

TriState Capital Holdings, Inc.  
Form 10-Q  
November 05, 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 September 30, 2018

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

For the transition period from \_\_\_\_ to \_\_\_\_

Commission file number: 001-35913

---

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

---

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

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

(412) 304-0304  
(Registrant's telephone number, including area code)

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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.

Large accelerated filer  Accelerated filer   Yes  No

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

Non-accelerated filer  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 October 31, 2018, there were 28,862,278 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>42</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>73</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>74</u>
<u>PART II – OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>74</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>74</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>74</u>
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>75</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>75</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>75</u>
<u>ITEM 6. EXHIBITS</u>	<u>75</u>
<u>SIGNATURES</u>	<u>76</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)	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Cash	\$ 383	\$ 380
Interest-earning deposits with other institutions	180,318	140,975
Federal funds sold	5,834	14,798
Cash and cash equivalents	186,535	156,153
Debt securities available-for-sale, at fair value (cost: \$267,598 and \$138,147, respectively)	266,373	138,850
Debt securities held-to-maturity, at cost (fair value: \$95,756 and \$60,141, respectively)	96,113	59,275
Equity securities, at fair value (cost: \$14,110 and \$8,910, respectively)	13,774	8,635
Federal Home Loan Bank stock	16,879	13,792
Total investment securities	393,139	220,552
Loans held-for-investment	4,758,356	4,184,244
Allowance for loan losses	(13,583)	(14,417)
Loans held-for-investment, net	4,744,773	4,169,827
Accrued interest receivable	18,470	13,519
Investment management fees receivable, net	8,066	7,720
Goodwill	41,659	38,724
Intangible assets, net of accumulated amortization of \$7,926 and \$6,461, respectively	26,706	26,634
Office properties and equipment, net of accumulated depreciation of \$12,004 and \$10,844, respectively	4,979	4,885
Bank owned life insurance	67,878	66,593
Prepaid expenses and other assets	81,083	73,290
Total assets	\$ 5,573,288	\$ 4,777,897
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Deposits	\$ 4,754,588	\$ 3,987,611
Borrowings, net	262,365	335,913
Accrued interest payable on deposits and borrowings	4,071	2,499
Deferred tax liability, net	4,754	4,152
Acquisition earn out liability	3,138	—
Other accrued expenses and other liabilities	76,752	58,651
Total liabilities	5,105,668	4,388,826
<b>Shareholders' Equity:</b>		
Preferred stock, no par value; Shares authorized - 150,000;	38,468	—
Series A shares issued and outstanding - 40,250 and 0, respectively	292,821	289,507

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

Common stock, no par value; Shares authorized - 45,000,000; Shares issued - 30,842,284 and 30,342,471, respectively; Shares outstanding - 28,920,978 and 28,591,101, respectively		
Additional paid-in capital	14,393	10,290
Retained earnings	149,569	111,732
Accumulated other comprehensive income, net	657	1,246
Treasury stock (1,921,306 and 1,751,370 shares, respectively)	(28,288	)(23,704
Total shareholders' equity	467,620	389,071
Total liabilities and shareholders' equity	\$ 5,573,288	\$ 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

	Three Months		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	30,
(Dollars in thousands, except per share data)	2018	2017	2018	2017
Interest income:				
Loans	\$48,470	\$33,604	\$132,111	\$90,865
Investments	2,893	1,531	6,977	4,536
Interest-earning deposits	1,061	440	2,536	1,026
Total interest income	52,424	35,575	141,624	96,427
Interest expense:				
Deposits	22,182	10,604	52,279	25,813
Borrowings	1,423	1,366	5,473	4,060
Total interest expense	23,605	11,970	57,752	29,873
Net interest income	28,819	23,605	83,872	66,554
Provision (credit) for loan losses	(234)	)283	376	1,042
Net interest income after provision for loan losses	29,053	23,322	83,496	65,512
Non-interest income:				
Investment management fees	9,828	9,214	28,422	27,684
Service charges on deposits	146	96	420	287
Net gain on the sale and call of debt securities	—	15	6	254
Swap fees	1,881	1,391	5,066	3,708
Commitment and other loan fees	373	423	1,036	1,240
Other income	523	567	1,392	1,654
Total non-interest income	12,751	11,706	36,342	34,827
Non-interest expense:				
Compensation and employee benefits	16,967	14,683	48,177	42,798
Premises and occupancy costs	1,432	1,257	3,986	3,763
Professional fees	889	968	3,538	2,642
FDIC insurance expense	1,053	1,121	3,333	3,074
General insurance expense	278	245	767	805
State capital shares tax	485	398	1,396	1,148
Travel and entertainment expense	986	828	2,638	2,190
Intangible amortization expense	502	463	1,465	1,388
Other operating expenses	3,094	2,849	9,554	7,946
Total non-interest expense	25,686	22,812	74,854	65,754
Income before tax	16,118	12,216	44,984	34,585
Income tax expense	1,807	2,184	5,680	8,640
Net income	\$14,311	\$10,032	\$39,304	\$25,945
Preferred stock dividends on Series A	679	—	1,441	—
Net income available to common shareholders	\$13,632	\$10,032	\$37,863	\$25,945
Earnings per common share:				
Basic	\$0.49	\$0.36	\$1.37	\$0.94
Diluted	\$0.47	\$0.35	\$1.31	\$0.90

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

(Dollars in thousands)	Three Months		Nine Months	
	Ended September 30, 2018	2017	Ended September 30, 2018	2017
Net income	\$14,311	\$10,032	\$39,304	\$25,945
Other comprehensive income (loss):				
Unrealized holding gains (losses) on investment securities, net of tax expense (benefit) of \$(59), \$(19), \$(455) and \$490	(192	)(35	)(1,517	)855
Reclassification adjustment for gains included in net income on investment securities, net of tax expense of \$0, \$0, \$(1) and \$(85)	—	—	(5	)(154
Unrealized holding gains (losses) on derivatives, net of tax expense (benefit) of \$37, \$31, \$336 and \$(25)	120	55	1,103	(45
Reclassification adjustment for gains included in net income on derivatives, net of tax expense of \$(96), \$(43), \$(222) and \$(87)	(316	)(77	)(730	)(156
Other comprehensive income (loss)	(388	)(57	)(1,149	)500
Total comprehensive income	\$13,923	\$9,975	\$38,155	\$26,445

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	—	—	—	25,945	—	—	25,945
Other comprehensive income	—	—	—	—	500	—	500
Exercise of stock options	—	3,320	(1,982)	)—	—	—	1,338
Purchase of treasury stock	—	—	—	—	—	(6,477)	(6,477)
Stock-based compensation	—	—	4,220	—	—	—	4,220
Balance, September 30, 2017	\$—	\$288,800	\$ 9,020	\$99,689	\$ 1,330	\$(21,506)	\$ 377,333
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	—	—	—	39,304	—	—	39,304
Other comprehensive loss	—	—	—	—	(1,149)	)—	(1,149)
Issuance of preferred stock (net of offering costs of \$1,782)	38,468	—	—	—	—	—	38,468
Preferred stock dividend	—	—	—	(1,441)	)—	—	(1,441)
Exercise of stock options	—	3,314	(1,968)	)—	—	—	1,346
Purchase of treasury stock	—	—	—	—	—	(4,584)	(4,584)
Stock-based compensation	—	—	6,071	—	—	—	6,071
Balance, September 30, 2018	\$38,468	\$292,821	\$ 14,393	\$149,569	\$ 657	\$(28,288)	\$ 467,620

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended	
	September 30,	
(Dollars in thousands)	2018	2017
Cash flows from operating activities:		
Net income	\$39,304	\$25,945
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and intangible amortization expense	2,625	2,523
Amortization of deferred financing costs	152	152
Provision for loan losses	376	1,042
Net gain on the sale of loans	(19)	(17)
Stock-based compensation expense	6,071	4,220
Net gain on the sale or call of debt securities available-for-sale	(3)	(239)
Net gain on the call of debt securities held-to-maturity	(3)	(15)
Unrealized gain from equity securities	(38)	—
Net amortization of premiums and discounts on debt securities	551	684
Decrease (increase) in investment management fees receivable, net	(346)	449
Increase in accrued interest receivable	(4,951)	(2,118)
Increase (decrease) in accrued interest payable	1,572	(86)
Bank owned life insurance income	(1,285)	(1,339)
Decrease in income taxes payable	—	(11)
Decrease (increase) in prepaid income taxes	10,790	(745)
Deferred tax provision	944	805
Decrease in accounts payable and other accrued expenses	(313)	(5,471)
Other, net	129	(2,690)
Net cash provided by operating activities	55,556	23,089
Cash flows from investing activities:		
Purchase of debt securities available-for-sale	(150,556)	(12,700)
Purchase of debt securities held-to-maturity	(38,928)	(7,467)
Purchase of equity securities	(5,200)	(207)
Proceeds from the sale of debt securities available-for-sale	2,037	—
Principal repayments and maturities of debt securities available-for-sale	18,657	46,760
Principal repayments and maturities of debt securities held-to-maturity	7,004	3,000
Investment in low income housing and historic tax credits	(3,541)	(1,851)
Investment in small business investment companies	(736)	(745)
Net purchase of Federal Home Loan Bank stock	(3,087)	(1,152)
Net increase in loans	(582,394)	(540,292)
Proceeds from loan sales	7,092	6,867
Proceeds from the sale of other real estate owned	—	597
Additions to office properties and equipment	(1,253)	(766)
Acquisition	(1,335)	—
Net cash used in investing activities	(752,240)	(507,956)
Cash flows from financing activities:		
Net increase in deposit accounts	766,977	483,091
Net increase (decrease) in Federal Home Loan Bank advances	(70,000)	35,000
Net increase (decrease) in line of credit advances	(3,700)	4,500
Net proceeds from issuance of preferred stock	38,468	—
Net proceeds from exercise of stock options	1,346	1,338

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

Purchase of treasury stock	(4,584	)(6,477	)
Dividends paid on preferred stock	(1,441	)—	
Net cash provided by financing activities	727,066	517,452	
Net change in cash and cash equivalents during the period	30,382	32,585	
Cash and cash equivalents at beginning of the period	156,153	103,994	
Cash and cash equivalents at end of the period	\$186,535	\$136,579	

7

---

Table of Contents

	Nine Months Ended September 30,	
(Dollars in thousands)	2018	2017
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Interest expense	\$56,028	\$29,807
Income taxes	\$(6,054)	\$8,591
Other non-cash activity:		
Unsettled purchase of debt securities available-for-sale	\$—	\$10,000
Unsettled purchase of debt securities held-to-maturity	\$5,000	\$—
Contingent consideration	\$3,138	\$—

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

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

NATURE OF OPERATION

TriState Capital Holdings, Inc. (“we,” “us,” “our,” the “holding company,” the “parent company,” or the “Company”) is a registered bank holding company pursuant to the Bank Holding Company Act of 1956, as amended. The Company has three wholly owned subsidiaries: TriState Capital Bank (the “Bank”), a Pennsylvania-chartered state bank; Chartwell Investment Partners, LLC (“Chartwell”), a registered investment adviser; 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 adviser 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.

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 their evaluation for impairment, and deferred income taxes and its related recoverability, each of 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 SEC rules for Quarterly Reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP for a full year presentation. In the opinion of management, all adjustments (consisting

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

#### CASH AND CASH EQUIVALENTS

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

#### INVESTMENT SECURITIES

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

## Table of Contents

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

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

### FEDERAL HOME LOAN BANK STOCK

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

### LOANS

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

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

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

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

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



## Table of Contents

### OTHER REAL ESTATE OWNED

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

### ALLOWANCE FOR LOAN LOSSES

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

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

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

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

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

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

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

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

#### INVESTMENT MANAGEMENT FEES

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

## 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 nine months ended September 30, 2018, and no allowance for uncollectible accounts as of September 30, 2018. There was \$322,000 of bad debt expense associated with a single relationship recorded for the nine months ended September 30, 2017, and there was no allowance for uncollectible accounts as of December 31, 2017.

## BUSINESS COMBINATIONS

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

## GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

amount may not be recoverable.

#### OFFICE PROPERTIES AND EQUIPMENT

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

#### BANK OWNED LIFE INSURANCE

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

## Table of Contents

### DEPOSITS

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

### BORROWINGS

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

### EARNINGS PER COMMON SHARE

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

### INCOME TAXES

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

### DERIVATIVES AND HEDGING ACTIVITIES

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

### FAIR VALUE MEASUREMENT

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

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

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs such as quoted prices for similar assets and liabilities in active markets, quoted prices for similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

## Table of Contents

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

### STOCK-BASED COMPENSATION

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

Compensation cost for all stock-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 August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2018-13, "Fair Value Measurement (Topic 820)," which aims to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing fair value measurement disclosures. This ASU is effective for all entities for annual and interim periods in fiscal years beginning after December 15, 2019. Retrospective adoption is required except for the following changes, which are required to be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption: (1) changes in unrealized gains and losses included in other comprehensive income for Level 3 instruments; (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements; and (3) the narrative description of measurement uncertainty. Early adoption is permitted. An entity may early adopt any eliminated or modified disclosure requirements and delay adoption of the additional disclosure requirements until their effective date. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

In June 2018, the FASB issued ASU 2018-07, "Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," which more closely aligns the accounting for employee and nonemployee

share-based payments. This standard is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2018. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

In February 2018, the FASB issued ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," to address a narrow-scope financial reporting issue that arose as a consequence of the change in the tax law. The standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This standard is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued. The changes could be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company early adopted this standard on January 1, 2018, and elected to reclassify the effect of the change in the U.S. federal



Table of Contents

corporate income tax rate from accumulated other comprehensive income to retained earnings of \$274,000, which is reflected in the Consolidated Statements of Changes in Shareholders' Equity in the period of adoption.

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

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

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

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

In February 2016, the FASB issued ASU 2016-02, "Leases," which, among other things, requires lessees to recognize most leases on the balance sheet and disclose key information about leasing arrangements. This will result in an increase to a company's reported assets and liabilities. 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. This standard provides for a modified retrospective transition approach requiring lessees to recognize and measure leases on the balance sheet at the beginning of either the earliest period presented or as of the beginning of the period of adoption with the option to elect certain practical expedients. The Company's operating leases primarily relate to our six office spaces and other office equipment. We are substantially complete with our

assessment of this standard and based on our current leases, we anticipate recognizing a lease liability and related right-of-use asset on our balance sheet, with an immaterial impact on our income statement compared to the current lease accounting model. However, the ultimate impact of the standard will depend on the company's lease portfolio as of the adoption date. The Company plans to adopt this standard on January 1, 2019, and will elect to apply it as of the beginning of the period of adoption.

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

## Table of Contents

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. The Company adopted this standard on January 1, 2018, utilizing the modified retrospective approach with a cumulative positive 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 aspects of GAAP discussed elsewhere within our disclosures. Descriptions of our revenue-generating activities that are within the scope of ASC Topic 606, which are presented in our consolidated statements of income as components of non-interest income are as follows:

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

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

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

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

## RECLASSIFICATION

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

## [2] BUSINESS COMBINATION

On April 6, 2018, TriState Capital Holdings, Inc. through its wholly owned subsidiary, Chartwell Investment Partners, LLC, completed the acquisition of investment management contracts, select personnel and related assets from Columbia Partners, L.L.C. Investment Management (“Columbia”), totaling approximately \$1.07 billion in assets under management (the “Columbia acquisition”). Under the terms of the agreement with Columbia investment management contracts were acquired for a purchase price consisting of \$1.3 million paid in cash at closing based on a multiple of run-rate revenue plus an earn out. The earn out, which is limited to \$3.8 million under the terms of the agreement, will be calculated based on a multiple of run-rate revenue at December 31, 2018. The earn out was estimated at closing to be approximately \$3.1 million. Any change to the earn out calculation from the estimated \$3.1 million recorded at closing will be recorded in the statement of income in the period in which it is deemed probable to occur. As of September 30, 2018, there has been no adjustment to the initial estimated earn out. The foregoing summary of the agreement and the transactions contemplated by it does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the agreement.

Table of Contents

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

(Dollars in thousands)	Columbia Acquisition
Consideration paid:	
Cash	\$ 1,334
Estimated earn out, at closing	3,138
Fair value of total consideration	\$ 4,472
Intangible assets acquired	\$ 1,537
Goodwill	2,935
Total net assets purchased	\$ 4,472

In connection with the Columbia acquisition, total acquisition-related transaction costs incurred by TriState Capital were not significant. Since the acquisition, the Columbia acquired operations contributed revenues of \$1.1 million and approximate earnings of \$67,000 which were included in the consolidated statement of income for the nine months ended September 30, 2018.

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

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

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

(Dollars in thousands, except per share data)	Pro Forma Nine Months Ended September 30,	
	2018	2017
Total revenue	\$ 120,814	\$ 103,225
Net income available to common shareholders	\$ 37,947	\$ 26,257
Earnings per common share:		
Basic	\$ 1.37	\$ 0.95
Diluted	\$ 1.32	\$ 0.91

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



Table of Contents

## [3] INVESTMENT SECURITIES

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

(Dollars in thousands)	September 30, 2018			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Debt securities available-for-sale:				
U.S. treasury notes	\$24,961	\$ —	\$ 90	\$24,871
Corporate bonds	157,786	37	1,013	156,810
Trust preferred securities	17,934	378	—	18,312
Non-agency collateralized loan obligations	484	—	7	477
Agency collateralized mortgage obligations	35,137	50	5	35,182
Agency mortgage-backed securities	20,810	110	530	20,390
Agency debentures	10,486	—	155	10,331
Total debt securities available-for-sale	267,598	575	1,800	266,373
Debt securities held-to-maturity:				
Corporate bonds	27,185	260	127	27,318
Agency debentures	41,506	6	208	41,304
Municipal bonds	23,000	2	243	22,759
Agency mortgage-backed securities	4,422	—	47	4,375
Total debt securities held-to-maturity	96,113	268	625	95,756
Total debt securities	\$363,711	\$ 843	\$ 2,425	\$362,129

(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 September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
Taxable interest income	\$2,408	\$1,156	\$5,722	\$3,540
Non-taxable interest income	101	113	317	339

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

Dividend income	384	262	938	657
Total interest income on investment securities	\$2,893	\$1,531	\$6,977	\$4,536

18

---



Table of Contents

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

(Dollars in thousands)	September 30, 2018			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$14,127	\$14,092	\$2,135	\$2,131
Due from one to five years	137,369	136,951	36,473	36,257
Due from five to ten years	41,229	40,720	43,456	43,370
Due after ten years	74,873	74,610	14,049	13,998
Total debt securities	\$267,598	\$266,373	\$96,113	\$95,756

The \$74.6 million fair value of debt securities available-for-sale with a contractual maturity due after ten years as of September 30, 2018, included \$51.4 million, or 68.8%, that are floating-rate securities. The \$43.5 million amortized cost of debt securities held-to-maturity with a contractual maturity due from five to ten years as of September 30, 2018, included \$20.8 million that have call provisions in one to five years that would either mature, if called, or become floating-rate securities after the call date.

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

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

(Dollars in thousands)	Available-for-Sale Three Months Ended September 30,		Held-to-Maturity Three Months Ended September 30,		Available-for-Sale Nine Months Ended September 30,		Held-to-Maturity Nine Months Ended September 30,	
	2018	2017	2018	2017	2018	2017	2018	2017
	Proceeds from sales	\$	—	\$	—	\$ 2,037	\$ —	\$ —
Proceeds from calls	—	—	—	3,000	4,081	21,675	1,000	3,000
Total proceeds	\$	—	\$	3,000	\$ 6,118	\$ 21,675	\$ 1,000	\$ 3,000
Gross realized gains	\$	—	—	\$ 15	\$ 6	\$ 241	\$ 3	\$ 15
Gross realized losses	—	—	—	—	3	2	—	—
Net realized gains (losses)	\$	—	—	\$ 15	\$ 3	\$ 239	\$ 3	\$ 15

Debt securities available-for-sale of \$3.5 million, as of September 30, 2018, were held in safekeeping at the FHLB and were included in the calculation of borrowing capacity.

