

TriState Capital Holdings, Inc.  
Form 10-Q  
October 30, 2017  
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, 2017

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

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

Commission file number: 001-35913

---

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

---

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

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

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

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

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

filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a  
smaller reporting  Emerging growth company   
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.

---

Table of Contents

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 13, 2017, there were 28,642,573 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>4</u>
<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION</u>	<u>4</u>
<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME</u>	<u>5</u>
<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</u>	<u>6</u>
<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY</u>	<u>7</u>
<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	<u>8</u>
<u>NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>10</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>71</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>72</u>
<u>PART II – OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>72</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>72</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>72</u>
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>73</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>73</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>73</u>
<u>ITEM 6. EXHIBITS</u>	<u>73</u>
<u>SIGNATURES</u>	<u>74</u>
<u>EXHIBIT INDEX</u>	<u>75</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, 2017	December 31, 2016
<b>ASSETS</b>		
Cash	\$ 380	\$ 183
Interest-earning deposits with other institutions	129,979	96,244
Federal funds sold	6,220	7,567
Cash and cash equivalents	136,579	103,994
Investment securities available-for-sale, at fair value (cost: \$151,012 and \$175,158, respectively)	151,810	174,892
Investment securities held-to-maturity, at cost (fair value: \$59,605 and \$54,498, respectively)	58,314	53,940
Federal Home Loan Bank stock	10,792	9,641
Total investment securities	220,916	238,473
Loans held-for-investment	3,930,670	3,401,054
Allowance for loan losses	(15,979)	(18,762)
Loans held-for-investment, net	3,914,691	3,382,292
Accrued interest receivable	11,732	9,614
Investment management fees receivable, net	7,300	7,749
Goodwill and other intangibles, net	65,821	67,209
Office properties and equipment, net	5,103	5,471
Bank owned life insurance	66,154	64,815
Deferred tax asset, net	6,107	7,204
Prepaid expenses and other assets	61,610	43,636
Total assets	\$ 4,496,013	\$ 3,930,457
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Deposits	\$ 3,769,870	\$ 3,286,779
Borrowings, net	279,162	239,510
Accrued interest payable on deposits and borrowings	1,781	1,867
Other accrued expenses and other liabilities	67,867	50,494
Total liabilities	4,118,680	3,578,650
<b>Shareholders' Equity:</b>		
Preferred stock, no par value; Shares authorized - 150,000; Shares issued - none	—	—
Common stock, no par value; Shares authorized - 45,000,000; Shares issued - 30,298,858 and 29,790,383, respectively;	288,800	285,480
Shares outstanding - 28,642,573 and 28,415,654, respectively		
Additional paid-in capital	9,020	6,782
Retained earnings	99,689	73,744

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

Accumulated other comprehensive income, net	1,330	830
Treasury stock (1,656,285 and 1,374,729 shares, respectively)	(21,506	)(15,029
Total shareholders' equity	377,333	351,807
Total liabilities and shareholders' equity	\$ 4,496,013	\$ 3,930,457

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2017	2016	2017	2016
Interest income:				
Loans	\$33,604	\$23,369	\$90,865	\$67,689
Investments	1,531	1,400	4,536	3,957
Interest-earning deposits	440	156	1,026	434
Total interest income	35,575	24,925	96,427	72,080
Interest expense:				
Deposits	10,604	5,187	25,813	13,928
Borrowings	1,366	1,034	4,060	2,852
Total interest expense	11,970	6,221	29,873	16,780
Net interest income	23,605	18,704	66,554	55,300
Provision (credit) for loan losses	283	(542)	1,042	(340)
Net interest income after provision for loan losses	23,322	19,246	65,512	55,640
Non-interest income:				
Investment management fees	9,214	10,333	27,684	26,814
Service charges	96	134	287	393
Net gain on the sale and call of investment securities	15	14	254	77
Swap fees	1,391	977	3,708	3,422
Commitment and other fees	423	488	1,240	1,497
Other income	567	551	1,654	656
Total non-interest income	11,706	12,497	34,827	32,859
Non-interest expense:				
Compensation and employee benefits	14,683	14,664	42,798	39,404
Premises and occupancy costs	1,257	1,285	3,763	3,583
Professional fees	968	693	2,642	2,483
FDIC insurance expense	1,121	933	3,074	2,023
General insurance expense	245	258	805	768
State capital shares tax	398	329	1,148	986
Travel and entertainment expense	828	718	2,190	2,140
Intangible amortization expense	463	463	1,388	1,291
Change in fair value of acquisition earn out	—	(1,209)	—	(1,209)
Other operating expenses	2,849	2,380	7,946	6,508
Total non-interest expense	22,812	20,514	65,754	57,977
Income before tax	12,216	11,229	34,585	30,522
Income tax expense	2,184	2,775	8,640	9,452
Net income	\$10,032	\$8,454	\$25,945	\$21,070
Earnings per common share:				
Basic	\$0.36	\$0.31	\$0.94	\$0.76
Diluted	\$0.35	\$0.30	\$0.90	\$0.75

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, 2017	2016	Ended September 30, 2017	2016
Net income	\$10,032	\$8,454	\$25,945	\$21,070
Other comprehensive income (loss):				
Unrealized holding gains (losses) on investment securities, net of tax expense (benefit) of \$(19), \$397, \$490 and \$675	(35	)711	855	1,146
Reclassification adjustment for gains included in net income on investment securities, net of tax expense of \$0, \$(6), \$(85) and \$(11)	—	(8	) (154	) (20
Unrealized holding gains (losses) on derivatives, net of tax expense (benefit) of \$31, \$224, \$(25) and \$192	55	402	(45	)346
Reclassification adjustment for losses (gains) included in net income on derivatives, net of tax benefit (expense) of \$(43), \$17, \$(87) and \$17	(77	)29	(156	)29
Other comprehensive income (loss)	(57	)1,134	500	1,501
Total comprehensive income	\$9,975	\$9,588	\$26,445	\$22,571

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)	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 2015	\$281,412	\$ 10,809	\$ 45,103	\$ (1,443)	) \$(9,904	) \$ 325,977
Net income	—	—	21,070	—	—	21,070
Other comprehensive income	—	—	—	1,501	—	1,501
Exercise of stock options	2,089	(663	) —	—	—	1,426
Purchase of treasury stock	—	—	—	—	(4,309	) (4,309
Cancellation of stock options	—	(5,220	) —	—	—	(5,220
Stock-based compensation	—	2,694	—	—	—	2,694
Balance, September 30, 2016	\$283,501	\$ 7,620	\$ 66,173	\$ 58	\$(14,213)	\$ 343,139
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

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)	2017	2016
Cash Flows from Operating Activities:		
Net income	\$25,945	\$21,070
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and intangible amortization expense	2,523	2,241
Amortization of deferred financing costs	152	152
Provision (credit) for loan losses	1,042	(340 )
Net gain on the sale of loans	(17 )	—
Stock-based compensation expense	4,220	2,694
Net gain on the sale or call of investment securities available-for-sale	(239 )	(31 )
Net gain on the call of investment securities held-to-maturity	(15 )	(46 )
Net amortization of premiums and discounts	684	682
Decrease (increase) in investment management fees receivable, net	449	(1,063 )
Increase in accrued interest receivable	(2,118 )	(1,503 )
Decrease in accrued interest payable	(86 )	(347 )
Bank owned life insurance income	(1,339 )	(1,331 )
Decrease in income taxes payable	(11 )	(353 )
Increase in prepaid income taxes	(745 )	(2,404 )
Deferred tax provision	805	720
Decrease in accounts payable and other accrued expenses	(5,471 )	(833 )
Change in fair value of acquisition earn out	—	(1,209 )
Other, net	(2,690 )	(3,944 )
Net cash provided by operating activities	23,089	14,155
Cash Flows from Investing Activities:		
Purchase of investment securities available-for-sale	(12,907 )	(27,419 )
Purchase of investment securities held-to-maturity	(7,467 )	(6,250 )
Proceeds from the sale of investment securities available-for-sale	—	4,691
Principal repayments and maturities of investment securities available-for-sale	46,760	9,162
Principal repayments and maturities of investment securities held-to-maturity	3,000	2,500
Purchase of bank owned life insurance	—	(3,000 )
Investment in low income housing tax credit	(1,851 )	(125 )
Investment in small business investment company	(745 )	—
Net redemption (purchase) of Federal Home Loan Bank stock	(1,152 )	570
Net increase in loans	(540,292 )	(331,988 )
Proceeds from loan sales	6,867	1,196
Proceeds from the sale of other real estate owned	597	1,080
Additions to office properties and equipment	(766 )	(700 )
Acquisition, net of acquired cash	—	(14,095 )
Net cash used in investing activities	(507,956 )	(364,378 )
Cash Flows from Financing Activities:		
Net increase in deposit accounts	483,091	397,386
Net increase in Federal Home Loan Bank advances	35,000	—
Net decrease in Federal Home Loan Bank advances	—	(15,000 )
Net increase in line of credit advances	4,500	—
Net proceeds from exercise of stock options	1,338	1,426

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

Cancellation of stock options	—	(5,220 )
Purchase of treasury stock	(6,477 )	(4,309 )
Net cash provided by financing activities	517,452	374,283
Net change in cash and cash equivalents during the period	32,585	24,060
Cash and cash equivalents at beginning of the period	103,994	96,676
Cash and cash equivalents at end of the period	\$136,579	\$120,736

8

---

Table of Contents

(Dollars in thousands)	Nine Months Ended September 30,	
	2017	2016
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$29,807	\$16,975
Income taxes	\$8,591	\$11,273
Acquisition of non-cash assets and liabilities:		
Assets acquired	\$—	\$1,038
Liabilities assumed	\$—	\$1,402
Other non-cash activity:		
Loan foreclosures and repossessions	\$—	\$3,618
Unsettled purchase of investment securities available-for-sale	\$10,000	\$—
Contingent consideration	\$—	\$2,478

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

[1] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATION

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

The Bank was established to serve the commercial banking needs of middle-market businesses and private banking needs of high-net-worth individuals. Chartwell provides investment management services primarily to institutional investors, mutual funds and individual investors. CTSC Securities supports marketing efforts for the proprietary investment products provided by Chartwell, including shares of mutual funds advised and/or administered by Chartwell.

Regulatory approval was received and the Bank commenced operations on January 22, 2007. The Company and the Bank are subject to regulatory examination by the Federal Deposit Insurance Corporation (“FDIC”), the Pennsylvania Department of Banking and Securities, and the Federal Reserve. Chartwell is a registered investment advisor regulated by the Securities and Exchange Commission (“SEC”). Chartwell was established through the acquisition of substantially all the assets of Chartwell Investment Partners, LP on March 5, 2014. CTSC Securities was capitalized in May 2014, and its broker/dealer registration was approved on March 7, 2017. CTSC Securities is regulated by the SEC and Financial Industry Regulatory Authority (“FINRA”).

The Bank conducts business through its main office located in Pittsburgh, Pennsylvania, as well as its four additional representative offices in Cleveland, Ohio; Philadelphia, Pennsylvania; Edison, New Jersey; and New York, New York. Chartwell conducts business through its office located in Berwyn, Pennsylvania and CTSC Securities conducts business through its office located in Pittsburgh, Pennsylvania.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of related revenue and expense during the reporting period. Although our current estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that actual conditions could be different than those anticipated in the estimates, which could materially affect the financial results of our operations and financial condition.

The material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for loan losses, valuation of goodwill and other intangible assets and its evaluation for impairment, and deferred income taxes and its related recoverability, which are discussed later in this section.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, the Bank, Chartwell and CTSC Securities, after elimination of inter-company accounts and transactions. The accounts of the Bank, in turn, include its wholly-owned subsidiary, Meadowood Asset Management, LLC, after elimination of inter-company accounts and transactions. The unaudited consolidated financial statements of the Company presented herein have been prepared pursuant to rules of the Securities and Exchange Commission for quarterly reports on form

10-Q and do not include all of the information and note disclosures required by GAAP for a full year presentation. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures, considered necessary for the fair presentation of the accompanying consolidated financial statements, have been included. Interim results are not necessarily reflective of the results of the entire year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2016, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 14, 2017.

#### CASH AND CASH EQUIVALENTS

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

#### INVESTMENT SECURITIES

The Company's investments are classified as either: (1) held-to-maturity – debt securities that the Company intends to hold until maturity and are reported at amortized cost; (2) trading securities – debt and certain equity securities bought and held principally for

## Table of Contents

the purpose of selling them in the near term and reported at fair value, with unrealized gains and losses included in earnings; or (3) available-for-sale – debt and certain equity securities not classified as either held-to-maturity or trading securities and reported at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss), on an after-tax basis.

The cost of securities sold is determined on a specific identification basis. Amortization of premiums and accretion of discounts are recorded as interest income on investments over the 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, 2017 and December 31, 2016. Cash and stock dividends are reported as interest income on investments, in the consolidated statements of income.

### LOANS

Loans and leases held-for investment are stated at unpaid principal balances, net of deferred loan fees and costs. Loans held-for-sale are stated at the lower of cost or fair value. Interest income on loans is accrued at the contractual rate on the principal amount outstanding and includes the amortization of deferred loan fees and costs. Deferred loan fees and costs are amortized to interest income over the 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, 2017 and December 31, 2016. Management’s judgment takes into consideration general economic conditions, diversification and seasoning of the loan portfolio, historic loss experience, identified credit problems, delinquency levels and adequacy of collateral. Although management believes it has used the best information available to it in making such determinations, and that the present allowance for loan losses is adequate, future adjustments to the allowance may be necessary, and net income may be adversely affected if circumstances differ substantially from the assumptions used in determining the level of the allowance. In addition, as an integral part of their periodic examination, certain regulatory agencies review the adequacy of the Bank’s allowance for loan losses and may direct the Bank to make additions to the allowance based on their judgments about information available to them at the time of their examination.

The 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. Assessment of relevant economic factors indicates that some of the Company’s primary markets may historically tend to lag the national economy, with local economies in our primary market areas also improving or weakening, as the case may be, but at a more measured rate than the national trends.

Management bases the computation of the allowance for loan losses 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.

## Table of Contents

### INVESTMENT MANAGEMENT FEES

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

Investment management fees receivable represent amounts due for contractual investment management services provided to the Company's clients, primarily institutional investors, mutual funds and individual investors. Management performs credit evaluations of its customers' financial condition when it is deemed to be necessary, and does not require collateral. The Company provides an allowance for uncollectible accounts based on specifically identified receivables. Bad debt expense is recorded to other non-interest expense on the consolidated statements of income and the allowance for uncollectible accounts is recorded to investment management fees receivable, net on the consolidated statements of financial position. Investment management fees receivable are considered delinquent when payment is not received within contractual terms and are charged off against the allowance for uncollectible accounts when management determines that recovery is unlikely and the Company ceases its collection efforts. There was \$322,000 of bad debt expense associated with a single relationship recorded for the nine months ended September 30, 2017, and no allowance for uncollectible accounts as of September 30, 2017. There was no bad debt expense recorded for the nine months ended September 30, 2016, and there was no allowance for uncollectible accounts as of December 31, 2016.

### 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.

## Table of Contents

BOLI benefits are payable to the Company upon death of the insured. Changes in net cash surrender value are recognized as non-interest income in the consolidated statements of income.

### DEPOSITS

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

### BORROWINGS

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

### EARNINGS PER COMMON SHARE

Basic earnings per common share ("EPS") is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period, excluding non-vested restricted stock. Diluted EPS reflects the potential dilution upon the exercise of stock options and the vesting of restricted stock awards granted utilizing the treasury stock method.

### INCOME TAXES

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

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

### FAIR VALUE MEASUREMENT

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in a principal or most advantageous market for the asset or liability in an orderly transaction between market participants

as of the measurement date, using assumptions market participants would use when pricing an asset or liability. An orderly transaction assumes exposure to the market for a customary period for marketing activities prior to the measurement date and not a forced liquidation or distressed sale. Fair value measurement and disclosure guidance provides a three-level hierarchy that prioritizes the inputs of valuation techniques used to measure fair value into three broad categories:

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

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

### STOCK-BASED COMPENSATION

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

Compensation cost for all share-based payments is based on the estimated grant-date fair value. The value of the portion of the award that is ultimately expected to vest is included in stock-based compensation expense in the consolidated statements of income and recorded as a component of additional paid-in capital, for equity-based awards. Compensation expense for all awards is recognized on a straight-line basis over the requisite service period for the entire grant.

### ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Unrealized holding gains and the non-credit component of unrealized losses on the Company's investment securities available-for-sale are included in accumulated other comprehensive income (loss), net of applicable income taxes. Also included in accumulated other comprehensive income (loss) is the remaining unamortized balance of the unrealized holding gains (non-credit losses), net of applicable income taxes, that existed on the transfer date for investment securities reclassified into the held-to-maturity category from the available-for-sale category.

Unrealized holding gains (losses) on the effective portion of the Company's cash flow hedge derivatives are included in accumulated other comprehensive income (loss), net of applicable income taxes, which will be reclassified to interest expense as interest payments are made on the Company's debt.

### TREASURY STOCK

The repurchase of the Company's common stock is recorded at cost. At the time of reissuance, the treasury stock account is reduced using the average cost method. Gains and losses on the reissuance of common stock are recorded in additional paid-in capital, to the extent additional paid-in capital from any previous net gains on treasury share transactions exists. Any net deficiency is charged to retained earnings.

### RECENT ACCOUNTING DEVELOPMENTS

In August 2017, the FASB issued Accounting Standard Update ("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 May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting," which clarifies what constitutes a modification of a share-based payment award. This standard is effective for all entities for annual and interim periods in fiscal years beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.



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.

Table of Contents

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

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805),” which provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This standard is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” which requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. This standard is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory,” which requires entities to recognize at the transaction date the income tax consequences of intercompany asset transfers other than inventory. This standard is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

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

In June 2016, the FASB issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments,” which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life. The changes are effective for public business entities that are SEC filers, for annual and interim periods in fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

In February 2016, the FASB issued ASU 2016-02, “Leases,” which, among other things, requires lessees to recognize most leases on-balance sheet. This will increase their reported assets and liabilities - in some cases very significantly.

Lessor accounting remains substantially similar to current U.S. GAAP. ASU 2016-02 supersedes Topic 840, Leases. This standard is effective for public business entities, certain not-for-profit entities, and certain employee benefit plans for annual and interim periods in fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” which will significantly change the income statement impact of equity investments, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. This standard is effective for public business entities for interim and annual periods in fiscal years beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” This standard implements a common approach standard that clarifies the principles for recognizing revenue. The core principle of this update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard establishes a five-step model that

Table of Contents

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 is substantially complete with its overall assessment of revenue streams and review of related contracts potentially affected by the standard, including asset management fees, deposit related fees, interchange fees and merchant income. The Company's assessment suggests that adoption of this standard should not materially change the method in which we currently recognize revenue for these revenue streams. The Company is also in the final stages of its evaluation of certain contract acquisition costs related to these revenue streams to determine whether such costs should be capitalized and deferred over the life of the contract. With respect to the capitalization of costs to acquire a contract, the Company believes adoption of this standard will likely alter the timing, measurement and recognition of those costs in the income statement; however, the Company does not expect the impact to be material. In addition, the Company is evaluating the standard's expanded disclosure requirements. The Company plans to adopt this standard on January 1, 2018, utilizing the modified retrospective approach with a cumulative effect adjustment to opening retained earnings, if such adjustment is deemed to be material.

**RECLASSIFICATION**

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

**[2] INVESTMENT SECURITIES**

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

(Dollars in thousands)	September 30, 2017			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Investment securities available-for-sale:				
Corporate bonds	\$57,571	\$ 261	\$ 60	\$57,772
Trust preferred securities	17,807	871	—	18,678
Non-agency mortgage-backed securities	5,587	—	—	5,587
Non-agency collateralized loan obligations	903	—	9	894
Agency collateralized mortgage obligations	40,096	26	94	40,028
Agency mortgage-backed securities	20,197	132	125	20,204
Equity securities	8,851	—	204	8,647
Total investment securities available-for-sale	151,012	1,290	492	151,810
Investment securities held-to-maturity:				
Corporate bonds	31,190	959	—	32,149
Agency debentures	1,983	16	—	1,999
Municipal bonds	25,141	316	—	25,457
Total investment securities held-to-maturity	58,314	1,291	—	59,605
Total	\$209,326	\$ 2,581	\$ 492	\$211,415

Table of Contents

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

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

Interest income on investment securities was as follows:

(Dollars in thousands)	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
Taxable interest income	\$1,156	\$1,078	\$3,540	\$3,067
Non-taxable interest income	113	107	339	338
Dividend income	262	215	657	552
Total interest income on investment securities	\$1,531	\$1,400	\$4,536	\$3,957

As of September 30, 2017, the contractual maturities of the debt securities were:

(Dollars in thousands)	September 30, 2017			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$8,898	\$8,920	\$6,005	\$6,199
Due from one to five years	34,576	34,812	11,564	11,681
Due from five to ten years	14,167	14,391	39,837	40,788
Due after ten years	84,520	85,040	908	937
Total debt securities	\$142,161	\$143,163	\$58,314	\$59,605

The \$85.0 million fair value of debt securities available-for-sale with a contractual maturity due after ten years as of September 30, 2017, included \$65.2 million, or 76.6%, that are floating-rate securities. The \$39.8 million amortized cost of debt securities held-to-maturity with a contractual maturity due from five to ten years as of September 30, 2017, included \$17.3 million that have call provisions in one to five years that would either mature, if called, or become floating-rate securities after the call date.

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

Proceeds from the sale of investment securities available-for-sale during the three months ended September 30, 2017 and 2016, were \$0 and \$1.7 million, respectively. During the three months ended September 30, 2016, net gains of \$14,000 on sales were comprised of gross gains of \$14,000 and gross losses of \$0.

Table of Contents

Proceeds from the sale of investment securities available-for-sale during the nine months ended September 30, 2017 and 2016, were \$0 and \$4.7 million, respectively. Proceeds from the call and prepayments of investment securities available-for-sale during the nine months ended September 30, 2017 and 2016, were \$21.7 million and \$0, respectively. During the nine months ended September 30, 2017, net gains of \$239,000 on calls were comprised of gross gains of \$241,000 and gross losses of \$2,000, which were realized and reclassified out of accumulated other comprehensive income (loss). During the nine months ended September 30, 2016, net gains of \$31,000 on sales were comprised of gross gains of \$34,000 and gross losses of \$3,000.

During the nine months ended September 30, 2017 and 2016, there were proceeds from the call of investment securities held-to-maturity of \$3.0 million and \$2.5 million, respectively, which had gross gains of \$15,000 and \$46,000, respectively, that were realized on these calls and reclassified out of accumulated other comprehensive income (loss).

Investment securities available-for-sale of \$4.2 million, as of September 30, 2017, were held in safekeeping at the FHLB and were included in the calculation of borrowing capacity.

The following tables show the fair value and gross unrealized losses on temporarily impaired investment securities available-for-sale and held-to-maturity, by investment category and length of time that the individual securities have been in a continuous unrealized loss position as of September 30, 2017 and December 31, 2016, respectively:

## September 30, 2017

(Dollars in thousands)	Less than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Investment securities available-for-sale:						
Corporate bonds	\$8,950	\$ 60	\$—	\$ —	\$8,950	\$ 60
Non-agency collateralized loan obligations	—	—	894	9	894	9
Agency collateralized mortgage obligations	1,641	1	33,642	93	35,283	94
Agency mortgage-backed securities	9,866	117	1,092	8	10,958	125
Equity securities	—	—	8,647	204	8,647	204
Total investment securities available-for-sale	20,457	178	44,275	314	64,732	492
Investment securities held-to-maturity:						
Total investment securities held-to-maturity	—	—	—	—	—	—
Total temporarily impaired securities <sup>(1)</sup>	\$20,457	\$ 178	\$44,275	\$ 314	\$64,732	\$ 492

<sup>(1)</sup> The number of investment positions with unrealized losses totaled 20 for available-for-sale securities and 0 for held-to-maturity securities.

## December 31, 2016

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

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

Total investment securities available-for-sale	33,619	281	61,788	634	95,407	915
Investment securities held-to-maturity:						
Corporate bonds	2,492	8	1,978	22	4,470	30
Municipal bonds	12,559	96	—	—	12,559	96
Total investment securities held-to-maturity	15,051	104	1,978	22	17,029	126
Total temporarily impaired securities <sup>(1)</sup>	\$48,670	\$ 385	\$63,766	\$ 656	\$112,436	\$ 1,041

(1) The number of investment positions with unrealized losses totaled 30 for available-for-sale securities and 18 for held-to-maturity securities.

The change in the fair values of our municipal bonds, agency debentures, agency collateralized mortgage obligation and agency mortgage-backed securities are primarily the result of interest rate fluctuations. To assess for credit impairment, management evaluates the underlying



Table of Contents

issuer's financial performance and the related credit rating information through a review of publicly available financial statements and other publicly available information. This most recent review did not identify any issues related to the ultimate repayment of principal and interest on these securities. In addition, the Company has the ability and intent to hold debt securities in an unrealized loss position until recovery of their amortized cost. Based on this, the Company considers all of the unrealized losses to be temporary impairment losses.

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

There was \$10.8 million and \$9.6 million in FHLB stock outstanding as of September 30, 2017 and December 31, 2016, respectively. There were \$1.2 million of net purchases in FHLB stock during the nine months ended September 30, 2017, and \$570,000 of net redemptions during the nine months ended September 30, 2016.

**[3] LOANS**

The Company generates loans through the private banking and middle-market banking channels. These channels provide risk diversification and offer significant growth opportunities. The private banking channel primarily includes loans made to high-net-worth individuals, trusts and businesses that are typically secured by cash and marketable securities. 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, 2017			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Loans held-for-investment, before deferred fees	\$2,052,037	\$ 647,910	\$ 1,229,548	\$ 3,929,495
Deferred loan costs (fees)	3,771	810	(3,406)	1,175
Loans held-for-investment, net of deferred fees	2,055,808	648,720	1,226,142	3,930,670
Allowance for loan losses	(1,491)	(9,593)	(4,895)	(15,979)
Loans held-for-investment, net	\$2,054,317	\$ 639,127	\$ 1,221,247	\$ 3,914,691
	December 31, 2016			
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Loans held-for-investment, before deferred fees	\$1,732,578	\$ 587,791	\$ 1,080,637	\$ 3,401,006
Deferred loan costs (fees)	3,350	(368)	(2,934)	48
Loans held-for-investment, net of deferred fees	1,735,928	587,423	1,077,703	3,401,054
Allowance for loan losses	(1,424)	(12,326)	(5,012)	(18,762)
Loans held-for-investment, net	\$1,734,504	\$ 575,097	\$ 1,072,691	\$ 3,382,292

The Company's customers have unused loan commitments based on the availability of eligible collateral or other terms 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, 2017 and December 31, 2016, was \$2.19 billion and \$1.75 billion, respectively. The interest rate for each commitment is based on the prevailing market conditions at the time of funding. The reserve for losses on unfunded commitments was \$588,000 and \$650,000 as of September 30, 2017 and

December 31, 2016, respectively, which includes reserves for probable losses on unfunded loan commitments, including standby letters of credit and also risk participations.

The total unfunded commitments above included loans in the process of origination totaling approximately \$45.8 million and \$59.8 million as of September 30, 2017 and December 31, 2016, respectively, which extend over varying periods of time.

The Company issues standby letters of credit in the normal course of business. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party. The Company would be required to perform under the standby letters of credit when drawn upon by the guaranteed party in the case of non-performance by the Company's customer.

## Table of Contents

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, 2017 and December 31, 2016, included in the total unfunded commitments above, was \$73.5 million and \$77.4 million, respectively. Should the Company be obligated to perform under the standby letters of credit the Company will seek repayment from the customer for amounts paid. During the nine months ended September 30, 2017, there were seven draws on standby letters of credit totaling \$191,000, which were converted to loans and subsequently repaid by the borrowers. During the nine months ended September 30, 2016, there was one draw on a standby letter of credit for \$100,000, which was immediately repaid by the borrower. Most of these commitments are expected to expire without being drawn upon and the total amount does not necessarily represent future cash requirements. The potential liability for losses on standby letters of credit was included in the reserve for losses on unfunded commitments.

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

### [4] ALLOWANCE FOR LOAN LOSSES

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

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

#### Private Banking Loans

Our private banking lending activities are conducted on a national basis. This loan portfolio primarily includes loans made to high-net-worth individuals, trusts and businesses that are typically secured by cash and marketable securities. This portfolio also has some loans that are secured by residential real estate or other financial assets, lines of credit and unsecured loans. The primary sources of repayment for these loans are the income and/or assets of the borrower.

The underlying collateral is the most important indicator of risk for this loan portfolio. The overall lower risk profile of this portfolio is driven by loans secured by cash and marketable securities, which were 93.9% and 91.3% of total private banking loans as of September 30, 2017 and December 31, 2016, respectively.

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

This loan portfolio primarily includes loans made to service companies or manufacturers generally for the purposes of financing production, operating capacity, accounts receivable, inventory, equipment, acquisitions and

recapitalizations. Cash flow from the borrower's operations is the primary source of repayment for these loans.

The 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 cash and marketable securities are treated the same as private banking loans for purposes of the allowance for loan loss calculation. In addition, shared national credit loans that also involve a private equity sponsor are combined as a homogeneous group and evaluated separately based on the historical loss trend of such loans.

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

This loan portfolio includes loans secured by commercial purpose real estate, including both owner occupied properties and investment properties for various purposes including office, industrial, multifamily, retail, hospitality, healthcare and self-storage. 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

Table of Contents

to finance the construction or renovation of structures as well as to finance the acquisition and development of raw land for various purposes. The increased level of risk for these loans is generally confined to the construction period. If there are problems, the project may not be completed, and as such, may not provide sufficient cash flow on its own to service the debt or have sufficient value in a liquidation to cover the outstanding principal.

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

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 and marketable securities within the private banking portfolio, which further reduces the risk profile of that portfolio. Refer to Note 1, Summary of Significant Accounting Policies, for the Company's policy for determining past due status of loans.

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

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

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

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

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

Doubtful – A doubtful loan has all the weaknesses inherent in a loan categorized as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

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

(Dollars in thousands)	September 30, 2017			
	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Pass	\$2,055,401	\$ 613,584	\$ 1,224,292	\$3,893,277
Special mention	—	28,607	1,850	30,457

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

Substandard	407	6,529	—	6,936
Loans held-for-investment	\$2,055,808	\$ 648,720	\$ 1,226,142	\$3,930,670

December 31, 2016

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

Table of Contents

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

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

(Dollars in thousands)	Three Months Ended September 30, 2016			
	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Balance, beginning of period	\$ 1,502	\$ 10,841	\$ 4,872	\$ 17,215
Provision (credit) for loan losses	85	2,548	(3,175)	(542)
Charge-offs	—	—	—	—
Recoveries	—	127	3,411	3,538
Balance, end of period	\$ 1,587	\$ 13,516	\$ 5,108	\$ 20,211

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

(Dollars in thousands)	Nine Months Ended September 30, 2017			
	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

(Dollars in thousands)	Nine Months Ended September 30, 2016			
	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Balance, beginning of period	\$ 1,566	\$ 11,064	\$ 5,344	\$ 17,974
Provision (credit) for loan losses	21	3,286	(3,647)	(340)
Charge-offs	—	(1,542)	—	(1,542)
Recoveries	—	708	3,411	4,119
Balance, end of period	\$ 1,587	\$ 13,516	\$ 5,108	\$ 20,211

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

(Dollars in thousands)	September 30, 2017		
	30-59 Days Past Due	60-89 Days Past Due	Total

			or		
			More		
Private banking	\$	<del>\$</del>	\$ —	\$ —	\$2,055,808
Commercial and industrial	—	—	97	97	648,623
Commercial real estate	—	—	—	—	1,226,142
Loans held-for-investment	\$	<del>\$</del>	\$ 97	\$ 97	\$3,930,573
					\$2,055,808
					648,720
					1,226,142
					\$3,930,670



Table of Contents

December 31, 2016				
Loans				
(Dollars in thousands)	Days Past Due	90 Days Past Due or More	Total	
			Past Due	Current
Private banking	\$-	\$-224	\$224	\$1,735,928
Commercial and industrial	—	—	—	587,423
Commercial real estate	—	—	—	1,077,703
Loans held-for-investment	\$-	\$-224	\$224	\$3,400,830
				\$3,401,054

## Non-Performing and Impaired Loans

Management monitors the delinquency status of the loan portfolio on a monthly basis. Loans 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, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Private banking	\$407	\$575	\$407	\$457	\$—
Commercial and industrial	6,433	6,997	3,197	6,687	—
Commercial real estate	—	—	—	—	—
Total with a related allowance recorded	6,840	7,572	3,604	7,144	—
Without a related allowance recorded:					
Private banking	—	—	—	—	—
Commercial and industrial	3,545	16,111	—	5,932	92
Commercial real estate	—	—	—	—	—
Total without a related allowance recorded	3,545	16,111	—	5,932	92
Total:					
Private banking	407	575	407	457	—
Commercial and industrial	9,978	23,108	3,197	12,619	92
Commercial real estate	—	—	—	—	—
Total	\$10,385	\$23,683	\$3,604	\$13,076	\$92



Table of Contents

(Dollars in thousands)	As of and for the Twelve Months Ended December 31, 2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Private banking	\$ 517	\$ 656	\$ 517	\$ 592	\$ —
Commercial and industrial	17,273	26,126	6,422	19,158	—
Commercial real estate	—	—	—	—	—
Total with a related allowance recorded	17,790	26,782	6,939	19,750	—
Without a related allowance recorded:					
Private banking	—	—	—	—	—
Commercial and industrial	471	487	—	485	26
Commercial real estate	—	—	—	—	—
Total without a related allowance recorded	471	487	—	485	26
Total:					
Private banking	517	656	517	592	—
Commercial and industrial	17,744	26,613	6,422	19,643	26
Commercial real estate	—	—	—	—	—
Total	\$ 18,261	\$ 27,269	\$ 6,939	\$ 20,235	\$ 26

Impaired loans as of September 30, 2017 and December 31, 2016, were \$10.4 million and \$18.3 million, respectively. There was no interest income recognized on these loans while on non-accrual status for the nine months ended September 30, 2017, and the twelve months ended December 31, 2016. As of September 30, 2017 and December 31, 2016, 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 \$3.6 million and \$6.9 million as of September 30, 2017 and December 31, 2016.

