TriState Capital Holdings, Inc.
Form 10-K
February 19, 2019
Table of Contents

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

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission file number: 001-35913

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

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

One Oxford Centre
301 Grant Street, Suite 2700
Pittsburgh, Pennsylvania 15219
(Address of principal executive offices)
(Zip Code)
(412) 304-0304
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	The Nasdaq Stock Market LLC
Depositary Shares, Each Representing a 1/40th Interest in a Share of 6.75% Fixed-to-Floating Rate Series A Non-Cumulative Perpetual Preferred Stock	The Nasdaq Stock Market LLC

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes ý No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes ý No

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

Table of Contents

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). ý Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨	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 ý No

As of June 30, 2018, the aggregate market value of the shares of common stock held by non-affiliates, based on the closing price per share of the registrant's common stock as reported on The Nasdaq Global Select Market, was approximately $632,518,127.

As of January 31, 2019, there were 29,291,798 shares of the registrant's common stock, no par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement to be filed with the Securities and Exchange Commission no later than April 30, 2019, for the annual shareholders meeting to be held on or around May 16, 2019, are incorporated by reference into Part III.

Table of Contents

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 c 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
- other factors that are discussed in the section entitled “Risk Factors,” in Part I - Item 1A.

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.

Table of Contents

PART I

ITEM 1. BUSINESS

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: TriState Capital Bank (the "Bank"), a Pennsylvania chartered bank; Chartwell Investment Partners, LLC ("Chartwell"), a registered investment advisor; and Chartwell TSC Securities Corp. ("CTSC Securities"), a registered broker/dealer. Through our bank subsidiary we serve middle-market businesses in our primary markets throughout the states of Pennsylvania, Ohio, New Jersey and New York and we also serve high-net-worth individuals on a national basis through our private banking channel. We market and distribute our banking products and services through a scalable branchless banking model, which creates significant operating leverage throughout our business as we continue to grow. Through our investment management subsidiary, we provide investment management services primarily to institutional investors, mutual funds and individual investors on a national basis. Our broker/dealer subsidiary, CTSC Securities, supports the marketing efforts for Chartwell's proprietary investment products.

We operate two reportable segments: Bank and Investment Management.

- The Bank segment provides commercial banking products and services to middle-market businesses and private banking products and services to high-net-worth individuals through the Bank. Total assets of the Bank were $5.95 billion as of December 31, 2018.

- The Investment Management segment provides investment management services primarily to institutional investors, mutual funds and individual investors through Chartwell and also supports marketing efforts for Chartwell's proprietary investment products through CTSC Securities. Assets under management of Chartwell were $9.19 billion as of December 31, 2018.

On April 6, 2018, Chartwell 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").

For additional financial information by segment, refer to Note 23, Segments, to our consolidated financial statements.

Our Business Strategy

Our success has been built upon the vision and focus of our executive management team to combine the sophisticated products, services and risk management efforts of a large financial institution with the personalized service of a community bank. We believe that a results-based culture, combined with a well-managed middle-market and private banking business, and our targeted investment management business, will continue to grow and generate attractive returns for shareholders. The following are the key components of our business strategies:

Our Sales and Distribution Culture. We focus on efficient and profitable sales and distribution of investment management services and banking products and services to middle-market businesses and private banking clients. Our relationship managers and distribution professionals have significant experience in the banking and financial services industries and are focused on client service. In our banking business, we monitor net interest income contribution, loan and deposit growth, and asset quality by market and by relationship manager. Our compensation program is designed within our banking business to incentivize our regional presidents and relationship managers to prudently grow their loans, deposits and profitability, while maintaining strong asset quality. In our investment management business, our compensation program is designed to incentivize new assets under management while maximizing the retention of existing clients and exceeding benchmark investment performance.