Table of Contents

The following tables show the fair value and gross unrealized losses on temporarily impaired debt 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 September 30, 2018 and December 31, 2017, respectively:

(Dollars in thousands)	September 30, 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:						
U.S. treasury notes	\$24,871	\$ 90	\$—	\$ —	\$24,871	\$ 90
Corporate bonds	123,005	1,003	3,991	10	126,996	1,013
Non-agency collateralized loan obligations	—	—	477	7	477	7
Agency collateralized mortgage obligations	—	—	3,812	5	3,812	5
Agency mortgage-backed securities	4,063	98	8,866	432	12,929	530
Agency debentures	10,331	155	—	—	10,331	155
Total debt securities available-for-sale	162,270	1,346	17,146	454	179,416	1,800
Debt securities held-to-maturity:						
Corporate bonds	8,808	127	—	—	8,808	127
Agency debentures	31,469	208	—	—	31,469	208
Municipal bonds	20,297	242	449	1	20,746	243
Agency mortgage-backed securities	4,375	47	—	—	4,375	47
Total debt securities held-to-maturity	64,949	624	449	1	65,398	625
Total temporarily impaired debt securities <sup>(1)</sup>	\$227,219	\$ 1,970	\$17,595	\$ 455	\$244,814	\$ 2,425

(1) The number of investment positions with unrealized losses totaled 76 for available-for-sale securities and 42 for held-to-maturity securities.

(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
Total temporarily impaired debt securities <sup>(1)</sup>	\$43,005	\$ 198	\$43,058	\$ 221	\$86,063	\$ 419

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

The change in the fair values of our U.S. treasury notes, 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 September 30, 2018 and December 31, 2017.

Equity securities consist of mutual funds investing in short-duration, corporate bonds and mid-cap value equities. There were \$13.8 million and \$8.6 million in equity securities outstanding as of September 30, 2018 and December 31, 2017, respectively.

Table of Contents

There was \$16.9 million and \$13.8 million in FHLB stock outstanding as of September 30, 2018 and December 31, 2017, respectively.

**[4] LOANS**

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

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

	September 30, 2018			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Loans held-for-investment, before deferred fees and costs	\$2,622,554	\$ 768,068	\$ 1,362,623	\$4,753,245
Deferred loan costs (fees)	5,195	3,478	(3,562)	5,111
Loans held-for-investment, net of deferred fees and costs	2,627,749	771,546	1,359,061	4,758,356
Allowance for loan losses	(1,894)	(6,444)	(5,245)	(13,583)
Loans held-for-investment, net	\$2,625,855	\$ 765,102	\$ 1,353,816	\$4,744,773
	December 31, 2017			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Loans held-for-investment, before deferred fees and costs	\$2,261,625	\$ 667,028	\$ 1,254,184	\$4,182,837
Deferred loan costs (fees)	4,112	656	(3,361)	1,407
Loans held-for-investment, net of deferred fees and costs	2,265,737	667,684	1,250,823	4,184,244
Allowance for loan losses	(1,577)	(8,043)	(4,797)	(14,417)
Loans held-for-investment, net	\$2,264,160	\$ 659,641	\$ 1,246,026	\$4,169,827

The Company’s customers have unused loan commitments based on the availability of eligible collateral or other terms and conditions under the loan agreement. Often these commitments are not fully utilized and therefore the total amount does not necessarily represent future cash requirements. The amount of unfunded commitments, including standby letters of credit, as of September 30, 2018 and December 31, 2017, was \$3.29 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 September 30, 2018 and December 31, 2017, respectively, which includes reserves for probable losses on unfunded loan commitments, including standby letters of credit and also risk participations.

The total unfunded commitments above included loans in the process of origination totaling approximately \$71.0 million and \$53.3 million as of September 30, 2018 and December 31, 2017, respectively, which extend over varying periods of time.

The Company issues standby letters of credit in the normal course of business. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third

party. The Company would be required to perform under the standby letters of credit when drawn upon by the guaranteed party in the case of non-performance by the Company's customer. Collateral may be obtained based on management's credit assessment of the customer. The amount of unfunded commitments related to standby letters of credit as of September 30, 2018 and December 31, 2017, included in the total unfunded commitments above, was \$45.8 million and \$74.8 million, respectively. Should the Company be obligated to perform under the standby letters of credit the Company will seek repayment from the customer for amounts paid. During the nine months ended September 30, 2018 and 2017, there were draws on standby letters of credit totaling \$6.0 million and \$191,000, respectively, which were repaid by the borrowers. 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

## Table of Contents

should the customers fail to perform on their interest rate derivative contracts. The potential liability for outstanding obligations was included in the reserve for losses on unfunded commitments.

### [5] ALLOWANCE FOR LOAN LOSSES

Our allowance for loan losses represents our estimate of probable loan losses inherent in the loan portfolio at a specific point in time. This estimate includes losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the loan portfolio. Additions are made to the allowance through both periodic provisions recorded in the consolidated statements of income and recoveries of losses previously incurred. Reductions to the allowance occur as loans are charged off or when the credit history of any of the three loan portfolios improves. Management evaluates the adequacy of the allowance quarterly, and in doing so relies on various factors including, but not limited to, assessment of historical loss experience, delinquency and non-accrual trends, portfolio growth, underlying collateral coverage and current economic conditions. This evaluation is subjective and requires material estimates that may change over time. In addition, management evaluates the overall methodology for the allowance for loan losses on an annual basis. The calculation of the allowance for loan losses takes into consideration the inherent risk identified within each of the Company's three primary loan portfolios: private banking, commercial and industrial, and commercial real estate. In addition, management takes into account the historical loss experience of each loan portfolio, to ensure that the allowance for loan losses is sufficient to cover probable losses inherent in such loan portfolios. Refer to Note 1, Summary of Significant Accounting Policies, for more details on the Company's allowance for loan losses policy.

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

#### Private Banking Loans

Our private banking lending activities are conducted on a national basis. This loan portfolio primarily includes loans made to high-net-worth individuals, trusts and businesses that are typically secured by cash, marketable securities or cash value life insurance. 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 96.1% and 94.6% of total private banking loans as of September 30, 2018 and December 31, 2017, respectively.

#### Middle-Market Banking: Commercial and Industrial Loans

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

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

#### Middle-Market Banking: Commercial Real Estate Loans

This loan portfolio includes loans secured by commercial purpose real estate, including both owner-occupied properties and investment properties for various purposes including office, industrial, multifamily, retail, hospitality, healthcare and self-storage. The primary source of repayment for commercial real estate loans secured by owner-occupied properties is cash flow from the borrower's operations. Individual project cash flows, global cash

flows and liquidity from the developer, or the sale of the property are the primary sources of repayment for commercial real estate loans secured by investment properties. Also included are commercial construction loans to finance the construction or renovation of structures as well as to finance the acquisition and development of raw land for various purposes. The increased level of risk for these loans is generally confined to the construction period. If there are problems the project may not be completed, and as such, may not provide sufficient cash flow on its own to service the debt or have sufficient value in a liquidation to cover the outstanding principal.

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

On a monthly basis, management monitors various credit quality indicators for the loan portfolio, including delinquency, non-performing status, changes in risk ratings, changes in the underlying performance of the borrowers and other relevant factors. On a daily basis, the Company monitors the collateral of loans secured by cash, marketable securities or cash value life insurance within the private banking

Table of Contents

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.

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

(Dollars in thousands)	September 30, 2018			
	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Pass	\$2,622,989	\$ 750,326	\$ 1,356,837	\$4,730,152
Special mention	2,491	15,971	2,224	20,686
Substandard	2,269	5,249	—	7,518
Loans held-for-investment	\$2,627,749	\$ 771,546	\$ 1,359,061	\$4,758,356

(Dollars in thousands)	December 31, 2017			
	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



Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

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

(Dollars in thousands)	Three Months Ended September 30, 2018			Total
	Private Banking	Commercial and Industrial	Commercial Real Estate	
Balance, beginning of period	\$1,557	\$ 8,786	\$ 4,978	\$15,321
Provision (credit) for loan losses	337	(838)	) 267	(234)
Charge-offs	—	(2,068)	) —	(2,068)
Recoveries	—	564	—	564
Balance, end of period	\$1,894	\$ 6,444	\$ 5,245	\$13,583

Table of Contents

	Three Months Ended September 30, 2017			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Balance, beginning of period	\$ 1,448	\$ 9,901	\$ 4,619	\$ 15,968
Provision (credit) for loan losses	43	(31)	271	283
Charge-offs	—	(413)	—	(413)
Recoveries	—	136	5	141
Balance, end of period	\$ 1,491	\$ 9,593	\$ 4,895	\$ 15,979

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

	Nine Months Ended September 30, 2018			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Balance, beginning of period	\$ 1,577	\$ 8,043	\$ 4,797	\$ 14,417
Provision (credit) for loan losses	317	(389)	448	376
Charge-offs	—	(2,068)	—	(2,068)
Recoveries	—	858	—	858
Balance, end of period	\$ 1,894	\$ 6,444	\$ 5,245	\$ 13,583

	Nine Months Ended September 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	67	1,097	(122)	1,042
Charge-offs	—	(4,302)	—	(4,302)
Recoveries	—	472	5	477
Balance, end of period	\$ 1,491	\$ 9,593	\$ 4,895	\$ 15,979

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

	September 30, 2018					
	Loans		Past Due			Total
(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due	Past Due	Current	Total
Private banking	\$ 195	\$ —	\$ —	\$ 195	\$ 2,627,554	\$ 2,627,749
Commercial and industrial	—	—	—	—	771,546	771,546
Commercial real estate	—	—	—	—	1,359,061	1,359,061
Loans held-for-investment	\$ 195	\$ —	\$ —	\$ 195	\$ 4,758,161	\$ 4,758,356

	December 31, 2017					
(Dollars in thousands)	30-59 Days	60-89 Days	Loans Past Due	Total Past Due	Current	Total

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

	Past Due	Past Due	Due 90 Days or More	Due	Due
Private banking	\$1,266	\$	<del>\$</del> 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
Loans held-for-investment	\$3,115	\$	<del>\$</del> 3,115	\$4,181,129	\$4,184,244

Table of Contents

## 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 Nine Months Ended September 30, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Private banking	\$2,269	\$ 2,450	\$ 469	\$ 2,310	\$ —
Commercial and industrial	—	—	—	—	—
Commercial real estate	—	—	—	—	—
Total with a related allowance recorded	2,269	2,450	469	2,310	—
Without a related allowance recorded:					
Private banking	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Commercial real estate	—	—	—	—	—
Total without a related allowance recorded	—	—	—	—	—
Total:					
Private banking	2,269	2,450	469	2,310	—
Commercial and industrial	—	—	—	—	—
Commercial real estate	—	—	—	—	—
Total	\$2,269	\$ 2,450	\$ 469	\$ 2,310	\$ —

(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	—	—	—	—	—

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

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

25

---

Table of Contents

Impaired loans as of September 30, 2018 and December 31, 2017, were \$2.3 million and \$6.6 million, respectively. There was no interest income recognized on impaired loans that were also on non-accrual status for the nine months ended September 30, 2018, and the twelve months ended December 31, 2017. As of September 30, 2018 and December 31, 2017, there were no loans 90 days or more past due and still accruing interest income.

Impaired loans were evaluated using a discounted cash flow method or based on the fair value of the collateral less estimated selling costs. Based on those evaluations there were specific reserves totaling \$469,000 and \$2.5 million as of September 30, 2018 and December 31, 2017, respectively.

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

(Dollars in thousands)	September 30, 2018			
	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Allowance for loan losses:				
Individually evaluated for impairment	\$469	\$ —	\$ —	\$469
Collectively evaluated for impairment	1,425	6,444	5,245	13,114
Total allowance for loan losses	\$1,894	\$ 6,444	\$ 5,245	\$ 13,583
Loans held-for-investment:				
Individually evaluated for impairment	\$2,269	\$ —	\$ —	\$2,269
Collectively evaluated for impairment	2,625,480	771,546	1,359,061	4,756,087
Loans held-for-investment	\$2,627,749	\$ 771,546	\$ 1,359,061	\$ 4,758,356

(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)	September 30, 2018	December 31, 2017
Aggregate recorded investment of impaired loans with terms modified through a troubled debt restructuring:		
Performing loans accruing interest	\$ —	\$ 3,371
Non-accrual loans	269	3,183
Total troubled debt restructurings	\$ 269	\$ 6,554

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

There were unused commitments on loans designated as troubled debt restructurings of \$0 and \$708,000 as of September 30, 2018 and December 31, 2017, respectively.

The modifications made to restructured loans typically consist of an extension of the payment terms or the deferral of principal payments. There were no loans modified as TDRs within twelve months of the corresponding balance sheet date with a payment default during the nine months ended September 30, 2018, and 2017.

There were no loans newly designated as TDRs during the three and nine months ended September 30, 2018.

Table of Contents

The financial effects of modifications made to loans newly designated as TDRs during the three and nine months ended September 30, 2017, were as follows:

(Dollars in thousands)	Three Months Ended September 30, 2017				
	Count	Recorded Investment at the time of Modification	Current Recorded Investment	Allowance for Loan Losses at the time of Modification	Current Allowance for Loan Losses
Private banking:					
Extended term, deferred principal and reduced interest rate	2	\$ 433	\$ 407	\$ 433	\$ 407
Total	2	\$ 433	\$ 407	\$ 433	\$ 407

(Dollars in thousands)	Nine Months Ended September 30, 2017				
	Count	Recorded Investment at the time of Modification	Current Recorded Investment	Allowance for Loan Losses at the time of Modification	Current Allowance for Loan Losses
Private banking:					
Extended term, deferred principal and reduced interest rate	2	\$ 433	\$ 407	\$ 433	\$ 407
Total	2	\$ 433	\$ 407	\$ 433	\$ 407

## Other Real Estate Owned

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

## [6] DEPOSITS

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

(Dollars in thousands)	Interest Rate Range	Weighted Average Interest Rate		Balance	
	September 30, 2018	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Demand and savings accounts:					
Noninterest-bearing checking accounts	—	—	—	\$236,422	\$248,092
Interest-bearing checking accounts	0.05 to 2.60%	2.02%	1.42%	713,833	455,341
Money market deposit accounts	0.10 to 2.95%	2.10%	1.37%	2,565,561	2,289,789
Total demand and savings accounts				3,515,816	2,993,222
Certificates of deposit	1.15 to 3.22%	2.32%	1.40%	1,238,772	994,389
Total deposits				\$4,754,588	\$3,987,611
Weighted average rate on interest-bearing accounts		2.15%	1.38%		

As of September 30, 2018 and December 31, 2017, the Bank had total brokered deposits of \$512.3 million and \$1.07 billion, respectively. Reciprocal deposits through Certificate of Deposit Account Registry Service® (“CDARS®”) and Insured Cash Sweep® (“ICS®”) totaled \$629.5 million and \$627.5 million as of September 30, 2018 and December 31,



2017, respectively. As of December 31, 2017, these reciprocal deposits were included in the total brokered deposits above, however were considered non-brokered as of September 30, 2018, as a result of recent legislation.

As of September 30, 2018 and December 31, 2017, certificates of deposit with balances of \$100,000 or more, excluding brokered deposits, totaled \$549.7 million and \$440.2 million, respectively. As of September 30, 2018 and December 31, 2017, certificates of deposit with balances of \$250,000 or more, excluding brokered deposits, totaled \$209.0 million and \$191.4 million.

Table of Contents

The contractual maturity of certificates of deposit was as follows:

(Dollars in thousands)	September 30, December 31,	
	2018	2017
12 months or less	\$ 984,000	\$ 874,733
12 months to 24 months	194,314	96,766
24 months to 36 months	60,458	22,890
Total	\$ 1,238,772	\$ 994,389

Interest expense on deposits was as follows:

(Dollars in thousands)	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Interest-bearing checking accounts	\$3,267	\$1,173	\$7,464	\$2,295
Money market deposit accounts	12,428	6,263	30,263	15,511
Certificates of deposit	6,487	3,168	14,552	8,007
Total interest expense on deposits	\$22,182	\$10,604	\$52,279	\$25,813

[7] BORROWINGS

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

(Dollars in thousands)	September 30, 2018			December 31, 2017		
	Interest Rate	Ending Balance	Maturity Date	Interest Rate	Ending Balance	Maturity Date
FHLB borrowings:						
FHLB line of credit	2.38%	\$ 75,000	5/1/2019		\$ —	
Issued 7/9/2018	2.25%	50,000	10/9/2018		—	
Issued 6/29/2018	2.20%	100,000	10/1/2018		—	
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	5.06%	2,500	9/28/2019	4.56%	6,200	12/28/2018
Subordinated notes payable (net of debt issuance costs of \$135 and \$287)	5.75%	34,865	7/1/2019	5.75%	34,713	7/1/2019
Total borrowings, net		\$ 262,365			\$ 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 September 30, 2018, the Bank's borrowing capacity is based on the information provided in the June 30, 2018, QCR filing. As of September 30, 2018, the Bank had securities held in safekeeping at the FHLB with a fair value of \$3.5 million, combined with pledged loans of \$1.14 billion, for a gross borrowing capacity of \$810.8 million, of which \$225.0 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 September 30, 2018, there were no outstanding borrowings under these lines of credit and they are available to the Bank at the lenders' discretion. In addition, the Bank maintains a \$2.0 million unsecured line of credit with PNC Bank for private label credit card facilities for certain commercial clients of the Bank.

The holding company maintains an unsecured line of credit of \$30.0 million, with Texas Capital Bank, of which \$2.5 million was outstanding as of September 30, 2018.

Table of Contents

Interest expense on borrowings was as follows:

	Three Months		Nine Months	
	Ended		Ended	
(Dollars in thousands)	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
FHLB borrowings	\$853	\$790	\$3,743	\$2,360
Line of credit borrowings	16	22	69	39
Subordinated notes payable	554	554	1,661	1,661
Total interest expense on borrowings	\$1,423	\$1,366	\$5,473	\$4,060

**[8] STOCK TRANSACTIONS**

In March 2018, the Company completed the issuance and sale of a registered, underwritten public offering of 1,610,000 depository shares, each representing a 1/40th interest in a share of its 6.75% Fixed-to-Floating Rate Series A Non-Cumulative Perpetual Preferred Stock, no par value (the "Series A Preferred Stock"), with a liquidation preference of \$1,000 per share (equivalent to \$25 per depository share). The Company received net proceeds of \$38.5 million from the sale of 40,250 shares of its Series A Preferred Stock (equivalent to 1,610,000 depository shares), after deducting underwriting discounts, commissions and direct offering expenses. The preferred stock provides Tier 1 capital for the holding company under federal regulatory capital rules.

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

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

On July 17, 2018, the board of directors declared a dividend payable of approximately \$679,000, or \$0.42 per depository share, on its Series A Non-Cumulative Perpetual Preferred Stock, which was payable on October 1, 2018, to preferred shareholders of record as of the close of business on September 14, 2018.

Under authorization by the board of directors, the Company was permitted to repurchase its common stock up to prescribed amounts, of which \$415,572 remained available as of September 30, 2018. During the nine months ended September 30, 2018, the Company repurchased a total of 169,936 shares for approximately \$4.6 million, at an average cost of \$26.97 per share, which are held as treasury stock. During the nine months ended September 30, 2017, the Company repurchased a total of 281,556 shares for approximately \$6.5 million, at an average cost of \$23.00 per share, which are held as treasury stock.