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

(Dollars in thousands)	September 30, 2017			
	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Allowance for loan losses:				
Individually evaluated for impairment	\$ 407	\$ 3,197	\$ —	\$ 3,604
Collectively evaluated for impairment	1,084	6,396	4,895	12,375
Total allowance for loan losses	\$ 1,491	\$ 9,593	\$ 4,895	\$ 15,979
Loans held-for-investment:				
Individually evaluated for impairment	\$ 407	\$ 9,978	\$ —	\$ 10,385
Collectively evaluated for impairment	2,055,401	638,742	1,226,142	3,920,285
Loans held-for-investment	\$ 2,055,808	\$ 648,720	\$ 1,226,142	\$ 3,930,670

Table of Contents

(Dollars in thousands)	December 31, 2016			
	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Allowance for loan losses:				
Individually evaluated for impairment	\$ 517	\$ 6,422	\$ —	\$ 6,939
Collectively evaluated for impairment	907	5,904	5,012	11,823
Total allowance for loan losses	\$ 1,424	\$ 12,326	\$ 5,012	\$ 18,762
Loans held-for-investment:				
Individually evaluated for impairment	\$ 517	\$ 17,744	\$ —	\$ 18,261
Collectively evaluated for impairment	1,735,411	569,679	1,077,703	3,382,793
Loans held-for-investment	\$ 1,735,928	\$ 587,423	\$ 1,077,703	\$ 3,401,054

Troubled Debt Restructuring

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

(Dollars in thousands)	September 30, 2017	December 31, 2016
Aggregate recorded investment of impaired loans with terms modified through a troubled debt restructuring:		
Performing loans accruing interest	\$ 3,449	\$ 471
Non-accrual loans	6,936	17,273
Total troubled debt restructurings	\$ 10,385	\$ 17,744

There were unused commitments of \$1.0 million on these loans as of September 30, 2017, of which \$704,000 was related to a performing TDR. There were unused commitments of \$121,000 on these loans as of December 31, 2016, of which \$7,000 was related to a performing TDR.

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 a TDR within twelve months of the corresponding balance sheet date with a payment default during the nine months ended September 30, 2017, and no loans modified as a TDR within twelve months of the corresponding balance sheet date with a payment default during the nine months ended September 30, 2016.

The financial effects of modifications made to loans newly designated as TDRs during three months ended September 30, 2017 and 2016, 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) Three Months Ended September 30, 2016  
Count

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

		Recorded Investment at the time of Modification	Current Investment	Allowance for Loan Losses at the time of Modification	Current Allowance for Loan Losses
Commercial and industrial:					
Extended term and deferred principal	1	\$ 7,160	\$ 7,181	\$ 1,360	\$ 1,360
Total	1	\$ 7,160	\$ 7,181	\$ 1,360	\$ 1,360

Table of Contents

The financial effects of modifications made to loans newly designated as TDRs during nine months ended September 30, 2017 and 2016, were as follows:

(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

(Dollars in thousands)	Nine Months Ended September 30, 2016				
	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
Commercial and industrial:					
Extended term and deferred principal	1	\$ 7,160	\$ 7,181	\$ 1,360	\$ 1,360
Total	1	\$ 7,160	\$ 7,181	\$ 1,360	\$ 1,360

**Other Real Estate Owned**

As of September 30, 2017 and December 31, 2016, the balance of the other real estate owned portfolio was \$3.6 million and \$4.2 million, respectively. Properties were sold from other real estate owned totaling \$597,000 with net gains of \$141,000 realized during the nine months ended September 30, 2017. There were no residential mortgage loans in the process of foreclosure as of September 30, 2017.

**[5] DEPOSITS**

As of September 30, 2017 and December 31, 2016, deposits were comprised of the following:

(Dollars in thousands)	Interest Rate Range	Weighted Average Interest Rate	Balance	
	September 30, 2017	September 30, 2017	September 30, 2017	December 31, 2016
Demand and savings accounts:				
Noninterest-bearing checking accounts	—	—	\$ 209,982	\$ 230,226
Interest-bearing checking accounts	0.05 to 1.50%	1.26%	403,348	218,984
Money market deposit accounts	0.10 to 1.63%	1.24%	2,108,324	1,938,707
Total demand and savings accounts			2,721,654	2,387,917
Certificates of deposit	0.80 to 1.94%	1.32%	1,048,216	898,862
Total deposits			\$ 3,769,870	\$ 3,286,779
Weighted average rate on interest-bearing accounts		1.27%		0.84%

As of September 30, 2017 and December 31, 2016, the Bank had total brokered deposits of \$1.07 billion and \$1.06 billion, respectively. The amount for brokered deposits includes reciprocal Certificate of Deposit Account Registry Service® (“CDARS®”) and reciprocal Insured Cash Sweep® (“ICS®”) accounts totaling \$645.5 million and \$448.1 million

as of September 30, 2017 and December 31, 2016, respectively.

As of September 30, 2017 and December 31, 2016, certificates of deposit with balances of \$100,000 or more, excluding brokered deposits, amounted to \$457.9 million and \$441.1 million, respectively. Certificates of deposit with balances of \$250,000 or more, excluding brokered deposits, amounted to \$192.3 million and \$178.1 million as of September 30, 2017 and December 31, 2016, respectively.

Table of Contents

The contractual maturity of certificates of deposit was as follows:

(Dollars in thousands)	September 30, December 31,	
	2017	2016
12 months or less	\$ 935,943	\$ 751,204
12 months to 24 months	88,208	121,011
24 months to 36 months	24,065	26,647
36 months to 48 months	—	—
48 months to 60 months	—	—
Over 60 months	—	—
Total	\$ 1,048,216	\$ 898,862

Interest expense on deposits was as follows:

(Dollars in thousands)	Three Months		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
	2017	2016	2017	2016
Interest-bearing checking accounts	\$ 1,173	\$ 234	\$ 2,295	\$ 541
Money market deposit accounts	6,263	3,017	15,511	7,847
Certificates of deposit	3,168	1,936	8,007	5,540
Total interest expense on deposits	\$ 10,604	\$ 5,187	\$ 25,813	\$ 13,928

**[6] BORROWINGS**

As of September 30, 2017 and December 31, 2016, borrowings were comprised of the following:

(Dollars in thousands)	September 30, 2017			December 31, 2016		
	Interest	Ending	Maturity	Interest	Ending	Maturity
	Rate	Balance	Date	Rate	Balance	Date
FHLB borrowings:						
Issued 9/29/2017	1.30%	\$ 140,000	10/2/2017		\$—	
Issued 9/29/2017	1.33%	100,000	12/29/2017		—	
Issued 12/30/2016		—		0.77%	105,000	1/3/2017
Issued 12/29/2016		—		0.85%	100,000	3/29/2017
Line of credit borrowings	4.24%	4,500	12/28/2017		—	
Subordinated notes payable (net of debt issuance costs of \$338 and \$490)	5.75%	34,662	7/1/2019	5.75%	34,510	7/1/2019
Total borrowings, net		\$ 279,162			\$ 239,510	

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, 2017, the Bank's borrowing capacity is based on the information provided in the June 30, 2017, QCR filing. As of September 30, 2017, the Bank had securities held in safekeeping at the FHLB with a fair value of \$4.2 million, combined with pledged loans of \$1.07 billion, for a gross borrowing capacity of \$761.8 million, of which \$240.0 million was outstanding in advances, as reflected in the table above. As of December 31, 2016, there was \$205.0 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, 2017, the full amount of these established lines were available to the Bank.



The Holding Company maintains an unsecured line of credit of \$25.0 million, with Texas Capital Bank, of which \$4.5 million was outstanding as of September 30, 2017, as reflected in the table above.

In June 2014, the Company completed a private placement of subordinated notes payable, raising \$35.0 million. The subordinated notes have a term of 5 years at a fixed rate of 5.75%. The proceeds qualified as Tier 2 capital for the holding company, under federal regulatory capital rules.

Table of Contents

Interest expense on borrowings was as follows:

(Dollars in thousands)	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
FHLB borrowings	\$790	\$480	\$2,360	\$1,191
Line of credit borrowings	22	—	39	—
Subordinated notes payable	554	554	1,661	1,661
Total interest expense on borrowings	\$1,366	\$1,034	\$4,060	\$2,852

## [7] 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, 2017 and December 31, 2016, 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 existing 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, 2017 and December 31, 2016, the capital conservation buffer was 1.25% and 0.625%, 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 set forth certain information concerning the Company's and the Bank's regulatory capital as of September 30, 2017 and December 31, 2016:

		September 30, 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		\$ 335,178	11.80 %	\$ 227,240	8.00 %	N/A	N/A
Bank		\$ 337,652	12.01 %	\$ 224,901	8.00 %	\$ 281,126	10.00 %
Tier 1 risk-based capital ratio							
Company		\$ 316,300	11.14 %	\$ 170,430	6.00 %	N/A	N/A
Bank		\$ 325,304	11.57 %	\$ 168,675	6.00 %	\$ 224,901	8.00 %
Common equity tier 1 risk-based capital ratio							
Company		\$ 316,300	11.14 %	\$ 127,822	4.50 %	N/A	N/A
Bank		\$ 325,304	11.57 %	\$ 126,507	4.50 %	\$ 182,732	6.50 %
Tier 1 leverage ratio							
Company		\$ 316,300	7.40 %	\$ 170,901	4.00 %	N/A	N/A
Bank		\$ 325,304	7.66 %	\$ 169,861	4.00 %	\$ 212,326	5.00 %

		December 31, 2016					
		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		\$ 325,122	12.66 %	\$ 205,488	8.00 %	N/A	N/A
Bank		\$ 314,419	12.39 %	\$ 203,030	8.00 %	\$ 253,787	10.00 %
Tier 1 risk-based capital ratio							
Company		\$ 295,089	11.49 %	\$ 154,116	6.00 %	N/A	N/A
Bank		\$ 298,093	11.75 %	\$ 152,272	6.00 %	\$ 203,030	8.00 %
Common equity tier 1 risk-based capital ratio							
Company		\$ 295,089	11.49 %	\$ 115,587	4.50 %	N/A	N/A
Bank		\$ 298,093	11.75 %	\$ 114,204	4.50 %	\$ 164,962	6.50 %
Tier 1 leverage ratio							
Company		\$ 295,089	7.90 %	\$ 149,369	4.00 %	N/A	N/A
Bank		\$ 298,093	8.04 %	\$ 148,252	4.00 %	\$ 185,316	5.00 %

**[8] EMPLOYEE BENEFIT PLANS**

The Company participates in a qualified 401(k) defined contribution plan, under which eligible employees may contribute a percentage of their salary at their discretion. During the nine months ended September 30, 2017 and 2016, the Company automatically contributed three percent of the eligible employee's base salary to the individual's 401(k) plan, subject to IRS limitations. Full-time employees and certain part-time employees are eligible to participate upon the first month following their first day of employment or having attained the age of 21, whichever is later. The

Company's contribution expense was \$218,000 and \$204,000 for the three months ended September 30, 2017 and 2016, respectively. The Company's contribution expense was \$660,000 and \$606,000 for the nine months ended September 30, 2017 and 2016, respectively.

On February 28, 2013, the Company entered into a supplemental executive retirement plan ("SERP") for the Chairman and Chief Executive Officer. The benefits will be earned over a five-year period with the projected payments for this SERP of \$25,000 per month for 180 months commencing the later of retirement or 60 months. For the three and nine months ended September 30, 2017, the Company recorded expense related to SERP of \$123,000 and \$390,000, respectively, utilizing a discount rate of 3.59%. For the three and nine months ended September 30, 2016, the Company recorded expense related to SERP of \$233,000 and \$687,000, utilizing a discount rate

Table of Contents

of 2.15%. The recorded liability related to the SERP plan was \$3.4 million and \$3.0 million as of September 30, 2017 and December 31, 2016, respectively.

**[9] STOCK TRANSACTIONS**

Under recent programs authorized by the Board of Directors, the Company was permitted to repurchase up to \$20 million of its common stock, of which \$2.2 million remained available as of September 30, 2017.

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. During the nine months ended September 30, 2016, the Company repurchased a total of 334,275 shares for approximately \$4.3 million, at an average cost of \$12.89 per share, which are held as treasury stock.

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

	Number of Common Shares Outstanding
Balance, December 31, 2015	28,056,195
Issuance of restricted common stock	460,309
Forfeitures of restricted common stock	(4,575 )
Exercise of stock options	139,500
Purchase of treasury stock	(334,275 )
Balance, September 30, 2016	28,317,154
Balance, December 31, 2016	28,415,654
Issuance of restricted common stock	369,175
Forfeitures of restricted common stock	—
Exercise of stock options	139,300
Purchase of treasury stock	(281,556 )
Balance, September 30, 2017	28,642,573

**[10] EARNINGS PER COMMON SHARE**

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

	Three Months		Nine Months	
	Ended September		Ended September	
	30,		30,	
(Dollars in thousands, except per share data)	2017	2016	2017	2016
Net income available to common shareholders	\$ 10,032	\$ 8,454	\$ 25,945	\$ 21,070
Weighted average common shares outstanding:				
Basic	27,515,923	27,514,724	27,581,229	27,586,816
Restricted stock - dilutive	661,086	290,326	616,742	206,289
Stock options - dilutive	482,981	502,582	523,776	483,118
Diluted	28,659,990	28,307,632	28,721,748	28,276,223
Earnings per common share:				
Basic	\$ 0.36	\$ 0.31	\$ 0.94	\$ 0.76

Diluted			\$0.35	\$ 0.30	\$0.90	\$ 0.75
	Three	Nine				
	Months	Months				
	Ended	Ended				
	September	September				
	30,	30,				
	<del>2017</del>	<del>2017</del>				
Anti-dilutive shares <sup>(1)</sup>	31,500	180,000				

(1) Included stock options and restricted stock not considered for the calculation of diluted EPS as their inclusion would have been anti-dilutive.

