

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

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

FORM 10-Q

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

For the period ended March 31, 2018

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

For the transition period from ____ to ____

Commission file number: 001-35913

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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.

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

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

Table of Contents

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

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

Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

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

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

3

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands)	Preferred Stock (Series A)	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 2016	\$—	\$285,480	\$ 6,782	\$73,744	\$ 830	\$(15,029)	\$ 351,807
Net income	—	—	—	7,492	—	—	7,492
Other comprehensive income	—	—	—	—	212	—	212
Exercise of stock options	—	854	(519)	—	—	—	335
Purchase of treasury stock	—	—	—	—	—	(1,041)	(1,041)
Stock-based compensation	—	—	854	—	—	—	854
Balance, March 31, 2017	\$—	\$286,334	\$ 7,117	\$81,236	\$ 1,042	\$(16,070)	\$ 359,659
Balance, December 31, 2017	\$—	\$289,507	\$ 10,290	\$111,732	\$ 1,246	\$(23,704)	\$ 389,071
Impact of adoption of ASU 2014-09 (see Note 1)	—	—	—	534	—	—	534
Reclassification for equity securities under ASU 2016-01 (see Note 1)	—	—	—	(286)	286	—	—
Reclassification for certain income tax effects under ASU 2018-02 (see Note 1)	—	—	—	(274)	274	—	—
Net income	—	—	—	10,401	—	—	10,401
Other comprehensive loss	—	—	—	—	(161)	—	(161)
Issuance of preferred stock (net of offering costs of \$1,810)	38,440	—	—	—	—	—	38,440
Exercise of stock options	—	1,211	(690)	—	—	—	521
Purchase of treasury stock	—	—	—	—	—	(575)	(575)
Stock-based compensation	—	—	1,998	—	—	—	1,998
Balance, March 31, 2018	\$38,440	\$290,718	\$ 11,598	\$122,107	\$ 1,645	\$(24,279)	\$ 440,229

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

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

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

7

Table of Contents

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

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

[1] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATION

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

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

The Company and the Bank are subject to regulatory examination by the Federal Deposit Insurance Corporation (“FDIC”), the Pennsylvania Department of Banking and Securities, and the Federal Reserve. Chartwell is a registered investment advisor regulated by the Securities and Exchange Commission (“SEC”). CTSC Securities is regulated by the SEC and Financial Industry Regulatory Authority (“FINRA”).

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

USE OF ESTIMATES

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

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

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, the Bank, Chartwell and CTSC Securities, after elimination of inter-company accounts and transactions. The accounts of the Bank, in turn, include its wholly-owned subsidiary, Meadowood Asset Management, LLC (established in 2011 to hold and manage the foreclosed properties for the Bank), after elimination of inter-company accounts and transactions. The unaudited consolidated financial statements of the Company presented herein have been prepared pursuant to rules of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP for a full year presentation. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) and disclosures, considered necessary for

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

CASH AND CASH EQUIVALENTS

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

INVESTMENT SECURITIES

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

Table of Contents

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

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

FEDERAL HOME LOAN BANK STOCK

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

LOANS

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

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

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

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

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

Table of Contents

OTHER REAL ESTATE OWNED

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

ALLOWANCE FOR LOAN LOSSES

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

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

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

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

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

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

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

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

INVESTMENT MANAGEMENT FEES

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

Table of Contents

on a quarterly basis. Certain incremental costs incurred to acquire some of our investment management contracts are deferred and amortized to non-interest expense over the estimated life of the contract.

Investment management fees receivable represent amounts due for contractual investment management services provided to the Company's clients, primarily institutional investors, mutual funds and individual investors. Management performs credit evaluations of its customers' financial condition when it is deemed to be necessary, and does not require collateral. The Company provides an allowance for uncollectible accounts based on specifically identified receivables. Bad debt expense is recorded to other non-interest expense on the consolidated statements of income and the allowance for uncollectible accounts is recorded to investment management fees receivable, net on the consolidated statements of financial position. Investment management fees receivable are considered delinquent when payment is not received within contractual terms and are charged off against the allowance for uncollectible accounts when management determines that recovery is unlikely and the Company ceases its collection efforts. There was no bad debt expense recorded for the three months ended March 31, 2018, and no allowance for uncollectible accounts as of March 31, 2018. There was \$150,000 bad debt expense associated with a single relationship recorded for the three months ended March 31, 2017, and there was no allowance for uncollectible accounts as of December 31, 2017.