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

Number of Preferred Shares (Series A) Outstanding	Number of Common Shares Outstanding
---	-------------------------------------

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

Balance, December 31, 2016	—	28,415,654
Issuance of restricted common stock	—	369,175
Exercise of stock options	—	139,300
Purchase of treasury stock	—	(281,556 )
Balance, September 30, 2017	—	28,642,573

Balance, December 31, 2017	—	28,591,101
Issuance of preferred stock	40,250	—
Issuance of restricted common stock	—	396,113
Forfeitures of restricted common stock	—	(24,000 )
Exercise of stock options	—	127,700
Purchase of treasury stock	—	(169,936 )
Balance, September 30, 2018	40,250	28,920,978

29

---

Table of Contents

## [9] REGULATORY CAPITAL

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

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

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

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

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

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

	September 30, 2018				To be Well Capitalized Under Prompt Corrective Action Provisions	
	Actual		For Capital Adequacy Purposes		Amount	Ratio
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ratio						
Company	\$410,072	11.89%	\$276,007	8.00%	N/A	N/A
Bank	\$420,140	12.30%	\$273,202	8.00%	\$341,502	10.00%

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

Tier 1 risk-based capital ratio				
Company	\$ 399,172	11.57 %	\$ 207,005	6.00 % N/A N/A
Bank	\$ 407,140	11.92 %	\$ 204,901	6.00 % \$ 273,202 8.00 %
Common equity tier 1 risk-based capital ratio				
Company	\$ 362,973	10.52 %	\$ 155,254	4.50 % N/A N/A
Bank	\$ 407,140	11.92 %	\$ 153,676	4.50 % \$ 221,976 6.50 %
Tier 1 leverage ratio				
Company	\$ 399,172	7.53 %	\$ 212,152	4.00 % N/A N/A
Bank	\$ 407,140	7.71 %	\$ 211,158	4.00 % \$ 263,947 5.00 %

30

---

Table of Contents

	December 31, 2017				To be Well Capitalized Under Prompt Corrective Action Provisions	
	Actual		For Capital Adequacy Purposes			
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ratio						
Company	\$ 343,758	11.72 %	\$ 234,576	8.00 %	N/A	N/A
Bank	\$ 348,378	11.99 %	\$ 232,392	8.00 %	\$ 290,490	10.00 %
Tier 1 risk-based capital ratio						
Company	\$ 326,594	11.14 %	\$ 175,932	6.00 %	N/A	N/A
Bank	\$ 337,656	11.62 %	\$ 174,294	6.00 %	\$ 232,392	8.00 %
Common equity tier 1 risk-based capital ratio						
Company	\$ 326,594	11.14 %	\$ 131,949	4.50 %	N/A	N/A
Bank	\$ 337,656	11.62 %	\$ 130,720	4.50 %	\$ 188,818	6.50 %
Tier 1 leverage ratio						
Company	\$ 326,594	7.25 %	\$ 180,090	4.00 %	N/A	N/A
Bank	\$ 337,656	7.55 %	\$ 178,979	4.00 %	\$ 223,723	5.00 %

[10] EARNINGS PER COMMON SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2018	2017	2018	2017
Net income available to common shareholders	\$ 13,632	\$ 10,032	\$ 37,863	\$ 25,945
Weighted average common shares outstanding:				
Basic	27,588,607	27,515,923	27,603,787	27,581,229
Restricted stock - dilutive	863,084	661,086	757,572	616,742
Stock options - dilutive	498,233	482,981	488,570	523,776
Diluted	28,949,924	28,659,990	28,849,928	28,721,747
Earnings per common share:				
Basic	\$ 0.49	\$ 0.36	\$ 1.37	\$ 0.94
Diluted	\$ 0.47	\$ 0.35	\$ 1.31	\$ 0.90

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Anti-dilutive shares <sup>(1)</sup>	4,000	—	7,000	—

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

[11] DERIVATIVES AND HEDGING ACTIVITY

RISK MANAGEMENT OBJECTIVE OF USING DERIVATIVES



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

Table of Contents

FAIR VALUES OF DERIVATIVE INSTRUMENTS ON THE STATEMENTS OF FINANCIAL CONDITION

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

(Dollars in thousands)	Asset Derivatives as of September 30, 2018		Liability Derivatives as of September 30, 2018	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate products	Other assets	\$2,195	Other liabilities	\$—
Derivatives not designated as hedging instruments:				
Interest rate products	Other assets	26,603	Other liabilities	26,610
Total	Other assets	\$28,798	Other liabilities	\$26,610

  

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

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

Offsetting of Derivative Assets

(Dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position	Cash Collateral Received	Net Amount
September 30, 2018	\$28,798	\$—	—\$ 28,798	\$(3,752)	\$—	—\$25,046
December 31, 2017	\$13,761	\$—	—\$ 13,761	\$(5,677)	\$—	—\$8,084

Offsetting of Derivative Liabilities

(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented	Gross Amounts Not Offset in the Statement of Financial Position	Net Amount
------------------------	---	---	--------------------------------------	---	------------

	of Financial Position	in the Statement of Financial Position	Financial Instrument	Cash Collateral Posted	
September 30, 2018	\$26,610	\$	—\$ 26,610	\$(3,752)	\$ — \$ 22,858
December 31, 2017	\$12,078	\$	—\$ 12,078	\$(5,677)	\$(124 ) \$ 6,277

FAIR VALUE HEDGES OF INTEREST RATE RISK

The Company is exposed to changes in the fair value of certain of its fixed-rate obligations due to changes in benchmark interest rates, which relate predominantly to LIBOR. Interest rate swaps designated as fair value hedges involve the receipt of variable-rate payments from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of

Table of Contents

the underlying notional amount. As of September 30, 2018, the Company no longer had interest rate swaps that were designated as fair value hedges of interest rate risk associated with the Company's fixed-rate loan assets.

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

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

		Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
(Dollars in thousands)			
Derivatives designated as hedging instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
Interest rate products	Interest income	\$ \$(15 )	\$ (9 ) \$(46 )
Interest rate products	Non-interest income	—1	— 4
Total		\$ \$(14 )	\$ (9 ) \$(42 )

**CASH FLOW HEDGES OF INTEREST RATE RISK**

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

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

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

(Dollars in thousands)	Notional Amount	Estimated Increase/(Decrease) to Interest Expense in the Next Twelve Months	Maturity Date	Remaining Term (in Months)
------------------------	-----------------	---	---------------	----------------------------

Interest rate products:

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

Issued 6/29/2016	\$ 100,000	\$ (1,367	)	6/29/2019	9
Issued 1/8/2018	50,000	(264	)	1/8/2021	27
Total	\$ 150,000	\$ (1,631	)		

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

(Dollars in thousands)		Three Months Ended September 30,		Three Months Ended September 30,	
		2018	2017	2018	2017
Derivatives designated as hedging instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Realized Gain (Loss) Recognized in Income on Derivatives	Unrealized Gain (Loss) Recognized in Accumulated Other Comprehensive Income on Derivatives		
Interest rate products	Interest expense	\$ 412	\$ 120	\$ 157	\$ 86
Total		\$ 412	\$ 120	\$ 157	\$ 86

Table of Contents

		Nine Months Ended September 30,	
		2018	2017
(Dollars in thousands)			
		Realized Gain (Loss) Recognized in Income on Derivatives	Unrealized Gain (Loss) Recognized in Accumulated Other Comprehensive Income on Derivatives
Derivatives designated as hedging instruments:	Location of Gain (Loss) Recognized in Income on Derivatives		
Interest rate products	Interest expense	\$ 952	\$ 243
Total		\$ 1,439	\$ (70 )

## NON-DESIGNATED HEDGES

The Company does not use derivatives for trading or speculative purposes. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate derivatives with its commercial banking customers to facilitate their respective risk management strategies. Those derivatives are simultaneously and economically hedged by offsetting derivatives that the Company executes with a third party, such that the Company eliminates its interest rate exposure resulting from such transactions. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of September 30, 2018, the Company had derivative transactions with an aggregate notional amount of \$1.89 billion related to this program.

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2018	2017	2018	2017
(Dollars in thousands)					
	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives		Amount of Gain (Loss) Recognized in Income on Derivatives	
Derivatives not designated as hedging instruments:					
Interest rate products	Non-interest income	\$ —	\$ (25 )	\$ 22	\$ 175
Total		\$ —	\$ (25 )	\$ 22	\$ 175

## CREDIT-RISK-RELATED CONTINGENT FEATURES

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

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

As of September 30, 2018, the termination value of derivatives for which we had master netting arrangements with the counterparty and in a net liability position was \$156,000, including accrued interest. As of September 30, 2018, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of \$1.1 million. If the Company had breached any of these provisions as of September 30, 2018, it could have been required to settle its obligations under the agreements at their termination value.

#### [12] DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

#### FAIR VALUE MEASUREMENTS

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

Table of Contents

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

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

Level 1 – Financial assets and liabilities for which inputs are observable and are obtained from reliable quoted prices for identical assets or liabilities in actively traded markets. This is the most reliable fair value measurement and includes, for example, active exchange-traded equity securities.

Level 2 – Financial assets and liabilities for which values are based on quoted prices in markets that are not active or for which values are based on similar assets or liabilities that are actively traded. Level 2 also includes pricing models in which the inputs are corroborated by market data, for example, matrix pricing.

Level 3 – Financial assets and liabilities for which values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Level 3 inputs include assumptions of a source independent of the reporting entity or the reporting entity's own assumptions that are supported by little or no market activity or observable inputs.

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

**RECURRING FAIR VALUE MEASUREMENTS**

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

(Dollars in thousands)	September 30, 2018			Total Assets / Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Financial assets:				
Debt securities available-for-sale:				
U.S. treasury notes	\$24,871	\$—	\$—	\$ 24,871
Corporate bonds	—	156,810	—	156,810
Trust preferred securities	—	18,312	—	18,312
Non-agency collateralized loan obligations	—	477	—	477
Agency collateralized mortgage obligations	—	35,182	—	35,182
Agency mortgage-backed securities	—	20,390	—	20,390
Agency debentures	—	10,331	—	10,331
Equity securities	13,774	—	—	13,774
Interest rate swaps	—	28,798	—	28,798
Total financial assets	38,645	270,300	—	308,945
Financial liabilities:				
Interest rate swaps	—	26,610	—	26,610
Acquisition earn out liability	—	—	3,138	3,138
Total financial liabilities	\$—	\$26,610	\$3,138	\$ 29,748





Table of Contents

(Dollars in thousands)	December 31, 2017			
	Level 1	Level 2	Level 3	Total Assets / Liabilities at Fair Value
Financial assets:				
Debt securities available-for-sale:				
Corporate bonds	\$61,689	\$	\$	\$61,689
Trust preferred securities	18,581	—	—	18,581
Non-agency collateralized loan obligations	805	—	—	805
Agency collateralized mortgage obligations	38,822	—	—	38,822
Agency mortgage-backed securities	18,953	—	—	18,953
Equity securities	8,635	—	—	8,635
Interest rate swaps	13,761	—	—	13,761
Total financial assets	8,633,611	—	—	161,246
Financial liabilities:				
Interest rate swaps	12,078	—	—	12,078
Total financial liabilities	\$12,078	\$	\$	\$12,078

**INVESTMENT SECURITIES**

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

**INTEREST RATE SWAPS**

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

**ACQUISITION EARN OUT LIABILITY**

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

**NON-RECURRING FAIR VALUE MEASUREMENTS**

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

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

(Dollars in thousands)	September 30, 2018		
	Level 1	Level 2	Level 3

		Value
Loans measured for impairment, net	\$ <del>\$</del> -	\$1,800\$1,800
Other real estate owned	—	3,576 3,576
Total assets	\$ <del>\$</del> -	\$5,376\$5,376

Table of Contents

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

As of September 30, 2018 and December 31, 2017, the Company recorded \$469,000 and \$2.5 million, respectively, of specific reserves to allowance for loan losses as a result of adjusting the fair value of impaired loans.

**IMPAIRED LOANS**

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

**OTHER REAL ESTATE OWNED**

Real estate owned is comprised of property acquired through foreclosure or voluntarily conveyed by borrowers. These assets are recorded on the date acquired at fair value, less estimated disposition costs, with the fair value being determined by appraisal. Our policy is to obtain appraisals on collateral supporting OREO on an annual basis, unless circumstances dictate a shorter time frame. Appraisals are reduced by estimated costs to sell the collateral, and, under certain circumstances, additional factors that may arise and cause us to believe our recoverable value may be less than the independent appraised value. Accordingly, other real estate owned is classified as Level 3.

**LEVEL 3 VALUATION**

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

(Dollars in thousands)	September 30, 2018			Weighted Average Multiple/Discount Rate
	Fair Value	Valuation Techniques <sup>(1)</sup>	Significant Unobservable Inputs	
Acquisition earn out liability	\$3,138	Income approach	Run-rate revenue multiple; client retention	1.6 times
Loans measured for impairment, net	\$1,800	Appraisal value	Discount due to salability conditions	16 %
Other real estate owned <sup>(1)</sup>	\$3,576	Appraisal value	Discount due to salability conditions	10 %

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

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

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

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

Table of Contents

## FAIR VALUE OF FINANCIAL INSTRUMENTS

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

(Dollars in thousands)	Fair Value Level	September 30, 2018		December 31, 2017	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	1	\$186,535	\$186,535	\$156,153	\$156,153
Debt securities available-for-sale	1	24,871	24,871	—	—
Debt securities available-for-sale	2	241,502	241,502	138,850	138,850
Debt securities held-to-maturity	2	96,113	95,756	59,275	60,141
Equity securities	1	13,774	13,774	8,635	8,635
Federal Home Loan Bank stock	2	16,879	16,879	13,792	13,792
Loans held-for-investment, net	3	4,744,773	4,727,674	4,169,827	4,167,775
Accrued interest receivable	2	18,470	18,470	13,519	13,519
Investment management fees receivable, net	2	8,066	8,066	7,720	7,720
Bank owned life insurance	2	67,878	67,878	66,593	66,593
Other real estate owned	3	3,576	3,576	3,576	3,576
Interest rate swaps	2	28,798	28,798	13,761	13,761
Financial liabilities:					
Deposits	2	\$4,754,588	\$4,751,676	\$3,987,611	\$3,985,883
Borrowings, net	2	262,365	262,251	335,913	336,051
Acquisition earn out liability	3	3,138	3,138	—	—
Interest rate swaps	2	26,610	26,610	12,078	12,078

During the nine months ended September 30, 2018 and 2017, there were no transfers between fair value Levels 1, 2 or 3.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as of September 30, 2018 and December 31, 2017:

## CASH AND CASH EQUIVALENTS

The carrying amount approximates fair value.

## INVESTMENT SECURITIES

The fair values of debt securities available-for-sale, debt securities held-to-maturity, trading securities and equity securities are based on quoted market prices for the same or similar securities, recently executed transactions and pricing models.

## FEDERAL HOME LOAN BANK STOCK

The carrying value of our FHLB stock, which is carried at cost, approximates fair value.

## LOANS HELD-FOR-INVESTMENT

The fair value of loans held-for-investment is estimated by discounting the future cash flows using market rates (utilizing both unobservable and certain observable inputs when applicable) at which similar loans would be made to borrowers with similar credit ratings over the estimated remaining maturities. Impaired loans are generally valued at the fair value of the associated collateral.

ACCRUED INTEREST RECEIVABLE

The carrying amount approximates fair value.

INVESTMENT MANAGEMENT FEES RECEIVABLE

The carrying amount approximates fair value.

BANK OWNED LIFE INSURANCE

The fair value of the general account bank owned life insurance is based on the insurance contract net cash surrender value.

Table of Contents

## OTHER REAL ESTATE OWNED

Real estate owned is recorded on the date acquired at fair value, less estimated disposition costs, with the fair value being determined by appraisal.

## DEPOSITS

The fair value of demand deposits is the amount payable on demand as of the reporting date, i.e., their carrying amounts. The fair value of fixed maturity deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

## BORROWINGS

The fair value of borrowings is calculated by discounting scheduled cash flows through the estimated maturity using period end market rates for borrowings of similar remaining maturities.

## ACQUISITION EARN OUT LIABILITY

The carrying amount of the Columbia acquisition earn out liability approximates fair value. For additional information on the calculation of the earn out, refer to Note 2, Business Combination.

## INTEREST RATE SWAPS

The fair value of interest rate swaps are estimated through the assistance of an independent third party and compared to the fair value determined by the swap counterparty to establish reasonableness.

## OFF-BALANCE SHEET INSTRUMENTS

Fair values for the Company's off-balance sheet instruments, which consist of lending commitments, standby letters of credit and risk participation agreements related to interest rate swap agreements, are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. Management believes that the fair value of these off-balance sheet instruments is not significant.

## [13] CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables show the changes in accumulated other comprehensive income (loss) net of tax, for the periods presented:

(Dollars in thousands)	Three Months Ended September 30,					
	2018			2017		
	Investment Securities	Derivatives	Total	Investment Securities	Derivatives	Total
Balance, beginning of period	\$(833 )	\$ 1,878	\$ 1,045	\$ 439	\$ 948	\$ 1,387
Change in unrealized holding gains (losses)	(192 )	120	(72 )	(35 )	55	20
Gains reclassified from other comprehensive income	—	(316 )	(316 )	—	(77 )	(77 )
Net other comprehensive income (loss)	(192 )	(196 )	(388 )	(35 )	(22 )	(57 )
Balance, end of period	\$(1,025)	\$ 1,682	\$ 657	\$ 404	\$ 926	\$ 1,330

(Dollars in thousands)	Nine Months Ended September 30,					
	2018			2017		
	Investment Securities	Derivatives	Total	Investment Securities	Derivatives	Total
Balance, beginning of period	\$172	\$ 1,074	\$ 1,246	\$(297)	\$ 1,127	\$ 830
Change in unrealized holding gains (losses)	(1,517 )	1,103	(414 )	855	(45 )	810
Gains reclassified from other comprehensive income	(5 )	(730 )	(735 )	(154 )	(156 )	(310 )
	286	—	286	—	—	—



Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

Reclassification for equity securities under ASU 2016-01  
(see Note 1)

Reclassification for certain income tax effects under ASU  
2018-02 (see Note 1)

Net other comprehensive income (loss)

Balance, end of period

39	235	274	—	—	—
(1,197 )	608	(589 )	701	(201 )	500
\$(1,025)	\$ 1,682	\$ 657	\$ 404	\$ 926	\$ 1,330

39

---

Table of Contents

[14] CONTINGENT LIABILITIES

The Company is not aware of any material unasserted claims. In the opinion of management, there are no potential claims that would have a material adverse effect on the Company's financial position, liquidity or results of operations.

[15] SEGMENTS

The Company operates two reportable segments: Bank and Investment Management.

The Bank segment provides commercial banking services to middle-market businesses and private banking services to high-net-worth individuals through the TriState Capital Bank subsidiary.

The Investment Management segment provides advisory and sub-advisory investment management services primarily to institutional investors, mutual funds and individual investors through the Chartwell Investment Partners, LLC subsidiary. It also supports marketing efforts for Chartwell's proprietary investment products through the Chartwell TSC Securities Corp. subsidiary.

The following tables provide financial information for the two segments of the Company as of and for the periods indicated. The information provided under the caption "Parent and Other" represents general operating activity of the Company not considered to be a reportable segment, which includes parent company activity as well as eliminations and adjustments that are necessary for purposes of reconciliation to the consolidated amounts.

(Dollars in thousands)  
September 30, 2018  
December 31, 2017

Assets:

Bank \$ 479,111 \$ 4,691,760

Investment management 92,131 84,714

Parent and other 204 1,423

Total assets \$ 573,288 \$ 4,777,897

(Dollars in thousands)	Three Months Ended September 30, 2018				Three Months Ended September 30, 2017			
	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Income statement data:								
Interest income	\$52,354	\$ —	\$70	\$ 52,424	\$35,512	\$ —	\$63	\$ 35,575
Interest expense	23,038	—	567	23,605	11,398	—	572	11,970
Net interest income (loss)	29,316	—	(497)	28,819	24,114	—	(509)	23,605
Provision (credit) for loan losses	(234)	—	—	(234)	283	—	—	283
Net interest income (loss) after provision for loan losses	29,550	—	(497)	29,053	23,831	—	(509)	23,322
Non-interest income:								
Investment management fees	—	9,914	(86)	9,828	—	9,265	(51)	9,214
	—	—	—	—	15	—	—	15

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

Net gain on the sale and call of debt securities								
Other non-interest income	2,850	—	73	2,923	2,477	—	—	2,477
Total non-interest income	2,850	9,914	(13)	12,751	2,492	9,265	(51)	11,706
Non-interest expense:								
Intangible amortization expense	—	502	—	502	—	463	—	463
Other non-interest expense	17,002	8,173	9	25,184	14,575	7,747	27	22,349
Total non-interest expense	17,002	8,675	9	25,686	14,575	8,210	27	22,812
Income (loss) before tax	15,398	1,239	(519)	16,118	11,748	1,055	(587)	12,216
Income tax expense (benefit)	1,676	282	(151)	1,807	1,987	435	(238)	2,184
Net income (loss)	\$13,722	\$ 957	\$(368)	\$14,311	\$9,761	\$ 620	\$(349)	\$10,032

Table of Contents

(Dollars in thousands)	Nine Months Ended September 30, 2018				Nine Months Ended September 30, 2017			
	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Income statement data:								
Interest income	\$ 141,424	\$ —	\$ 200	\$ 141,624	\$ 96,220	\$ —	\$ 207	\$ 96,427
Interest expense	56,027	—	1,725	57,752	28,183	—	1,690	29,873
Net interest income (loss)	85,397	—	(1,525)	)83,872	68,037	—	(1,483)	)66,554
Provision for loan losses	376	—	—	376	1,042	—	—	1,042
Net interest income (loss) after provision for loan losses	85,021	—	(1,525)	)83,496	66,995	—	(1,483)	)65,512
Non-interest income:								
Investment management fees	—	28,621	(199)	)28,422	—	27,843	(159)	)27,684
Net gain on the sale and call of debt securities	6	—	—	6	254	—	—	254
Other non-interest income	7,875	1	38	7,914	6,888	1	—	6,889
Total non-interest income	7,881	28,622	(161)	)36,342	7,142	27,844	(159)	)34,827
Non-interest expense:								
Intangible amortization expense	—	1,465	—	1,465	—	1,388	—	1,388
Other non-interest expense	49,011	23,988	390	73,389	41,868	22,398	100	64,366
Total non-interest expense	49,011	25,453	390	74,854	41,868	23,786	100	65,754
Income (loss) before tax	43,891	3,169	(2,076)	)44,984	32,269	4,058	(1,742)	)34,585
Income tax expense (benefit)	5,485	786	(591)	)5,680	7,734	1,587	(681)	)8,640
Net income (loss)	\$ 38,406	\$ 2,383	\$ (1,485)	)\$ 39,304	\$ 24,535	\$ 2,471	\$ (1,061)	)\$ 25,945

## [16] SUBSEQUENT EVENTS

On October 16, 2018, the Company's board of directors declared a dividend payable of approximately \$679,000, or \$0.42 per depositary share, on the Company's Series A Non-Cumulative Perpetual Preferred Stock, which is payable on January 2, 2019, to preferred shareholders of record as of the close of business on December 18, 2018.