Table of Contents

## [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.

## 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, 2017 and December 31, 2016:

(Dollars in thousands)	Asset Derivatives as of September 30, 2017		Liability Derivatives as of September 30, 2017	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate products	Other assets	\$ 1,448	Other liabilities	\$ 24
Derivatives not designated as hedging instruments:				
Interest rate products	Other assets	11,870	Other liabilities	12,038
Total	Other assets	\$ 13,318	Other liabilities	\$ 12,062
(Dollars in thousands)	Asset Derivatives as of December 31, 2016		Liability Derivatives as of December 31, 2016	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate products	Other assets	\$ 1,793	Other liabilities	\$ 80
Derivatives not designated as hedging instruments:				
Interest rate products	Other assets	10,324	Other liabilities	10,529
Total	Other assets	\$ 12,117	Other liabilities	\$ 10,609

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

Offsetting of Derivative Assets  
September 30, 2017



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

(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 Offset in the Statement of Financial Position of Financial Position of Financial Position	Not Amounts Cash Collateral Received	Net Amount
Derivatives	\$13,318	\$	—\$ 13,318	\$(5,070)	\$	—\$ 8,248

Table of Contents

## Offsetting of Derivative Liabilities

September 30, 2017

(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Cash	Collateral Posted	
Derivatives	\$12,062	\$	—\$ 12,062	\$(5,070)	\$(2,871)	\$ 4,121

## 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 the underlying notional amount. As of September 30, 2017, the Company had four interest rate swaps, with an aggregate notional amount of \$2.5 million that were designated as fair value hedges of interest rate risk associated with the Company's fixed-rate loan assets. The notional amounts for the derivatives express the face amount of the positions and credit risk was considered insignificant for nine months ended September 30, 2017 and 2016. There were no counterparty default losses on derivatives for the nine months ended September 30, 2017 and 2016.

For the four 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:

(Dollars in thousands)	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended September 30,		Nine Months Ended September 30,	
		2017	2016	2017	2016
Derivatives designated as hedging instruments:		Amount of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative
Interest rate products	Interest income	\$(15)	\$(24)	\$(46)	\$(71)
Interest rate products	Non-interest income	1	—	4	2
Total		\$(14)	\$(24)	\$(42)	\$(69)

## CASH FLOW HEDGES OF INTEREST RATE RISK

The Company's objectives in using interest rate derivatives are to add stability to interest expense 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. In June 2016, the Company 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 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, 2017.

As of September 30, 2017, the Company had two outstanding interest rate derivatives with an aggregate notional amount of \$100.0 million that was designated as a cash flow hedge of interest rate risk. During the three and nine months ended September 30, 2017, an unrealized net gain of \$86,000 and net loss of \$70,000, respectively, was recognized in accumulated other comprehensive income (loss) on the effective portion of the derivative. During the three and nine months ended September 30, 2016, an unrealized net gain of \$626,000 and \$538,000, respectively, was recognized in accumulated other comprehensive income (loss) on the effective portion of the derivative.

Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's debt. During the next twelve months, the Company estimates \$719,000 to be reclassified

Table of Contents

to earnings as a decrease to interest expense. The Company is hedging its exposure to the variability in future cash flows for forecasted transactions over a remaining period of 21 months.

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

		Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
(Dollars in thousands)		Amount of Gain (Loss) Recognized in Income on Derivative		Amount of Gain (Loss) Recognized in Income on Derivative	
Derivatives designated as hedging instruments:	Location of Gain (Loss) Recognized in Income on Derivative				
Interest rate products	Interest expense	\$ 120	\$(46 )	\$ 243	\$(46 )
Total		\$ 120	\$(46 )	\$ 243	\$(46 )

## 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, 2017, the Company had 294 derivative transactions with an aggregate notional amount of \$1.30 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, 2017	2016	Nine Months Ended September 30, 2017	2016
(Dollars in thousands)		Amount of Gain (Loss) Recognized in Income on Derivative		Amount of Gain (Loss) Recognized in Income on Derivative	
Derivatives not designated as hedging instruments:	Location of Gain (Loss) Recognized in Income on Derivative				
Interest rate products	Non-interest income	\$(25 )	\$ 62	\$ 175	\$(777)
Total		\$(25 )	\$ 62	\$ 175	\$(777)

## 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, 2017, the termination value of derivatives for which we had master netting arrangements with the counterparty and in a net liability position was \$2.7 million, including accrued interest. As of September 30, 2017, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of \$4.9 million. If the Company had breached any of these provisions as of September 30, 2017, 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.

Table of Contents

## 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 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, 2017 and December 31, 2016:

(Dollars in thousands)	September 30, 2017		
	Level 1	Level 2	Level 3
			Total Assets / Liabilities at Fair Value
Financial assets:			
Investment securities available-for-sale:			
Corporate bonds	\$57,772	\$	\$57,772
Trust preferred securities	—	18,678	18,678
Non-agency mortgage-backed securities	5,587	—	5,587
Non-agency collateralized loan obligations	894	—	894
Agency collateralized mortgage obligations	40,028	—	40,028
Agency mortgage-backed securities	20,204	—	20,204
Equity securities	8,647	—	8,647
Interest rate swaps	13,318	—	13,318
Total financial assets	8,647	18,678	165,128

Financial liabilities:		
Interest rate swaps	—12,062	— 12,062
Total financial liabilities	\$12,062	\$ 12,062

35

---

Table of Contents

(Dollars in thousands)	December 31, 2016			Total Assets / Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Financial assets:				
Investment securities available-for-sale:				
Corporate bonds	\$54,045	\$	\$	-\$54,045
Trust preferred securities	-17,798	—	—	17,798
Non-agency mortgage-backed securities	-5,764	—	—	5,764
Non-agency collateralized loan obligations	-16,180	—	—	16,180
Agency collateralized mortgage obligations	-43,821	—	—	43,821
Agency mortgage-backed securities	-24,149	—	—	24,149
Agency debentures	-4,783	—	—	4,783
Equity securities	8,352	—	—	8,352
Interest rate swaps	-12,117	—	—	12,117
Total financial assets	8,352	8,657	—	187,009
Financial liabilities:				
Interest rate swaps	-10,609	—	—	10,609
Total financial liabilities	\$10,609	\$	\$	-\$10,609

**INVESTMENT SECURITIES**

Generally, 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.

**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, 2017 and December 31, 2016:

(Dollars in thousands)	September 30, 2017			Total Assets at Fair Value
	Level 1	Level 2	Level 3	
Loans measured for impairment, net	\$-	-\$6,781	\$6,781	\$6,781
Other real estate owned	—	3,581	—	3,581
Total assets	\$-	-\$10,362	\$10,362	\$10,362



(Dollars in thousands)	December 31, 2016		
	Level 1	Level 2	Level 3
			Total Assets at Fair Value
Loans measured for impairment, net	\$—	\$—	\$10,851
Other real estate owned	—	4,178	4,178
Total assets	\$—	\$—	\$15,029

As of September 30, 2017 and December 31, 2016, the Company recorded \$3.6 million and \$6.9 million, respectively, of specific reserves to allowance for loan losses as a result of adjusting the fair value of impaired loans.

Table of Contents**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, 2017 and December 31, 2016:

(Dollars in thousands)	September 30, 2017		Significant Unobservable Inputs	Weighted Average Discount Rate	
	Fair Value	Valuation Techniques <sup>(1)</sup>			
Loans measured for impairment, net\$	96	Liquidation analysis	Discount due to salability conditions	—	%
Loans measured for impairment, net\$	6,685	Discounted cash flow	Discount due to restructured nature of operations	6	%
Other real estate owned	\$ 3,581	Appraisal value	Discount due to salability conditions	10	%

Fair value is generally determined through independent appraisals or liquidation analysis 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.

(Dollars in thousands)	December 31, 2016		Significant Unobservable Inputs	Weighted Average Discount Rate	
	Fair Value	Valuation Techniques <sup>(1)</sup>			
Loans measured for impairment, net	\$ 10,851	Discounted cash flow	Discount due to restructured	6	%

			nature of operations		
Other real estate owned	\$ 4,178	Appraisal value	Discount due to salability conditions	10	%

Fair value is generally determined through independent appraisals of the underlying collateral, which may include (1) 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, 2017		December 31, 2016	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>					
Cash and cash equivalents	1	\$ 136,579	\$ 136,579	\$ 103,994	\$ 103,994
Investment securities available-for-sale: debt	2	143,163	143,163	166,540	166,540
Investment securities available-for-sale: equity	1	8,647	8,647	8,352	8,352
Investment securities held-to-maturity	2	58,314	59,605	53,940	54,498
Federal Home Loan Bank stock	2	10,792	10,792	9,641	9,641
Loans held-for-investment, net	3	3,914,691	3,908,256	3,382,292	3,362,031
Accrued interest receivable	2	11,732	11,732	9,614	9,614
Investment management fees receivable, net	2	7,300	7,300	7,749	7,749
Bank owned life insurance	2	66,154	66,154	64,815	64,815
Other real estate owned	3	3,581	3,581	4,178	4,178
Interest rate swaps	2	13,318	13,318	12,117	12,117
<b>Financial liabilities:</b>					
Deposits	2	\$ 3,769,870	\$ 3,768,536	\$ 3,286,779	\$ 3,286,553
Borrowings, net	2	279,162	279,506	239,510	240,143
Interest rate swaps	2	12,062	12,062	10,609	10,609

During the nine months ended September 30, 2017 and 2016, 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, 2017 and December 31, 2016:

**CASH AND CASH EQUIVALENTS**

The carrying amount approximates fair value.

**INVESTMENT SECURITIES**

The fair values of investment securities available-for-sale, held-to-maturity and trading 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 a marketable equity investment, approximates fair value.

**LOANS HELD-FOR-INVESTMENT**

The fair value of loans held-for-investment is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Fair value as determined here does not represent an exit price. 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.

**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.

Table of Contents

## 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.

## 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,					
	2017			2016		
	Investment Securities	Derivatives	Total	Investment Securities	Derivatives	Total
Balance, beginning of period	\$439	\$ 948	\$1,387	\$(1,020)	\$ (56 )	\$(1,076)
Change in unrealized holding gains (losses)	(35 )	55	20	711	402	1,113
Losses (gains) reclassified from other comprehensive income	—	(77 )	(77 )	(8 )	29	21
Net other comprehensive income (loss)	(35 )	(22 )	(57 )	703	431	1,134
Balance, end of period	\$404	\$ 926	\$1,330	\$(317 )	\$ 375	\$58

(Dollars in thousands)	Nine Months Ended September 30,					
	2017			2016		
	Investment Securities	Derivatives	Total	Investment Securities	Derivatives	Total
Balance, beginning of period	\$(297)	\$ 1,127	\$830	\$(1,443)	\$ —	\$(1,443)
Change in unrealized holding gains (losses)	855	(45 )	810	1,146	346	1,492
Losses (gains) reclassified from other comprehensive income	(154 )	(156 )	(310 )	(20 )	29	9
Net other comprehensive income (loss)	701	(201 )	500	1,126	375	1,501
Balance, end of period	\$404	\$ 926	\$1,330	\$(317 )	\$ 375	\$58

## [14] CONTINGENT LIABILITIES

The Company is not aware of any 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.

Table of Contents

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 the 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, 2017  
December 31, 2016

Assets:		
Bank	\$409,661	\$ 3,846,353
Investment management	80,632	85,072
Parent and other	5,720 (968)	
Total assets	\$4,496,013	\$ 3,930,457

(Dollars in thousands)	Three Months Ended September 30, 2017				Three Months Ended September 30, 2016			
	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Income statement data:								
Interest income	\$35,512	\$ —	\$63	\$ 35,575	\$24,855	\$ —	\$70	\$ 24,925
Interest expense	11,398	—	572	11,970	5,673	—	548	6,221
Net interest income (loss)	24,114	—	(509)	23,605	19,182	—	(478)	18,704
Provision (credit) for loan losses	283	—	—	283	(542)	—	—	(542)
Net interest income (loss) after provision for loan losses	23,831	—	(509)	23,322	19,724	—	(478)	19,246
Non-interest income:								
Investment management fees	—	9,265	(51)	9,214	—	10,391	(58)	10,333
Net gain on the sale and call of investment securities	15	—	—	15	14	—	—	14
Other non-interest income	2,477	—	—	2,477	2,149	1	—	2,150
Total non-interest income	2,492	9,265	(51)	11,706	2,163	10,392	(58)	12,497
Non-interest expense:								
Intangible amortization expense	—	463	—	463	—	463	—	463
Change in fair value of acquisition earn out	—	—	—	—	—	(1,209)	—	(1,209)
Other non-interest expense	14,575	7,747	27	22,349	13,227	8,009	24	21,260
Total non-interest expense	14,575	8,210	27	22,812	13,227	7,263	24	20,514
Income (loss) before tax	11,748	1,055	(587)	12,216	8,660	3,129	(560)	11,229
Income tax expense (benefit)	1,987	435	(238)	2,184	1,823	1,385	(433)	2,775
Net income (loss)	\$9,761	\$ 620	\$(349)	\$ 10,032	\$6,837	\$ 1,744	\$(127)	\$ 8,454





Table of Contents

(Dollars in thousands)	Nine Months Ended September 30, 2017				Nine Months Ended September 30, 2016			
	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Income statement data:								
Interest income	\$96,220	\$ —	\$207	\$ 96,427	\$71,871	\$ —	\$209	\$ 72,080
Interest expense	28,183	—	1,690	29,873	15,130	—	1,650	16,780
Net interest income (loss)	68,037	—	(1,483)	66,554	56,741	—	(1,441)	55,300
Provision (credit) for loan losses	1,042	—	—	1,042	(340)	—	—	(340)
Net interest income (loss) after provision for loan losses	66,995	—	(1,483)	65,512	57,081	—	(1,441)	55,640
Non-interest income:								
Investment management fees	—	27,843	(159)	27,684	—	26,981	(167)	26,814
Net gain on the sale and call of investment securities	254	—	—	254	77	—	—	77
Other non-interest income	6,888	1	—	6,889	5,966	2	—	5,968
Total non-interest income	7,142	27,844	(159)	34,827	6,043	26,983	(167)	32,859
Non-interest expense:								
Intangible amortization expense	—	1,388	—	1,388	—	1,291	—	1,291
Change in fair value of acquisition earn out	—	—	—	—	—	(1,209)	—	(1,209)
Other non-interest expense	41,868	22,398	100	64,366	37,849	19,986	60	57,895
Total non-interest expense	41,868	23,786	100	65,754	37,849	20,068	60	57,977
Income (loss) before tax	32,269	4,058	(1,742)	34,585	25,275	6,915	(1,668)	30,522
Income tax expense (benefit)	7,734	1,587	(681)	8,640	7,476	2,833	(857)	9,452
Net income (loss)	\$24,535	\$ 2,471	\$(1,061)	\$ 25,945	\$17,799	\$ 4,082	\$(811)	\$ 21,070

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, 2017. 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 for the fiscal year ended December 31, 2016, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 14, 2017.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of section 27A of the Securities Act and section 21E of the Exchange Act. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "continue," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," or the negative version of those words or phrases, which are by their nature, forward-looking and 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, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. 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 are difficult to predict. 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.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- Deterioration of our asset quality;
- Our ability to prudently manage our growth and execute our strategy;
- Changes in the value of collateral securing our loans;
- 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;
- Volatility and direction of market interest rates;
- Increased competition in the financial services industry, particularly from regional and national institutions;
- Changes in the laws, rules, regulations, interpretations or policies relating to financial institutions, accounting, tax, trade, monetary and fiscal matters;
- Further government intervention in the U.S. financial system;
- Natural disasters and adverse weather, acts of terrorism, 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 our Annual Report on Form 10-K, filed with the SEC on February 14, 2017, 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 publicly 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

### General

We are a bank holding company that operates through two reportable segments: Bank and Investment Management. Through our TriState Capital Bank subsidiary the Bank segment provides commercial banking services to middle-market businesses and private banking services to high-net-worth individuals. 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. Its largest expenses are interest on these deposits and salaries and related employee benefits. Through our Chartwell Investment Partners, LLC subsidiary 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 our Chartwell TSC Securities Corp. subsidiary. 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.

The following 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, earnings per 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; adjusted EBITDA of the Investment Management segment; return on average assets; return on average equity; pre-tax, pre-provision net revenue; and regulatory leverage and risk-based capital ratios.

### Executive Overview

TriState Capital Holdings, Inc. ("we", "us", "our" 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"), an SEC registered investment advisor; and Chartwell TSC Securities Corp. ("CTSC Securities"), a registered broker/dealer with the SEC and FINRA. Through our bank subsidiary, 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 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 our investment management subsidiary, we provide investment management services primarily to institutional investors, mutual funds and individual investors on a national basis. Assets under management were \$8.20 billion as of September 30, 2017. 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, 2017, our net income was \$10.0 million compared to \$8.5 million for the same period in 2016, an increase of \$1.6 million. This increase was primarily due to the net impact of (1) a \$4.9 million, or 26.2%, increase in our net interest income; and (2) a \$591,000 decrease in income taxes; offset by (3) an increase of \$2.3 million in our non-interest expense; (4) higher provision for loan losses of \$825,000; and (5) a decrease in non-interest income of \$791,000.

