

TriState Capital Holdings, Inc.
Form 10-Q
May 07, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the period ended March 31, 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. 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). 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.

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Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company) Emerging growth company

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

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

As of April 15, 2018, there were 28,983,214 shares of the registrant's common stock, no par value, outstanding.

Table of Contents

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

<u>ITEM 1. FINANCIAL STATEMENTS</u>	<u>3</u>
<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION</u>	<u>3</u>
<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME</u>	<u>4</u>
<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</u>	<u>5</u>
<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY</u>	<u>6</u>
<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	<u>7</u>
<u>NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>9</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>39</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>64</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>65</u>
<u>PART II – OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>65</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>65</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>65</u>
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>66</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>66</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>66</u>
<u>ITEM 6. EXHIBITS</u>	<u>66</u>
<u>SIGNATURES</u>	<u>67</u>

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)	March 31, 2018	December 31, 2017
ASSETS		
Cash	\$381	\$380
Interest-earning deposits with other institutions	140,171	140,975
Federal funds sold	4,481	14,798
Cash and cash equivalents	145,033	156,153
Debt securities available-for-sale, at fair value (cost: \$161,807 and \$138,147, respectively)	161,601	138,850
Debt securities held-to-maturity, at cost (fair value: \$58,863 and \$60,141, respectively)	58,355	59,275
Equity securities, at fair value (cost: \$8,976 and \$8,910, respectively)	8,602	8,635
Federal Home Loan Bank stock	16,792	13,792
Total investment securities	245,350	220,552
Loans held-for-investment	4,302,766	4,184,244
Allowance for loan losses	(14,818)	(14,417)
Loans held-for-investment, net	4,287,948	4,169,827
Accrued interest receivable	15,012	13,519
Investment management fees receivable, net	7,526	7,720
Goodwill	38,724	38,724
Intangible assets, net of accumulated amortization of \$6,922 and \$6,461, respectively	26,173	26,634
Office properties and equipment, net of accumulated depreciation of \$11,225 and \$10,844, respectively	4,725	4,885
Bank owned life insurance	67,019	66,593
Prepaid expenses and other assets	69,243	73,290
Total assets	\$4,906,753	\$4,777,897
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	\$4,098,955	\$3,987,611
Borrowings, net	304,764	335,913
Accrued interest payable on deposits and borrowings	2,434	2,499
Deferred tax liability, net	4,693	4,152
Other accrued expenses and other liabilities	55,678	58,651
Total liabilities	4,466,524	4,388,826
Shareholders' Equity:		
Preferred stock, no par value; Shares authorized - 150,000;	38,440	—
Series A shares issued and outstanding - 40,250 and 0, respectively		
Common stock, no par value; Shares authorized - 45,000,000;		
Shares issued - 30,751,784 and 30,342,471, respectively;	290,718	289,507
Shares outstanding - 28,976,214 and 28,591,101, respectively		

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Additional paid-in capital	11,598	10,290
Retained earnings	122,107	111,732
Accumulated other comprehensive income, net	1,645	1,246
Treasury stock (1,775,570 and 1,751,370 shares, respectively)	(24,279	)(23,704)
Total shareholders' equity	440,229	389,071
Total liabilities and shareholders' equity	\$4,906,753	\$4,777,897

See accompanying notes to unaudited condensed consolidated financial statements.