On October 16, 2018, the Company's board of directors approved a new share repurchase program of up to \$5 million. Under the authorization, purchases of shares may be made at the discretion of management from time to time in the open market or through negotiated transactions.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section presents management's perspective on our financial condition and results of operations and highlights material changes to the financial condition and results of operations as of and for the three and nine months ended September 30, 2018. The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and related notes contained herein and our consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2017, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on February 23, 2018.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance, as well as our goals and objectives for future operations, financial and business trends, business prospects and management's outlook or expectations for earnings, revenues, expenses, capital levels, liquidity levels, asset quality or other future financial or business performance, strategies or expectations. These statements are often, but not always, made through the use of words or phrases such as "achieve," "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "maintain," "opportunity," "outlook," "plan," "potential," "predict," "seek," "should," "sustain," "target," "trend," "will," "will likely result," and "would," or the negative version of those words or phrases. These forward-looking statements are not historical facts, and are comparable of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, and beliefs of assumptions made by management, many of which, by their nature, are inherently uncertain. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that change over time and are difficult to predict, including, but not limited to, the following:

- deterioration of our asset quality;
- our ability to prudently manage our growth and execute our strategy, including the successful integration of past and future acquisitions and our ability to fully realize the cost savings and other benefits of our acquisitions, manage risks related to business disruption following those acquisitions, and customer disintermediation;
- possible loan losses and changes in the value of collateral securing our loans;
- possible changes in the speed of loan prepayments by customers and loan origination or sales volumes;
- business and economic conditions generally and in the financial services industry, nationally and within our local market area;
- changes in management personnel;
- our ability to maintain important deposit customer relationships, our reputation and otherwise avoid liquidity risks;
- our ability to provide investment management performance competitive with our peers and benchmarks;
- operational risks associated with our business, including cyber-security related risks;
- volatility and direction of market interest rates;
- increased competition in the financial services industry, particularly from regional and national institutions;
- negative perceptions or publicity with respect to any products or services we offer;
- adverse judgments or other resolution of pending and future legal proceedings, and cost incurred in defending such proceedings;
-

changes in the laws, rules, regulations, interpretations or policies relating to financial institutions, accounting, tax, trade, monetary and fiscal matters;

- our ability to comply with applicable capital and liquidity requirements, including our ability to generate liquidity internally or raise capital on favorable terms;
- regulatory limits on our ability to receive dividends from our subsidiaries and pay dividends to shareholders;
- further government intervention in the U.S. financial system;
- natural disasters and adverse weather, acts of terrorism, cyber-attacks, an outbreak of hostilities or other international or domestic calamities, and other matters beyond our control; and

## Table of Contents

other factors that are discussed in the section entitled “Risk Factors,” in our Annual Report on Form 10-K, filed with the SEC on February 23, 2018, which is accessible at [www.sec.gov](http://www.sec.gov).

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this document. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

## General

We are a bank holding company that operates through two reportable segments: Bank and Investment Management. Through TriState Capital Bank, a Pennsylvania chartered bank (the “Bank”), the Bank segment provides commercial banking services to middle-market businesses and private banking services to high-net-worth individuals and trusts. The Bank segment generates most of its revenue from interest on loans and investments, loan related fees including swap fees, and liquidity and treasury management related fees. Its primary source of funding for loans is deposits and its secondary source of funding is borrowings. Its largest expenses are interest on these deposits and borrowings, and salaries and related employee benefits. Through Chartwell Investment Partners, LLC, an SEC registered investment adviser (“Chartwell”), the Investment Management segment provides advisory and sub-advisory investment management services primarily to institutional investors, mutual funds and individual investors. It also supports marketing efforts for Chartwell’s proprietary investment products through Chartwell TSC Securities Corp., our registered broker/dealer subsidiary (“CTSC Securities”). The Investment Management segment generates its revenue from investment management fees earned on assets under management and its largest expenses are salaries and related employee benefits.

This discussion and analysis presents our financial condition and results of operations on a consolidated basis, except where significant segment disclosures are necessary to better explain the operations of each segment and related variances. In particular, the discussion and analysis of non-interest income and non-interest expense is reported by segment.

We measure our performance primarily through our net income available to common shareholders, earnings per common share and total revenue. Other salient metrics include the ratio of allowance for loan losses to loans; net interest margin; the efficiency ratio of the Bank segment; assets under management; EBITDA of the Investment Management segment; return on average assets; return on average common equity; and regulatory leverage and risk-based capital ratios.

## Executive Overview

TriState Capital Holdings, Inc. (“we,” “us,” “our,” the “holding company,” the “parent company,” or the “Company”) is a bank holding company headquartered in Pittsburgh, Pennsylvania. The Company has three wholly owned subsidiaries: the Bank, Chartwell, and CTSC Securities. Through the Bank, we serve middle-market businesses in our primary markets throughout the states of Pennsylvania, Ohio, New Jersey and New York. We also serve high-net-worth individuals and trusts on a national basis through our private banking channel. We market and distribute our products and services through a scalable, branchless banking model, which creates significant operating leverage throughout our business as we continue to grow. Through Chartwell, our investment management subsidiary, we provide investment management

services primarily to institutional investors, mutual funds and individual investors on a national basis. Chartwell's assets under management were \$9.87 billion as of September 30, 2018, which included \$1.07 billion from the Company's acquisition of Columbia Partners, L.L.C. ("Columbia"), which closed on April 6, 2018, (the "Columbia acquisition"). CTSC Securities, our broker/dealer subsidiary, supports marketing efforts for Chartwell's proprietary investment products that require SEC or FINRA licensing.

For the three months ended September 30, 2018, our net income available to common shareholders was \$13.6 million compared to \$10.0 million for the same period in 2017, an increase of \$3.6 million, or 35.9%. This increase was primarily due to the net impact of (1) a \$5.2 million, or 22.1%, increase in net interest income; (2) lower provision for loan losses of \$517,000; (3) an increase in non-interest income of \$1.0 million, or 8.9%; (4) an increase of \$2.9 million, or 12.6%, in non-interest expense; (5) a \$377,000 decrease in income taxes; and (6) an increase in preferred stock dividends of \$679,000.

For the nine months ended September 30, 2018, our net income available to common shareholders was \$37.9 million compared to \$25.9 million for the same period in 2017, an increase of \$11.9 million, or 45.9%. This increase was primarily due to the impact of (1) a \$17.3 million, or 26.0%, increase in net interest income; (2) lower provision for loan losses of \$666,000; (3) an increase in non-interest income of \$1.5 million, or 4.4%; (4) an increase of \$9.1 million, or 13.8%, in non-interest expense; (5) a \$3.0 million decrease in income taxes; and (6) an increase in preferred stock dividends of \$1.4 million.



Table of Contents

Our diluted EPS was \$0.47 for the three months ended September 30, 2018, compared to \$0.35 for the same period in 2017, and \$1.31 for the nine months ended September 30, 2018, compared to \$0.90 for the same period in 2017. The increases in diluted EPS are a result of our continued growth in net income available to common shareholders.

For the three months ended September 30, 2018, total revenue increased \$6.3 million, or 17.8%, to \$41.6 million from \$35.3 million for the same period in 2017. For the nine months ended September 30, 2018, total revenue increased \$19.1 million, or 18.9%, to \$120.2 million from \$101.1 million for the same period in 2017. Increases in total revenue for the three and nine months ended September 30, 2018, were driven largely by higher net interest income and swap fees for the Bank, as well as higher investment management fees for Chartwell.

Our annualized net interest margin was 2.22% and 2.27% for the three months ended September 30, 2018 and 2017, respectively, and 2.31% and 2.25% for the nine months ended September 30, 2018 and 2017, respectively. The increase in net interest margin for the nine months ended September 30, 2018, was driven by an increase in the yield on loans, partially offset by an increase in the cost of interest-bearing liabilities.

Our annualized ratio of non-interest expense to average assets was 1.90% and 2.09% for the three months ended September 30, 2018 and 2017, respectively, and 1.98% and 2.11% for the nine months ended September 30, 2018 and 2017, respectively. The Bank's efficiency ratio was 52.86% and 54.81% for the three months ended September 30, 2018 and 2017, respectively, and 52.55% and 55.88% for the nine months ended September 30, 2018 and 2017, respectively. These improvements in the Bank's efficiency ratio were a result of growth in total revenue, as well as moderating growth in non-interest expense.

Our annualized return on average assets was 1.01% and 0.92% for the three months ended September 30, 2018 and 2017, respectively, and 1.00% and 0.83% for the nine months ended September 30, 2018 and 2017, respectively. Our annualized return on average common equity was 12.78% and 10.69% for the three months ended September 30, 2018 and 2017, respectively, and 12.36% and 9.52% for the nine months ended September 30, 2018 and 2017, respectively. Both of these ratios increased primarily due to continued growth in earnings.

Our total assets were \$5.57 billion as of September 30, 2018, an increase of \$795.4 million, or 22.3% on an annualized basis, from December 31, 2017. Loans held-for-investment grew by \$574.1 million to \$4.76 billion as of September 30, 2018, an annualized increase of 18.3%, from December 31, 2017, as a result of growth in both our commercial and private banking loan portfolios. Total deposits increased \$767.0 million, or 25.7% on an annualized basis, to \$4.75 billion as of September 30, 2018, from December 31, 2017.

Our ratio of adverse rated credits to total loans declined to 0.59% at September 30, 2018, from 0.71% at December 31, 2017. Our ratio of allowance for loan losses to loans was 0.29% and 0.34% as of September 30, 2018 and December 31, 2017, respectively, reflecting low non-performing loans and lower levels of provision required for private banking loans. We had a credit to provision for loan losses of \$234,000 for the three months ended September 30, 2018, compared to provision expense of \$283,000 for the three months ended September 30, 2017. Provision for loan losses was \$376,000 and \$1.0 million for the nine months ended September 30, 2018 and 2017, respectively.

Our book value per common share increased \$1.23 to \$14.84 as of September 30, 2018, from \$13.61 as of December 31, 2017, largely as a result of an increase in our net income during the nine months ended September 30, 2018.

Non-GAAP Financial Measures

The information set forth above contains certain financial information determined by methods other than in accordance with GAAP. These non-GAAP financial measures are “tangible common equity,” “tangible book value per common share,” “total revenue,” “efficiency ratio,” and “EBITDA.” Although we believe these non-GAAP financial measures provide management and our investors with a more detailed understanding of our performance, these measures are not necessarily comparable to similar measures that may be presented by other companies. The non-GAAP financial measures presented herein are calculated as follows:

“Tangible common equity” is defined as common shareholders’ equity reduced by intangible assets, including goodwill. We believe this measure is important to management and investors to better understand and assess changes from period to period in common shareholders’ equity exclusive of changes in intangible assets associated with prior acquisitions. Intangible assets are created when we buy businesses that add relationships and revenue to our Company. Intangible assets have the effect of increasing both equity and assets, while not increasing our tangible equity or tangible assets.

“Tangible book value per common share” is defined as common shareholders’ equity reduced by intangible assets, including goodwill, divided by common shares outstanding. We believe this measure is important to many investors who are interested in changes from period to period in book value per common share exclusive of changes in intangible assets associated with prior acquisitions.

Table of Contents

“Total revenue” is defined as net interest income and non-interest income, excluding gains and losses on the sale and call of debt securities. We believe adjustments made to our operating revenue allow management and investors to better assess our core operating revenue by removing the volatility that is associated with certain items that are unrelated to our core business.

“Efficiency ratio” is defined as non-interest expense divided by our total revenue. We believe this measure allows management and investors to better assess our operating expenses in relation to our core operating revenue by removing the volatility that is associated with certain one-time items that are unrelated to our core business, particularly at the Bank.

“EBITDA” is defined as net income before interest expense, income tax expense, depreciation expense and intangible amortization expense. We use EBITDA particularly to assess the strength of our investment management business. We believe this measure is important because it allows management and investors to better assess our investment management performance in relation to our core operating earnings by excluding certain non-cash items and the volatility that is associated with certain discrete items that are unrelated to our core business.

(Dollars in thousands, except per share data)	September 30, December 31,	
	2018	2017
Tangible book value per common share:		
Common shareholders' equity	\$ 429,152	\$ 389,071
Less: goodwill and other intangible assets	68,365	65,358
Tangible common equity (numerator)	\$ 360,787	\$ 323,713
Common shares outstanding (denominator)	28,920,978	28,591,101
Tangible book value per common share	\$ 12.47	\$ 11.32

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Total revenue:				
Net interest income	\$28,819	\$23,605	\$83,872	\$66,554
Total non-interest income	12,751	11,706	36,342	34,827
Less: net gain on the sale and call of debt securities	—	15	6	254
Total revenue	\$41,570	\$35,296	\$120,208	\$101,127

**BANK SEGMENT**

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Bank total revenue:				
Net interest income	\$29,316	\$24,114	\$85,397	\$68,037
Total non-interest income	2,850	2,492	7,881	7,142
Less: net gain on the sale and call of debt securities	—	15	6	254
Bank total revenue	\$32,166	\$26,591	\$93,272	\$74,925
Bank efficiency ratio:				
Total non-interest expense (numerator)	\$17,002	\$14,575	\$49,011	\$41,868
Total revenue (denominator)	\$32,166	\$26,591	\$93,272	\$74,925

Bank efficiency ratio	52.86	%	54.81	%	52.55	%	55.88	%
-----------------------	-------	---	-------	---	-------	---	-------	---

45

---

Table of Contents

## INVESTMENT MANAGEMENT SEGMENT

	Three Months		Nine Months	
	Ended		Ended	
(Dollars in thousands)	September 30,		September 30,	
	2018	2017	2018	2017
Investment Management EBITDA:				
Net income	\$957	\$620	\$2,383	\$2,471
Interest expense	—	—	—	—
Income taxes expense	282	435	786	1,587
Depreciation expense	126	130	376	369
Intangible amortization expense	502	463	1,465	1,388
EBITDA	\$1,867	\$1,648	\$5,010	\$5,815

Table of Contents

## Results of Operations

## Net Interest Income

Net interest income represents the difference between the interest received on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the volume of interest-earning assets and interest-bearing liabilities and changes in interest yields earned and interest rates paid. Maintaining profitable spreads between earning assets and interest-bearing liabilities is important to our financial performance because net interest income comprised 69.8% and 65.8% of total revenue for the nine months ended September 30, 2018 and 2017, respectively.

The table below reflects an analysis of net interest income, on a fully taxable equivalent basis, for the periods indicated. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the statutory federal income tax rate of 21% for 2018 and 35% for 2017.

	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
(Dollars in thousands)	2018	2017	2018	2017	
Interest income	\$52,424	\$35,575	\$141,624	\$96,427	
Fully taxable equivalent adjustment	27	60	84	181	
Interest income adjusted	52,451	35,635	141,708	96,608	
Less: interest expense	23,605	11,970	57,752	29,873	
Net interest income adjusted	\$28,846	\$23,665	\$83,956	\$66,735	
Yield on earning assets	4.04	% 3.42	% 3.91	% 3.25	%
Cost of interest-bearing liabilities	2.05	% 1.28	% 1.79	% 1.13	%
Net interest spread	1.99	% 2.14	% 2.12	% 2.12	%
Net interest margin <sup>(1)</sup>	2.22	% 2.27	% 2.31	% 2.25	%

<sup>(1)</sup> Net interest margin is calculated on a fully taxable equivalent basis.

The following table provides information regarding the average balances and yields earned on interest-earning assets and the average balances and rates paid on interest-bearing liabilities for the three months ended September 30, 2018 and 2017. Non-accrual loans are included in the calculation of average loan balances, while interest collected on non-accrual loans is recorded as a reduction to principal. Where applicable, interest income and yield are reflected on a fully taxable equivalent basis, and have been adjusted based on the statutory federal income tax rate of 21% for 2018 and 35% for 2017.

Table of Contents

(Dollars in thousands)	Three Months Ended September 30,						
	2018			2017			
	Average Balance	Interest Income (1)/ Expense	Average Yield/ Rate		Average Balance	Interest Income (1)/ Expense	Average Yield/ Rate
<b>Assets</b>							
Interest-earning deposits	\$207,346	\$1,015	1.94 %		\$131,115	\$420	1.27 %
Federal funds sold	9,563	46	1.91 %		6,845	20	1.16 %
Debt securities available-for-sale	236,053	1,836	3.09 %		132,166	697	2.09 %
Debt securities held-to-maturity	76,341	699	3.63 %		60,220	631	4.16 %
Equity securities	11,219	71	2.51 %		8,575	63	2.91 %
FHLB stock	11,342	314	10.98 %		12,582	200	6.31 %
Total loans	4,594,755	48,470	4.19 %		3,787,231	33,604	3.52 %
Total interest-earning assets	5,146,619	52,451	4.04 %		4,138,734	35,635	3.42 %
Other assets	223,996				194,405		
Total assets	\$5,370,615				\$4,333,139		
<b>Liabilities and Shareholders' Equity</b>							
<b>Interest-bearing deposits:</b>							
Interest-bearing checking accounts	\$657,402	\$3,267	1.97 %		\$371,526	\$1,173	1.25 %
Money market deposit accounts	2,506,334	12,428	1.97 %		2,021,755	6,263	1.23 %
Certificates of deposit	1,155,888	6,487	2.23 %		1,003,280	3,168	1.25 %
<b>Borrowings:</b>							
FHLB borrowings	221,576	853	1.53 %		271,304	790	1.16 %
Line of credit borrowings	1,277	16	4.97 %		2,571	22	3.39 %
Subordinated notes payable, net	34,832	554	6.31 %		34,629	554	6.35 %
Total interest-bearing liabilities	4,577,309	23,605	2.05 %		3,705,065	11,970	1.28 %
Noninterest-bearing deposits	253,033				205,368		
Other liabilities	78,802				50,332		
Shareholders' equity	461,471				372,374		
Total liabilities and shareholders' equity	\$5,370,615				\$4,333,139		
Net interest income <sup>(1)</sup>		\$28,846				\$23,665	
Net interest spread			1.99 %				2.14 %
Net interest margin <sup>(1)</sup>			2.22 %				2.27 %

<sup>(1)</sup> Interest income and net interest margin are calculated on a fully taxable equivalent basis.

Net Interest Income for the Three Months Ended September 30, 2018 and 2017. Net interest income, calculated on a fully taxable equivalent basis, increased \$5.2 million, or 21.9%, to \$28.8 million for the three months ended September 30, 2018, from \$23.7 million for the same period in 2017. The increase in net interest income for the three months ended September 30, 2018, was primarily attributable to a \$1.01 billion, or 24.4%, increase in average interest-earning assets driven primarily by loan growth. The increase in net interest income reflects an increase of \$16.8 million, or 47.2%, in interest income, partially offset by an increase of \$11.6 million, or 97.2%, in interest expense. Net interest margin decreased to 2.22% for the three months ended September 30, 2018, as compared to 2.27% for the same period in 2017, driven by higher cost of deposits, partially offset by higher yield on our loan portfolio.