For the nine months ended September 30, 2017, our net income was \$25.9 million compared to \$21.1 million for the same period in 2016, an increase of \$4.9 million. This increase was primarily due to the impact of (1) a \$11.3 million,

or 20.4%, increase in our net interest income; (2) an increase in non-interest income of \$2.0 million; and (3) a \$812,000 decrease in income taxes; offset by (4) an increase of \$7.8 million in our non-interest expense; and (5) higher provision for loan losses of \$1.4 million.

Our diluted EPS was \$0.35 for the three months ended September 30, 2017, compared to \$0.30 for the same period in 2016. The increase is a result of an increase of \$1.6 million in our net income.

Our diluted EPS was \$0.90 for the nine months ended September 30, 2017, compared to \$0.75 for the same period in 2016. The increase is a result of an increase of \$4.9 million in our net income.

For the three months ended September 30, 2017, total revenue increased \$4.1 million, or 13.2%, to \$35.3 million from \$31.2 million for the same period in 2016, driven by higher net interest income for the Bank. Pre-tax, pre-provision net revenue increased \$1.8 million, or 17.0%, to \$12.5 million for the three months ended September 30, 2017, from \$10.7 million for the same period in 2016, primarily resulting from the higher total revenue partially offset by higher non-interest expense.

For the nine months ended September 30, 2017, total revenue increased \$13.0 million, or 14.8%, to \$101.1 million from \$88.1 million for the same period in 2016, driven by higher net interest income for the Bank and higher investment management fees. Pre-tax, pre-provision net revenue increased \$5.3 million, or 17.5%, to \$35.4 million for the nine months ended September 30, 2017, from \$30.1 million for the same period in 2016, due to higher total revenue, partially offset by higher non-interest expenses.

## Table of Contents

Our annualized net interest margin was 2.27% and 2.25% for the three and nine months ended September 30, 2017, respectively, as compared to 2.18% and 2.25% for the same periods in 2016, respectively. The increase in net interest margin for the three months ended September 30, 2017, was driven by an increase in the yield on loans offset by an increase in the cost of funds.

Our annualized non-interest expense to average assets for the three and nine months ended September 30, 2017, was 2.09% and 2.11%, respectively, compared to 2.27% and 2.25% for the same periods in 2016, respectively. For the three and nine months ended September 30, 2017, the Bank's efficiency ratio was 54.81% and 55.88%, respectively, as compared to 62.01% and 60.36% for the same periods in 2016, respectively.

Our annualized return on average assets was 0.92% and 0.83% for the three and nine months ended September 30, 2017, respectively, as compared to 0.93% and 0.82% for the same periods in 2016, respectively. Our annualized return on average equity was 10.69% and 9.52% for the three and nine months ended September 30, 2017, respectively, as compared to 9.88% and 8.42% for the same periods in 2016, respectively, largely due to continued growth in earnings.

Total assets of \$4.50 billion as of September 30, 2017, increased \$565.6 million, or 19.2% on an annualized basis, from December 31, 2016. Loans held-for-investment grew by \$529.6 million to \$3.93 billion as of September 30, 2017, an annualized increase of 20.8%, from December 31, 2016, as a result of growth in both our commercial and private banking loan portfolios. Total deposits increased \$483.1 million, or 19.7% on an annualized basis, to \$3.77 billion as of September 30, 2017, from December 31, 2016.

Adverse rated credits to total loans declined to 0.95% at September 30, 2017, from 1.25% at December 31, 2016. The allowance for loan losses to loans was 0.41% as of September 30, 2017, compared to 0.55% as of December 31, 2016, reflecting the lower non-performing loans and lower levels of provision required for private banking loans. The provision for loan losses was \$283,000 and \$1.0 million for the three and nine months ended September 30, 2017, respectively, as compared to credits to provision of \$542,000 and \$340,000 for the same periods in 2016, respectively.

Our book value per common share increased \$0.79 to \$13.17 as of September 30, 2017, from \$12.38 as of December 31, 2016, largely as a result of an increase in our net income, partially offset by the issuance of restricted stock and purchase of treasury stock during nine months ended September 30, 2017.

### 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," "pre-tax, pre-provision net revenue," "efficiency ratio," "EBITDA," and "adjusted EBITDA." Although we believe these non-GAAP financial measures provide a greater understanding of our business, these measures are not necessarily comparable to similar measures that may be presented by other companies.

"Tangible common equity" is defined as 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 shareholders' equity exclusive of changes in intangible assets. Goodwill, an intangible asset that is recorded in a business purchase combination, has 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 book value, excluding the impact of 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 share exclusive of changes in intangible assets.

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

“Pre-tax, pre-provision net revenue” is defined as net income, without giving effect to loan loss provision and income taxes, and excluding gains and losses on the sale and call of investment securities. We believe this measure is important because it allows management and investors to better assess our performance in relation to our core operating revenue, excluding the volatility that is associated with provision for loan losses or other items that are unrelated to our core business.

“Efficiency ratio” is defined as non-interest expense, excluding acquisition related items and intangible amortization expense, where applicable, divided by our total revenue. We believe this measure, particularly at the Bank, 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 and other discrete items that are unrelated to our core business.



Table of Contents

“EBITDA” and “Adjusted EBITDA” are defined as net income before interest expense, income taxes, depreciation and amortization adjusted for acquisition related items. We use adjusted 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, excluding certain non-cash items and the volatility that is associated with certain one-time items and other discrete items that are unrelated to our core business.

(Dollars in thousands, except per share data)	September 30, 2017	December 31, 2016
Tangible book value per common share:		
Total shareholders' equity	\$ 377,333	\$ 351,807
Less: intangible assets	65,821	67,209
Tangible common equity	\$ 311,512	\$ 284,598
Common shares outstanding	28,642,573	28,415,654
Tangible book value per common share	\$ 10.88	\$ 10.02

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Pre-tax, pre-provision net revenue:				
Net interest income	\$23,605	\$18,704	\$66,554	\$55,300
Total non-interest income	11,706	12,497	34,827	32,859
Less: net gain on the sale and call of investment securities	15	14	254	77
Total revenue	35,296	31,187	101,127	88,082
Less: total non-interest expense	22,812	20,514	65,754	57,977
Pre-tax, pre-provision net revenue	\$12,484	\$10,673	\$35,373	\$30,105
Efficiency ratio:				
Total non-interest expense	\$22,812	\$20,514	\$65,754	\$57,977
Plus: change in fair value of acquisition earn out	—	1,209	—	1,209
Less: acquisition related items	—	—	—	1
Less: intangible amortization expenses	463	463	1,388	1,291
Total non-interest expense, as adjusted (numerator)	\$22,349	\$21,260	\$64,366	\$57,894
Total revenue (denominator)	\$35,296	\$31,187	\$101,127	\$88,082
Efficiency ratio	63.32	%68.17	%63.65	%65.73

## BANK SEGMENT

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Bank pre-tax, pre-provision net revenue:				
Net interest income	\$24,114	\$19,182	\$68,037	\$56,741
Total non-interest income	2,492	2,163	7,142	6,043
Less: net gain on the sale and call of investment securities	15	14	254	77
Total revenue	26,591	21,331	74,925	62,707
Less: total non-interest expense	14,575	13,227	41,868	37,849
Pre-tax, pre-provision net revenue	\$12,016	\$8,104	\$33,057	\$24,858

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

Bank efficiency ratio:

Total non-interest expense (numerator)	\$14,575	\$13,227	\$41,868	\$37,849
Total revenue (denominator)	\$26,591	\$21,331	\$74,925	\$62,707
Bank efficiency ratio	54.81	%62.01	% 55.88	%60.36 %

45

---

Table of Contents

## INVESTMENT MANAGEMENT SEGMENT

(Dollars in thousands)	Three Months		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
	2017	2016	2017	2016
Investment Management EBITDA:				
Net income	\$620	\$1,744	\$2,471	\$4,082
Interest expense	—	—	—	—
Income taxes expense	435	1,385	1,587	2,833
Depreciation expense	130	32	369	78
Intangible amortization expense	463	463	1,388	1,291
EBITDA	1,648	3,624	5,815	8,284
Change in fair value of acquisition earn out	—	(1,209 )	—	(1,209 )
Acquisition related items	—	—	—	1
Adjusted EBITDA	\$1,648	\$2,415	\$5,815	\$7,076

## 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 consistent spreads between earning assets and interest-bearing liabilities is significant to our financial performance because net interest income comprised 65.8% and 62.8% of total revenue for the nine months ended September 30, 2017 and 2016, 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 35.0%.

(Dollars in thousands)	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2017	2016	2017	2016	
Interest income	\$35,575	\$24,925	\$96,427	\$72,080	
Fully taxable equivalent adjustment	60	57	181	203	
Interest income adjusted	35,635	24,982	96,608	72,283	
Less: interest expense	11,970	6,221	29,873	16,780	
Net interest income adjusted	\$23,665	\$18,761	\$66,735	\$55,503	
Yield on earning assets	3.42	%2.90	% 3.25	%2.94	%
Cost of interest-bearing liabilities	1.28	%0.81	% 1.13	%0.77	%
Net interest spread	2.14	%2.09	% 2.12	%2.17	%
Net interest margin <sup>(1)</sup>	2.27	%2.18	% 2.25	%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, 2017 and 2016. Non-accrual loans are included in the calculation of the 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 35.0%.

46

---

Table of Contents

(Dollars in thousands)	Three Months Ended September 30,						
	2017			2016			
	Average Balance	Interest Income (1)/ Expense	Average Yield/ Rate	Average Balance	Interest Income (1)/ Expense	Average Yield/ Rate	
<b>Assets</b>							
Interest-earning deposits	\$ 131,115	\$ 420	1.27 %	\$ 114,245	\$ 150	0.52 %	
Federal funds sold	6,845	20	1.16 %	6,445	6	0.37 %	
Investment securities available-for-sale	140,741	760	2.14 %	182,354	828	1.81 %	
Investment securities held-to-maturity	60,220	631	4.16 %	48,495	485	3.98 %	
FHLB stock	12,582	200	6.31 %	12,347	144	4.64 %	
Total loans	3,787,231	33,604	3.52 %	3,061,427	23,369	3.04 %	
Total interest-earning assets	4,138,734	35,635	3.42 %	3,425,313	24,982	2.90 %	
Other assets	194,405			171,986			
Total assets	\$ 4,333,139			\$ 3,597,299			
<b>Liabilities and Shareholders' Equity</b>							
<b>Interest-bearing deposits:</b>							
Interest-bearing checking accounts	\$ 371,526	\$ 1,173	1.25 %	\$ 190,270	\$ 234	0.49 %	
Money market deposit accounts	2,021,755	6,263	1.23 %	1,688,250	3,017	0.71 %	
Certificates of deposit	1,003,280	3,168	1.25 %	863,872	1,936	0.89 %	
<b>Borrowings:</b>							
FHLB borrowings	271,304	790	1.16 %	273,804	480	0.70 %	
Line of credit borrowings	2,571	22	3.39 %	—	—	— %	
Subordinated notes payable, net	34,629	554	6.35 %	34,427	554	6.40 %	
Total interest-bearing liabilities	3,705,065	11,970	1.28 %	3,050,623	6,221	0.81 %	
Noninterest-bearing deposits	205,368			161,723			
Other liabilities	50,332			44,565			
Shareholders' equity	372,374			340,388			
Total liabilities and shareholders' equity	\$ 4,333,139			\$ 3,597,299			
Net interest income <sup>(1)</sup>		\$ 23,665			\$ 18,761		
Net interest spread			2.14 %			2.09 %	
Net interest margin <sup>(1)</sup>			2.27 %			2.18 %	

<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, 2017 and 2016. Net interest income, calculated on a fully taxable equivalent basis, increased \$4.9 million, or 26.1%, to \$23.7 million for the three months ended September 30, 2017, from \$18.8 million for the same period in 2016. The increase in net interest income for the three months ended September 30, 2017, was primarily attributable to a \$713.4 million, or 20.8%, increase in average interest-earning assets driven primarily by loan growth. The increase in net interest income reflects an increase of \$10.7 million, or 42.6%, in interest income, partially offset by an increase of \$5.7 million, or 92.4%, in interest expense. Net interest margin increased to 2.27% for the three months ended September 30, 2017, as compared to 2.18% for the same period in 2016, driven by a higher yield on the loan portfolio, partially offset by higher interest expense associated with the higher volumes and cost of deposits and higher costs of FHLB borrowings.

The increase in interest income was primarily the result of an increase in average total loans of \$725.8 million, or 23.7%, which is our primary earning asset and the Bank's core business, and an increase of 48 basis points in yield on

our loans. The most significant factors 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, partially offset by the shift toward lower-risk marketable-securities-backed private banking loans. The overall yield on interest-earning assets increased 52 basis points to 3.42% for the three months ended September 30, 2017, as compared to 2.90% for the same period in 2016, primarily from higher yield on loans.

The increase in interest expense on interest-bearing liabilities was primarily the result of an increase of 47 basis points in the average rate paid on our interest-bearing liabilities for the three months ended September 30, 2017, as well as an increase of \$654.4 million, or 21.5%, in average interest-bearing liabilities, compared to the same period in 2016. The increase in average rate paid was reflective of increases in rates paid in all deposit categories and FHLB borrowings. The increase in average interest-bearing liabilities was driven

Table of Contents

primarily by an increase of \$333.5 million in average money market deposit accounts, an increase of \$181.3 million in average interest-bearing checking accounts and an increase of \$139.4 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 three months ended September 30, 2017 compared to 2016. 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, 2017 over 2016		
	Yield/Rate	Volume	Change <sup>(1)</sup>
Increase in:			
Interest income:			
Interest-earning deposits	\$245	\$25	\$ 270
Federal funds sold	14	—	14
Investment securities available-for-sale	140	(208 )	(68 )
Investment securities held-to-maturity	24	122	146
FHLB stock	53	3	56
Total loans	4,161	6,074	10,235
Total increase in interest income	4,637	6,016	10,653
Interest expense:			
Interest-bearing deposits:			
Interest-bearing checking accounts	584	355	939
Money market deposit accounts	2,557	689	3,246
Certificates of deposit	883	349	1,232
Borrowings:			
FHLB borrowings	314	(4 )	310
Line of credit borrowings	—	22	22
Subordinated notes payable, net	(3 )	3	—
Total increase in interest expense	4,335	1,414	5,749
Total increase in net interest income	\$302	\$4,602	\$ 4,904

The change in interest income and expense due to changes in both composition and applicable yields/rates has been <sup>(1)</sup> 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, 2017 and 2016. Non-accrual loans are included in the calculation of the average loan balances, while interest payments 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 35.0%.

Table of Contents

(Dollars in thousands)	Nine Months Ended September 30, 2017			2016		
	Average Balance	Interest Income (1)/ Expense	Average Yield/ Rate	Average Balance	Interest Income (1)/ Expense	Average Yield/ Rate
<b>Assets</b>						
Interest-earning deposits	\$121,640	\$981	1.08 %	\$107,651	\$418	0.52 %
Federal funds sold	6,501	45	0.93 %	6,180	16	0.35 %
Investment securities available-for-sale	153,665	2,422	2.11 %	181,383	2,387	1.76 %
Investment securities held-to-maturity	58,744	1,845	4.20 %	46,977	1,409	4.01 %
FHLB stock	13,803	450	4.36 %	10,983	343	4.17 %
Total loans	3,619,679	90,865	3.36 %	2,935,663	67,710	3.08 %
Total interest-earning assets	3,974,032	96,608	3.25 %	3,288,837	72,283	2.94 %
Other assets	189,483			155,903		
Total assets	\$4,163,515			\$3,444,740		
<b>Liabilities and Shareholders' Equity</b>						
<b>Interest-bearing deposits:</b>						
Interest-bearing checking accounts	\$298,631	\$2,295	1.03 %	\$160,310	\$541	0.45 %
Money market deposit accounts	1,951,258	15,511	1.06 %	1,614,669	7,847	0.65 %
Certificates of deposit	954,352	8,007	1.12 %	869,879	5,540	0.85 %
<b>Borrowings:</b>						
FHLB borrowings	307,143	2,360	1.03 %	243,686	1,191	0.65 %
Line of credit borrowings	1,375	39	3.79 %	—	—	— %
Subordinated notes payable, net	34,579	1,661	6.42 %	34,376	1,661	6.45 %
Total interest-bearing liabilities	3,547,338	29,873	1.13 %	2,922,920	16,780	0.77 %
Noninterest-bearing deposits	206,063			153,763		
Other liabilities	45,596			33,770		
Shareholders' equity	364,518			334,287		
Total liabilities and shareholders' equity	\$4,163,515			\$3,444,740		
Net interest income <sup>(1)</sup>		\$66,735			\$55,503	
Net interest spread			2.12 %			2.17 %
Net interest margin <sup>(1)</sup>			2.25 %			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, 2017 and 2016. Net interest income, calculated on a fully taxable equivalent basis, increased \$11.2 million, or 20.2%, to \$66.7 million for the nine months ended September 30, 2017, from \$55.5 million for the same period in 2016. The increase in net interest income for the nine months ended September 30, 2017, was primarily attributable to a \$685.2 million, or 20.8%, increase in average interest-earning assets driven primarily by loan growth. The increase in net interest income reflects an increase of \$24.3 million, or 33.7%, in interest income, partially offset by an increase of \$13.1 million, or 78.0%, in interest expense. Net interest margin was 2.25% for the nine months ended September 30, 2017 and 2016.