3

Table of ContentsTRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	Three Months	
	Ended March 31, 2018	2017
Interest income:		
Loans	\$39,027	\$27,019
Investments	1,784	1,470
Interest-earning deposits	605	248
Total interest income	41,416	28,737
Interest expense:		
Deposits	13,401	6,713
Borrowings	1,753	1,108
Total interest expense	15,154	7,821
Net interest income	26,262	20,916
Provision for loan losses	195	243
Net interest income after provision for loan losses	26,067	20,673
Non-interest income:		
Investment management fees	8,908	9,340
Service charges	134	94
Net gain (loss) on the sale and call of debt securities	5	(2)
Swap fees	1,248	1,099
Commitment and other fees	332	408
Other income	462	470
Total non-interest income	11,089	11,409
Non-interest expense:		
Compensation and employee benefits	15,468	13,893
Premises and occupancy costs	1,290	1,266
Professional fees	1,095	851
FDIC insurance expense	1,146	953
General insurance expense	247	301
State capital shares tax	427	352
Travel and entertainment expense	646	615
Intangible amortization expense	461	463
Other operating expenses	3,070	2,464
Total non-interest expense	23,850	21,158
Income before tax	13,306	10,924
Income tax expense	2,905	3,432
Net income available to common shareholders	\$10,401	\$7,492
Earnings per common share:		
Basic	\$0.38	\$0.27
Diluted	\$0.36	\$0.26

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Net income	\$ 10,401	\$ 7,492
Other comprehensive income (loss):		
Unrealized holding gains (losses) on investment securities, net of tax expense (benefit) of \$(222) and \$115	(758	)183
Reclassification adjustment for losses (gains) included in net income on investment securities, net of tax benefit (expense) of \$(1) and \$1	(4	)1
Unrealized holding gains on derivatives, net of tax expense of \$220 and \$31	722	55
Reclassification adjustment for gains included in net income on derivatives, net of tax expense of \$(37) and \$(15)	(121	)(27)
Other comprehensive income (loss)	(161	)212
Total comprehensive income	\$ 10,240	\$ 7,704

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	—	—	—	7,492	—	—	7,492
Other comprehensive income	—	—	—	—	212	—	212
Exercise of stock options	—	854	(519)	—	—	—	335
Purchase of treasury stock	—	—	—	—	—	(1,041)	(1,041)
Stock-based compensation	—	—	854	—	—	—	854
Balance, March 31, 2017	\$—	\$286,334	\$ 7,117	\$81,236	\$ 1,042	\$(16,070)	\$ 359,659
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	—	—	—	10,401	—	—	10,401
Other comprehensive loss	—	—	—	—	(161)	—	(161)
Issuance of preferred stock (net of offering costs of \$1,810)	38,440	—	—	—	—	—	38,440
Exercise of stock options	—	1,211	(690)	—	—	—	521
Purchase of treasury stock	—	—	—	—	—	(575)	(575)
Stock-based compensation	—	—	1,998	—	—	—	1,998
Balance, March 31, 2018	\$38,440	\$290,718	\$ 11,598	\$122,107	\$ 1,645	\$(24,279)	\$ 440,229

See accompanying notes to unaudited condensed consolidated financial statements.

Table of ContentsTRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	March 31,	
(Dollars in thousands)	2018	2017
Cash Flows from Operating Activities:		
Net income	\$10,401	\$7,492
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and intangible amortization expense	842	848
Amortization of deferred financing costs	50	51
Provision for loan losses	195	243
Net gain on the sale of loans	(19	)(17)
Stock-based compensation expense	1,998	854
Net loss (gain) on the sale or call of debt securities available-for-sale	(2	)2
Net gain on the call of debt securities held-to-maturity	(3)—
Net amortization of premiums and discounts on debt securities	234	201
Decrease in investment management fees receivable, net	194	24
Increase in accrued interest receivable	(1,493	)(761)
Decrease in accrued interest payable	(65	)(446)
Bank owned life insurance income	(426	)(450)
Increase in income taxes payable	—	4
Decrease in prepaid income taxes	12,164	2,972
Deferred tax provision	582	257
Decrease in accounts payable and other accrued expenses	(10,405	)(9,497)
Other, net	634	(485)
Net cash provided by operating activities	14,881	1,292
Cash Flows from Investing Activities:		
Purchase of debt securities available-for-sale	(28,951	)(7,700)
Purchase of debt securities held-to-maturity	—	(4,967)
Purchase of equity securities	(66	)(76)
Proceeds from the sale of debt securities available-for-sale	2,037	—
Principal repayments and maturities of debt securities available-for-sale	3,074	22,547
Principal repayments and maturities of debt securities held-to-maturity	895	—
Investment in low income housing and historic tax credits	—	(84)
Investment in small business investment companies	—	(235)
Net purchase of Federal Home Loan Bank stock	(3,000	)(3,600)
Net increase in loans	(121,641	)(145,706)
Proceeds from loan sales	3,342	6,867
Additions to office properties and equipment	(221	)(226)
Net cash used in investing activities	(144,531	)(133,180)
Cash Flows from Financing Activities:		
Net increase in deposit accounts	111,344	31,101
Net increase in Federal Home Loan Bank advances	—	110,000
Net decrease in Federal Home Loan Bank advances	(25,000)—
Net decrease in line of credit advances	(6,200)—
Net proceeds from issuance of preferred stock	38,440	—
Net proceeds from exercise of stock options	521	335
Purchase of treasury stock	(575)(1,041)
Net cash provided by financing activities	118,530	140,395