BUSINESS COMBINATIONS

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

GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

OFFICE PROPERTIES AND EQUIPMENT

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

BANK OWNED LIFE INSURANCE

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

Table of Contents

DEPOSITS

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

BORROWINGS

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

EARNINGS PER COMMON SHARE

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

INCOME TAXES

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

DERIVATIVES AND HEDGING ACTIVITIES

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

FAIR VALUE MEASUREMENT

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

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

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

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

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

Table of Contents

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

STOCK-BASED COMPENSATION

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

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

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

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

Income tax effects in accumulated other comprehensive income are released as investments are sold or matured and liabilities are extinguished.

TREASURY STOCK

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

RECENT ACCOUNTING DEVELOPMENTS

In February 2018, the FASB issued Accounting Standard Update ("ASU") 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" to address a narrow-scope financial reporting issue that arose as a consequence of the change in the tax law. The standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This standard is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued. The changes could be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company early adopted this standard on January 1, 2018, and elected to reclassify the effect of the change in the U.S. federal corporate income tax rate from accumulated other comprehensive income to retained earnings of \$274,000, which is reflected in the Consolidated Statements of Changes in Shareholders' Equity in the period of adoption.

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

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

Table of Contents

for public business entities for annual and interim periods in fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

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

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

In February 2016, the FASB issued ASU 2016-02, "Leases," which, among other things, requires lessees to recognize most leases on-balance sheet. This will increase their reported assets and liabilities - in some cases very significantly. Lessor accounting remains substantially similar to current U.S. GAAP. ASU 2016-02 supersedes Topic 840, Leases. This standard is effective for public business entities, certain not-for-profit entities, and certain employee benefit plans for annual and interim periods in fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which makes targeted amendments to the guidance for recognition, measurement, presentation and disclosure of financial instruments. This standard is effective for public business entities for interim and annual periods in fiscal years beginning after December 15, 2017. The Company was impacted by two main provisions of this standard as follows. (1) This standard requires a public entity to use the exit price notion to measure fair value of financial instruments for disclosure purposes. Accordingly, the Company refined the calculation used to determine the disclosed fair value of loans held-for-investment as part of adopting this standard. The refined calculation did not have a significant impact on our fair value disclosures. (2) This standard requires equity investments, other than equity method investments, to be measured at fair value with changes in fair value recognized in net income. This standard requires a cumulative effect adjustment to retained earnings as of the beginning of the reporting period of adoption to reclassify the cumulative change in fair value of equity securities previously recognized in accumulated other comprehensive income. The Company adopted this standard on January 1, 2018, which resulted in a cumulative effect adjustment from accumulated other comprehensive income to retained earnings of \$286,000, which is reflected in the Consolidated Statements of Changes in Shareholders' Equity in the period of adoption.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." This standard implements a common approach that clarifies the principles for recognizing revenue. The core principle of this update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard establishes a five-step model that entities must follow to recognize revenue. This update is effective for annual periods and interim periods in fiscal years beginning after December 15, 2017, for public business entities. A significant amount of the Company's revenues are derived from net interest income on financial assets and liabilities, which are excluded from the scope of the amended guidance. The Company completed its assessment of

revenue streams and associated incremental costs of contracts affected by the standard. The Company's adoption of this standard did not change the method in which we recognize revenue. This standard requires that certain incremental costs incurred to acquire some of our investment management contracts to be capitalized and deferred over the estimated life of the contract. The adoption of this standard altered the timing, measurement and recognition of these costs in the income statement; however, the impact is not material. The Company adopted this standard on January 1, 2018, utilizing the modified retrospective approach with a cumulative effect adjustment to retained earnings of \$534,000.