The increase in interest income on interest-earning assets was primarily the result of an increase in average total loans, which is our primary earning asset, of \$807.5 million, or 21.3%, as well as an increase of 67 basis points in yield on our loans for the three months ended September 30, 2018, compared to the same period in 2017. The most significant factor driving the yield on our loan portfolio was the effect of the Federal Reserve's increases in the target federal funds rate on our floating-rate loans, which was partially offset by the shift toward lower-risk marketable-securities-backed private banking loans. The overall yield on interest-earning assets increased 62 basis points to 4.04% for the three months ended September 30, 2018, as compared to 3.42% for the same period in 2017, primarily from the higher yield on loans.

The increase in interest expense on interest-bearing liabilities was primarily the result of an increase of 77 basis points in the average rate paid on our interest-bearing liabilities, as well as an increase of \$872.2 million, or 23.5%, in average interest-bearing liabilities for the three months ended September 30, 2018, compared to the same period in 2017. The increase in average rate paid was reflective of



Table of Contents

increases in rates paid in all deposit categories, which was driven by the effect of the Federal Reserve's increases in the target federal funds rate on our variable-rate liabilities. The increase in average interest-bearing liabilities was driven primarily by an increase of \$484.6 million in average money market deposit accounts, an increase of \$285.9 million in average interest-bearing checking accounts and an increase of \$152.6 million in average certificates of deposits.

The following table analyzes the dollar amount of the change in interest income and interest expense with respect to the primary components of interest-earning assets and interest-bearing liabilities. The table shows the amount of the change in interest income or interest expense caused by either changes in outstanding balances or changes in interest rates for the three months ended September 30, 2018 compared to the same period in 2017. The effect of a change in balances is measured by applying the average rate during the first period to the balance ("volume") change between the two periods. The effect of changes in rate is measured by applying the change in rate between the two periods to the average volume during the first period.

(Dollars in thousands)	Three Months Ended		
	September 30, 2018 over 2017		
	Yield/Rate	Volume	Change <sup>(1)</sup>
Increase (decrease) in:			
Interest income:			
Interest-earning deposits	\$283	\$312	\$ 595
Federal funds sold	16	10	26
Debt securities available-for-sale	429	710	1,139
Debt securities held-to-maturity	(86 )	154	68
Equity securities	(10 )	18	8
FHLB stock	135	(21 )	114
Total loans	6,983	7,883	14,866
Total increase in interest income	7,750	9,066	16,816
Interest expense:			
Interest-bearing deposits:			
Interest-bearing checking accounts	895	1,199	2,094
Money market deposit accounts	4,407	1,758	6,165
Certificates of deposit	2,776	543	3,319
Borrowings:			
FHLB borrowings	225	(162 )	63
Line of credit borrowings	8	(14 )	(6 )
Subordinated notes payable, net	(3 )	3	—
Total increase in interest expense	8,308	3,327	11,635
Total increase (decrease) in net interest income	\$(558)	\$5,739	\$ 5,181

The change in interest income and expense due to changes in both composition and applicable yields/rates has been (1) allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

The following table provides information regarding the average balances and yields earned on interest-earning assets and the average balances and rates paid on interest-bearing liabilities for the nine months ended September 30, 2018 and 2017. Non-accrual loans are included in the calculation of average loan balances, while interest payments collected on non-accrual loans are recorded as a reduction to principal. Where applicable, interest income and yield are reflected on a fully taxable equivalent basis, and have been adjusted based on the statutory federal income tax rate of 21% for 2018 and 35% for 2017.



Table of Contents

(Dollars in thousands)	Nine Months Ended September 30,				2017	
	2018					
	Average Balance	Interest Income (1)/ Expense	Average Yield/ Rate	Average Balance	Interest Income (1)/ Expense	Average Yield/ Rate
<b>Assets</b>						
Interest-earning deposits	\$ 181,368	\$ 2,436	1.80 %	\$ 121,640	\$ 981	1.08 %
Federal funds sold	7,761	100	1.72 %	6,501	45	0.93 %
Debt securities available-for-sale	187,041	4,150	2.97 %	145,169	2,215	2.04 %
Debt securities held-to-maturity	69,217	1,973	3.81 %	58,744	1,845	4.20 %
Equity securities	9,498	200	2.82 %	8,496	207	3.26 %
FHLB stock	14,856	738	6.64 %	13,803	450	4.36 %
Total loans	4,381,057	132,111	4.03 %	3,619,679	90,865	3.36 %
Total interest-earning assets	4,850,798	141,708	3.91 %	3,974,032	96,608	3.25 %
Other assets	215,388			189,483		
Total assets	\$ 5,066,186			\$ 4,163,515		
<b>Liabilities and Shareholders' Equity</b>						
<b>Interest-bearing deposits:</b>						
Interest-bearing checking accounts	\$ 576,032	\$ 7,464	1.73 %	\$ 298,631	\$ 2,295	1.03 %
Money market deposit accounts	2,369,910	30,263	1.71 %	1,951,258	15,511	1.06 %
Certificates of deposit	1,021,248	14,552	1.91 %	954,352	8,007	1.12 %
<b>Borrowings:</b>						
FHLB borrowings	316,264	3,743	1.58 %	307,143	2,360	1.03 %
Line of credit borrowings	2,202	69	4.19 %	1,375	39	3.79 %
Subordinated notes payable, net	34,781	1,661	6.38 %	34,579	1,661	6.42 %
Total interest-bearing liabilities	4,320,437	57,752	1.79 %	3,547,338	29,873	1.13 %
Noninterest-bearing deposits	242,325			206,063		
Other liabilities	68,064			45,596		
Shareholders' equity	435,360			364,518		
Total liabilities and shareholders' equity	\$ 5,066,186			\$ 4,163,515		
Net interest income <sup>(1)</sup>		\$ 83,956			\$ 66,735	
Net interest spread			2.12 %			2.12 %
Net interest margin <sup>(1)</sup>			2.31 %			2.25 %

<sup>(1)</sup>Interest income and net interest margin are calculated on a fully taxable equivalent basis.

Net Interest Income for the Nine Months Ended September 30, 2018 and 2017. Net interest income, calculated on a fully taxable equivalent basis, increased \$17.2 million, or 25.8%, to \$84.0 million for the nine months ended September 30, 2018, from \$66.7 million for the same period in 2017. The increase in net interest income for the nine months ended September 30, 2018, was primarily attributable to an \$876.8 million, or 22.1%, increase in average interest-earning assets driven primarily by loan growth. The increase in net interest income reflects an increase of \$45.1 million, or 46.7%, in interest income, partially offset by an increase of \$27.9 million, or 93.3%, in interest expense. Net interest margin was 2.31% for the nine months ended September 30, 2018, compared to 2.25% for the same period in 2017, driven by higher yield on our loan portfolio, partially offset by higher cost of deposits and FHLB borrowings.

The increase in interest income on interest-earning assets was primarily the result of an increase in average total loans, which is our primary earning asset, of \$761.4 million, or 21.0%, as well as an increase of 67 basis points in yield on our loans for the nine months ended September 30, 2018, compared to the same period in 2017. The most significant factor driving the yield on our loan portfolio was the effect of the Federal Reserve's increases in the target federal funds rate on our floating-rate loans, which was partially offset by the shift toward lower-risk marketable-securities-backed private banking loans. The overall yield on interest-earning assets increased 66 basis points to 3.91% for the nine months ended September 30, 2018, as compared to 3.25% for the same period in 2017, primarily from the higher loan yields.

The increase in interest expense on interest-bearing liabilities was primarily the result of an increase of 66 basis points in the average rate paid on our interest-bearing liabilities, as well as an increase of \$773.1 million, or 21.8%, in average interest-bearing liabilities for the nine months ended September 30, 2018, compared to the same period in 2017. The increase in average rate paid was reflective of

Table of Contents

increases in rates paid in all deposit categories and FHLB borrowings, which was driven by the effect of the Federal Reserve's increases in the target federal funds rate on our variable-rate liabilities. The increase in average interest-bearing liabilities was driven primarily by an increase of \$418.7 million in average money market deposit accounts, an increase of \$277.4 million in average interest-bearing checking accounts and an increase of \$66.9 million in average certificates of deposit.

The following table analyzes the dollar amount of the change in interest income and interest expense with respect to the primary components of interest-earning assets and interest-bearing liabilities. The table shows the amount of the change in interest income or interest expense caused by either changes in outstanding balances or changes in interest rates for the nine months ended September 30, 2018 compared to the same period in 2017. The effect of a change in balances is measured by applying the average rate during the first period to the balance ("volume") change between the two periods. The effect of changes in rate is measured by applying the change in rate between the two periods to the average volume during the first period.

(Dollars in thousands)	Nine Months Ended		
	September 30, 2018 over 2017		
	Yield/Rate	Volume	Change <sup>(1)</sup>
Increase (decrease) in:			
Interest income:			
Interest-earning deposits	\$837	\$618	\$1,455
Federal funds sold	45	10	55
Debt securities available-for-sale	1,183	752	1,935
Debt securities held-to-maturity	(181 )	309	128
Equity securities	(30 )	23	(7 )
FHLB stock	251	37	288
Total loans	20,167	21,079	41,246
Total increase in interest income	22,272	22,828	45,100
Interest expense:			
Interest-bearing deposits:			
Interest-bearing checking accounts	2,196	2,973	5,169
Money market deposit accounts	10,897	3,855	14,752
Certificates of deposit	5,948	597	6,545
Borrowings:			
FHLB borrowings	1,311	72	1,383
Line of credit borrowings	4	26	30
Subordinated notes payable, net	(10 )	10	—
Total increase in interest expense	20,346	7,533	27,879
Total increase in net interest income	\$1,926	\$15,295	\$17,221

The change in interest income and expense due to changes in both composition and applicable yields/rates has been (1) allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

## Provision for Loan Losses

The provision for loan losses represents our determination of the amount necessary to be recorded against the current period's earnings to maintain the allowance for loan losses at a level that is considered adequate in relation to the estimated losses inherent in the loan portfolio. For additional information regarding our allowance for loan losses, see "Allowance for Loan Losses."

Provision for Loan Losses for the Three Months Ended September 30, 2018 and 2017. We recorded a credit to provision for loan losses of \$234,000 for the three months ended September 30, 2018, compared to a provision of \$283,000 for the three months ended September 30, 2017. The credit to provision for loan losses for the three months ended September 30, 2018, was comprised of a net increase of \$230,000 in general reserves and an increase in specific reserves of \$100,000 on non-performing loans, more than offset by recoveries of \$564,000. The provision for loan losses for the three months ended September 30, 2017, was comprised of a net increase of \$206,000 of specific reserves on non-performing loans and a net increase in general reserves of \$219,000, partially offset by recoveries of \$142,000.

Provision for Loan Losses for the Nine Months Ended September 30, 2018 and 2017. We recorded a provision for loan losses of \$376,000 for the nine months ended September 30, 2018, compared to a provision of \$1.0 million for the nine months ended September 30, 2017. The provision for loan losses for the nine months ended September 30, 2018, was comprised of a net increase of \$1.2 million in general reserves and an increase in specific reserves of \$30,000 on non-performing loans, partially offset by recoveries of \$858,000. The provision

Table of Contents

for loan losses for the nine months ended September 30, 2017, was comprised of a net increase of \$967,000 of specific reserves on non-performing loans and a net increase in general reserves of \$553,000, partially offset by recoveries of \$478,000.

## Non-Interest Income

Non-interest income is an important component of our revenue and it is comprised primarily of investment management fees from Chartwell coupled with fees generated from loan and deposit relationships with our Bank customers, including swap transactions. The information provided under the caption “Parent and Other” represents general operating activity of the Company not considered to be a reportable segment, which includes parent company activity as well as eliminations and adjustments that are necessary for purposes of reconciliation to the consolidated amounts.

The following table presents the components of our non-interest income by operating segment for the three months ended September 30, 2018 and 2017:

(Dollars in thousands)	Three Months Ended September 30, 2018				Three Months Ended September 30, 2017			
	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Investment management fees	\$—	\$ 9,914	\$(86)	\$ 9,828	\$—	\$ 9,265	\$(51)	\$ 9,214
Service charges on deposits	146	—	—	146	96	—	—	96
Net gain on the sale and call of debt securities	—	—	—	—	15	—	—	15
Swap fees	1,881	—	—	1,881	1,391	—	—	1,391
Commitment and other loan fees	373	—	—	373	423	—	—	423
Other income <sup>(1)</sup>	450	—	73	523	567	—	—	567
Total non-interest income	\$2,850	\$ 9,914	\$(13)	\$ 12,751	\$2,492	\$ 9,265	\$(51)	\$ 11,706

Other income largely includes items such as income from bank owned life insurance (“BOLI”), change in fair value <sup>(1)</sup> on swaps and equity securities, gains on the sale of loans or other real estate owned (“OREO”), and other general operating income.

Non-Interest Income for the Three Months Ended September 30, 2018 and 2017. Our non-interest income was \$12.8 million for the three months ended September 30, 2018, an increase of \$1.0 million, or 8.9%, from \$11.7 million for the same period in 2017. This increase was primarily related to increases in swap fees and investment management fees, partially offset by a decrease in other income, as follows:

## Bank Segment:

- Swap fees increased \$490,000 for the three months ended September 30, 2018, compared to the same period in 2017, driven by increases in customer demand for long-term interest rate protection. The level and frequency of income associated with swap transactions can vary materially from period to period, based on customers’ behavior and market conditions.

Other income decreased \$117,000 for the three months ended September 30, 2018, compared to the same period in 2017, primarily due to lower gain on the sale of OREO.

## Investment Management Segment:

Investment management fees increased \$649,000 for the three months ended September 30, 2018, compared to the same period in 2017, which included higher assets under management related to the Columbia acquisition, which closed on April 6, 2018. Assets under management were \$9.87 billion as of September 30, 2018, an increase \$1.67 billion from September 30, 2017.



Table of Contents

The following table presents the components of our non-interest income by operating segment for the nine months ended September 30, 2018 and 2017:

(Dollars in thousands)	Nine Months Ended September 30, 2018				Nine Months Ended September 30, 2017			
	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Investment management fees	\$—	\$ 28,621	\$(199)	\$ 28,422	\$—	\$ 27,843	\$(159)	\$ 27,684
Service charges on deposits	420	—	—	420	287	—	—	287
Net gain on the sale and call of debt securities	6	—	—	6	254	—	—	254
Swap fees	5,066	—	—	5,066	3,708	—	—	3,708
Commitment and other loan fees	1,036	—	—	1,036	1,240	—	—	1,240
Other income <sup>(1)</sup>	1,353	1	38	1,392	1,653	1	—	1,654
Total non-interest income	\$7,881	\$ 28,622	\$(161)	\$ 36,342	\$7,142	\$ 27,844	\$(159)	\$ 34,827

(1) Other income largely includes items such as income from BOLI, change in fair value on swaps and equity securities, gains on the sale of loans or OREO, and other general operating income.

Non-Interest Income for the Nine Months Ended September 30, 2018 and 2017. Our non-interest income was \$36.3 million for the nine months ended September 30, 2018, an increase of \$1.5 million, or 4.4%, from \$34.8 million for the same period in 2017. This increase was primarily related to increases in service charges on deposits, swap fees and investment management fees, partially offset by decreases in the net gain on the sale and call of debt securities, commitment and other loan fees and other income, as follows:

#### Bank Segment:

Service charges on deposits increased \$133,000 for the nine months ended September 30, 2018, compared to the same period in 2017, due to higher fee income related to liquidity and treasury management services.

Swap fees increased \$1.4 million for the nine months ended September 30, 2018, compared to the same period in 2017, driven by increases in customer demand for long-term interest rate protection. The level and frequency of income associated with swap transactions can vary materially from period to period, based on customers' expectations of market conditions and term loan originations.

- Net gain on the sale and call of debt securities was \$6,000 for the nine months ended September 30, 2018, compared to \$254,000 for the same period in 2017.

Commitment and other loan fees decreased \$204,000 for the nine months ended September 30, 2018, compared to the same period in 2017, driven largely by lower unused commitment fee income and lower letter of credit fee income.

Other income decreased \$300,000 for the nine months ended September 30, 2018, compared to the same period in 2017, primarily due to lower gain on the sale of OREO, lower BOLI income and lower miscellaneous income.

#### Investment Management Segment:

Investment management fees increased \$778,000 for the nine months ended September 30, 2018, compared to the same period in 2017, which included higher assets under management related to the of Columbia acquisition and also reflected a high proportion of gross inflows into lower average fee rate products, particularly fixed income, relative to outflows from higher fee products and market depreciation in higher fee equity products.

## Non-Interest Expense

Our non-interest expense represents the operating cost of maintaining and growing our business. The largest portion of non-interest expense for each segment is compensation and employee benefits, which include employee payroll expense as well as the cost of incentive compensation, benefit plans, health insurance and payroll taxes, all of which are impacted by the growth in our employee base, coupled with increases in the level of compensation and benefits of our existing employees. The information provided under the caption “Parent and Other” represents general operating activity of the Company not considered to be a reportable segment, which includes parent company activity as well as eliminations and adjustments that are necessary for purposes of reconciliation to the consolidated amounts.

Table of Contents

The following table presents the components of our non-interest expense by operating segment for the three months ended September 30, 2018 and 2017:

(Dollars in thousands)	Three Months Ended September 30, 2018				Three Months Ended September 30, 2017			
	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Compensation and employee benefits	\$ 10,826	\$ 6,141	\$ —	\$ 16,967	\$ 9,035	\$ 5,648	\$ —	\$ 14,683
Premises and occupancy costs	1,138	294	—	1,432	981	276	—	1,257
Professional fees	814	190	(115)	889	778	199	(9)	968
FDIC insurance expense	1,053	—	—	1,053	1,121	—	—	1,121
General insurance expense	211	67	—	278	175	70	—	245
State capital shares tax	485	—	—	485	398	—	—	398
Travel and entertainment expense	727	259	—	986	575	253	—	828
Intangible amortization expense	—	502	—	502	—	463	—	463
Other operating expenses <sup>(1)</sup>	1,748	1,222	124	3,094	1,512	1,301	36	2,849
Total non-interest expense	\$ 17,002	\$ 8,675	\$ 9	\$ 25,686	\$ 14,575	\$ 8,210	\$ 27	\$ 22,812
Full-time equivalent employees <sup>(2)</sup>	188	65	—	253	165	67	—	232

Other operating expenses largely include items such as organizational dues and subscriptions, charitable

<sup>(1)</sup> contributions, data processing, investment research fees, sub-advisory fees, telephone, marketing, employee-related expenses and other general operating expenses.

<sup>(2)</sup> Full-time equivalent employees shown are as of the end of the periods presented.

Non-Interest Expense for the Three Months Ended September 30, 2018 and 2017. Our non-interest expense for the three months ended September 30, 2018, increased \$2.9 million, or 12.6%, as compared to the same period in 2017, of which \$2.4 million relates to the increase in expenses of the Bank segment and \$465,000 relates to the increase in expenses of the Investment Management segment. The significant changes in each segment's expenses are as follows:

**Bank Segment:**

The Bank's compensation and employee benefits costs for the three months ended September 30, 2018, increased by \$1.8 million compared to the same period in 2017, primarily due to an increase in the number of full-time equivalent employees, increases in the overall annual wage and benefits costs of our existing employees, and increases in incentive and stock-based compensation expenses.

Premises and occupancy costs for the three months ended September 30, 2018, increased by \$157,000 compared to the same period in 2017, primarily due to continued improvements to our infrastructure.

Travel and entertainment expense for the three months ended September 30, 2018, increased by \$152,000 compared to the same period in 2017, primarily due to a higher level of officer and relationship manager business development activity.

Other operating expenses for the three months ended September 30, 2018, increased by \$236,000 compared to the same period in 2017, primarily related to higher data processing expenses.

**Investment Management Segment:**

Chartwell's compensation and employee benefits costs for the three months ended September 30, 2018, increased by \$493,000 compared to the same period in 2017, primarily due to increases in the overall annual wage and benefits costs of our existing employees, and increases in incentive and stock-based compensation expenses.