The increase in interest income on interest-earning assets was primarily the result of an increase in average total loans of \$684.0 million, or 23.3%, which is our primary earning asset and the Bank's core business, and an increase of 28 basis points in yield on our loans. The most significant factors 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, partially offset by the shift



toward lower-risk marketable-securities-backed private banking loans. The overall yield on interest-earning assets increased 31 basis points to 3.25% for the nine months ended September 30, 2017, as compared to 2.94% for the same period in 2016, primarily from higher loan yields.

The increase in interest expense on interest-bearing liabilities was primarily the result of an increase of 36 basis points in the average rate paid on our interest-bearing liabilities for the nine months ended September 30, 2017, as well as an increase of \$624.4 million, or 21.4%, in average interest-bearing liabilities, compared to the same period in 2016. The increase in average rate paid was reflective of increases in rates paid in all deposit categories and FHLB borrowings. The increase in average interest-bearing liabilities was driven primarily by an increase of \$336.6 million in average money market deposit accounts, an increase of \$138.3 million in average interest-

Table of Contents

bearing checking accounts, an increase of \$84.5 million in average certificates of deposit and an increase of \$63.5 million in average FHLB borrowings.

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, 2017 compared to 2016. 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, 2017 over 2016		
	Yield/Rat	Volume	Change <sup>(1)</sup>
Increase (decrease) in:			
Interest income:			
Interest-earning deposits	\$503	\$60	\$ 563
Federal funds sold	28	1	29
Investment securities available-for-sale	434	(399 )	35
Investment securities held-to-maturity	74	362	436
FHLB stock	17	90	107
Total loans	6,573	16,582	23,155
Total increase in interest income	7,629	16,696	24,325
Interest expense:			
Interest-bearing deposits:			
Interest-bearing checking accounts	1,050	704	1,754
Money market deposit accounts	5,785	1,879	7,664
Certificates of deposit	1,896	571	2,467
Borrowings:			
FHLB borrowings	806	363	1,169
Line of credit borrowings	—	39	39
Subordinated notes payable, net	(6 )	6	—
Total increase in interest expense	9,531	3,562	13,093
Total increase (decrease) in net interest income	\$(1,902)	\$13,134	\$ 11,232

The change in interest income and expense due to changes in both composition and applicable yields/rates has been <sup>(1)</sup>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, 2017 and 2016. We recorded provision for loan losses of \$283,000 for the three months ended September 30, 2017, compared to a credit to provision of \$542,000 for the three months ended September 30, 2016. 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. The credit to provision for the three months ended September 30, 2016, was comprised of recoveries of \$3.5 million and a net decrease in general reserves of \$681,000, partially offset by a net increase of \$3.7 million in specific reserves on non-performing loans.

Provision for Loan Losses for the Nine Months Ended September 30, 2017 and 2016. We recorded provision for loan losses of \$1.0 million for the nine months ended September 30, 2017, compared to a credit to provision of \$340,000 for the nine months ended September 30, 2016. The provision 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. The credit to provision for the nine months ended September 30, 2016, was comprised of recoveries of \$4.1 million, a net decrease in general reserves of \$1.1 million, partially offset by a net increase of \$4.9 million in specific reserves on non-performing loans, of which \$1.5 million was charged-off.

Table of Contents

## 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 from 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 the 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, 2017 and 2016:

(Dollars in thousands)	Three Months Ended September 30, 2017				Three Months Ended September 30, 2016			
	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Investment management fees	\$—	\$ 9,265	\$(51)	\$ 9,214	\$—	\$ 10,391	\$(58)	\$ 10,333
Service charges	96	—	—	96	134	—	—	134
Net gain on the sale and call of investment securities	15	—	—	15	14	—	—	14
Swap fees	1,391	—	—	1,391	977	—	—	977
Commitment and other fees	423	—	—	423	488	—	—	488
Other income <sup>(1)</sup>	567	—	—	567	550	1	—	551
Total non-interest income	\$2,492	\$ 9,265	\$(51)	\$ 11,706	\$2,163	\$ 10,392	\$(58)	\$ 12,497

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

Non-Interest Income for the Three Months Ended September 30, 2017 and 2016. Our non-interest income was \$11.7 million for the three months ended September 30, 2017, a decrease of \$791,000, or 6.3%, from \$12.5 million for the same period in 2016, primarily related to a decrease in investment management fees, partially offset by an increase in swap fees for the Bank.

## Bank Segment:

Swap fees increased \$414,000 for the three months ended September 30, 2017, as compared to the same period in 2016, 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.

## Investment Management Segment:

Investment management fees decreased \$1.1 million for the three months ended September 30, 2017, compared to the same period in 2016, driven primarily by lower assets under management. Assets under management of \$8.20 billion as of September 30, 2017, decreased \$2.61 billion from September 30, 2016, primarily due to the previously disclosed conclusion of a sub-advisory relationship announced in the fourth quarter of 2016.



Table of Contents

The following table presents the components of our non-interest income by operating segment for the nine months ended September 30, 2017 and 2016:

(Dollars in thousands)	Nine Months Ended September 30, 2017				Nine Months Ended September 30, 2016			
	Bank	Investment Parent Management and Other	Consolidated		Bank	Investment Parent Management and Other	Consolidated	
Investment management fees	\$—	\$ 27,843	\$(159)	\$ 27,684	\$—	\$ 26,981	\$(167)	\$ 26,814
Service charges	287	—	—	287	393	—	—	393
Net gain on the sale and call of investment securities	254	—	—	254	77	—	—	77
Swap fees	3,708	—	—	3,708	3,422	—	—	3,422
Commitment and other fees	1,240	—	—	1,240	1,497	—	—	1,497
Other income <sup>(1)</sup>	1,653	1	—	1,654	654	2	—	656
Total non-interest income	\$7,142	\$ 27,844	\$(159)	\$ 34,827	\$6,043	\$ 26,983	\$(167)	\$ 32,859

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

Non-Interest Income for the Nine Months Ended September 30, 2017 and 2016. Our non-interest income was \$34.8 million for the nine months ended September 30, 2017, an increase of \$2.0 million, or 6.0%, from \$32.9 million for the same period in 2016, primarily related to increases in investment management fees and other income for the Bank.

## Bank Segment:

Other income increased \$999,000 for the nine months ended September 30, 2017, as compared to the same period in 2016, largely due to the change in the fair values of our interest rate swaps of \$757,000 and an increase in gains on the sale of OREO of \$134,000.

## Investment Management Segment:

Investment management fees increased \$862,000 for the nine months ended September 30, 2017, as compared to the same period in 2016, driven primarily by the additional four months of revenue provided by the operations of The Killen Group, Inc. (“TKG”), which was acquired at the end of April 2016, partially offset by the loss of a sub-advisory relationship.

## 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 the 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, 2017 and 2016:

(Dollars in thousands)	Three Months Ended September 30, 2017				Three Months Ended September 30, 2016			
	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Compensation and employee benefits	\$9,035	\$ 6,416	\$(768)	\$ 14,683	\$8,075	\$ 6,589	\$ —	\$ 14,664
Premises and occupancy costs	981	280	(4)	1,257	1,025	260	—	1,285
Professional fees	778	234	(44)	968	566	176	(49)	693
FDIC insurance expense	1,121	—	—	1,121	933	—	—	933
General insurance expense	175	70	—	245	188	70	—	258
State capital shares tax	398	—	—	398	329	—	—	329
Travel and entertainment expense	575	363	(110)	828	495	223	—	718
Intangible amortization expense	—	463	—	463	—	463	—	463
Change in fair value of acquisition earn out	—	—	—	—	—	(1,209)	—	(1,209)
Other operating expenses <sup>(1)</sup>	1,512	384	953	2,849	1,616	691	73	2,380
Total non-interest expense	\$14,575	\$ 8,210	\$27	\$ 22,812	\$13,227	\$ 7,263	\$ 24	\$ 20,514
Full-time equivalent employees <sup>(2)</sup>	165	67	—	232	150	66	—	216

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

<sup>(1)</sup> contributions, data processing, 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, 2017 and 2016. Our non-interest expense for the three months ended September 30, 2017, increased \$2.3 million, or 11.2%, as compared to the same period in 2016, of which \$1.3 million relates to the increase in expenses of the Bank segment and \$947,000 relates to the increase in expenses of the Investment Management segment. The significant changes in each segment's expenses are described below.

#### Bank Segment:

The Bank's compensation and employee benefits costs for the three months ended September 30, 2017, increased by \$960,000, compared to the same period in 2016, 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 stock-based compensation expense.

Professional fees for the three months ended September 30, 2017, increased by \$212,000, compared to the same period in 2016, due to the higher legal fees.

FDIC insurance expense for the three months ended September 30, 2017, increased by \$188,000, compared to the same period in 2016, due to the increase in the Bank's assets.

#### Investment Management Segment:

•

Chartwell's non-interest expenses for the three months ended September 30, 2017, increased by \$947,000, compared to the same period in 2016, primarily due to the decrease to the fair value of the TKG acquisition earnout of \$1.2 million for the three months ended September 30, 2016, based on management's estimate of the projected annualized run-rate EBITDA of TKG at December 31, 2016.



Table of Contents

The following table presents the components of our non-interest expense by operating segment for the nine months ended September 30, 2017 and 2016:

(Dollars in thousands)	Nine Months Ended September 30, 2017				Nine Months Ended September 30, 2016			
	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Compensation and employee benefits	\$25,737	\$ 18,528	\$(1,467)	\$ 42,798	\$23,145	\$ 16,259	\$ —	\$ 39,404
Premises and occupancy costs	2,887	883	(7)	3,763	2,896	687	—	3,583
Professional fees	2,222	547	(127)	2,642	2,156	473	(146)	2,483
FDIC insurance expense	3,074	—	—	3,074	2,023	—	—	2,023
General insurance expense	563	242	—	805	547	221	—	768
State capital shares tax	1,148	—	—	1,148	986	—	—	986
Travel and entertainment expense	1,514	786	(110)	2,190	1,551	589	—	2,140
Intangible amortization expense	—	1,388	—	1,388	—	1,291	—	1,291
Change in fair value of acquisition earn out	—	—	—	—	—	(1,209)	—	(1,209)
Other operating expenses <sup>(1)</sup>	4,723	1,412	1,811	7,946	4,545	1,757	206	6,508
Total non-interest expense	\$41,868	\$ 23,786	\$ 100	\$ 65,754	\$37,849	\$ 20,068	\$ 60	\$ 57,977

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

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

Non-Interest Expense for the Nine Months Ended September 30, 2017 and 2016. Our non-interest expense for the nine months ended September 30, 2017, increased \$7.8 million, or 13.4%, as compared to the same period in 2016, of which \$4.0 million relates to the increase in expenses of the Bank segment and \$3.7 million relates to the increase in expenses of the Investment Management segment. The significant changes in each segment's expenses are described below.

**Bank Segment:**

The Bank's compensation and employee benefits costs for the nine months ended September 30, 2017, increased by \$2.6 million, compared to the same period in 2016, 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.

FDIC insurance expense for the nine months ended September 30, 2017, increased by \$1.1 million, compared to the same period in 2016, due to the one-time change in the FDIC assessment methodology effective for the third quarter of 2016, and the increase in the Bank's assets.

**Investment Management Segment:**

There was a decrease to the fair value of the TKG acquisition earnout of \$1.2 million for the nine months ended September 30, 2016, based on management's estimate of the projected annualized run-rate EBITDA of TKG at December 31, 2016.

•

Excluding the earnout adjustment, Chartwell's non-interest expenses for the nine months ended September 30, 2017, increased by \$2.5 million, compared to the same period in 2016, primarily due to four months of additional expenses contributed by the operations of TKG, which was acquired at the end of April 2016.

#### 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, 2017 and 2016. For the three months ended September 30, 2017, we recognized income tax expense of \$2.2 million, or 17.9% of income before tax, as compared to income tax expense of \$2.8 million, or 24.7% of

Table of Contents

income before tax, for the same period in 2016. Our effective tax rate of 17.9% for the three months ended September 30, 2017, decreased as compared to the prior year due to a higher level of investment tax credits recognized in the three months ended September 30, 2017, versus the same period in 2016.

Income Taxes for the Nine Months Ended September 30, 2017 and 2016. For the nine months ended September 30, 2017, we recognized income tax expense of \$8.6 million, or 25.0% of income before tax, as compared to income tax expense of \$9.5 million, or 31.0% of income before tax, for the same period in 2016. Our effective tax rate of 25.0% for the nine months ended September 30, 2017, decreased as compared to the prior year due to a higher level of investment tax credits recognized in the nine months ended September 30, 2017, versus the same period in 2016.

## Financial Condition

Our total assets as of September 30, 2017, were \$4.50 billion, which was an increase of \$565.6 million, or 19.2% on an annualized basis, from December 31, 2016, driven primarily by growth in our loan portfolio. As of September 30, 2017, our loan portfolio of \$3.93 billion, increased \$529.6 million, or 20.8% annualized, from December 31, 2016. Total investment securities decreased \$17.6 million, or 9.8% annualized, to \$220.9 million, as of September 30, 2017, from December 31, 2016, primarily as a result of the net activity of calls, maturities and purchases of certain securities. Cash and cash equivalents increased \$32.6 million, to \$136.6 million, as of September 30, 2017, from December 31, 2016. As of September 30, 2017, our total deposits of \$3.77 billion increased \$483.1 million, or 19.7% annualized, from December 31, 2016. Net borrowings increased \$39.7 million, to \$279.2 million, as of September 30, 2017, from December 31, 2016. Our shareholders' equity increased \$25.5 million to \$377.3 million as of September 30, 2017, from December 31, 2016. This increase was primarily the result of \$25.9 million in net income and the impact of \$4.2 million in stock-based compensation, partially offset by the purchase of \$6.5 million in treasury stock.

## Loans

The Bank's primary source of income 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 properties. The loan portfolio represents our largest earning asset. As of September 30, 2017, 90.0% of our loans have a floating rate.

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

	September 30, 2017		December 31, 2016	
	Percent		Percent	
(Dollars in thousands)	Outstandingof Loans		Outstandingof Loans	
Private banking loans	\$2,055,808	52.3 %	\$1,735,928	51.0 %
Middle-market banking loans:				
Commercial and industrial	648,720	16.5 %	587,423	17.3 %
Commercial real estate	1,226,142	31.2 %	1,077,703	31.7 %
Total middle-market banking loans	1,874,862	47.7 %	1,665,126	49.0 %
Loans held-for-investment	\$3,930,670	100.0 %	\$3,401,054	100.0 %

Loans Held-for-Investment. Loans held-for-investment increased by \$529.6 million, or 20.8% on an annualized basis, to \$3.93 billion as of September 30, 2017, as compared to December 31, 2016. Our growth for the nine months ended September 30, 2017, was comprised of an increase in private banking loans of \$319.9 million, an increase in commercial and industrial loans of \$61.3 million, and an increase in commercial real estate loans of \$148.4 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 may be secured by cash, marketable securities, 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, 2017, there were \$1.93 billion, or 93.9%, of private banking loans that were secured by cash and marketable securities as compared to \$1.58 billion, or 91.3%, as of December 31, 2016. Our private banking lines of credit are typically due on demand. The growth in loans secured by cash and marketable securities 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

Table of Contents

basis, we monitor the collateral of these loans secured by cash and marketable securities, 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 and marketable securities.