The majority of our revenue-generating transactions are not subject to ASC Topic 606, including revenue generated from financial instruments, such as our loans, derivatives and investment securities as these activities are subject to other GAAP discussed elsewhere within our disclosures. Descriptions of our other revenue-generating activities that are within the scope of ASC Topic 606, which are presented in our consolidated statements of income as components of non-interest income are as follows:

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

Table of Contents

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

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

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

RECLASSIFICATION

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

[2] INVESTMENT SECURITIES

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

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

Table of Contents

(Dollars in thousands)	December 31, 2017			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Debt securities available-for-sale:				
Corporate bonds	\$61,616	\$ 216	\$ 143	\$61,689
Trust preferred securities	17,840	741	—	18,581
Non-agency collateralized loan obligations	811	—	6	805
Agency collateralized mortgage obligations	38,873	25	76	38,822
Agency mortgage-backed securities	19,007	96	150	18,953
Total debt securities available-for-sale	138,147	1,078	375	138,850
Debt securities held-to-maturity:				
Corporate bonds	32,189	785	33	32,941
Agency debentures	1,984	3	—	1,987
Municipal bonds	25,102	122	11	25,213
Total debt securities held-to-maturity	59,275	910	44	60,141
Total debt securities	\$197,422	\$ 1,988	\$ 419	\$198,991

Interest income on investment securities was as follows:

(Dollars in thousands)	Three Months Ended March 31,	
	2018	2017
Taxable interest income	\$1,414	\$1,178
Non-taxable interest income	110	113
Dividend income	260	179
Total interest income on investment securities	\$1,784	\$1,470

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

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

The \$69.3 million fair value of debt securities available-for-sale with a contractual maturity due after ten years as of March 31, 2018, included \$56.1 million, or 80.9%, that are floating-rate securities. The \$38.9 million amortized cost of debt securities held-to-maturity with a contractual maturity due from five to ten years as of March 31, 2018, included \$20.8 million that have call provisions in one to five years that would either mature, if called, or become floating-rate securities after the call date.

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

Table of Contents

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

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

Debt securities available-for-sale of \$3.8 million, as of March 31, 2018, were held in safekeeping at the FHLB and were included in the calculation of borrowing capacity.

The following tables show the fair value and gross unrealized losses on temporarily impaired debt securities available-for-sale and held-to-maturity and equity securities, by investment category and length of time that the individual securities have been in a continuous unrealized loss position as of March 31, 2018 and December 31, 2017, respectively:

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

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

Table of Contents

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

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

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

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

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

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

[3] LOANS

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

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

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

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

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

Table of Contents

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

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

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

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

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

[4] ALLOWANCE FOR LOAN LOSSES

Our allowance for loan losses represents our estimate of probable loan losses inherent in the loan portfolio at a specific point in time. This estimate includes losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the loan portfolio. Additions are made to the allowance through both periodic provisions recorded in the consolidated statements of income and recoveries of losses previously incurred. Reductions to the allowance occur as loans are charged off or when the credit history of any of the three loan

portfolios improves. Management evaluates the adequacy of the allowance quarterly, and in doing so relies on various factors including, but not limited to, assessment of historical loss experience, delinquency and non-accrual trends, portfolio growth, underlying collateral coverage and current economic conditions. This evaluation is subjective and requires material estimates that may change over time. In addition, management evaluates the overall methodology for the allowance for loan losses on an annual basis. The calculation of the allowance for loan losses takes into consideration the inherent risk identified within each of the Company's three primary loan portfolios: private banking, commercial and industrial, and commercial real estate. In addition, management takes into account the historical loss experience of each loan portfolio, to ensure that the allowance for loan losses is sufficient to cover probable losses inherent in such loan portfolios. Refer to Note 1, Summary of Significant Accounting Policies, for more details on the Company's allowance for loan losses policy.

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

Private Banking Loans

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

Table of Contents

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

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

Middle-Market Banking: Commercial and Industrial Loans

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

The borrower's industry and local and regional economic conditions are important indicators of risk for this loan portfolio. Collateral for these types of loans at times does not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt. C&I loans collateralized by marketable securities are treated the same as private banking loans for purposes of the allowance for loan loss calculation. In addition, shared national credit loans that also involve a private equity sponsor are combined as a homogeneous group and evaluated separately based on the historical loss trend of such loans.

