4,872	$17,215

There was a charge-off of $1.0 million on one C&I loan and recoveries of $267,000 on five C&I loans for the three months ended June 30, 2017. There was a charge-off of $1.5 million on one C&I loan and recoveries of $132,000 on four C&I loans for the three months ended June 30, 2016.

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Changes in the allowance for loan losses were as follows for the six months ended June 30, 2017 and 2016:

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

	Six Months Ended June 30, 2016			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Balance, beginning of period	$1,566	$ 11,064	$ 5,344	$17,974
Provision (credit) for loan losses	(64)	738	(472)	202
Charge-offs	—	(1,543)	—	(1,543)
Recoveries	—	582	—	582
Balance, end of period	$1,502	$ 10,841	$ 4,872	$17,215

There were charge-offs of $3.9 million on two C&I loans and recoveries of $336,000 on five C&I loans for the six months ended June 30, 2017. There was a charge-off of $1.5 million on one C&I loan and recoveries of $582,000 on six C&I loans for the six months ended June 30, 2016.

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

	June 30, 2017					
(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due	Current	Total
Private banking	$—	$—	$—	$—	$1,968,139	$1,968,139
Commercial and industrial	—	—	704	704	639,104	639,808
Commercial real estate	—	—	—	—	1,163,365	1,163,365
Loans held-for-investment	$—	$—	$704	$704	$3,770,608	$3,771,312

	December 31, 2016					
(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due	Current	Total
Private banking	$—	$—	$224	$224	$1,735,704	$1,735,928
Commercial and industrial	—	—	—	—	587,423	587,423

Commercial real estate	—	—	—	—	1,077,703	1,077,703
Loans held-for-investment	$ —	$ —	$ 224	$ 224	$ 3,400,830	$ 3,401,054

Non-Performing and Impaired Loans

Management monitors the delinquency status of the loan portfolio on a monthly basis. Loans were 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:

	As of and for the Six Months Ended June 30, 2017				
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Private banking	$443	$ 602	$ 443	$ 475	$ —
Commercial and industrial	7,387	18,003	3,368	8,729	—
Commercial real estate	—	—	—	—	—
Total with a related allowance recorded	7,830	18,605	3,811	9,204	—
Without a related allowance recorded:					