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 and marketable securities. 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,	
	2017	2016
Private banking loans:		
Secured by cash and marketable securities	\$ 1,930,501	\$ 1,584,373
Secured by real estate	95,649	110,476
Other	29,658	41,079
Total private banking loans	\$ 2,055,808	\$ 1,735,928

**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 cash and marketable securities.

**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.

As of September 30, 2017, there were \$1.04 billion of total commercial real estate loans with a floating interest rate and \$181.2 million with a fixed interest rate, as compared to \$901.5 million and \$176.2 million, respectively, as of December 31, 2016.

**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, 2017				Total
	One Year or Less	One to Five Years	Greater Than Five Years		
Loan maturity:					
Private banking	\$1,950,330	\$56,765	\$48,713		\$2,055,808
Commercial and industrial	173,859	356,631	118,230		648,720
Commercial real estate	234,856	555,715	435,571		1,226,142
Loans held-for-investment	\$2,359,045	\$969,111	\$602,514		\$3,930,670

Interest rate sensitivity:

Fixed interest rates	\$118,061	\$140,916	\$134,259	\$393,236
Floating or adjustable interest rates	2,240,984	828,195	468,255	3,537,434
Loans held-for-investment	\$2,359,045	\$969,111	\$602,514	\$3,930,670

Interest Reserve Loans

As of September 30, 2017, loans with interest reserves totaled \$197.2 million, which represented 5.0% of loans held-for-investment, as compared to \$159.4 million, or 4.7%, as of December 31, 2016. 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

## Table of Contents

specified during the initial underwriting and at the time the credit is approved. We have procedures and controls for monitoring compliance with loan covenants, for 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. Management evaluates the adequacy of the allowance quarterly. This evaluation is subjective and requires material estimates that may change over time. In addition, management evaluates the allowance for loan losses overall methodology and estimates used in the calculation on an annual basis.

The two components of the allowance for loan losses are general reserves, in which estimates are based upon homogeneous loan pools such as commercial loans, consumer lines of credit and residential mortgages that are not individually evaluated for impairment; and specific reserves, which are 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 we consider numerous factors, including historical charge-offs and subsequent recoveries. We also consider, but are 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, as well as the results of internal loan reviews. Finally, we consider the impact of changes in current local and regional economic conditions in the markets that we serve. Assessment of relevant economic factors indicates that some of our primary markets historically tend to lag the national economy, with local economies in those primary markets also improving or weakening, as the case may be, but at a more measured rate than the national trends.

We base 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 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 our three primary loan portfolios: private banking, commercial and industrial, and commercial real estate. As the loan loss history, mix and risk rating 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. We have identified nine risk factors and each risk factor is assigned a reserve level, based on management's judgment, as to the probable impact on each loan portfolio and is monitored on a quarterly basis. As the trend in each 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. Potential problem loans are identified and

monitored through frequent, formal review processes. Updates are presented to our board of directors as to the status of loan quality at least quarterly.

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

(Dollars in thousands)	September 30, December 31,	
	2017	2016
General reserves	\$ 12,375	\$ 11,823
Specific reserves	3,604	6,939
Total allowance for loan losses	\$ 15,979	\$ 18,762
Allowance for loan losses to loans	0.41	% 0.55 %

As of September 30, 2017, we had specific reserves totaling \$3.6 million related to impaired loans with an aggregated total outstanding balance of \$6.8 million. As of December 31, 2016, we had specific reserves totaling \$6.9 million related to impaired loans, with an aggregated total outstanding balance of \$17.8 million. These loans were on non-accrual status as of September 30, 2017 and December 31, 2016.



Table of Contents

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

(Dollars in thousands)	September 30, 2017		December 31, 2016	
	Percent		Percent	
	Reserve of	Loans	Reserve of	Loans
Private banking	\$1,491	52.3 %	\$1,424	51.0 %
Commercial and industrial	9,593	16.5 %	12,326	17.3 %
Commercial real estate	4,895	31.2 %	5,012	31.7 %
Total allowance for loan losses	\$15,979	100.0 %	\$18,762	100.0 %

Allowance for Loan Losses as of September 30, 2017 and December 31, 2016. Our allowance for loan losses decreased to \$16.0 million, or 0.41% of loans, as of September 30, 2017, as compared to \$18.8 million, or 0.55% of loans, as of December 31, 2016. Our allowance for loan losses related to private banking loans increased \$67,000 from December 31, 2016 to September 30, 2017, which was attributable to growth in this portfolio partially offset by lower specific reserves related to paydowns on non-performing loans. Our allowance for loan losses related to commercial and industrial loans decreased \$2.7 million from December 31, 2016 to September 30, 2017, which was attributable to charge-offs of \$4.3 million on non-performing loans, partially offset by increases in general reserves of \$494,000 and net increases in specific reserves of \$1.1 million. Our allowance for loan losses related to commercial real estate loans decreased by \$117,000 from December 31, 2016 to September 30, 2017, primarily due to the overall strong credit quality of this portfolio partially offset by loan growth.

## 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 (1) we have determined there exists sufficient collateral to protect the remaining loan balance and (2) 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		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
Beginning balance	\$15,968	\$17,215	\$18,762	\$17,974
Charge-offs:				
Private banking	—	—	—	—
Commercial and industrial	(413 )	—	(4,302 )	(1,542 )
Commercial real estate	—	—	—	—
Total charge-offs	(413 )	—	(4,302 )	(1,542 )
Recoveries:				
Private banking	—	—	—	—
Commercial and industrial	136	127	472	708

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

Commercial real estate	5	3,411	5	3,411
Total recoveries	141	3,538	477	4,119
Net recoveries (charge-offs)	(272 )	3,538	(3,825 )	2,577
Provision (credit) for loan losses	283	(542 )	1,042	(340 )
Ending balance	\$15,979	\$20,211	\$15,979	\$20,211
Net loan charge-offs (recoveries) to average total loans, annualized	0.03	%(0.46 )%	0.14	%(0.12 )%
Provision (credit) for loan losses to average total loans, annualized	0.03	%(0.07 )%	0.04	%(0.02 )%

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, 2017 and December 31, 2016, and there was no interest income recognized on these loans while on non-accrual status for the nine months ended September 30, 2017 and 2016. As of September 30, 2017, non-performing loans were \$6.9 million, or 0.18% of total loans, compared to \$17.8 million, or 0.52% of total loans, as of December 31, 2016. We had specific reserves of \$3.6 million and \$6.9 million as of September 30, 2017 and December 31, 2016, respectively, on these non-performing loans. The net loan balance of our non-performing loans was 18.3% and 40.5% of the customer's outstanding balance after payments, charge-offs and specific reserves as of September 30, 2017 and December 31, 2016, respectively.

For additional information on our non-performing loans for September 30, 2017 and December 31, 2016, refer to Note 4, 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 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 \$10.5 million, or 0.23% of total assets, as of September 30, 2017, as compared to \$22.0 million, or 0.56% of total assets, as of December 31, 2016. The decrease in non-performing assets was due to \$11.5 million in reductions on non-performing loans including a loan which was restructured and returned to performing status, charge-offs, paydowns and sales of OREO during the nine months ended September 30, 2017. This decrease was considered within the assessment of the determination of the allowance for loan losses. As of September 30, 2017 and December 31, 2016, we had OREO properties totaling \$3.6 million and \$4.2 million, respectively.

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

(Dollars in thousands)	September 30, December 31,		
	2017	2016	
Non-performing loans:			
Private banking	\$ 407	\$ 517	
Commercial and industrial	6,529	17,273	
Commercial real estate	—	—	
Total non-performing loans	\$ 6,936	\$ 17,790	
Other real estate owned	3,581	4,178	
Total non-performing assets	\$ 10,517	\$ 21,968	
Non-performing troubled debt restructured loans	\$ 6,936	\$ 17,273	
Performing troubled debt restructured loans	\$ 3,449	\$ 471	
Non-performing loans to total loans	0.18	% 0.52	%
Allowance for loan losses to non-performing loans	230.38	% 105.46	%
Non-performing assets to total assets	0.23	% 0.56	%

## 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 past due status as an indicator of credit deterioration and potential problem loans. A loan is considered past due when the contractual principal 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, 2017 and December 31, 2016, refer to Note 4, Allowance for Loan Losses, to our unaudited condensed consolidated financial statements.

## Table of Contents

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 the collateral of loans secured by cash and marketable securities 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, 2017 and December 31, 2016, refer to Note 4, Allowance for Loan Losses, to our unaudited condensed consolidated financial statements.

## Investment Securities

We utilize investment activities to enhance net interest income while supporting interest rate risk management and liquidity management. Our securities portfolio consists of available-for-sale securities, held-to-maturity securities and from time to time, 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 2, Investment Securities, to our unaudited condensed consolidated financial statements. Securities purchased with the intent to sell under trading activity are recorded at fair value and changes to fair value are recognized in the consolidated statements of income. 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. Securities categorized as held-to-maturity are debt securities that the Company intends to hold until maturity and are recorded at amortized cost.

On a quarterly basis, we determine the fair market value of our investment securities based on information provided by external sources. In addition, on a quarterly basis, we conduct an internal evaluation of changes in the fair market value of our investment securities to gain a level of comfort with the market value information received from the external sources.

Securities, like loans, are subject to interest rate risk and credit risk. In addition, by their nature, securities classified as available-for-sale are also subject to fair value risks that could negatively affect the level of liquidity available to us, as well as shareholders' equity. 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, 2017 and December 31, 2016, we reported securities in available-for-sale and held-to-maturity categories. 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.

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 securities portfolio consists of U.S. government agency obligations, mortgage-backed securities, collateralized loan obligations, corporate bonds, single-issuer trust preferred securities, all with varying contractual maturities, as well as certain equity securities. Our held-to-maturity portfolio 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 securities portfolio as of September 30, 2017, was approximately 1.6, 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.

Table of Contents

**Available-for-Sale Investment Securities.** We held \$151.8 million and \$174.9 million in investment securities available-for-sale as of September 30, 2017 and December 31, 2016, respectively. The decrease of \$23.1 million was primarily attributable to repayments, including calls and maturities of \$46.8 million net of purchases of \$22.9 million of certain securities during the nine months ended September 30, 2017.

On a fair value basis, 53.1% of our available-for-sale investment securities as of September 30, 2017, were floating-rate securities, for which yields increase or decrease based on changes in market interest rates. As of December 31, 2016, floating-rate securities comprised 67.0% of our available-for-sale investment securities.

On a fair value basis, 39.7% of our available-for-sale investment securities as of September 30, 2017, were agency securities, which tend to have a lower risk profile, while the remainder of the portfolio was comprised of certain corporate bonds, single-issuer trust preferred securities, non-agency commercial mortgage-backed securities and collateralized loan obligations, and certain equity securities. As of December 31, 2016, agency securities comprised 41.6% of our available-for-sale investment securities.

**Held-to-Maturity Investment Securities.** We held \$58.3 million and \$53.9 million in investment securities held-to-maturity as of September 30, 2017 and December 31, 2016, respectively. The increase of \$4.4 million was primarily attributable to purchases of \$7.5 million net of a call of \$3.0 million of certain securities during the nine months ended September 30, 2017. 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, 2017 and December 31, 2016.

**Trading Investment Securities.** We held no investment securities for trading as of September 30, 2017 and December 31, 2016. 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.

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

(Dollars in thousands)	September 30, 2017			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
<b>Investment securities available-for-sale:</b>				
Corporate bonds	\$57,571	\$ 261	\$ 60	\$57,772
Trust preferred securities	17,807	871	—	18,678
Non-agency mortgage-backed securities	5,587	—	—	5,587
Non-agency collateralized loan obligations	903	—	9	894
Agency collateralized mortgage obligations	40,096	26	94	40,028
Agency mortgage-backed securities	20,197	132	125	20,204
Equity securities	8,851	—	204	8,647
<b>Total investment securities available-for-sale</b>	<b>151,012</b>	<b>1,290</b>	<b>492</b>	<b>151,810</b>
<b>Investment securities held-to-maturity:</b>				
Corporate bonds	31,190	959	—	32,149
Agency debentures	1,983	16	—	1,999
Municipal bonds	25,141	316	—	25,457
<b>Total investment securities held-to-maturity</b>	<b>58,314</b>	<b>1,291</b>	<b>—</b>	<b>59,605</b>

Total	\$209,326	\$ 2,581	\$ 492	\$211,415
-------	-----------	----------	--------	-----------

61

---



Table of Contents

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

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

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, based on estimated annual income divided by the average amortized cost of our available-for-sale and held-to-maturity debt securities portfolios as of September 30, 2017. 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.

(Dollars in thousands)	September 30, 2017									
	Less Than One Year		One to Five Years		Five to 10 Years		Greater Than 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Investment securities available-for-sale:										
Corporate bonds	\$8,920	1.94%	\$33,911	2.31%	\$4,941	5.00%	\$10,000	5.00%	\$57,772	2.96%
Trust preferred securities	—	— %	—	— %	9,450	3.13%	9,228	3.26%	18,678	3.19%
Non-agency mortgage-backed securities	—	— %	—	— %	—	— %	5,587	2.31%	5,587	2.31%
Non-agency collateralized loan obligations	—	— %	—	— %	—	— %	894	3.57%	894	3.57%
Agency collateralized mortgage obligations	—	— %	901	1.60%	—	— %	39,127	1.66%	40,028	1.66%
Agency mortgage-backed securities	—	— %	—	— %	—	— %	20,204	1.95%	20,204	1.95%
Total debt securities available-for-sale	8,920		34,812		14,391		85,040		143,163	
Weighted average yield		1.94%		2.29%		3.79%		2.35%		2.45%
Investment securities held-to-maturity:										
Corporate bonds	5,194	6.38%	—	— %	26,955	5.37%	—	— %	32,149	5.53%
Agency debentures	—	— %	—	— %	1,999	2.83%	—	— %	1,999	2.83%
Municipal bonds	1,005	1.97%	11,681	2.44%	11,834	2.84%	937	3.55%	25,457	2.65%
Total debt securities held-to-maturity	6,199		11,681		40,788		937		59,605	
Weighted average yield		5.64%		2.44%		4.50%		3.55%		4.19%
Total debt securities	\$15,119		\$46,493		\$55,179		\$85,977		\$202,768	
Weighted average yield		3.43%		2.33%		4.32%		2.36%		2.96%

The table above excludes equity securities because they have an indefinite life. For additional information regarding our investment securities portfolios, refer to Note 2, Investment Securities, to our unaudited condensed consolidated financial statements.

## 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. Our client market primarily consists of high-net-worth individuals; family offices; trust companies; wealth management firms; businesses and their executives; municipalities; endowments and foundations; broker-dealers; futures commission merchants; and other financial institutions.

We build deposit relationships through both our commercial bank and our private bank channels. We compete for deposits by offering superior liquidity and treasury management products and services to our customers. We focus on providing our clients and prospects within our key markets with superior service, sophisticated yet customizable

solutions, simple and competitive fee structures for our service offerings and an easier client experience. 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, 2017, we consider nearly 90% of our total deposits to be relationship-based deposits. Some of our relationship-based deposits, including reciprocal certificates of deposit placed through CDARS<sup>®</sup> and reciprocal demand deposits placed through ICS<sup>®</sup>, have been classified for some regulatory purposes as brokered deposits, while for other regulatory purposes they are not classified as brokered deposits. As of September 30, 2017, the Bank had CDARS<sup>®</sup> and ICS<sup>®</sup> reciprocal deposits totaling \$645.5 million and other brokered deposits of \$420.2 million. We continue to utilize other 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. For additional information on our deposits, refer to Note 5, Deposits, to our unaudited condensed consolidated financial statements.

Table of Contents

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, 2017 and 2016.

(Dollars in thousands)	Three Months Ended September 30,			
	2017		2016	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
Interest-bearing checking accounts	\$371,526	1.25 %	\$190,270	0.49 %
Money market deposit accounts	2,021,755	1.23 %	1,688,250	0.71 %
Certificates of deposit	1,003,280	1.25 %	863,872	0.89 %
Total average interest-bearing deposits	3,396,561	1.24 %	2,742,392	0.75 %
Noninterest-bearing deposits	205,368	—	161,723	—
Total average deposits	\$3,601,929	1.17 %	\$2,904,115	0.71 %

Average Deposits for the Three Months Ended September 30, 2017 and 2016. For the three months ended September 30, 2017, our average total deposits were \$3.60 billion, representing an increase of \$697.8 million, or 24.0%, from the same period in 2016. The deposit growth was driven by increases in all deposit categories. Our average cost of interest-bearing deposits increased 49 basis points to 1.24% for the three months ended September 30, 2017, from 0.75% for the same period in 2016, as average rates paid were higher in all interest-bearing deposit categories. Average money market deposits decreased to 59.5% of total average interest-bearing deposits, for the three months ended September 30, 2017, from 61.6% for the same period in 2016. Average certificates of deposit decreased to 29.6% of total average interest-bearing deposits for the three months ended September 30, 2017, compared to 31.5% for the same period in 2016. Average interest-bearing checking accounts increased to 10.9% of total average interest-bearing deposits for the three months ended September 30, 2017, compared to 6.9% for the same period in 2016. Average noninterest-bearing deposits increased \$43.6 million, or 27.0%, in the three months ended September 30, 2017, from the three months ended September 30, 2016, and the average cost of total deposits increased 46 basis points to 1.17% for the three months ended September 30, 2017, from 0.71% for the same period in 2016.