Disciplined Risk Management. We place a strong emphasis on effective risk management as an integral component of our organizational culture. We use our risk management infrastructure to monitor existing operations, support decision-making and improve the success rate of existing products and services as well as new initiatives. A major part of our risk management effort has been our focus on increasing non-interest income, including the expansion of our investment management business through our recent acquisition. In our banking business, this has also included our focus on growing loans originated through our private banking channel. We believe these loans have lower credit risk because they are typically secured by readily liquid collateral, such as marketable securities, and/or are personally guaranteed by high-net-worth borrowers. In addition, we mitigate risk associated with these loans through active daily monitoring of the collateral, utilizing our proprietary technology.

Table of Contents

Experienced Professionals. Having successful and high quality professionals is critical to continuing to drive prudent growth in our business. In addition to our experienced executive management team and board of directors, we employ highly experienced personnel across our entire organization. Our commercial and private banking presidents as well as our regional banking presidents have an average of more than 30 years of banking experience and our middle-market and private banking relationship managers have an average of nearly 25 years of banking experience. Chartwell’s mission is successfully executed through the dedication of investment professionals who average over 20 years of industry experience. We believe that our distinct business model, culture, and scalable platform enable us to attract and retain high quality professionals. Additionally, our low overhead costs give us the financial capability to attract and incentivize qualified professionals who desire to work in an entrepreneurial and results-oriented organization.

Efficient and Scalable Operating Model. With respect to our banking business, we believe our branchless banking model gives us a competitive advantage by eliminating the overhead and intense management requirements of a traditional branch network. Moreover, we believe that we have a scalable platform and organizational infrastructure that positions us to grow our revenue more rapidly than our operating expenses. We also believe that our investment management business has an efficient and scalable business model that focuses on institutional direct clients and wholesale distribution channels to reach retail investors.

Lending Strategy. We generate loans through our middle-market banking and private banking channels. These channels provide risk diversification and offer significant growth opportunities.

- Middle-Market Banking Channel. Our middle-market banking channel primarily targets businesses with revenues between $5.0 million and $300.0 million located within our primary markets. To capitalize on this opportunity, each of our representative offices is led by an experienced regional president so we can understand the unique borrowing needs of the middle-market businesses in their area. They are supported by highly experienced relationship managers with reputations for success in targeting middle-market business customers and maintaining strong credit quality within their loan portfolios.

- Private Banking Channel. We provide loan products and services nationally to executives and high-net-worth individuals most of whom we source through referral relationships with independent broker/dealers, wealth managers, family offices, trust companies and other financial intermediaries. Our private banking products primarily include loans secured by cash, marketable securities, cash value life insurance and other asset-based loans. Our relationship managers have cultivated referral arrangements with 189 financial intermediaries. Under these arrangements, the financial intermediaries are able to refer their clients to us for responsive and sophisticated banking services. We believe many of our referral relationships also create cross-selling opportunities with respect to our deposit products and our investment management business. Since inception, we have had no charge-offs related to our loans secured by cash, marketable securities or cash value life insurance.

As shown in the following table, we have continued to achieve loan growth through both of our banking channels. As of December 31, 2018, loans sourced through our middle-market banking channel were $2.26 billion, or 44.1% of our loans held-for-investment.

As of December 31, 2018, loans sourced through our private banking channel were $2.87 billion, or 55.9% of our loans held-for-investment, of which $2.77 billion, or 96.7%, were secured by cash, marketable securities or cash value life insurance. We expect continued strong loan and deposit growth in this channel, in part, because we added 24 new loan referral relationships during the year ended December 31, 2018, for a total of 189 referral relationships at the end of 2018. We have also experienced continued growth in the number of customers resulting from our existing referral relationships.

December 31,

(Dollars in thousands)	2018	2017	2018 Change from 2017 Amount	Percent
Middle-market banking offices:				
Western Pennsylvania	$617,033	$540,999	$76,034	14.1 %
Eastern Pennsylvania	423,583	432,306	(8,723)	(2.0)%
Ohio	378,818	314,092	64,726	20.6 %
New Jersey	432,109	338,897	93,212	27.5 %
New York	411,787	292,213	119,574	40.9 %
Total middle-market banking loans	2,263,330	1,918,507	344,823	18.0 %
Total private banking loans	2,869,543	2,265,737	603,806	26.6 %
Loans held-for-investment	$5,132,873	$4,184,244	$948,629	22.7 %

Deposit Funding Strategy. Since inception, we have focused on creating and growing a branchless, diversified, stable, and low all-in cost deposit channels, both in our primary markets and across the United States. As of December 31, 2018, we consider approximately

87% of our total deposits to be sourced from direct customer relationships. We believe our sources of deposits continue to provide excellent opportunities for growth both within our primary markets and nationally.