Table of Contents

The following table presents the components of our non-interest expense by operating segment for the nine months ended September 30, 2018 and 2017:

(Dollars in thousands)	Nine Months Ended September 30, 2018				Nine Months Ended September 30, 2017			
	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Compensation and employee benefits	\$30,431	\$ 17,746	\$ —	\$ 48,177	\$25,737	\$ 17,061	\$ —	\$ 42,798
Premises and occupancy costs	3,128	858	—	3,986	2,887	876	—	3,763
Professional fees	2,569	879	90	3,538	2,222	476	(56)	2,642
FDIC insurance expense	3,333	—	—	3,333	3,074	—	—	3,074
General insurance expense	565	202	—	767	563	242	—	805
State capital shares tax	1,396	—	—	1,396	1,148	—	—	1,148
Travel and entertainment expense	1,915	723	—	2,638	1,514	676	—	2,190
Intangible amortization expense	—	1,465	—	1,465	—	1,388	—	1,388
Other operating expenses <sup>(1)</sup>	5,674	3,580	300	9,554	4,723	3,067	156	7,946
Total non-interest expense	\$49,011	\$ 25,453	\$ 390	\$ 74,854	\$41,868	\$ 23,786	\$ 100	\$ 65,754

Other operating expenses largely include items such as organizational dues and subscriptions, charitable

<sup>(1)</sup> contributions, data processing, investment research fees, sub-advisory fees, telephone, marketing, employee-related expenses and other general operating expenses.

Non-Interest Expense for the Nine Months Ended September 30, 2018 and 2017. Our non-interest expense for the nine months ended September 30, 2018, increased \$9.1 million, or 13.8%, as compared to the same period in 2017, of which \$7.1 million relates to the increase in expenses of the Bank segment and \$1.7 million relates to the increase in expenses of the Investment Management segment. The significant changes in each segment's expenses are as follows:

#### Bank Segment:

The Bank's compensation and employee benefits costs for the nine months ended September 30, 2018, increased by \$4.7 million compared to the same period in 2017, primarily due to an increase in the number of full-time equivalent employees, increases in the overall annual wage and benefits costs of our existing employees, and increases in incentive and stock-based compensation expenses.

Premises and occupancy costs for the nine months ended September 30, 2018, increased by \$241,000 compared to the same period in 2017, primarily due to continued improvements to our infrastructure.

Professional fees for the nine months ended September 30, 2018, increased by \$347,000 compared to the same period in 2017, due to higher legal and other professional fees.

FDIC insurance expense for the nine months ended September 30, 2018, increased by \$259,000 compared to the same period in 2017, due to the increase in the Bank's assets.

State capital shares tax expense for the nine months ended September 30, 2018, increased by \$248,000 compared to the same period in 2017, largely due to the increase in the Bank's equity capital.

Travel and entertainment expense for the nine months ended September 30, 2018, increased by \$401,000 compared to the same period in 2017, primarily due to a higher level of officer and relationship manager business development activity.

Other operating expenses for the nine months ended September 30, 2018, increased by \$951,000 compared to the same period in 2017, primarily related to higher data processing expenses.

Investment Management Segment:

Chartwell's compensation and employee benefits costs for the nine months ended September 30, 2018, increased by \$685,000 compared to the same period in 2017, primarily due to increases in the overall annual wage and benefits costs of our existing employees, and increases in incentive and stock-based compensation expenses.

Professional fees for the nine months ended September 30, 2018, increased by \$403,000 compared to the same period in 2017, which included costs related to the Columbia acquisition, as well as higher legal and audit fees.

## Table of Contents

Other operating expenses for the nine months ended September 30, 2018, increased by \$513,000 compared to the same period in 2017, primarily due to higher investment research fees, partially offset by lower bad debt expense.

### Income Taxes

We utilize 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. We evaluate whether it is more likely than not that we will be able to realize the benefit of identified deferred tax assets.

Income Taxes for the Three Months Ended September 30, 2018 and 2017. For the three months ended September 30, 2018, we recognized income tax expense of \$1.8 million, or 11.2% of income before tax, as compared to income tax expense of \$2.2 million, or 17.9% of income before tax, for the same period in 2017. Our effective tax rate of 11.2% for the three months ended September 30, 2018, decreased as compared to the same period in the prior year largely due to the decrease in the federal income tax rate from 35% to 21% as a result of recent tax legislation.

Income Taxes for the Nine Months Ended September 30, 2018 and 2017. For the nine months ended September 30, 2018, we recognized income tax expense of \$5.7 million, or 12.6% of income before tax, as compared to income tax expense of \$8.6 million, or 25.0% of income before tax, for the same period in 2017. Our effective tax rate of 12.6% for the nine months ended September 30, 2018, decreased as compared to the same period in the prior year largely due to the decrease in the federal income tax rate from 35% to 21% and the benefit of an additional solar power tax credit recognized in the nine months ended September 30, 2018.

### Financial Condition

Our total assets as of September 30, 2018, were \$5.57 billion, an increase of \$795.4 million, or 22.3% on an annualized basis, from December 31, 2017, driven primarily by growth in our loan and investment portfolios. As of September 30, 2018, our loan portfolio totaled \$4.76 billion, an increase of \$574.1 million, or 18.3% on an annualized basis, from December 31, 2017. Total investment securities increased \$172.6 million, or 104.6% on an annualized basis, to \$393.1 million as of September 30, 2018, from December 31, 2017, primarily as a result of the net activity of purchases, calls, maturities and sales of certain securities. Cash and cash equivalents increased \$30.4 million to \$186.5 million as of September 30, 2018, from December 31, 2017. As of September 30, 2018, our total deposits were \$4.75 billion, an increase of \$767.0 million, or 25.7% annualized, from December 31, 2017. Net borrowings decreased \$73.5 million to \$262.4 million as of September 30, 2018, from December 31, 2017. Our shareholders' equity increased \$78.5 million to \$467.6 million as of September 30, 2018, from December 31, 2017. This increase was primarily the result of net income of \$39.3 million, the issuance of \$38.5 million in preferred stock and \$6.1 million in stock-based compensation, partially offset by purchases of treasury stock totaling \$4.6 million.

### Loans

Our loan portfolio, which represents our largest earning asset, primarily consists of loans to our private banking clients, commercial and industrial loans, and real estate loans secured by commercial properties. As of September 30, 2018, 91.6% of our loans had a floating rate.

The following table presents the composition of our loan portfolio as of the dates indicated:

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

(Dollars in thousands)	September 30, 2018		December 31, 2017	
	Outstandingof Loans	Percent	Outstandingof Loans	Percent
Private banking loans	\$2,627,749	55.2 %	\$2,265,737	54.1 %
Middle-market banking loans:				
Commercial and industrial	771,546	16.2 %	667,684	16.0 %
Commercial real estate	1,359,061	28.6 %	1,250,823	29.9 %
Total middle-market banking loans	2,130,607	44.8 %	1,918,507	45.9 %
Loans held-for-investment	\$4,758,356	100.0 %	\$4,184,244	100.0 %

Loans Held-for-Investment. Loans held-for-investment increased by \$574.1 million, or 18.3% on an annualized basis, to \$4.76 billion as of September 30, 2018, as compared to December 31, 2017. Our growth for the nine months ended September 30, 2018, was comprised



Table of Contents

of an increase in private banking loans of \$362.0 million, an increase in commercial and industrial loans of \$103.9 million, and an increase in commercial real estate loans of \$108.2 million.

## Primary Loan Categories

**Private Banking Loans.** Our private banking loans include personal and commercial loans that are sourced through our private banking channel, including referral relationships with financial intermediaries, which operates on a national basis. These loans primarily consist of loans made to high-net-worth individuals, trusts and businesses that are secured by cash, marketable securities, cash value life insurance, residential property or other financial assets. The primary source of repayment for these loans is the income and assets of the borrower. We also have a limited number of unsecured loans and lines of credit in our private banking loan portfolio.

As of September 30, 2018, there were \$2.53 billion, or 96.1%, of private banking loans that were secured by cash, marketable securities or cash value life insurance as compared to \$2.14 billion, or 94.6%, as of December 31, 2017. Our private banking lines of credit are typically due on demand. The growth in these loans is expected to continue as a result of our focus on this portion of our private banking business as we believe we have strong competitive advantages in this line of business. These loans tend to have a lower risk profile and are an efficient use of capital because they typically are zero percent risk-weighted for regulatory capital purposes. On a daily basis, we monitor the collateral of the loans secured by cash, marketable securities or cash value life insurance, which further reduces the risk profile of the private banking portfolio. Since inception, we have had no charge-offs related to our loans secured by cash, marketable securities or cash value life insurance.

Loans sourced through our private banking channel also include loans that are classified for regulatory purposes as commercial, most of which are secured by cash, marketable securities or cash value life insurance. The table below includes all loans made through our private banking channel, by collateral type, as of the dates indicated.

(Dollars in thousands)	September 30, December 31,	
	2018	2017
Private banking loans:		
Secured by cash, marketable securities or cash value life insurance	\$ 2,525,630	\$ 2,142,384
Secured by real estate	74,636	93,169
Other	27,483	30,184
Total private banking loans	\$ 2,627,749	\$ 2,265,737

As of September 30, 2018, there were \$2.50 billion of total private banking loans with a floating interest rate and \$128.6 million with a fixed interest rate, as compared to \$2.15 billion and \$111.8 million, respectively, as of December 31, 2017.

**Middle-Market Banking - Commercial and Industrial Loans.** Our commercial and industrial 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, except for certain commercial loans that are secured by marketable securities.

As of September 30, 2018, there were \$647.7 million of total commercial and industrial loans with a floating interest rate and \$123.9 million with a fixed interest rate, as compared to \$576.5 million and \$91.2 million, respectively, as of December 31, 2017.

**Middle-Market Banking - Commercial Real Estate Loans.** Our commercial real estate 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. 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. 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. The primary source of repayment for commercial real estate loans secured by owner-occupied properties is cash flow from the borrower's operations. There were \$173.5 million and \$144.7 million of owner-occupied commercial real estate loans as of September 30, 2018 and December 31, 2017, respectively.

As of September 30, 2018, there were \$1.21 billion of total commercial real estate loans with a floating interest rate and \$146.9 million with a fixed interest rate, as compared to \$1.07 billion and \$178.1 million, respectively, as of December 31, 2017.

Table of Contents

## Loan Maturities and Interest Rate Sensitivity

The following table presents the contractual maturity ranges and the amount of such loans with fixed and adjustable rates in each maturity range as of the date indicated.

(Dollars in thousands)	September 30, 2018			
	One Year or Less <sup>(1)</sup>	One to Five Years	Greater Than Five Years	Total
Loan maturity:				
Private banking	\$2,462,311	\$65,235	\$100,203	\$2,627,749
Commercial and industrial	212,784	399,067	159,695	771,546
Commercial real estate	237,781	565,352	555,928	1,359,061
Loans held-for-investment	\$2,912,876	\$1,029,654	\$815,826	\$4,758,356
Interest rate sensitivity:				
Fixed interest rates	\$138,386	\$110,924	\$150,040	\$399,350
Floating or adjustable interest rates	2,774,490	918,730	665,786	4,359,006
Loans held-for-investment	\$2,912,876	\$1,029,654	\$815,826	\$4,758,356

<sup>(1)</sup> The loans outstanding reflected in the One Year or Less category in the table above include \$2.42 billion of loans that are due on demand with no stated maturity.

## Interest Reserve Loans

As of September 30, 2018, loans with interest reserves totaled \$227.8 million, which represented 4.8% of loans held-for-investment, as compared to \$205.1 million, or 4.9%, as of December 31, 2017. Certain loans reserve a portion of the proceeds to be used to pay interest due on the loan. These loans with interest reserves are common for construction and land development loans. The use of interest reserves is based on the feasibility of the project, the creditworthiness of the borrower and guarantors, and the loan to value coverage of the collateral. The interest reserve may be used by the borrower, when certain financial conditions are met, to draw loan funds to pay interest charges on the outstanding balance of the loan. When drawn, the interest is capitalized and added to the loan balance, subject to conditions specified during the initial underwriting and at the time the credit is approved. We have procedures and controls for monitoring compliance with loan covenants, advancing funds and determining default conditions. In addition, most of our construction lending is performed within our geographic footprint and our lenders are familiar with trends in the local real estate market.

## 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. Refer to Note 1, Summary of Significant Accounting Policies and Note 5, Allowance for Loan Losses, for more details on the Company's allowance for loan losses.

The following table summarizes the allowance for loan losses, as of the dates indicated:

(Dollars in thousands)	September 30, December 31,	
	2018	2017

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

General reserves	\$ 13,114	\$ 11,910
Specific reserves	469	2,507
Total allowance for loan losses	\$ 13,583	\$ 14,417
Allowance for loan losses to loans	0.29	% 0.34 %

As of September 30, 2018, we had specific reserves totaling \$469,000 related to impaired loans with an aggregated total outstanding balance of \$2.3 million. As of December 31, 2017, we had specific reserves totaling \$2.5 million related to impaired loans, with an aggregated total outstanding balance of \$3.2 million. These loans were on non-accrual status as of September 30, 2018 and December 31, 2017.

Table of Contents

The following table summarizes allowance for loan losses and the percentage of loans by loan category, as of the dates indicated:

(Dollars in thousands)	September 30, 2018		December 31, 2017	
	Percent		Percent	
	Reserve of	Loans	Reserve of	Loans
Private banking	\$1,894	55.2 %	\$1,577	54.1 %
Commercial and industrial	6,444	16.2 %	8,043	16.0 %
Commercial real estate	5,245	28.6 %	4,797	29.9 %
Total allowance for loan losses	\$13,583	100.0 %	\$14,417	100.0 %

Allowance for Loan Losses as of September 30, 2018 and December 31, 2017. Our allowance for loan losses decreased to \$13.6 million, or 0.29% of loans, as of September 30, 2018, as compared to \$14.4 million, or 0.34% of loans, as of December 31, 2017. Our allowance for loan losses related to private banking loans increased \$317,000 from December 31, 2017 to September 30, 2018, which was attributable to higher general reserves due to growth in this portfolio and higher specific reserves on non-performing loans. Our allowance for loan losses related to commercial and industrial loans decreased \$1.6 million from December 31, 2017 to September 30, 2018, which was attributable to decreased specific reserves related to a charge-off, partially offset by higher general reserves primarily due to growth in this portfolio. Our allowance for loan losses related to commercial real estate loans increased by \$448,000 from December 31, 2017 to September 30, 2018, which was attributable to higher general reserves primarily due to growth in this portfolio.

## Charge-Offs / Recoveries

Our charge-off policy for commercial and private banking loans requires that loans and other obligations that are not collectible be promptly charged off in the month the loss becomes probable, regardless of the delinquency status of the loan. We recognize a partial charge-off when we have determined that the value of the collateral is less than the remaining ledger balance at the time of the evaluation. A loan or obligation is not required to be charged off, regardless of delinquency status, if we have determined there exists sufficient collateral to protect the remaining loan balance and there exists a strategy to liquidate the collateral. We may also consider a number of other factors to determine when a charge-off is appropriate, including: the status of a bankruptcy proceeding; the value of collateral and probability of successful liquidation; and the status of adverse proceedings or litigation that may result in collection.

The following table provides an analysis of the allowance for loan losses, charge-offs, recoveries and provision for loan losses for the periods indicated:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Beginning balance	\$15,321	\$15,968	\$14,417	\$18,762
Charge-offs:				
Private banking	—	—	—	—
Commercial and industrial	(2,068 )	(413 )	(2,068 )	(4,302 )
Commercial real estate	—	—	—	—
Total charge-offs	(2,068 )	(413 )	(2,068 )	(4,302 )
Recoveries:				
Private banking	—	—	—	—
Commercial and industrial	564	136	858	472

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

Commercial real estate	—	5	—	5
Total recoveries	564	141	858	477
Net charge-offs	(1,504 )	(272 )	(1,210 )	(3,825 )
Provision (credit ) for loan losses	(234 )	283	376	1,042
Ending balance	\$13,583	\$15,979	\$13,583	\$15,979

Net loan charge-offs to average total loans, annualized	0.13	% 0.03	% 0.04	%0.14	%
Provision (credit) for loan losses to average total loans, annualized	(0.02 )	%0.03	% 0.01	%0.04	%

Non-Performing Assets

Non-performing assets consist of non-performing loans and other real estate owned. Non-performing loans are loans that are on non-accrual status. OREO is real property acquired through foreclosure on the collateral underlying defaulted loans and includes in-substance foreclosures. We record OREO at fair value, less estimated costs to sell the assets.

Table of Contents

Our policy is to place loans in all categories on non-accrual status when collection of interest or principal is doubtful, or when interest or principal payments are 90 days or more past due. There were no loans 90 days or more past due and still accruing interest as of September 30, 2018 and December 31, 2017, and there was no interest income recognized on loans while on non-accrual status for the nine months ended September 30, 2018 and 2017. As of September 30, 2018, non-performing loans were \$2.3 million, or 0.05% of total loans, compared to \$3.2 million, or 0.08% of total loans, as of December 31, 2017. We had specific reserves of \$469,000 and \$2.5 million as of September 30, 2018 and December 31, 2017, respectively, on these non-performing loans. The net loan balance of our non-performing loans was 73.5% and 18.4% of the customer's outstanding balance after payments, charge-offs and specific reserves as of September 30, 2018 and December 31, 2017, respectively.

For additional information on our non-performing loans as of September 30, 2018 and December 31, 2017, refer to Note 5, Allowance for Loan Losses, to our consolidated financial statements.

Once the determination is made that a foreclosure is necessary, the loan is reclassified as "in-substance foreclosure" until a sale date and title to the property is finalized. Once we own the property, it is maintained, marketed, rented and/or sold to repay the original loan. Historically, foreclosure trends in our loan portfolio have been low due to the seasoning of our portfolio. Any loans that are modified or extended are reviewed for potential classification as a TDR loan. For borrowers that are experiencing financial difficulty, we complete a process that outlines the terms of the modification, the reasons for the proposed modification and documents the current status of the borrower.

We had non-performing assets of \$5.8 million, or 0.10% of total assets, as of September 30, 2018, as compared to \$6.8 million, or 0.14% of total assets, as of December 31, 2017. The decrease in non-performing assets was due to \$2.9 million in charge-offs and paydowns on non-performing loans partially offset by the addition of a new non-performing loan of \$2.0 million during the nine months ended September 30, 2018. This decrease was considered within the assessment of the determination of the allowance for loan losses. As of September 30, 2018 and December 31, 2017, we had OREO properties totaling \$3.6 million and \$3.6 million, respectively.

The following table summarizes our non-performing assets as of the dates indicated:

(Dollars in thousands)	September 30, 2018	December 31, 2017		
Non-performing loans:				
Private banking	\$ 2,269	\$ 368		
Commercial and industrial	—	2,815		
Commercial real estate	—	—		
Total non-performing loans	\$ 2,269	\$ 3,183		
Other real estate owned	3,576	3,576		
Total non-performing assets	\$ 5,845	\$ 6,759		
Non-performing troubled debt restructured loans	\$ 269	\$ 3,183		
Performing troubled debt restructured loans	\$ —	\$ 3,371		
Non-performing loans to total loans	0.05	%	0.08	%
Allowance for loan losses to non-performing loans	598.63	%	452.94	%
Non-performing assets to total assets	0.10	%	0.14	%

#### Potential Problem Loans

Potential problem loans are those loans that are not categorized as non-performing loans, but where current information indicates that the borrower may not be able to comply with repayment terms. Among other factors, we monitor the past due status as an indicator of credit deterioration and potential problem loans. A loan is considered

past due when the contractual principal and/or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. To the extent that loans become past due, we assess the potential for loss on such loans as we would with other problem loans and consider the effect of any potential loss in determining any provision for loan losses. We also assess alternatives to maximize collection of any past due loans, including and without limitation, restructuring loan terms, requiring additional loan guarantee(s) or collateral, or other planned action.

For additional information on the age analysis of past due loans segregated by class of loan for September 30, 2018 and December 31, 2017, refer to Note 5, Allowance for Loan Losses, to our unaudited condensed consolidated financial statements.

On a monthly basis, we monitor various credit quality indicators for our 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, we monitor



## Table of Contents

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.

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. We also monitor 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.

For additional information on the definitions of our internal risk rating and the recorded investment in loans by credit quality indicator for September 30, 2018 and December 31, 2017, refer to Note 5, Allowance for Loan Losses, to our unaudited condensed consolidated financial statements.

## Investment Securities

We utilize investment activities to enhance net interest income while supporting liquidity management and interest rate risk management. Our securities portfolio consists of available-for-sale debt securities, held-to-maturity debt securities, equity securities and, from time to time, debt securities held for trading purposes. Also included in our investment securities is Federal Home Loan Bank Stock. For additional information on FHLB stock, refer to Note 3, Investment Securities, to our unaudited condensed consolidated financial statements. Debt securities purchased with the intent to sell under trading activity and equity securities are recorded at fair value and changes to fair value are recognized in the consolidated statements of income. Debt securities categorized as available-for-sale are recorded at fair value and changes in the fair value of these securities are recognized as a component of total shareholders' equity, within accumulated other comprehensive income (loss), net of deferred taxes. Debt securities categorized as held-to-maturity are securities that the Company intends to hold until maturity and are recorded at amortized cost.