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Net change in cash and cash equivalents during the period	(11,120)	8,507
Cash and cash equivalents at beginning of the period	156,153	103,994
Cash and cash equivalents at end of the period	\$145,033	\$112,501

7

Table of Contents

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Supplemental Disclosure of Cash Flow Information:		
Cash paid (received) during the period for:		
Interest expense	\$ 15,169	\$ 8,217
Income taxes	\$(9,841)	\$ 199
Other non-cash activity:		
Unsettled purchase of debt securities available-for-sale	\$—	\$ 2,500

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] 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.

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 earnings; (3) available-for-sale – debt securities not classified as either held-to-maturity or trading securities and reported at fair value, with unrealized gains and

Table of Contents

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 earnings.

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 March 31, 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 March 31, 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

Table of Contents

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 three months ended March 31, 2018, and no allowance for uncollectible accounts as of March 31, 2018. There was \$150,000 bad debt expense associated with a single relationship recorded for the three months ended March 31, 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 February 2018, the FASB issued Accounting Standard Update ("ASU") 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" to address a narrow-scope financial reporting issue that arose as a consequence of the change in the tax law. The standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This standard is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued. The changes could be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company early adopted this standard on January 1, 2018, and elected to reclassify the effect of the change in the U.S. federal corporate income tax rate from accumulated other comprehensive income to retained earnings of \$274,000, which is reflected in the Consolidated Statements of Changes in Shareholders' Equity in the period of adoption.

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

In March 2017, the FASB issued ASU 2017-08, “Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,” which shortens the premium amortization period for purchased non-contingently callable debt securities. Shortening the amortization period is generally expected to more closely align the interest income recognition with the expectations incorporated in the market pricing on the underlying securities. This standard is effective

Table of Contents

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. 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 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 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.

Table of Contents

Service charges on deposit accounts - 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 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] INVESTMENT SECURITIES

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

(Dollars in thousands)	March 31, 2018			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Debt securities available-for-sale:				
Corporate bonds	\$82,611	\$ 36	\$ 661	\$81,986
Trust preferred securities	17,873	659	—	18,532
Non-agency collateralized loan obligations	761	—	6	755
Agency collateralized mortgage obligations	38,197	30	13	38,214
Agency mortgage-backed securities	18,595	105	345	18,355
Agency debentures	3,770	—	11	3,759
Total debt securities available-for-sale	161,807	830	1,036	161,601
Debt securities held-to-maturity:				
Corporate bonds	32,187	672	4	32,855
Agency debentures	1,984	—	28	1,956
Municipal bonds	24,184	7	139	24,052
Total debt securities held-to-maturity	58,355	679	171	58,863
Total debt securities	\$220,162	\$ 1,509	\$ 1,207	\$220,464