We take a multilayered approach to our deposit growth strategy. We believe our relationship managers are an integral part of this approach and, accordingly, we measure and incentivize them to increase the deposits associated with their relationships. We have relationship managers who are specifically dedicated to deposit generation and treasury management, and we plan to continue adding such professionals as appropriate to support our growth. Additionally, we believe that our financial performance and our products and services, which are targeted to our markets, enhance our growth of cost-effective deposits.

Investment Management Strategy. We will continue to execute on our investment management strategy of selectively acquiring other investment management assets that complement Chartwell's business, as evidenced by the Columbia acquisition in 2018. We believe that this segment has and will continue to enhance our recurring fee revenue, provide new product offerings for our national network of financial intermediaries, and leverage our financial services distribution capabilities through the financial intermediaries with which our banking business has worked and developed.

Our Markets

For our middle-market banking business, our primary markets of Pennsylvania, Ohio, New Jersey and New York include the four major metropolitan statistical areas ("MSA") of Pittsburgh and Philadelphia, Pennsylvania; Cleveland, Ohio and New York (which includes northern New Jersey). We believe that our primary markets including these MSAs are long-term, attractive markets for the types of products and services that we offer, and we anticipate that these markets will continue to support our projected growth. With respect to our loans and other financial services and products, we selected the locations for our representative offices partially based upon the number of middle-market businesses located in these MSAs and their respective states. As of December 31, 2018, there were nearly 77,000 middle-market businesses in our primary markets with annual sales between $5.0 million and $300.0 million, which represented approximately 17% of the national total as of that date, according to Dun and Bradstreet. According to SNL Financial, the 2018 aggregate population of the four MSAs in which our headquarters and four representative offices are located was approximately 30 million, which represented approximately 10% of the national population. We believe that the population and business concentrations within our primary markets provide attractive opportunities to grow our business.

In addition to middle-market businesses in our primary markets, our private banking business also serves high-net-worth individuals on a national basis. We primarily source this business through referral relationships with independent broker/dealers, wealth managers, family offices, trust companies and other financial intermediaries. We view our product offerings as being most appealing to those households with $500,000 or more in net worth (not including their primary residence).

Through our distribution channels, we pursue and create deposit relationships, including treasury management relationships, with customers in our primary markets and throughout the United States. Because our deposit operations are centralized in our Pittsburgh headquarters all of our deposits are aggregated and accounted for in that MSA. For these distribution and reporting reasons, we do not consider deposit market share in any MSA or any of our primary markets to be relevant data. However, for perspective on the size of the deposit markets in which we have offices, the total aggregate domestic deposits of banks headquartered within the four MSAs were approximately $1.6 trillion as of December 31, 2018, according to SNL Financial.

Our investment management products are primarily distributed in two markets. These markets and their relative percentage of our assets under management as of December 31, 2018, were as follows: institutional and sub-advisory

(70%) and broker/dealers and registered investment advisors (30%).

Institutional and Sub-Advisory. Chartwell maintains a dedicated sales and client service staff to focus on the distribution of its products to a wide variety of institutional and sub-advisory clients, including corporate pension and profit-sharing plans, public pension plans, Taft-Hartley plans, foundations, endowments and registered investment companies. As of December 31, 2018, assets under management in the institutional and sub-advisory market included $2.21 billion in equity products and $4.22 billion in fixed-income products.