Middle-Market Banking: Commercial Real Estate Loans

This loan portfolio includes loans secured by commercial purpose real estate, including both owner-occupied properties and investment properties for various purposes including office, industrial, multifamily, retail, hospitality, healthcare and self-storage. The primary source of repayment for commercial real estate loans secured by owner-occupied properties is cash flow from the borrower's operations. Individual project cash flows, global cash flows and liquidity from the developer, or the sale of the property are the primary sources of repayment for commercial real estate loans secured by investment properties. Also included are commercial construction loans to finance the construction or renovation of structures as well as to finance the acquisition and development of raw land for various purposes. The increased level of risk for these loans is generally confined to the construction period. If there are problems the project may not be completed, and as such, may not provide sufficient cash flow on its own to service the debt or have sufficient value in a liquidation to cover the outstanding principal.

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

Three Months Ended March 31, 2017				
(Dollars in thousands)	Private Banking	Commercial and Industrial	Commercial Real Estate	Total
Balance, beginning of period	\$ 1,424	\$ 12,326	\$ 5,012	\$ 18,762
Provision (credit) for loan losses	(3)	930	(684)	243
Charge-offs	—	(2,889)	—	(2,889)
Recoveries	—	69	—	69
Balance, end of period	\$ 1,421	\$ 10,436	\$ 4,328	\$ 16,185

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

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

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

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

Table of Contents

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

Non-Performing and Impaired Loans

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

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

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

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

Table of Contents

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

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

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

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

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

Table of Contents

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

Troubled Debt Restructuring

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

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

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

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

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

Other Real Estate Owned

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

[5] DEPOSITS

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

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

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

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

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

Table of Contents

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

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

The contractual maturity of certificates of deposit was as follows:

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

Interest expense on deposits was as follows:

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

[6] BORROWINGS

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

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

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

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

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

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

Table of Contents

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.

Interest expense on borrowings was as follows:

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
FHLB borrowings	\$1,147	\$554
Line of credit borrowings	52	—
Subordinated notes payable	554	554
Total interest expense on borrowings	\$1,753	\$1,108

[7] STOCK TRANSACTIONS

In March 2018, the Company completed the issuance and sale of an underwritten public offering of 1,400,000 depository shares, each representing a 1/40th interest in a share of its 6.75% Fixed-to-Floating Rate Series A Non-Cumulative Perpetual Preferred Stock, no par value (the “Series A Preferred Stock”), with a liquidation preference of \$1,000 per share (equivalent to \$25 per depository share). In addition, the Company granted the underwriters an option to purchase additional depository shares of 210,000 which has been exercised. The shares were offered pursuant to the Company’s Registration Statement on Form S-3. The Company received net proceeds of \$38.4 million from the sale of 40,250 shares of its Series A Preferred Stock (equivalent to 1,610,000 depository shares), after deducting underwriting discounts, commissions and direct offering expenses. The preferred stock provides Tier 1 capital for the holding company, under federal regulatory capital rules.

When, as, and if declared by the board of directors of the Company, dividends will be payable on the Series A Preferred Stock from the date of issuance to, but excluding April 1, 2023, at a rate of 6.75% per annum, payable quarterly, in arrears, and from and including April 1, 2023, dividends will accrue and be payable at a floating rate equal to three-month LIBOR plus a spread of 398.5 basis points per annum, payable quarterly, in arrears. The Company may redeem the Series A Preferred Stock at its option, subject to regulatory approval, on or after April 1, 2023, as described in the prospectus supplement relating to the offering filed with the SEC on March 19, 2018, pursuant to rule 424(b)(2).

Under authorization by the Board of Directors, the Company was permitted to repurchase its common stock up to prescribed amounts, of which \$4.4 million remained available as of March 31, 2018. During the three months ended March 31, 2018, the Company repurchased a total of 24,200 shares for approximately \$575,000, at an average cost of \$23.78 per share, which are held as treasury stock. During the three months ended March 31, 2017, the Company repurchased a total of 44,866 shares for approximately \$1.0 million, at an average cost of \$23.21 per share, which are held as treasury stock.