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 March 31,	
	2018	2017
Taxable interest income	\$1,414	\$1,178
Non-taxable interest income	110	113
Dividend income	260	179
Total interest income on investment securities	\$1,784	\$1,470

As of March 31, 2018, the contractual maturities of the debt securities were:

(Dollars in thousands)	March 31, 2018			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$16,163	\$16,115	\$6,001	\$6,081
Due from one to five years	45,320	45,106	13,407	13,369
Due from five to ten years	31,154	31,059	38,947	39,413
Due after ten years	69,170	69,321	—	—
Total debt securities	\$161,807	\$161,601	\$58,355	\$58,863

The \$69.3 million fair value of debt securities available-for-sale with a contractual maturity due after ten years as of March 31, 2018, included \$56.1 million, or 80.9%, 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 March 31, 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.

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		Held-to-Maturity	
	Three Months		Three Months	
	Ended March 31,		Ended March 31,	
	2018	2017	2018	2017
Proceeds from sales	\$ 2,037	\$ —	\$ —	\$ —
Proceeds from calls	—	5,000	895	—
Total proceeds	\$ 2,037	\$ 5,000	\$ 895	\$ —
Gross realized gains	\$ 2	\$ —	\$ 3	\$ —
Gross realized losses	—	2	—	—
Net realized gains (losses)	\$ 2	\$ (2)	\$ 3	\$ —

Debt securities available-for-sale of \$3.8 million, as of March 31, 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 March 31, 2018 and December 31, 2017, respectively:

(Dollars in thousands)	March 31, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Debt securities available-for-sale:						
Corporate bonds	\$66,548	\$ 661	\$—	\$ —	\$66,548	\$ 661
Non-agency collateralized loan obligations	—	—	755	6	755	6
Agency collateralized mortgage obligations	1,525	1	18,102	12	19,627	13
Agency mortgage-backed securities	2,913	36	9,132	309	12,045	345
Agency debentures	3,759	11	—	—	3,759	11
Total debt securities available-for-sale	74,745	709	27,989	327	102,734	1,036
Debt securities held-to-maturity:						
Corporate bonds	996	4	—	—	996	4
Agency debentures	1,956	28	—	—	1,956	28
Municipal bonds	18,685	139	—	—	18,685	139
Total debt securities held-to-maturity	21,637	171	—	—	21,637	171
Equity securities	—	—	8,602	374	8,602	374
Total temporarily impaired securities ⁽¹⁾	\$96,382	\$ 880	\$36,591	\$ 701	\$132,973	\$ 1,581

⁽¹⁾ The number of investment positions with unrealized losses totaled 49 for available-for-sale securities, 26 for held-to-maturity securities and 2 for equity securities.

Table of Contents

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

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

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

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

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

There was \$16.8 million and \$13.8 million in FHLB stock outstanding as of March 31, 2018 and December 31, 2017, respectively.

[3] LOANS

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

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

(Dollars in thousands)	March 31, 2018		
	Private Banking	Commercial and	Commercial Real Estate Total

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		Industrial		
Loans held-for-investment, before deferred fees and costs	\$2,337,572	\$ 682,792	\$ 1,280,658	\$4,301,022
Deferred loan costs (fees)	4,452	625	(3,333)	)1,744
Loans held-for-investment, net of deferred fees and costs	2,342,024	683,417	1,277,325	4,302,766
Allowance for loan losses	(1,556)	)(8,466)	)(4,796)	)(14,818)
Loans held-for-investment, net	\$2,340,468	\$ 674,951	\$ 1,272,529	\$4,287,948

Table of Contents

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

The Company's customers have unused loan commitments based on the availability of eligible collateral or other terms and conditions under the loan agreement. Often these commitments are not fully utilized and therefore the total amount does not necessarily represent future cash requirements. The amount of unfunded commitments, including standby letters of credit, as of March 31, 2018 and December 31, 2017, was \$2.62 billion and \$2.37 billion, respectively. The interest rate for each commitment is based on the prevailing market conditions at the time of funding. The reserve for losses on unfunded commitments was \$504,000 and \$504,000 as of March 31, 2018 and December 31, 2017, respectively, which includes reserves for probable losses on unfunded loan commitments, including standby letters of credit and also risk participations.