Broker/Dealer and Independent Registered Investment Advisors. Chartwell maintains sales staff dedicated to calling on national, regional and independent broker/dealers and registered investment advisors. Broker/dealers and registered investment advisors use Chartwell’s products to meet the needs of their customers, who are typically retail and/or high-net-worth investors. As of December 31, 2018, assets under management in the broker/dealer and independent registered investment advisor market included $1.67 billion in equity products and $1.09 billion in fixed-income products.

Table of Contents

Our Products and Services

We offer our clients an array of products and services, including loan and deposit products, cash management services, capital market services such as interest rate swaps and investment management products.

Our loan products include, among others, loans secured by cash, marketable securities or cash value life insurance, commercial and industrial loans, commercial real estate loans, personal loans, asset-based loans, acquisition financing, and letters of credit. Our deposit products include, among others, checking accounts, money market deposit accounts, certificates of deposit, and Promontory's Certificate of Deposit Account Registry Service® ("CDARS®") and Insured Cash Sweep® ("ICS®") services. Our liquidity and treasury management services include online balance reporting, online bill payment, remote deposit, liquidity services, wire and ACH services, foreign exchange and controlled disbursement. Our investment management business provides equity and fixed income advisory and sub-advisory services to third party mutual funds, series trust mutual funds, and to separately managed accounts for a spectrum of clients, but primarily focused on ultra-high-net-worth and institutional clients, including corporations, ERISA plans, Taft-Hartley funds, municipalities, endowments and foundations. We expect to continue to develop and implement additional products for our clients, including additional investment management product offerings to our financial intermediary referral sources.

More information about our key products and services, including a discussion about how we manage our products and services within our overall business and enterprise risk strategy, is set forth below.

Loans

Our primary source of income in our Bank segment is interest on loans. Our loan portfolio primarily consists of loans to our private banking clients, commercial and industrial loans, and real estate loans secured by commercial real estate properties. Our loan portfolio represents the largest component of our earning assets.

The following table presents the composition of our loan portfolio as of December 31, 2018.

(Dollars in thousands)	December 31, 2018	Percent of Loans
Private banking loans	$ 2,869,543	55.9 %
Middle-market banking loans:		
Commercial and industrial	785,320	15.3 %
Commercial real estate	1,478,010	28.8 %
Total middle-market banking loans	2,263,330	44.1 %
Loans held-for-investment	$ 5,132,873	100.0%

Private Banking Loans. Our private banking loans include both personal and commercial loans sourced through our private banking channel, which operates on a national basis. These loans primarily consist of loans made to high-net-worth individuals, trusts and businesses that may be secured by cash, marketable securities, cash value life insurance or other financial assets and to a smaller degree, residential property. We also have a small number of unsecured loans and lines of credit in our private banking loan portfolio that have been made to creditworthy borrowers. The primary source of repayment for these loans is the income and assets of the borrowers. Since a majority of our private banking loans are secured by cash, marketable securities or cash value life insurance, we believe the credit risk inherent in this portfolio is lower than the risk associated with other types of loans. We mitigate such risks through active daily monitoring of the collateral, utilizing our proprietary technology.

Our private banking lines of credit predominantly are due on demand or have terms of 365 days or less. Our term loans (other than mortgage loans) in this category generally have maturities of three to five years. On an accommodative basis, we have made personal residential real estate loans consisting primarily of first and second mortgage loans for residential properties, including jumbo mortgages. Our residential mortgage loans typically have maturities of seven years or less. On a limited basis we originated mortgage loans with maturities of up to ten years and acquired other residential mortgages that had original maturities of up to 30 years. Our personal lines of credit typically have floating interest rates. We examine the personal cash flow and liquidity of our individual borrowers when underwriting our private banking loans not secured by cash, marketable securities or cash value life insurance. In some cases we require our borrowers to agree to maintain a minimum level of liquidity that will be sufficient to repay the loan.

Table of Contents

The table below includes all loans made through our private banking channel by collateral type as of the date indicated.