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, 2017 and 2016.

(Dollars in thousands)	Nine Months Ended September 30,			
	2017		2016	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
Interest-bearing checking accounts	\$298,631	1.03 %	\$160,310	0.45 %
Money market deposit accounts	1,951,258	1.06 %	1,614,669	0.65 %
Certificates of deposit	954,352	1.12 %	869,879	0.85 %
Total average interest-bearing deposits	3,204,241	1.08 %	2,644,858	0.70 %
Noninterest-bearing deposits	206,063	—	153,763	—
Total average deposits	\$3,410,304	1.01 %	\$2,798,621	0.66 %

Average Deposits for the Nine Months Ended September 30, 2017 and 2016. For the nine months ended September 30, 2017, our average total deposits were \$3.41 billion, representing an increase of \$611.7 million, or 21.9%, from the same period in 2016. The deposit growth was driven by increases in all deposit categories. Our average cost of interest-bearing deposits increased 38 basis points to 1.08% for the nine months ended September 30, 2017, from 0.70% for the same period in 2016, as average rates paid were higher in all interest-bearing deposit categories. Average money market deposits decreased to 60.9% of total average interest-bearing deposits, for the nine months ended September 30, 2017, from 61.0% for the same period in 2016. Average certificates of deposit decreased to

29.8% of total average interest-bearing deposits for the nine months ended September 30, 2017, compared to 32.9% for the same period in 2016. Average interest-bearing checking accounts increased to 9.3% of total average interest-bearing deposits for the nine months ended September 30, 2017, compared to 6.1% for the same period in 2016. Average noninterest-bearing deposits increased \$52.3 million, or 34.0%, in the nine months ended September 30, 2017, from the nine months ended September 30, 2016, and the average cost of total deposits increased 35 basis points to 1.01% for the nine months ended September 30, 2017, from 0.66% for the same period in 2016.

Table of Contents

## Certificates of Deposit

Maturities of certificates of deposit of \$100,000 or more outstanding are summarized below, as of September 30, 2017.

(Dollars in thousands)	September 30, 2017
Months to maturity:	
Three months or less	\$ 289,531
Over three to six months	286,241
Over six to 12 months	239,913
Over 12 months	110,617
Total	\$ 926,302

## 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.

The following table presents certain information with respect to our outstanding borrowings, as of September 30, 2017 and December 31, 2016.

(Dollars in thousands)	September 30, 2017					December 31, 2016				
	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	\$ 140,000	1.30%	\$ 370,000	\$ 207,143	1-4 days	\$ 105,000	0.77%	\$ 260,000	\$ 142,664	1-4 days
Term FHLB borrowings:										
Issued 7/29/2015	—	—%	—	—		—	0.61%	25,000	14,754	12 months
Issued 7/29/2015	—	—%	—	—		—	0.72%	25,000	20,970	15 months
Issued 6/29/2016	—	—%	—	—		—	0.66%	100,000	24,863	3 months
Issued 9/29/2016	—	—%	—	—		—	0.58%	100,000	24,863	3 months
Issued 12/29/2016	—	0.85%	100,000	31,868	3 months	100,000	0.85%	100,000	820	3 months
Issued 3/29/2017	—	1.07%	100,000	33,700	3 months	—	—%	—	—	
Issued 6/29/2017	—	1.32%	100,000	33,700	3 months	—	—%	—	—	
Issued 9/29/2017	100,000	1.33%	100,000	732	3 months	—	—%	—	—	
Line of credit borrowings	4,500	4.24%	4,500	1,375	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	\$ 279,500	1.92%	\$ 809,500	\$ 343,518		\$ 240,000	1.53%	\$ 645,000	\$ 263,934	

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. 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, 2017, the Bank and Chartwell subsidiaries 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 subsidiaries and the net proceeds from the issuance of our debt or equity securities. As of September 30, 2017, our primary liquidity needs at the parent company level were the semi-annual interest payments on the subordinated notes payable, interest payments on other borrowings and our share repurchase programs. 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

Table of Contents

nine months ended September 30, 2017, the parent company paid \$6.5 million related to share repurchase programs and \$2.0 million related to interest payments on the subordinated notes and other borrowings. During the nine months ended September 30, 2016, the parent company paid \$15.0 million for the TKG acquisition, \$2.0 million related to interest payments on the subordinated notes and \$9.5 million related to 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, 2017. In addition, the holding company maintains an unsecured line of credit of \$25.0 million with Texas Capital Bank, of which \$20.5 million was available as of September 30, 2017.

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 securities available-for-sale, loan repayments (scheduled and unscheduled) and future earnings. Liability liquidity sources 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<sup>®</sup> and ICS<sup>®</sup> deposits and other brokered deposits, and the ability to raise debt and equity. Customer deposits are an important source of liquidity, which depends on the confidence of those customers in us and is supported by our capital position and 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 83.8% and 83.6% as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017, we had available liquidity of \$792.9 million, or 17.6% of total assets. These sources consisted of liquid assets (cash and cash equivalents, and unpledged investment securities available-for-sale), totaling \$227.3 million, or 5.1% of total assets, coupled with secondary sources of liquidity (the ability to borrow from the FHLB and correspondent bank lines) totaling \$565.6 million, or 12.6% 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)



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

	September 30, December 31,	
	2017	2016
Available cash	\$ 79,756	\$ 64,816
Unpledged investment securities available-for-sale	147,593	169,830
Net borrowing capacity	565,597	509,906
Total liquidity	\$ 792,946	\$ 744,552

For the nine months ended September 30, 2017, we generated \$23.1 million of cash from operating activities, compared to cash generated of \$14.2 million for the same period in 2016. This change in cash flow was primarily the result of an increase in net income of \$4.9 million for the nine months ended September 30, 2017, and changes in working capital items largely related to timing.

Investing activities resulted in a net cash outflow of \$508.0 million, for the nine months ended September 30, 2017, as compared to a net cash outflow of \$364.4 million for the same period in 2016. The outflows for the nine months ended September 30, 2017, were primarily due to net loan growth of \$540.3 million and purchases of investment securities totaling \$20.4 million, partially offset by the proceeds, principal repayments and maturities from investment securities totaling \$49.8 million. The outflows for the nine months ended September 30, 2016, included net loan growth of \$332.0 million, purchases of investment securities totaling \$33.7 million and \$14.1 million for the

## Table of Contents

TKG acquisition net of acquired cash, partially offset by the proceeds, principal repayments and maturities from investment securities totaling \$16.4 million.

Financing activities resulted in a net inflow of \$517.5 million for the nine months ended September 30, 2017, compared to a net inflow of \$374.3 million for the same period in 2016. The inflows for the nine months ended September 30, 2017, were primarily a result of a net increase in deposits of \$483.1 million and a net increase in FHLB borrowings of \$35.0 million, compared to a \$397.4 million net increase in deposits and a net decrease in FHLB borrowings of \$15.0 million for the nine months ended September 30, 2016.

We continue to evaluate the potential impact on liquidity management by regulatory proposals, including those being established under the Dodd-Frank 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 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 increased to \$377.3 million as of September 30, 2017, compared to \$351.8 million as of December 31, 2016. The \$25.5 million increase during the nine months ended September 30, 2017, was attributable to net income of \$25.9 million, the impact of \$4.2 million in stock-based compensation, an increase of \$500,000 in accumulated other comprehensive income (loss) and \$1.3 million in exercises of stock options, partially offset by the purchase of \$6.5 million in treasury stock.

**Regulatory Capital.** As of September 30, 2017 and December 31, 2016, 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 existing 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).



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, 2017					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Total risk-based capital ratio						
Company	\$335,178	11.80 %	\$227,240	8.00 %	N/A	N/A
Bank	\$337,652	12.01 %	\$224,901	8.00 %	\$281,126	10.00 %
Tier 1 risk-based capital ratio						
Company	\$316,300	11.14 %	\$170,430	6.00 %	N/A	N/A
Bank	\$325,304	11.57 %	\$168,675	6.00 %	\$224,901	8.00 %
Common equity tier 1 risk-based capital ratio						
Company	\$316,300	11.14 %	\$127,822	4.50 %	N/A	N/A
Bank	\$325,304	11.57 %	\$126,507	4.50 %	\$182,732	6.50 %
Tier 1 leverage ratio						
Company	\$316,300	7.40 %	\$170,901	4.00 %	N/A	N/A
Bank	\$325,304	7.66 %	\$169,861	4.00 %	\$212,326	5.00 %

	December 31, 2016					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Total risk-based capital ratio						
Company	\$325,122	12.66 %	\$205,488	8.00 %	N/A	N/A
Bank	\$314,419	12.39 %	\$203,030	8.00 %	\$253,787	10.00 %
Tier 1 risk-based capital ratio						
Company	\$295,089	11.49 %	\$154,116	6.00 %	N/A	N/A
Bank	\$298,093	11.75 %	\$152,272	6.00 %	\$203,030	8.00 %
Common equity tier 1 risk-based capital ratio						
Company	\$295,089	11.49 %	\$115,587	4.50 %	N/A	N/A
Bank	\$298,093	11.75 %	\$114,204	4.50 %	\$164,962	6.50 %
Tier 1 leverage ratio						
Company	\$295,089	7.90 %	\$149,369	4.00 %	N/A	N/A
Bank	\$298,093	8.04 %	\$148,252	4.00 %	\$185,316	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, 2017					Total
	One Year or Less	One to Three Years	Three to Five Years	Greater Than Five Years		
Transaction deposits	\$2,517,576	\$204,078	\$—	\$—		\$2,721,654
Certificates of deposit	935,943	112,273	—	—		1,048,216
Borrowings outstanding	244,500	35,000	—	—		279,500
Interest payments on certificates of deposit and borrowings	11,851	4,028	—	—		15,879
Operating leases	2,552	5,058	2,733	1,051		11,394
Commitments for low income housing tax credits	7,931	13,101	423	69		21,524
Commitments for small business investment companies	3,255	—	—	—		3,255
Total contractual obligations	\$3,723,608	\$373,538	\$3,156	\$1,120		\$4,101,422

## 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 and marketable securities and 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.

(Dollars in thousands)	September 30, 2017					Total
	One Year or Less <sup>(1)</sup>	One to Three Years	Three to Five Years	Greater Than Five		

	Years				
Unused loan commitments	\$1,784,000	\$193,463	\$44,778	\$89,385	\$2,111,626
Standby letters of credit	37,812	20,052	10,265	5,325	73,454
Total off-balance sheet arrangements	\$1,821,812	\$213,515	\$55,043	\$94,710	\$2,185,080

The off-balance sheet amounts reflected in the One Year or Less category in the table above include \$1.63 billion<sup>(1)</sup> in unused loan commitments and \$1.9 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 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 do 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.

Table of Contents

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 when rates fall, while certain depositors may redeem their certificates when rates rise.

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 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 simulation, economic value of equity 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. Net interest income (“NII”) simulation explicitly measures exposure to earnings from changes in market rates of interest but does not provide a long-term view. Economic value of equity (“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.

(Dollars in thousands)	September 30, 2017			December 31, 2016	
	Amount Change from Base Case	Percent Change from Base Case	ALCO Guidelines	Amount Change from Base Case	Percent Change from Base Case
Net interest income:					
+300	\$25,118	26.72 %	-20.00%	\$25,570	30.48 %
+200	\$16,739	17.81 %	-15.00%	\$16,986	20.25 %
+100	\$8,345	8.88 %	-10.00%	\$8,431	10.05 %
-100	\$(8,943)	(9.51) %	-10.00%	\$(3,836)	(4.57) %
Economic value of equity:					
+300	\$2,814	0.75 %	+/-30.00%	\$6,027	1.82 %
+200	\$2,457	0.66 %	+/-20.00%	\$4,201	1.27 %

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

+100	\$1,195	0.32	% +/-10.00%	\$2,095	0.63	%
-100	\$(1,721)	(0.46)	% +/-10.00%	\$(11,980)	(3.61)	%

Given the relatively low current interest rate environment, it is our strategy to continue to manage an asset sensitive interest rate risk position in both our net interest income and economic value of equity measures. Therefore, rising rates are expected to have a positive effect on both net interest income and economic value of equity as compared to a situation where rates fall or remain unchanged.



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, 2017

(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	\$ 129,979	\$—	\$—	\$—	\$—	\$—	\$—	\$ 129,979
Federal funds sold	6,220	—	—	—	—	—	—	6,220
Total investment securities	95,632	3,926	15,295	71,822	17,898	15,544	799	220,916
Total loans	3,552,583	40,825	60,974	179,000	70,206	18,691	8,391	3,930,670
Other assets	—	—	—	—	—	—	208,228	208,228
Total assets	\$ 3,784,414	\$ 44,751	\$ 76,269	\$ 250,822	\$ 88,104	\$ 34,235	\$ 217,418	\$ 4,496,013
<b>Liabilities:</b>								
Transaction deposits	\$ 2,220,594	\$—	\$ 87,000	\$ 204,078	\$—	\$—	\$ 209,982	\$ 2,721,654
Certificates of deposit	399,783	286,684	249,476	112,273	—	—	—	1,048,216
Borrowings, net	144,500	—	—	135,000	—	—	(338)	279,162
Other liabilities	—	—	—	—	—	—	69,648	69,648
Total liabilities	2,764,877	286,684	336,476	451,351	—	—	279,292	4,118,680
Equity	—	—	—	—	—	—	377,333	377,333
Total liabilities and equity	\$ 2,764,877	\$ 286,684	\$ 336,476	\$ 451,351	\$—	\$—	\$ 656,625	\$ 4,496,013
Interest rate sensitivity gap	\$ 1,019,537	\$ (241,933)	\$ (260,207)	\$ (200,529)	\$ 88,104	\$ 34,235	\$ (439,207)	
Cumulative interest rate sensitivity gap	\$ 1,019,537	\$ 777,604	\$ 517,397	\$ 316,868	\$ 404,972	\$ 439,207		
Cumulative interest rate sensitive assets to rate sensitive liabilities	136.9	% 125.5	% 115.3	% 108.3	% 110.5	% 111.4	% 109.2	%
Cumulative gap to total assets	22.7	% 17.3	% 11.5	% 7.0	% 9.0	% 9.8	%	

The cumulative twelve-month ratio of interest rate sensitive assets to interest rate sensitive liabilities decreased to 115.3% as of September 30, 2017, from 120.5% as of December 31, 2016.

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 day 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, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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 Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2017. 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 U.S. Securities and Exchange Commission'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, 2017.

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, 2017, 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, 2017, the Company was not a party to any legal proceedings that the resolution of which management believes would have a material adverse effect on the Company's business, future prospects, financial condition, liquidity, results of operation, cash flows or capital levels.

ITEM 1A. RISK FACTORS

There are risks, many beyond our control, that could cause our results to differ significantly from management's expectations. Any of the risks described in our Annual Report on Form 10-K for the period ended December 31, 2016, or in this Quarterly Report on Form 10-Q could, by itself or together with one or more other factors, adversely affect our business, results of operations or financial condition. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, results of operations or financial condition.

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, 2017:

	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs*
July 1, 2017 - July 31, 2017	36,453	\$ 23.00	36,453	\$ 3,716,466
August 1, 2017 - August 31, 2017	60,500	21.69	60,500	2,404,008
September 1, 2017 - September 30, 2017	10,000	20.55	10,000	2,198,464
Total	106,953	\$ 22.03	106,953	\$ 2,198,464

In January 2017, 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.

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, 2017, 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/ Mark L. Sullivan  
Mark L. Sullivan  
Vice Chairman and Chief Financial Officer

Date: October 30, 2017

Table of Contents

EXHIBIT INDEX

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, 2017, 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.