The total unfunded commitments above included loans in the process of origination totaling approximately \$51.9 million and \$53.3 million as of March 31, 2018 and December 31, 2017, respectively, which extend over varying periods of time.

The Company issues standby letters of credit in the normal course of business. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party. The Company would be required to perform under the standby letters of credit when drawn upon by the guaranteed party in the case of non-performance by the Company's customer. Collateral may be obtained based on management's credit assessment of the customer. The amount of unfunded commitments related to standby letters of credit as of March 31, 2018 and December 31, 2017, included in the total unfunded commitments above, was \$79.1 million and \$74.8 million, respectively. Should the Company be obligated to perform under the standby letters of credit the Company will seek repayment from the customer for amounts paid. During the three months ended March 31, 2018 and 2017, there were draws on standby letters of credit totaling \$2.1 million and \$105,000, respectively, which were repaid by the borrower. Most of these commitments are expected to expire without being drawn upon and the total amount does not necessarily represent future cash requirements. The potential liability for losses on standby letters of credit was included in the reserve for losses on unfunded commitments.

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

[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 allowance for loan losses is sufficient to cover probable losses inherent in such loan portfolios. Refer to Note 1, Summary of Significant Accounting Policies, for more details on the Company's allowance for loan losses policy.

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

Private Banking Loans

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

Table of Contents

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

The underlying collateral is the most important indicator of risk for this loan portfolio. The overall lower risk profile of this portfolio is driven by loans secured by cash, marketable securities or cash value life insurance, which were 94.9% and 94.6% of total private banking loans as of March 31, 2018 and December 31, 2017, respectively.

Middle-Market Banking: Commercial and Industrial Loans

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

The borrower's industry and local and regional economic conditions are important indicators of risk for this loan portfolio. Collateral for these types of loans at times does not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt. C&I loans collateralized by marketable securities are treated the same as private banking loans for purposes of the allowance for loan loss calculation. 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. The primary source of repayment for commercial real estate loans secured by owner-occupied properties is cash flow from the borrower's operations. Individual project cash flows, global cash flows and liquidity from the developer, or the sale of the property are the primary sources of repayment for commercial real estate loans secured by investment properties. Also included are commercial construction loans to finance the construction or renovation of structures as well as to finance the acquisition and development of raw land for various purposes. The increased level of risk for these loans is generally confined to the construction period. If there are problems the project may not be completed, and as such, may not provide sufficient cash flow on its own to service the debt or have sufficient value in a liquidation to cover the outstanding principal.

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

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

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

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

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

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

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

Table of Contents

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.

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

	March 31, 2018			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Pass	\$2,341,686	\$ 656,594	\$ 1,275,475	\$ 4,273,755
Special mention	—	21,310	1,850	23,160
Substandard	338	5,513	—	5,851
Loans held-for-investment	\$2,342,024	\$ 683,417	\$ 1,277,325	\$ 4,302,766

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

Changes in the allowance for loan losses were as follows for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31, 2018			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Balance, beginning of period	\$ 1,577	\$ 8,043	\$ 4,797	\$ 14,417
Provision (credit) for loan losses	(21)	) 217	(1)	) 195
Charge-offs	—	—	—	—
Recoveries	—	206	—	206
Balance, end of period	\$ 1,556	\$ 8,466	\$ 4,796	\$ 14,818

	Three Months Ended March 31, 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	(3)	) 930	(684)	) 243
Charge-offs	—	(2,889)	) —	(2,889)
Recoveries	—	69	—	69
Balance, end of period	\$ 1,421	\$ 10,436	\$ 4,328	\$ 16,185