(Dollars in thousands)	December 31, 2018	Percent of Private Banking Loans		Percent of Loans	
Private banking loans:					
Secured by cash, marketable securities or cash value life insurance	$ 2,774,800	96.7	%	54.0	%
Secured by real estate	69,766	2.4	%	1.4	%
Other	24,977	0.9	%	0.5	%
Total private banking loans	$ 2,869,543	100.0	%	55.9	%

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. The primary risks associated with commercial and industrial loans include potential declines in the value of collateral securing these loans, the highly-leveraged nature and inconsistent earnings of some commercial borrowers, and the larger average balances of commercial and industrial loans made to individual borrowers. We work throughout the lending process to manage and mitigate such risks within our commercial and industrial loan portfolio.

Our commercial and industrial loans include both working capital lines of credit and term loans. Working capital lines of credit generally have maturities ranging from one to five years. Availability under our commercial lines of credit is typically limited to a percentage of the value of the assets securing the line. Those assets typically include accounts receivable, inventory and equipment. Depending on the risk profile of the borrower, we may require periodic accounts receivable and payable agings, as well as borrowing base certificates representing borrowing availability after applying appropriate advance percentage rates to the collateral. Our commercial and industrial term loans generally have maturities between three to five years, and typically do not extend beyond seven years. Our commercial and industrial lines of credit and term loans typically have floating interest rates.

The table below shows the composition of our commercial and industrial loan portfolio by borrower industry as of December 31, 2018.

(Dollars in thousands)	December 31, 2018	Percent of Commercial and Industrial Loans		Percent of Loans	
Industry:					
Service	$ 294,550	37.5	%	5.8	%
Real estate, rental and leasing	165,212	21.0	%	3.2	%
Manufacturing	93,920	12.0	%	1.8	%
Transportation and warehousing	32,589	4.1	%	0.6	%
Wholesale Trade	31,602	4.0	%	0.6	%
Information	26,479	3.4	%	0.5	%
Retail Trade	24,017	3.1	%	0.5	%
Construction	16,252	2.1	%	0.3	%
Mining	11,761	1.5	%	0.2	%
All others	88,938	11.3	%	1.8	%

Total commercial and industrial loans	$ 785,320	100.0 %	15.3 %

Commercial Real Estate Loans. We concentrate on making commercial real estate loans to experienced borrowers that have an established history of successful projects. The cash flow from income-producing properties or the sale of property from for-sale construction and development loans are generally the primary sources of repayment for these loans. The equity sponsors of our borrowers generally provide a secondary source of repayment from their excess global cash flows and liquidity. The primary risks associated with commercial real estate loans include credit risk arising from the dependency of repayment upon income generated from the property securing the loan, the vulnerability of such income to changes in market conditions, and difficulty in liquidating collateral securing the loans. We work throughout the lending process to manage and mitigate such risks within our commercial real estate loan portfolio. The commercial real estate portfolio also includes loans secured by owner-occupied real estate and the primary source of repayment for these loans is cash flow from the borrower’s operations.

Our commercial real estate loans are primarily made to borrowers with projects or properties located within our primary markets. Our relationship managers are experienced lenders who are familiar with the trends within their local real estate markets.

Table of Contents

The table below shows the composition of our commercial real estate portfolio as of December 31, 2018.

(Dollars in thousands)	December 31, 2018	Percent of Commercial Real Estate Loans	Percent of Loans
Commercial real estate loans:			
Income-producing property loans	$ 848,318	57.4 %	16.5 %
Owner-occupied loans	183,660	12.4 %	3.6 %
Multifamily/apartment loans	328,342	22.2 %	6.4 %
Construction loans	110,455	7.5 %	2.2 %
Land development loans	7,235	0.5 %	0.1 %
Total commercial real estate loans	$ 1,478,010	100.0 %	28.8 %

Loan Underwriting

Our focus on maintaining strong asset quality is pervasive through all aspects of our lending activities, and it is apparent in our loan underwriting function. We are selective in targeting our lending to middle-market businesses, commercial real estate investors and developers, and high-net-worth individuals that we believe will meet our credit standards. Our credit standards are determined by our Credit Risk Policy Committee that is made up of senior bank officers, including our Chief Credit Officer, Chief Risk Officer, Bank President and Chief Executive Officer, President of Commercial Banking and President of Private Banking.