The Bank has engaged Chartwell to provide securities portfolio advisory services, subject to the investment parameters set forth in our investment policy.

As of September 30, 2018 and December 31, 2017, we reported debt securities in available-for-sale and held-to-maturity categories as well as equity securities. In general, fair value is based upon quoted market prices of identical assets, when available. Where sufficient data is not available to produce a fair valuation, fair value is based on broker quotes for similar assets. Quarterly, we validate the prices received from these third parties by comparing them to prices provided by a different independent pricing service. We have also reviewed the valuation methodologies provided to us by our pricing services. Broker quotes may be adjusted to ensure that financial instruments are recorded at fair value. Adjustments may include unobservable parameters, among other things. Securities, like loans, are subject to interest rate risk and credit risk. In addition, by their nature, debt securities classified as available-for-sale or trading and equity securities are also subject to fair value risks that could negatively affect the level of liquidity available to us, as well as shareholders' equity.

We perform a quarterly review of our investment securities to identify those that may indicate other-than-temporary impairment. Our policy for OTTI is based upon a number of factors, including but not limited to, the length of time and extent to which the estimated fair value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the investment security's ability to recover any decline in its estimated fair value and for debt securities whether we intend to sell the investment security or if it is more likely than not that we will be required to sell the investment security prior to its recovery. If the financial markets experience deterioration, charges to income could occur in future periods as a result of OTTI determinations.

Our available-for-sale debt securities portfolio consists of U.S. treasury notes, U.S. government agency obligations, mortgage-backed securities, collateralized mortgage and loan obligations, corporate bonds and single-issuer trust preferred securities, all with varying contractual maturities. Our held-to-maturity debt securities consists of certain municipal bonds, agency obligations and corporate bonds while our trading portfolio, when active, typically consists of U.S. treasury notes, also with varying contractual maturities. However, these maturities do not necessarily represent the expected life of the securities as the securities may be called or paid down without penalty prior to their stated maturities. The effective duration of our debt securities portfolio as of September 30, 2018, was approximately 2.2, where duration is defined as the approximate percentage change in price for a 100 basis point change in rates. No investment in any of these securities exceeds any applicable limitation imposed by law or regulation. Our Asset/Liability Management Committee (“ALCO”) reviews the investment portfolio on an ongoing basis to ensure that the investments conform to our investment policy.

Available-for-Sale Debt Securities. We held \$266.4 million and \$138.9 million in debt securities available-for-sale as of September 30, 2018 and December 31, 2017, respectively. The increase of \$127.5 million was primarily attributable to purchases of \$150.6 million, net of repayments, including calls and maturities, of \$18.7 million and sales of \$2.0 million, of certain securities during the nine months ended September 30, 2018.

Table of Contents

On a fair value basis, 24.9% of our available-for-sale debt securities as of September 30, 2018, were floating-rate securities, for which yields increase or decrease based on changes in market interest rates. As of December 31, 2017, floating-rate securities comprised 52.2% of our available-for-sale debt securities.

On a fair value basis, 34.1% of our available-for-sale debt securities as of September 30, 2018, were U.S. government and agency securities, which tend to have a lower risk profile than certain corporate bonds, single-issuer trust preferred securities, and non-agency collateralized loan obligations, which comprised the remainder of the portfolio. As of December 31, 2017, agency securities comprised 41.6% of our available-for-sale debt securities.

**Held-to-Maturity Debt Securities.** We held \$96.1 million and \$59.3 million in debt securities held-to-maturity as of September 30, 2018 and December 31, 2017, respectively. The increase of \$36.8 million was primarily attributable to purchases of \$43.9 million, net of calls and maturities of \$7.0 million, of certain securities during the nine months ended September 30, 2018. As part of our asset and liability management strategy, we determined that we have the intent and ability to hold these bonds until maturity, and these securities were reported at amortized cost as of September 30, 2018 and December 31, 2017.

**Trading Debt Securities.** We held no trading debt securities as of September 30, 2018 and December 31, 2017. From time to time, we may identify opportunities in the marketplace to generate supplemental income from trading activity, principally based on the volatility of U.S. treasury notes with maturities up to ten years. The level and frequency of income generated from these transactions can vary materially based upon market conditions.

**Equity Securities.** Equity securities consists of mutual funds investing in short-duration, corporate bonds and mid-cap value equities. We had \$13.8 million and \$8.6 million in equity securities outstanding as of September 30, 2018 and December 31, 2017, respectively.

The following tables summarize the amortized cost and fair value of debt securities available-for-sale and held-to-maturity, as of the dates indicated:

(Dollars in thousands)	September 30, 2018			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
<b>Debt securities available-for-sale:</b>				
U.S. treasury notes	\$24,961	\$ —	\$ 90	\$24,871
Corporate bonds	157,786	37	1,013	156,810
Trust preferred securities	17,934	378	—	18,312
Non-agency collateralized loan obligations	484	—	7	477
Agency collateralized mortgage obligations	35,137	50	5	35,182
Agency mortgage-backed securities	20,810	110	530	20,390
Agency debentures	10,486	—	155	10,331
<b>Total debt securities available-for-sale</b>	<b>267,598</b>	<b>575</b>	<b>1,800</b>	<b>266,373</b>
<b>Debt securities held-to-maturity:</b>				
Corporate bonds	27,185	260	127	27,318
Agency debentures	41,506	6	208	41,304
Municipal bonds	23,000	2	243	22,759
Agency mortgage-backed securities	4,422	—	47	4,375
<b>Total debt securities held-to-maturity</b>	<b>96,113</b>	<b>268</b>	<b>625</b>	<b>95,756</b>
<b>Total debt securities</b>	<b>\$363,711</b>	<b>\$ 843</b>	<b>\$ 2,425</b>	<b>\$ 362,129</b>



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

The changes in the fair values of our U.S. treasury notes, 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.

Table of Contents

The following table sets forth the fair value, contractual maturities and approximated weighted average yield, calculated on a fully taxable equivalent basis, of our available-for-sale and held-to-maturity debt securities portfolios as of September 30, 2018, based on estimated annual income divided by the average amortized cost of these securities. Contractual maturities may differ from expected maturities because issuers and/or borrowers may have the right to call or prepay obligations with or without penalties, which would also impact the corresponding yield.

	September 30, 2018									
	Less Than One Year		One to Five Years		Five to 10 Years		Greater Than 10 Years		Total	
(Dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Debt securities available-for-sale:										
U.S. treasury notes	\$—	— %	\$24,871	2.59%	\$—	— %	\$—	— %	\$24,871	2.59%
Corporate bonds	14,092	2.07%	111,348	3.22%	31,370	4.33%	—	— %	156,810	3.34%
Trust preferred securities	—	— %	—	— %	9,350	4.21%	8,962	4.38%	18,312	4.29%
Non-agency collateralized loan obligations	—	— %	—	— %	—	— %	477	4.55%	477	4.55%
Agency collateralized mortgage obligations	—	— %	732	2.66%	—	— %	34,450	2.52%	35,182	2.52%
Agency mortgage-backed securities	—	— %	—	— %	—	— %	20,390	2.69%	20,390	2.69%
Agency debentures	—	— %	—	— %	—	— %	10,331	3.16%	10,331	3.16%
Total debt securities available-for-sale	14,092		136,951		40,720		74,610		266,373	
Weighted average yield		2.07%		3.10%		4.30%		2.89%		3.17%
Debt securities held-to-maturity:										
Corporate bonds	—	— %	—	— %	27,318	5.33%	—	— %	27,318	5.33%
Agency debentures	—	— %	24,770	3.11%	6,911	3.31%	9,623	3.78%	41,304	3.30%
Municipal bonds	2,131	1.60%	11,487	2.17%	9,141	2.31%	—	— %	22,759	2.17%
Agency mortgage-backed securities	—	— %	—	— %	—	— %	4,375	3.69%	4,375	3.69%
Total debt securities held-to-maturity	2,131		36,257		43,370		13,998		95,756	
Weighted average yield		1.60%		2.81%		4.36%		3.76%		3.62%
Total debt securities	\$16,223		\$173,208		\$84,090		\$88,608		\$362,129	
Weighted average yield		2.01%		3.04%		4.33%		3.02%		3.29%

The table above excludes equity securities because they have an indefinite life. For additional information regarding our investment securities portfolios, refer to Note 3, Investment Securities, to our unaudited condensed consolidated financial statements.

## Assets Under Management

Our total assets under management of \$9.87 billion increased \$1.56 billion, or 18.7%, as of September 30, 2018, from \$8.31 billion as of December 31, 2017.

Table of Contents

The following table shows the changes of our assets under management by investment style for the nine months ended September 30, 2018.

(Dollars in thousands)	Nine Months Ended September 30, 2018				
	Beginning Balance	Inflows <sup>(1)</sup>	Outflows <sup>(2)</sup>	Market Appreciation (Depreciation)	Ending Balance
Equity investment styles	\$3,511,000	\$754,000	\$(449,000)	\$290,000	\$4,106,000
Fixed income investment styles	3,049,000	1,390,000	(353,000)	24,000	4,110,000
Balanced investment styles	1,749,000	221,000	(347,000)	26,000	1,649,000
Total assets under management	\$8,309,000	\$2,365,000	\$(1,149,000)	\$340,000	\$9,865,000

(1) Inflows consist of new assets from the Columbia acquisition of \$1.07 billion as well as other new business and contributions to existing accounts.

(2) Outflows consist of business lost as well as distributions from existing accounts.

## Deposits

Deposits are our primary source of funds to support our earning assets. We have focused on creating and growing diversified, stable, and low all-in cost deposit channels without operating through a traditional branch network. We market liquidity and treasury management products to middle-market commercial clients as well as other deposit products to high-net-worth individuals; family offices; trust companies; wealth management firms; municipalities; endowments and foundations; broker/dealers; futures commission merchants; and other financial institutions. We believe that our deposit base is stable and diversified. We further believe we have the ability to attract new deposits, which is the primary source of funding our projected loan growth.

As of September 30, 2018, we consider approximately 89% of our total deposits to be relationship-based deposits, which include reciprocal certificates of deposit placed through CDARS<sup>®</sup> and reciprocal demand deposits placed through ICS<sup>®</sup>. As of September 30, 2018, the Bank had CDARS<sup>®</sup> and ICS<sup>®</sup> reciprocal deposits totaling \$629.5 million, which are classified as non-brokered deposits, as a result of recent legislation. We continue to utilize brokered deposits as a tool for us to manage our cost of funds and to efficiently match changes in our liquidity needs based on our loan growth with our deposit balances and origination activity. As of September 30, 2018, brokered deposits were approximately 11% of total deposits. For additional information on our deposits, refer to Note 6, Deposits, to our unaudited condensed consolidated financial statements.

The table below depicts average balances of and rates paid on our deposit portfolio broken out by major deposit category, for the three months ended September 30, 2018 and 2017.

(Dollars in thousands)	Three Months Ended September 30,			
	2018		2017	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
Interest-bearing checking accounts	\$657,402	1.97 %	\$371,526	1.25 %
Money market deposit accounts	2,506,334	1.97 %	2,021,755	1.23 %
Certificates of deposit	1,155,888	2.23 %	1,003,280	1.25 %
Total average interest-bearing deposits	4,319,624	2.04 %	3,396,561	1.24 %
Noninterest-bearing deposits	253,033	—	205,368	—
Total average deposits	\$4,572,657	1.92 %	\$3,601,929	1.17 %

Average Deposits for the Three Months Ended September 30, 2018 and 2017. For the three months ended September 30, 2018, our average total deposits were \$4.57 billion, representing an increase of \$970.7 million, or 27.0%, from the

same period in 2017. The deposit growth was driven by increases in all deposit categories. Our average cost of interest-bearing deposits increased 80 basis points to 2.04% for the three months ended September 30, 2018, from 1.24% for the same period in 2017, as average rates paid were higher in all interest-bearing deposit categories. Average money market deposits decreased to 58.0% of total average interest-bearing deposits, for the three months ended September 30, 2018, from 59.5% for the same period in 2017. Average certificates of deposit decreased to 26.8% of total average interest-bearing deposits for the three months ended September 30, 2018, compared to 29.6% for the same period in 2017. Average interest-bearing checking accounts increased to 15.2% of total average interest-bearing deposits for the three months ended September 30, 2018, compared to 10.9% for the same period in 2017. Average noninterest-bearing deposits increased \$47.7 million, or 23.2%, in the three months ended September 30, 2018, from the three months ended September 30, 2017, and the average cost of total deposits increased 75 basis points to 1.92% for the three months ended September 30, 2018, from 1.17% for the same period in 2017.



Table of Contents

The table below depicts average balances of and rates paid on our deposit portfolio broken out by deposit type, for the nine months ended September 30, 2018 and 2017.

(Dollars in thousands)	Nine Months Ended September 30,			
	2018	Average Rate Paid	2017	Average Rate Paid
Interest-bearing checking accounts	\$576,032	1.73 %	\$298,631	1.03 %
Money market deposit accounts	2,369,910	1.71 %	1,951,258	1.06 %
Certificates of deposit	1,021,248	1.91 %	954,352	1.12 %
Total average interest-bearing deposits	3,967,190	1.76 %	3,204,241	1.08 %
Noninterest-bearing deposits	242,325	—	206,063	—
Total average deposits	\$4,209,515	1.66 %	\$3,410,304	1.01 %

Average Deposits for the Nine Months Ended September 30, 2018 and 2017. For the nine months ended September 30, 2018, our average total deposits were \$4.21 billion, representing an increase of \$799.2 million, or 23.4%, from the same period in 2017. The average deposit growth was driven by increases in all deposit categories. Our average cost of interest-bearing deposits increased 68 basis points to 1.76% for the nine months ended September 30, 2018, from 1.08% for the same period in 2017, as average rates paid were higher in all interest-bearing deposit categories. Average money market deposits decreased to 59.7% of total average interest-bearing deposits, for the nine months ended September 30, 2018, from 60.9% for the same period in 2017. Average certificates of deposit decreased to 25.8% of total average interest-bearing deposits for the nine months ended September 30, 2018, compared to 29.8% for the same period in 2017. Average interest-bearing checking accounts increased to 14.5% of total average interest-bearing deposits for the nine months ended September 30, 2018, compared to 9.3% for the same period in 2017. Average noninterest-bearing deposits increased \$36.3 million, or 17.6%, in the nine months ended September 30, 2018, from the nine months ended September 30, 2017, and the average cost of total deposits increased 65 basis points to 1.66% for the nine months ended September 30, 2018, from 1.01% for the same period in 2017.

## Certificates of Deposit

Maturities of certificates of deposit of \$100,000 or more outstanding are summarized below, as of September 30, 2018.

(Dollars in thousands)	September 30, 2018
Months to maturity:	
Three months or less	\$ 343,613
Over three to six months	187,896
Over six to 12 months	265,550
Over 12 months	199,019
Total	\$ 996,078

## Borrowings

Deposits are the primary source of funds for our lending and investment activities, as well as the Bank's general business purposes. As an alternative source of liquidity, we may obtain advances from the FHLB of Pittsburgh, sell investment securities subject to our obligation to repurchase them, purchase Federal funds or engage in overnight borrowings from the FHLB or our correspondent banks.



Table of Contents

The following table presents certain information with respect to our outstanding borrowings, as of September 30, 2018 and December 31, 2017.

(Dollars in thousands)	September 30, 2018					December 31, 2017				
	Amount	Interest Rate	Maximum Balance at Any Month End	Average Balance During the Period	Original Term	Amount	Interest Rate	Maximum Balance at Any Month End	Average Balance During the Period	Original Term
Daily FHLB borrowings	\$—	—%	\$ 415,000	\$ 143,425	1-4 days	\$ 195,000	1.57%	\$ 370,000	\$ 195,315	1-4 days
FHLB line of credit	75,000	2.38%	110,000	24,121	12 months	—	—%	—	—	
Term FHLB borrowings:										
Issued 7/9/2018 <sup>(1)</sup>	50,000	2.25%	50,000	48,718	3 months	—	—%	—	—	
Issued 6/29/2018 <sup>(2)</sup>	100,000	2.20%	100,000	100,000	3 months	100,000	1.66%	100,000	100,000	3 months
Line of credit borrowings	2,500	5.06%	6,200	2,202	12 months	6,200	4.56%	6,200	2,214	12 months
Subordinated notes payable	35,000	5.75%	35,000	35,000	5 years	35,000	5.75%	35,000	35,000	5 years
Total borrowings outstanding	\$ 262,500	2.76%	\$ 716,200	\$ 353,466		\$ 336,200	2.09%	\$ 511,200	\$ 332,529	

<sup>(1)</sup> Original issue date of 1/8/2018 and renewed every three months thereafter; the average balances reflect current and prior terms for each period.

<sup>(2)</sup> Original issue date of 6/29/2016 and renewed every three months thereafter; the average balances reflect current and prior terms for each period.

In June 2016, the Company entered into a three-year cash flow hedge derivative transaction to establish the interest rate paid on \$100.0 million of the FHLB borrowings at an effective rate of 0.83% plus the difference between the 3-month FHLB advance rate and 3-month LIBOR. In January 2018, the Company entered into a three-year cash flow hedge derivative transaction to establish the interest rate paid on \$50.0 million of the FHLB borrowings at an effective rate of 2.21% plus the difference between the 3-month FHLB advance rate and 3-month LIBOR. For additional information on the cash flow hedge, refer to Note 11, Derivatives and Hedging Activity, to our unaudited condensed consolidated financial statements.

### Liquidity

We evaluate liquidity both at the holding company level and at the Bank level. As of September 30, 2018, the Bank and Chartwell represent our only material assets. Our primary sources of funds at the parent company level are cash on hand, dividends paid to us from the Bank and Chartwell, availability on our line of credit, and the net proceeds from the issuance of our debt and/or equity securities. As of September 30, 2018, our primary liquidity needs at the parent company level were the semi-annual interest payments on the subordinated notes payable, the quarterly dividend on our preferred stock, interest payments on other borrowings, our share repurchase programs and the acquisition earn out liability. All other liquidity needs were minimal and related to reimbursing the Bank for management, accounting and financial reporting services provided by Bank personnel. During the nine months ended September 30, 2018, the parent company paid \$1.3 million related to the Columbia acquisition, \$4.6 million related to our share repurchase programs, \$2.1 million related to interest payments on our subordinated notes and other

borrowings, and \$1.4 million related to our preferred stock dividend. During the nine months ended September 30, 2017, the parent company paid \$2.0 million related to interest payments on our subordinated notes and \$6.5 million related to our share repurchase programs. We believe that our cash on hand at the parent company level, coupled with the dividend paying capacity of the Bank and Chartwell, were adequate to fund any foreseeable parent company obligations as of September 30, 2018. In addition, the holding company maintains an unsecured line of credit of \$30.0 million with Texas Capital Bank, of which \$27.5 million was available as of September 30, 2018.

Our goal in liquidity management at the Bank level is to satisfy the cash flow requirements of depositors and borrowers, as well as our operating cash needs. These requirements include the payment of deposits on demand at their contractual maturity, the repayment of borrowings as they mature, the payment of our ordinary business obligations, the ability to fund new and existing loans and other funding commitments, and the ability to take advantage of new business opportunities. Our ALCO has established an asset/liability management policy designed to achieve and maintain earnings performance consistent with long-term goals while maintaining acceptable levels of interest rate risk, well capitalized regulatory status and adequate levels of liquidity. The ALCO has also established a contingency funding plan to address liquidity crisis conditions. The ALCO is designated as the body responsible for the monitoring and implementation of these policies. The ALCO, which includes members of executive management, reviews liquidity on a frequent basis and approves significant changes in strategies that affect balance sheet or cash flow positions.

Our principal sources of asset liquidity are cash, interest-earning deposits with other banks, federal funds sold, unpledged debt securities available-for-sale and equity securities, loan repayments (scheduled and unscheduled) and future earnings. Liability liquidity sources

Table of Contents

include a stable deposit base, the ability to renew maturing certificates of deposit, borrowing availability at the FHLB of Pittsburgh, unsecured lines with other financial institutions, access to reciprocal CDARS® and ICS® deposits and brokered deposits, and the ability to raise debt and equity. Customer deposits, which are an important source of liquidity, depend on the confidence of customers in us. Deposits are supported by our capital position and, up to applicable limits, the protection provided by FDIC insurance.