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

	March 31, 2018				
(Dollars in thousands)	30-59 Days Past	60-89 Days Past	Loans Past Due	Total Past Due	Total

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	Due	Due	90		
			Days		
			or		
			More		
Private banking	\$2,974	\$	-\$	-\$2,974	\$2,339,050
Commercial and industrial	—	—	—	—	683,417
Commercial real estate	—	—	—	—	1,277,325
Loans held-for-investment	\$2,974	\$	-\$	-\$2,974	\$4,299,792
					\$4,302,766

22

Table of Contents

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

Non-Performing and Impaired Loans

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

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

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

(Dollars in thousands)	As of and for the Three Months Ended March 31, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Private banking	\$ 338	\$ 514	\$ 338	\$ 348	\$ —
Commercial and industrial	2,139	2,485	2,139	2,139	—
Commercial real estate	—	—	—	—	—
Total with a related allowance recorded	2,477	2,999	2,477	2,487	—
Without a related allowance recorded:					
Private banking	—	—	—	—	—
Commercial and industrial	3,374	5,278	—	3,373	55
Commercial real estate	—	—	—	—	—
Total without a related allowance recorded	3,374	5,278	—	3,373	55
Total:					
Private banking	338	514	338	348	—
Commercial and industrial	5,513	7,763	2,139	5,512	55
Commercial real estate	—	—	—	—	—
Total	\$5,851	\$8,277	\$2,477	\$5,860	\$55

Table of Contents

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

Impaired loans as of March 31, 2018 and December 31, 2017, were \$5.9 million and \$6.6 million, respectively. There was no interest income recognized on impaired loans that were also on non-accrual status for the three months ended March 31, 2018, and the twelve months ended December 31, 2017. As of March 31, 2018 and December 31, 2017, there were no loans 90 days or more past due and still accruing interest income.

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

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

(Dollars in thousands)	March 31, 2018			
	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Allowance for loan losses:				
Individually evaluated for impairment	\$338	\$2,139	\$—	\$2,477
Collectively evaluated for impairment	1,218	6,327	4,796	12,341
Total allowance for loan losses	\$1,556	\$8,466	\$4,796	\$14,818
Loans held-for-investment:				
Individually evaluated for impairment	\$338	\$5,513	\$—	\$5,851
Collectively evaluated for impairment	2,341,686	677,904	1,277,325	4,296,915
Loans held-for-investment	\$2,342,024	\$683,417	\$1,277,325	\$4,302,766

Table of Contents

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

Troubled Debt Restructuring

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

(Dollars in thousands)	March 31, 2018	December 31, 2017
Aggregate recorded investment of impaired loans with terms modified through a troubled debt restructuring:		
Performing loans accruing interest	\$ 3,374	\$ 3,371
Non-accrual loans	2,477	3,183
Total troubled debt restructurings	\$ 5,851	\$ 6,554

There were unused commitments of \$704,000 and \$708,000 as of March 31, 2018 and December 31, 2017, respectively.

The modifications made to restructured loans typically consist of an extension of the payment terms or the deferral of principal payments. There was a loan totaling \$196,000 modified as a TDR within twelve months of the corresponding balance sheet date with a payment default during the three months ended March 31, 2018, and no loans modified as a TDR within twelve months of the corresponding balance sheet date with a payment default during the three months ended March 31, 2017.

There were no loans newly designated as TDRs during three months ended March 31, 2018 and 2017.