Our underwriting process is multilayered. Prospective loans are first reviewed by our relationship managers and regional presidents. The prospective commercial and certain private banking loans are then discussed in a pre-screen group composed of the Chief Credit Officer, Senior Credit Officer, President of Commercial Banking, President of Private Banking and all of our regional presidents. Applications for prospective loans that are accepted are fully underwritten by our credit administration group in combination with the relationship manager. Finally, the prospective loans are submitted to our Senior Loan Committee for approval, with the exception of certain loans that are fully secured by cash, marketable securities or cash value life insurance. Members of the Senior Loan Committee include our Chairman and Chief Executive Officer, Chief Financial Officer, Vice Chairman, Chief Credit Officer, Senior Credit Officer, Bank President and Chief Executive Officer, President of Commercial Banking, President of Private Banking and our regional presidents. All of our lending personnel, from our relationship managers to the members of our Senior Loan Committee, have significant experience that benefits our underwriting process.

We maintain high credit quality standards. Each credit approval, renewal, extension, modification or waiver is documented in written form to reflect all pertinent aspects of the transaction. Our underwriting analysis generally includes an evaluation of the borrower’s business, industry, operating performance, financial condition and typically includes a sensitivity analysis of the borrower’s ability to repay the loan.

Our lending activities are subject to internal exposure limits that restrict concentrations of loans within our portfolio to certain targets and maximums based on a percentage of total loan commitments and as a multiple of total risk-based capital. These exposure limits are approved by our Senior Loan Committee and our board of directors based upon recommendations made by the Credit Risk Policy Committee. Our internal exposure limits are established to avoid unacceptable concentrations in a number of areas, including in our different loan categories and in specific industries. In addition, we have established a preferred lending limit that is significantly lower than our legal lending limit.

Our loan portfolio includes Shared National Credits (“SNC”). Effective January 1, 2018, the bank regulatory agencies revised the SNC definition to increase the loan size from $20 million or more to $100 million or more and that are still shared by three or more financial institutions. We are typically part of the originating bank group in connection with these loan participations. We utilize the same underwriting criteria for these loans that we use for loans that we originate directly. These loans are to borrowers typically located within our primary markets and are generally made to companies that are known to us and with whom we have direct contact. They offer advantages in a diversified loan portfolio. These loans have helped us to diversify the risk inherent in our loan portfolio by allowing us to access a broader array of corporations with different credit profiles, repayment sources, geographic footprints and with larger revenue bases than those businesses associated with our direct loans. Still, we are focused more on growing our direct loans than SNC loans. As of December 31, 2018, we had $236.1 million of SNC loans compared to $314.4 million as of December 31, 2017.

Loan Portfolio Concentrations

Geographic criteria. We focus on developing client relationships with companies that have headquarters and/or significant operations within our primary markets.

Table of Contents

The table below shows the composition of our commercial loan portfolios based upon the states where our borrowers are located. Loans to borrowers located in our four primary market states made up 84.0% of our total commercial loans outstanding as of December 31, 2018. When those loans are aggregated with our loans to borrowers located in states that are contiguous to our primary market states, the percentage increases to approximately 90.1% of our commercial loan portfolio.

(Dollars in thousands)	December 31, 2018	Percent of Total Commercial Loans	
Geographic region of borrower:			
Pennsylvania	$ 696,219	30.8	%
Ohio	375,154	16.6	%
New Jersey	389,304	17.2	%
New York	439,754	19.4	%
Contiguous states	138,985	6.1	%
Other states	223,914	9.9	%
Total commercial loans	$ 2,263,330	100.0	%

Diversified lending approach. We are committed to maintaining a diversified loan portfolio. We also concentrate on making loans to businesses where we have or can obtain the necessary expertise to understand the credit risks commonly associated with the borrower's industry. We generally avoid lending to businesses that would require a high level of specialized industry knowledge that we do not have.