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

	Number of Preferred Shares Series A Outstanding	Number of Common Shares Outstanding
Balance, December 31, 2016	—	28,415,654

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

Issuance of restricted common stock	—	324,675
Exercise of stock options	—	36,500
Purchase of treasury stock	—	(44,866)
Balance, March 31, 2017	—	28,731,963
Balance, December 31, 2017	—	28,591,101
Issuance of preferred stock	40,250	—
Issuance of restricted common stock	—	359,613
Forfeitures of restricted common stock	—	(2,000)
Exercise of stock options	—	51,700
Purchase of treasury stock	—	(24,200)
Balance, March 31, 2018	40,250	28,976,214

Table of Contents

[8] 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 March 31, 2018 and December 31, 2017, TriState Capital Holdings, Inc. and TriState Capital Bank exceeded all capital adequacy requirements to which they were subjected.

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

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

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

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

	March 31, 2018				To be Well Capitalized Under Prompt Corrective Action Provisions	
	Actual		For Capital Adequacy Purposes		Amount	Ratio
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ratio						
Company	\$391,012	12.84 %	\$243,549	8.00 %	N/A	N/A
Bank	\$387,893	12.83 %	\$241,883	8.00 %	\$302,354	10.00 %
Tier 1 risk-based capital ratio						

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

Company	\$373,083	12.25 %	\$182,662	6.00 %	N/A	N/A
Bank	\$375,085	12.41 %	\$181,412	6.00 %	\$241,883	8.00 %
Common equity tier 1 risk-based capital ratio						
Company	\$337,727	11.09 %	\$136,996	4.50 %	N/A	N/A
Bank	\$375,085	12.41 %	\$136,059	4.50 %	\$196,530	6.50 %
Tier 1 leverage ratio						
Company	\$373,083	7.96 %	\$187,574	4.00 %	N/A	N/A
Bank	\$375,085	8.03 %	\$186,853	4.00 %	\$233,566	5.00 %

28

Table of Contents

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

[9] EARNINGS PER COMMON SHARE

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

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	2018	2017
Net income available to common shareholders	\$ 10,401	\$ 7,492
Weighted average common shares outstanding:		
Basic	27,594,697	27,285,627
Restricted stock - dilutive	642,789	551,025
Stock options - dilutive	473,626	539,196
Diluted	28,711,108	28,375,848
Earnings per common share:		
Basic	\$ 0.38	\$ 0.27
Diluted	\$ 0.36	\$ 0.26

Three Months Ended March 31, 2018 2017
 Anti-dilutive shares ⁽¹⁾ 34,188 5,000

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

[10] DERIVATIVES AND HEDGING ACTIVITY**RISK MANAGEMENT OBJECTIVE OF USING DERIVATIVES**

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

Table of Contents

FAIR VALUES OF DERIVATIVE INSTRUMENTS ON THE STATEMENTS OF FINANCIAL CONDITION

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

(Dollars in thousands)	Asset Derivatives as of March 31, 2018		Liability Derivatives as of March 31, 2018	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate products	Other assets	\$2,406	Other liabilities	\$—
Derivatives not designated as hedging instruments:				
Interest rate products	Other assets	16,838	Other liabilities	16,763
Total	Other assets	\$19,244	Other liabilities	\$16,763

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

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

Offsetting of Derivative Assets
March 31, 2018

(Dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Received	
Derivatives	\$19,244	\$—	—\$19,244	\$(2,248)	\$—	—\$16,996

Offsetting of Derivative Liabilities
March 31, 2018

(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Received	

	of Financial Position	in the Statement of Financial Position	Financial Instrument	Cash Collateral Posted	
Derivatives	\$16,763	\$	—\$ 16,763	\$(2,248) \$	—\$14,515

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 March 31, 2018, the Company had interest rate swaps with an aggregate notional amount of

Table of Contents

\$825,000 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 three months ended March 31, 2018 and 2017. There were no counterparty default losses on derivatives for the three months ended March 31, 2018 and 2017.