Other Real Estate Owned

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

[5] DEPOSITS

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

(Dollars in thousands)	Interest Rate Range	Weighted Average Interest Rate	Balance
	March 31, 2018	March 31, 2018	December 31, December 31, 2017
			March 31, 2018
			December 31, 2017

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Demand and savings accounts:					
Noninterest-bearing checking accounts	—	—	—	\$260,952	\$ 248,092
Interest-bearing checking accounts	0.05 to 2.00%	1.56%	1.42%	554,743	455,341
Money market deposit accounts	0.10 to 2.32%	1.59%	1.37%	2,346,793	2,289,789
Total demand and savings accounts				3,162,488	2,993,222
Certificates of deposit	1.10 to 2.75%	1.73%	1.40%	936,467	994,389
Total deposits				\$4,098,955	\$ 3,987,611
Weighted average rate on interest-bearing accounts		1.62%	1.38%		

As of March 31, 2018 and December 31, 2017, the Bank had total brokered deposits of \$970.3 million and \$1.07 billion, respectively. The amount for brokered deposits includes reciprocal Certificate of Deposit Account Registry Service® (“CDARS”) and reciprocal

Table of Contents

Insured Cash Sweep® (“ICS®”) accounts totaling \$497.0 million and \$627.5 million as of March 31, 2018 and December 31, 2017, respectively.

As of March 31, 2018 and December 31, 2017, certificates of deposit with balances of \$100,000 or more, excluding brokered deposits, totaled to \$400.8 million and \$440.2 million, respectively. Certificates of deposit with balances of \$250,000 or more, excluding brokered deposits, totaled to \$157.9 million and \$191.4 million as of March 31, 2018 and December 31, 2017, respectively.

The contractual maturity of certificates of deposit was as follows:

(Dollars in thousands)	March 31, 2018	December 31, 2017
12 months or less	\$ 735,110	\$ 874,733
12 months to 24 months	139,820	96,766
24 months to 36 months	61,537	22,890
Total	\$ 936,467	\$ 994,389

Interest expense on deposits was as follows:

(Dollars in thousands)	Three Months Ended March 31,	
	2018	2017
Interest-bearing checking accounts	\$ 1,621	\$ 362
Money market deposit accounts	8,113	4,098
Certificates of deposit	3,667	2,253
Total interest expense on deposits	\$ 13,401	\$ 6,713

[6] BORROWINGS

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

(Dollars in thousands)	March 31, 2018			December 31, 2017		
	Interest Rate	Ending Balance	Maturity Date	Interest Rate	Ending Balance	Maturity Date
FHLB borrowings:						
Issued 3/30/2018	1.90%	\$ 120,000	4/2/2018		\$ —	
Issued 3/29/2018	2.04%	100,000	6/29/2018		—	
Issued 1/8/2018	1.69%	50,000	4/9/2018		—	
Issued 12/29/2017		—		1.57%	195,000	1/2/2018
Issued 12/29/2017		—		1.66%	100,000	3/29/2018
Line of credit borrowings		—		4.56%	6,200	12/28/2018
Subordinated notes payable (net of debt issuance costs of \$236 and \$287)	5.75%	34,764	7/1/2019	5.75%	34,713	7/1/2019
Total borrowings, net		\$ 304,764			\$ 335,913	

The Bank’s FHLB borrowing capacity is based on the collateral value of certain securities held in safekeeping at the FHLB and loans pledged to the FHLB. The Bank submits a quarterly Qualified Collateral Report (“QCR”) to the FHLB to update the value of the loans pledged. As of March 31, 2018, the Bank’s borrowing capacity is based on the information provided in the December 31, 2017, QCR filing. As of March 31, 2018, the Bank had securities held in safekeeping at the FHLB with a fair value of \$3.8 million, combined with pledged loans of \$1.11 billion, for a gross borrowing capacity of \$791.2 million, of which \$270.0 million was outstanding in advances. As of December 31,

2017, there was \$295.0 million outstanding in advances from the FHLB. When the Bank borrows from the FHLB, interest is charged at the FHLB's posted rates at the time of the borrowing.

The Bank maintains an unsecured line of credit of \$10.0 million with M&T Bank and an unsecured line of credit of \$20.0 million with Texas Capital Bank. As of March 31, 2018, the full amount of these established lines were available to the Bank.

The Holding Company maintains an unsecured line of credit of \$25.0 million, with Texas Capital Bank, of which the full amount was available as of March 31, 2018.