Deposits

An important aspect of our business franchise is the ability to gather deposits and establish and grow meaningful relationships related to liquidity and treasury management customers. Deposits provide the primary source of funding for our lending activities. We offer traditional depository products including checking accounts, money market deposit accounts and certificates of deposit in addition to CDARS® and ICS® reciprocal products. We also offer cash management and treasury management services, including online balance reporting, online bill payment, remote deposit, liquidity services, wire and ACH services and collateral disbursement. Our deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits.

As of December 31, 2018, non-brokered deposits represented approximately 87.3% of our total deposits. Our non-brokered deposit sources primarily include deposits from financial institutions, high-net-worth individuals, family offices, trust companies, wealth management firms, corporations and their executives. We compete for deposits by offering a range of deposit products at competitive rates. We also attract deposits by offering customers a variety of cash management services. We maintain direct customer relationships with many of our depositors that participate in CDARS® and ICS® reciprocal deposits.

The table below shows the balances of our deposit portfolio by type as of the dates indicated.

	December 31,		2018 Change from 2017		
(Dollars in thousands)	2018	2017	Amount	Percent	
Non-brokered deposits:					
Noninterest-bearing checking accounts	$258,268	$248,092	$10,176	4.1	%
Interest-bearing checking accounts	740,733	435,611	305,122	70.0	%
Money market deposit accounts	2,434,535	1,792,936	641,599	35.8	%
Certificates of deposit	975,492	442,752	532,740	120.3	%

Total non-brokered deposits	4,409,028	2,919,391	1,489,637	51.0 %
Brokered deposits:				
Interest-bearing checking accounts	37,398	19,730	17,668	89.5 %
Money market deposit accounts	347,335	496,853	(149,518)	(30.1)%
Certificates of deposit	256,700	551,637	(294,937)	(53.5)%
Total brokered deposits	641,433	1,068,220	(426,787)	(40.0)%
Total deposits	$ 5,050,461	$ 3,987,611	$ 1,062,850	26.7 %
Non-brokered deposits to total deposits	87.3 %	73.2 %		

11

Table of Contents

Investment Management Products

Chartwell Investment Partners manages $9.19 billion in a variety of equity and fixed income investment styles, for over 250 institutional investors, mutual funds and individual investors as of December 31, 2018. A description of each investment style is provided below.

Equity Investment Strategies:

- Small Cap Value: Chartwell's Small Cap Value portfolio employs a traditional value style supplemented with both deep and relative value stocks. Our opportunity set is selected using multiple valuation yardsticks and focuses heavily on company valuation relative to history. Portfolio decisions result from business reviews assessing the prospects of erasing these valuation discounts with a focus on fundamental and event-driven catalysts which we believe the market should recognize. The portfolio aims to be well diversified across all economic sectors and exhibit better growth, profitability and financial strength characteristics than the small cap value benchmark. Our objective is to outperform small cap value benchmarks over the long term while producing lower risk scores versus peers.

- Mid Cap Value: Chartwell's Mid Cap Value portfolio employs a traditional value style supplemented with both deep and relative value stocks, similar to Chartwell's Small Cap Value strategy. Our objective is to outperform mid cap value benchmarks over the long term while producing lower risk scores versus peers.

- Small Cap Growth: Our Small Cap Growth portfolio invests in a select set of small growth oriented companies that have demonstrated strong increases in earnings per share. More significantly, we look to invest in companies that have historically continued to broaden, deepen and enhance their fundamental capabilities, competitive positions, product and service offerings and customer bases. Our plan is to invest in these companies for an intermediate time horizon. Our portfolios focus on a narrow set of such investments.

- Mid Cap Growth: Our Mid Cap Growth portfolio invests in a select set of mid-cap growth oriented companies, similar to Chartwell's Small Cap Growth strategy.

- SMID Cap Growth: For clients in our SMID Cap Growth portfolio we invest in a select set of growth oriented companies with small to mid-market caps focused on securities held in Chartwell's Small Cap Growth and Mid Cap Growth portfolios.