We measure and monitor liquidity on an ongoing basis, which allows us to more effectively understand and react to trends in our balance sheet. In addition, the ALCO uses a variety of methods to monitor our liquidity position, including a liquidity gap, which measures potential sources and uses of funds over future periods. Policy guidelines have been established for a variety of liquidity-related performance metrics, such as net loans to deposits, brokered funding composition, cash to total loans and duration of certificates of deposit, among others, all of which are utilized in measuring and managing our liquidity position. The ALCO performs contingency funding and capital stress analyses at least annually to determine our ability to meet potential liquidity and capital needs under various stress scenarios.

We believe that our liquidity position continues to be strong due to our ability to generate strong growth in deposits, which is evidenced by our ratio of total deposits to total assets of 85.3% and 83.5% as of September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018, we had available liquidity of \$1.01 billion, or 18.2% of total assets. These sources consisted of liquid assets (cash and cash equivalents, and unpledged investment securities), totaling \$378.1 million, or 6.8% of total assets, coupled with secondary sources of liquidity (the ability to borrow from the FHLB and correspondent bank lines) totaling \$635.7 million, or 11.4% of total assets. Available cash excludes pledged accounts for derivative and letter of credit transactions and the reserve balance requirement at the Federal Reserve.

The following table shows our available liquidity, by source, as of the dates indicated:

(Dollars in thousands)	September 30, December 31,	
	2018	2017
Available cash	\$ 101,443	\$ 91,060
Unpledged debt securities available-for-sale and equity securities	276,655	143,499
Net borrowing capacity	635,707	535,907
Total liquidity	\$ 1,013,805	\$ 770,466

For the nine months ended September 30, 2018, we generated \$55.6 million of cash from operating activities, compared to cash generated of \$23.1 million for the same period in 2017. This change in cash flow was primarily the result of an increase in net income of \$13.4 million for the nine months ended September 30, 2018, a net federal income tax refund of \$6.5 million and changes in working capital items largely related to timing.

Investing activities resulted in a net cash outflow of \$752.2 million for the nine months ended September 30, 2018, as compared to a net cash outflow of \$508.0 million for the same period in 2017. The outflows for the nine months ended September 30, 2018, were primarily due to net loan growth of \$582.4 million and purchases of investment securities totaling \$194.7 million, partially offset by the proceeds from the sale, principal repayments and maturities from investment securities totaling \$27.7 million. The outflows for the nine months ended September 30, 2017, included net loan growth of \$540.3 million and purchases of investment securities totaling \$20.4 million, partially offset by the proceeds from the sale, principal repayments and maturities from investment securities totaling \$49.8 million.

Financing activities resulted in a net inflow of \$727.1 million for the nine months ended September 30, 2018, compared to a net inflow of \$517.5 million for the same period in 2017. The inflows for the nine months ended September 30, 2018, were primarily a result of a net increase in deposits of \$767.0 million, and the net proceeds from the issuance of preferred stock of \$38.5 million, partially offset by a net decrease in FHLB borrowings of \$70.0

million, compared to a net increase in deposits of \$483.1 million and a net increase in FHLB borrowings of \$35.0 million for the nine months ended September 30, 2017.

We continue to evaluate the potential impact on liquidity management of various regulatory proposals, including those being established under the Dodd-Frank Wall Street Reform and Consumer Protection Act, as government regulators continue the final rule-making process.

#### Capital Resources

The access to and cost of funding for new business initiatives, the ability to engage in expanded business activities, the ability to pay dividends, the level of deposit insurance costs and the level and nature of regulatory oversight depend, in part, on our capital position. The Company filed a registration statement on Form S-3 with the SEC on December 15, 2017, which went effective on December 21, 2017, and which provides a means to allow us to issue registered securities to finance our growth objectives.

## Table of Contents

The assessment of capital adequacy depends on a number of factors, including asset quality, liquidity, earnings performance, changing competitive conditions and economic forces. We seek to maintain a strong capital base to support our growth and expansion activities, to provide stability to current operations and to promote public confidence.

Shareholders' Equity. Shareholders' equity was \$467.6 million as of September 30, 2018, compared to \$389.1 million as of December 31, 2017. The \$78.5 million increase during the nine months ended September 30, 2018, was primarily attributable to net income of \$39.3 million, the issuance of \$38.5 million in preferred stock, \$6.1 million in stock-based compensation and \$1.3 million in exercises of stock options, partially offset by the purchase of \$4.6 million in treasury stock, preferred stock dividends of \$1.4 million, and a decrease of \$1.1 million in accumulated other comprehensive income (loss).

In March 2018, the Company completed the issuance and sale of a registered, underwritten public offering of 1,610,000 depository shares, each representing a 1/40th interest in a share of its 6.75% Fixed-to-Floating Rate Series A Non-Cumulative Perpetual Preferred Stock, no par value (the "Series A Preferred Stock"), with a liquidation preference of \$1,000 per share (equivalent to \$25 per depository share). The Company received net proceeds of \$38.5 million from the offering, after deducting underwriting discounts, commissions and direct offering expenses. The preferred stock provides Tier 1 capital for the holding company, under federal regulatory capital rules.

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

Regulatory Capital. As of September 30, 2018 and December 31, 2017, TriState Capital Holdings, Inc. and TriState Capital Bank were in compliance with all applicable regulatory capital requirements, and TriState Capital Bank was categorized as well capitalized for purposes of the FDIC's prompt corrective action regulations. As we employ our capital and continue to grow our operations, our regulatory capital levels may decrease. However, we will monitor our capital in order to remain categorized as well capitalized under the applicable regulatory guidelines and in compliance with all regulatory capital standards applicable to us.

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

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





Table of Contents

The following tables present the actual capital amounts and regulatory capital ratios for the Company and the Bank as of the dates indicated:

	September 30, 2018					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ratio						
Company	\$410,072	11.89 %	\$276,007	8.00 %	N/A	N/A
Bank	\$420,140	12.30 %	\$273,202	8.00 %	\$341,502	10.00 %
Tier 1 risk-based capital ratio						
Company	\$399,172	11.57 %	\$207,005	6.00 %	N/A	N/A
Bank	\$407,140	11.92 %	\$204,901	6.00 %	\$273,202	8.00 %
Common equity tier 1 risk-based capital ratio						
Company	\$362,973	10.52 %	\$155,254	4.50 %	N/A	N/A
Bank	\$407,140	11.92 %	\$153,676	4.50 %	\$221,976	6.50 %
Tier 1 leverage ratio						
Company	\$399,172	7.53 %	\$212,152	4.00 %	N/A	N/A
Bank	\$407,140	7.71 %	\$211,158	4.00 %	\$263,947	5.00 %

	December 31, 2017					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ratio						
Company	\$343,758	11.72 %	\$234,576	8.00 %	N/A	N/A
Bank	\$348,378	11.99 %	\$232,392	8.00 %	\$290,490	10.00 %
Tier 1 risk-based capital ratio						
Company	\$326,594	11.14 %	\$175,932	6.00 %	N/A	N/A
Bank	\$337,656	11.62 %	\$174,294	6.00 %	\$232,392	8.00 %
Common equity tier 1 risk-based capital ratio						
Company	\$326,594	11.14 %	\$131,949	4.50 %	N/A	N/A
Bank	\$337,656	11.62 %	\$130,720	4.50 %	\$188,818	6.50 %
Tier 1 leverage ratio						
Company	\$326,594	7.25 %	\$180,090	4.00 %	N/A	N/A
Bank	\$337,656	7.55 %	\$178,979	4.00 %	\$223,723	5.00 %

Table of Contents

## Contractual Obligations and Commitments

The following table presents significant fixed and determinable contractual obligations of principal, interest and expenses that may require future cash payments as of the date indicated.

(Dollars in thousands)	September 30, 2018					Total
	One Year or Less	One to Three Years	Three to Five Years	Greater Than Five Years		
Transaction deposits	\$3,474,316	\$41,500	\$—	\$—		\$3,515,816
Certificates of deposit	984,000	254,772	—	—		1,238,772
Borrowings outstanding	262,500	—	—	—		262,500
Interest payments on certificates of deposit and borrowings	21,124	6,142	—	—		27,266
Operating leases	2,639	4,360	1,655	468		9,122
Commitments for low income housing and historic tax credits	8,015	17,066	909	247		26,237
Commitments for small business investment companies	3,859	—	—	—		3,859
Preferred dividends declared <sup>(1)</sup>	679	—	—	—		679
Acquisition earn out liability	3,138	—	—	—		3,138
Total contractual obligations	\$4,760,270	\$323,840	\$2,564	\$ 715		\$5,087,389

<sup>(1)</sup> On October 16, 2018 the Company's board of directors declared a dividend payable, for more information refer to Note 16, Subsequent Events, to our unaudited condensed consolidated financial statements.

## Off-Balance Sheet Arrangements

In the normal course of business, we enter into various transactions that are not included in our consolidated balance sheets in accordance with GAAP. These transactions include commitments to extend credit in the ordinary course of business to approved customers.

Loan commitments are recorded on our financial statements as they are funded. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Loan commitments include unused commitments for open end lines secured by cash, marketable securities, cash value life insurance or residential properties, commitments to fund loans secured by commercial real estate, construction loans, business lines of credit and other unused commitments of loans in various stages of funding.

Standby letters of credit are written conditional commitments issued by us to guarantee the performance of our customer to a third party. In the event our customer does not perform in accordance with the terms of the agreement with the third party, we would be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek recovery from the customer.

We minimize our exposure to loss under loan commitments and standby letters of credit by subjecting them to credit approval and monitoring procedures. The effect on our revenues, expenses, cash flows and liquidity of the unused portions of these commitments cannot be reasonably predicted because, while the borrower has the ability to draw upon these commitments at any time, these commitments often expire without being drawn. There is no guarantee that the lines of credit will be used.

The following table is a summary of the total notional amount of unused loan commitments and standby letters of credit commitments, based on the availability of eligible collateral or other terms under the loan agreement, by contractual maturities outstanding as of the date indicated.

Edgar Filing: TriState Capital Holdings, Inc. - Form 10-Q

September 30, 2018

(Dollars in thousands)	One Year or Less <sup>(1)</sup>	One to Three Years	Three to Five Years	Greater Than Five Years	Total
Unused loan commitments	\$2,817,265	\$281,588	\$54,219	\$87,023	\$3,240,095
Standby letters of credit	19,781	17,062	2,095	6,905	45,843
Total off-balance sheet arrangements	\$2,837,046	\$298,650	\$56,314	\$93,928	\$3,285,938

The off-balance sheet amounts reflected in the One Year or Less category in the table above include \$2.57 billion <sup>(1)</sup> in unused loan commitments and \$3.2 million in standby letters of credit that are due on demand with no stated maturity.

Market Risk

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices. Our primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact the level of both

Table of Contents

income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those that have a short term to maturity. Because of the nature of our operations, we are not subject to foreign exchange or commodity price risk. From time to time we hold market risk sensitive instruments for trading purposes. The summary information provided in this section should be read in conjunction with our unaudited condensed consolidated financial statements and related notes.

Interest rate risk is comprised of re-pricing risk, basis risk, yield curve risk and option risk. Re-pricing risk arises from differences in the cash flow or re-pricing between asset and liability portfolios. Basis risk arises when asset and liability portfolios are related to different market rate indexes, which do not always change by the same amount or at the same time. Yield curve risk arises when asset and liability portfolios are related to different maturities on a given yield curve; when the yield curve changes shape, the risk position is altered. Option risk arises from embedded options within asset and liability products as certain borrowers may prepay their loans and certain depositors may redeem their certificates when rates change.

Our ALCO actively measures and manages interest rate risk. The ALCO is responsible for the formulation and implementation of strategies to improve balance sheet positioning and earnings, and for reviewing our interest rate sensitivity position. This involves devising policy guidelines, risk measures and limits, and managing the amount of interest rate risk and its effect on net interest income and capital.

We utilize an asset/liability model to measure and manage interest rate risk. The specific measurement tools used by management on at least a quarterly basis include net interest income (“NII”) simulation, economic value of equity (“EVE”) and gap analysis. All are static measures that do not incorporate assumptions regarding future business. All are also measures of interest rate sensitivity used to help us develop strategies for managing exposure to interest rate risk rather than projecting future earnings.

In our view, all three measures also have specific benefits and shortcomings. NII simulation explicitly measures exposure to earnings from changes in market rates of interest but does not provide a long-term view of value. EVE helps identify changes in optionality and price over a longer term horizon but its liquidation perspective does not convey the earnings-based measures that are typically the focus of managing and valuing a going concern. Gap analysis compares the difference between the amount of interest-earning assets and interest-bearing liabilities subject to re-pricing over a period of time but only captures a single rate environment. Reviewing these various measures collectively helps management obtain a comprehensive view of our interest risk rate profile.

The following NII simulation and EVE metrics were calculated using rate shocks, which represent immediate rate changes that move all market rates by the same amount instantaneously. The variance percentages represent the change between the NII simulation and EVE calculated under the particular rate scenario versus the NII simulation and EVE calculated assuming market rates as of the dates indicated.

	September 30, 2018		December 31, 2017	
	Amount Change from Base Case	Percent Change from Base Case	Amount Change from Base Case	Percent Change from Base Case
(Dollars in thousands)				
Net interest income (loss):				
+300	\$26,705	23.69 %	\$24,558	23.27 %
+200	\$17,856	15.84 %	\$16,380	15.52 %
+100	\$8,929	7.92 %	\$8,166	7.74 %
-100	\$(9,037)	(8.02)%	\$(8,928)	(8.46)%

-200 \$(22,246)(19.74)% N/A N/A

Economic value of equity:

+300	\$(9,409 )	(2.08 )%	\$(971 )	(0.25 )%
+200	\$(5,779 )	(1.28 )%	\$43	0.01 %
+100	\$(2,847 )	(0.63 )%	\$55	0.01 %
-100	\$1,783	0.39 %	\$(391 )	(0.10 )%
-200	\$3,190	0.70 %	N/A	N/A

Given the current and projected short-term interest rate environment, we will continue to manage an asset sensitive interest rate risk position when it comes to net interest income. Given the longer term nature of the economic value of equity analysis and with longer term interest rates less certain, we will continue to manage a near neutral interest rate risk position when it comes to economic value of equity.

Table of Contents

The following gap analysis presents the amounts of interest-earning assets and interest-bearing liabilities that are subject to re-pricing within the periods indicated.

September 30, 2018

(Dollars in thousands)	Less Than 90 Days	91 to 180 Days	181 to 365 Days	One to Three Years	Three to Five Years	Greater Than Five Years	Non-Sensitive	Total Balance
<b>Assets:</b>								
Interest-earning deposits	\$ 180,318	\$—	\$—	\$—	\$—	\$—	\$—	\$ 180,318
Federal funds sold	5,834	—	—	—	—	—	—	5,834
Total investment securities	112,925	13,595	9,912	147,814	73,317	39,248	(3,672 )	393,139
Total loans	4,436,560	44,199	47,848	130,895	66,589	25,801	6,464	4,758,356
Other assets	—	—	—	—	—	—	235,641	235,641
Total assets	\$4,735,637	\$57,794	\$57,760	\$278,709	\$139,906	\$65,049	\$238,433	\$5,573,288
<b>Liabilities:</b>								
Transaction deposits	\$3,109,394	\$30,000	\$98,500	\$41,500	\$—	\$—	\$236,422	\$3,515,816
Certificates of deposit	474,659	206,368	302,973	254,772	—	—	—	1,238,772
Borrowings, net	77,500	—	135,000	50,000	—	—	(135 )	262,365
Other liabilities	—	—	—	—	—	—	88,715	88,715
Total liabilities	3,661,553	236,368	536,473	346,272	—	—	325,002	5,105,668
Equity	—	—	—	—	—	—	467,620	467,620
Total liabilities and equity	\$3,661,553	\$236,368	\$536,473	\$346,272	\$—	\$—	\$792,622	\$5,573,288
Interest rate sensitivity gap	\$1,074,084	\$(178,574)	\$(478,713)	\$(67,563 )	\$139,906	\$65,049	\$(554,189 )	
Cumulative interest rate sensitivity gap	\$1,074,084	\$895,510	\$416,797	\$349,234	\$489,140	\$554,189		
Cumulative interest rate sensitive assets to rate sensitive liabilities	129.3	%123.0	%109.4	%107.3	%110.2	%111.6	%109.2	%
Cumulative gap to total assets	19.3	%16.1	%7.5	%6.3	%8.8	%9.9	%	

The cumulative twelve-month ratio of interest rate sensitive assets to interest rate sensitive liabilities decreased to 109.4% as of September 30, 2018, from 113.7% as of December 31, 2017.

In June 2016, the Company entered into a cash flow hedge derivative transaction to fix the interest rate on \$100.0 million of the Company's borrowings for a period of three years. This transaction has the effect on our gap analysis of moving \$100.0 million of borrowings from the less than 90 days re-pricing category to the 181 to 365 days re-pricing

category. In January 2018, the Company entered into a cash flow hedge derivative transaction to fix the interest rate on \$50.0 million of the Company's borrowings for a period of three years. This transaction has the effect on our gap analysis of moving \$50.0 million of borrowings from the less than 90 days re-pricing category to the one to three years re-pricing category. For additional information on the cash flow hedge, refer to Note 11, Derivatives and Hedging Activity, to our unaudited condensed consolidated financial statements.

Additionally, in all of these analyses (NII, EVE and gap), we use what we believe is a conservative treatment of non-maturity, interest-bearing deposits. In our gap analysis, the allocation of non-maturity, interest-bearing deposits is fully reflected in the less than 90 days re-pricing category. The allocation of non-maturity, noninterest-bearing deposits is fully reflected in the non-sensitive category. In taking this approach, we provide ourselves with no benefit to either NII or EVE from a potential time-lag in the rate increase of our non-maturity, interest-bearing deposits.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk are presented under the caption "Market Risk" in Part I, Item 2 of this Quarterly Report on Form 10-Q.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company’s management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2018. The Company’s disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of September 30, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2018, that have materially affected or are reasonably likely to materially affect the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time the Company is a party to various litigation matters incidental to the conduct of its business. During the three months ended September 30, 2018, the Company was not a party to any legal proceedings the resolution of which management believes will be material to the Company’s business, future prospects, financial condition, liquidity, results of operation, cash flows or capital levels.

ITEM 1A. RISK FACTORS

There have not been any material changes to the risk factors previously disclosed under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017, previously filed with the SEC.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The table below sets forth information regarding the Company’s purchases of its common stock during its fiscal quarter ended September 30, 2018:

Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Announced Plans or Programs*	Approximate Dollar Value of Shares that May Yet Be Purchased
----------------------------------	---------------------------------------	--	--



				Under the Plans or Programs*
July 1, 2018 - July 31, 2018	10,000	\$ 29.37	10,000	\$ 2,243,695
August 1, 2018 - August 31, 2018	22,905	29.24	22,905	1,573,773
September 1, 2018 - September 30, 2018	40,000	28.96	40,000	415,572
Total	72,905	\$ 29.10	72,905	\$ 415,572

On January 16, 2018, the Company announced that its board of directors had approved a share repurchase program \*authorizing the Company to repurchase up to \$5 million of its common stock from time to time on the open market or in privately negotiated transactions.

On October 16, 2018, the Company announced that its board of directors had approved an additional share repurchase program of up to \$5 million. Under this authorization, purchases of shares may be made at the discretion of management from time to time in the open market or through negotiated transactions, as well as purchases of shares or the options to acquire shares subject to common stock incentive compensation award agreements from officers, directors or employees of the Company. That program is not included in the approximate dollar value of shares that may yet be purchased in the above table.

Table of Contents

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No. Description

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

101 The following materials from TriState Capital Holdings, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2018, formatted in XBRL: (i) the Unaudited Condensed Consolidated Statements of Financial Condition, (ii) the Unaudited Condensed Consolidated Statements of Income, (iii) the Unaudited Condensed Consolidated Statements of Comprehensive Income, (iv) the Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity, (v) the Unaudited Condensed Consolidated Statements of Cash Flows and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements.\*

\* This information is deemed furnished, not filed.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRISTATE CAPITAL HOLDINGS, INC.

By/s/ James F. Getz  
James F. Getz  
Chairman, President and Chief Executive Officer

By/s/ David J. Demas  
David J. Demas  
Chief Financial Officer

Date: November 5, 2018