- U.S. Small Cap: The U.S. Small Cap portfolio integrates the efforts of our Small Cap Value and Small Cap Growth investment teams. The final portfolio is constructed as a bottom up residual of stock selection from the "best ideas" of both value and growth.

- Dividend Value: Our objective in managing the Dividend Value portfolio is to deliver investment returns that exceed that of the Russell 1000 Value by focusing on what we believe are undervalued stocks with above-average dividend yields. We seek long-term inflation protection by investing in stocks in the top 40% of the market ranked by dividend yield; companies that we believe are capable of consistent dividend growth; and stocks that we believe are undervalued with significant potential for capital appreciation during a full market cycle.

- Covered Call: Our objective in managing Chartwell's Covered Call strategy is to provide market-like returns in rising equity markets while earning superior returns in flat or down equity markets. We seek to attain this objective by combining a portfolio of higher dividend paying stocks which have valuations that do not properly reflect our view of their fundamentals and a disciplined call overwriting strategy. We join these two investment disciplines in an effort to create a lower volatility total return solution for clients.

- Micro Cap Value: Chartwell’s Micro Cap Value strategy offers investors a diversified portfolio of small-cap stocks selected in accordance with the Chartwell’s value style.

Fixed Income Investment Strategies:

- Intermediate/Core/Short Duration Fixed Income: Chartwell's philosophy of investment grade fixed income management stresses security selection, preservation of principal, and compounding of the income stream as keys to consistently add value in the bond market. We focus our research efforts in the corporate sector of the market. Because the return potential of any bond tends to be asymmetric - with limited capital appreciation potential, but considerably greater capital loss potential - Chartwell targets high quality credits with stable-to improving profiles.

Chartwell utilizes a disciplined value, bottom-up approach to the fixed income market, with emphasis on building the portfolio through individual security selection. Our goal is to reduce risk and volatility exposures through credit research; therefore,

Table of Contents

duration shifts, sector swapping, interest rate bets and macroeconomic forecasting are not a central focus in our bottom-up process. Futures, options and other leveraged derivatives are not utilized in our credit central process.

- Core Plus Fixed Income: With flexibility to adjust to each client's specific guidelines, Chartwell's Core Plus product invests across both the U.S. Investment Grade and High Yield markets. By strategically expanding our credit-driven, valued-based opportunity set, the portfolio is able to take advantage of Chartwell's broad ranging corporate bond expertise and to benefit from the potential for increased income, total return and diversification.

- High Yield Fixed Income: Chartwell's philosophy of high yield bond management stresses preservation of principal and compounding of the income stream as keys to adding value in the high yield bond market. In evaluating investment candidates our perspective is that of a lender. We focus on the higher quality tiers of the market, which offer an attractive yield premium but a lower incidence of credit erosion relative to the market as a whole. Chartwell believes that the consistent application of high credit standards and strict trading disciplines is the most predictable route to outperformance in the high yield bond market.

- Short Duration BB-Rated High Yield Fixed Income: Chartwell's philosophy of high yield bond management stresses preservation of principal and compounding of the income stream as keys to adding value in the high yield bond market. Again, our focus is on the higher quality tiers of the market, which offer an attractive yield premium but a lower incidence of credit erosion relative to the market as a whole. We focus on duration of less than three years with maximum maturities of five years.

Balanced Investment Strategies:

- Conservative Allocation: The Conservative Allocation strategy is managed utilizing Chartwell's value-oriented security selection process and includes the Berwyn Income Fund as one of its main products. While the majority of funds managed under this strategy are invested in bonds, it may invest up to 30% of its assets in dividend-paying common stocks. We believe the fund's balanced, income-oriented approach may afford a greater level of price stability than an all equity portfolio.

Our total assets under management of $9.19 billion increased $880.0 million, or 10.6%, as of December 31, 2018, from $8.31 billion as of December 31, 2017. We reported new business and new flows from existing accounts and acquired assets of $2.74 billion, partially offset by outflows of $1.50 billion and market depreciation of $362.0 million during the year ended December 31, 2018.

The following t