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

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

(Dollars in thousands)		Three Months Ended March 31, 2018 2017 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 income	\$ (9) \$ (15)
Interest rate products	Non-interest income	— 2
Total		\$ (9) \$ (13)

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. The Company has entered into derivative contracts to hedge the variable cash flows associated with certain FHLB borrowings. These interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company 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 three months ended March 31, 2018.

Characteristics of the Company’s interest rate derivative transactions designated as cash flow hedges of interest rate risk as of March 31, 2018 were as follows:

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

Interest rate products:

Issued 6/29/2016	\$ 100,000	\$ (1,553	)	6/29/2019	15
Issued 1/8/2018	50,000	(77	)	1/8/2021	33
Total	\$ 150,000	\$ (1,630)		

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

(Dollars in thousands)		Three Months Ended March 31,		Three Months Ended March 31,	
		2018	2017	2018	2017
Derivatives designated as hedging instruments:	Location of Gain (Loss) Recognized in Income on Derivative	Realized Gain (Loss) Recognized in Income on Derivative	Unrealized Gain (Loss) Recognized in Accumulated Other Comprehensive Income on Derivative	Realized Gain (Loss) Recognized in Income on Derivative	Unrealized Gain (Loss) Recognized in Accumulated Other Comprehensive Income on Derivative
Interest rate products	Interest expense	\$ 158	\$ 42	\$ 942	\$ 86
Total		\$ 158	\$ 42	\$ 942	\$ 86

Table of Contents

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 March 31, 2018, the Company had derivative transactions with an aggregate notional amount of \$1.54 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:

(Dollars in thousands)		Three Months Ended March 31, 2018	2017
Derivatives not designated as hedging instruments:	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
Interest rate products	Non-interest income	\$ 25	\$ (94)
Total		\$ 25	\$ (94)

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 March 31, 2018, the termination value of derivatives for which we had master netting arrangements with the counterparty and in a net liability position was \$6,000, including accrued interest. As of March 31, 2018, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of \$1.6 million. If the Company had breached any of these provisions as of March 31, 2018, it could have been required to settle its obligations under the agreements at their termination value.

[11] DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates of financial instruments are based on the present value of expected future cash flows, quoted market prices of similar financial instruments, if available, and other valuation techniques. These valuations are significantly affected by discount rates, cash flow assumptions and risk assumptions used. Therefore, fair value

estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realized in an immediate settlement of instruments. Accordingly, the aggregate fair value amounts presented below do not represent the underlying value of the Company.

FAIR VALUE MEASUREMENTS

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

Table of Contents

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 March 31, 2018 and December 31, 2017:

(Dollars in thousands)	March 31, 2018			Total Assets / Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Financial assets:				
Debt securities available-for-sale:				
Corporate bonds	\$81,986	\$	\$	-\$81,986
Trust preferred securities	—	18,532	—	18,532
Non-agency collateralized loan obligations	755	—	—	755
Agency collateralized mortgage obligations	38,214	—	—	38,214
Agency mortgage-backed securities	18,355	—	—	18,355
Agency debentures	3,759	—	—	3,759
Equity securities	8,602	—	—	8,602
Interest rate swaps	19,244	—	—	19,244
Total financial assets	8,680,845	—	—	189,447
Financial liabilities:				
Interest rate swaps	—	16,763	—	16,763
Total financial liabilities	\$16,763	\$	\$	-\$16,763

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

Interest rate swaps	—13,761	—	13,761
Total financial assets	8,653,611	—	161,246
Financial liabilities:			
Interest rate swaps	—12,078	—	12,078
Total financial liabilities	\$12,078	\$	—12,078

Table of Contents**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 March 31, 2018 and December 31, 2017:

(Dollars in thousands)	March 31, 2018		
			Total
	Level 1	Level 2	Level 3 Assets at Fair Value
Loans measured for impairment, net	\$—	-\$3,374	\$3,374
Other real estate owned	—	3,576	3,576
Total assets	\$—	-\$6,950	\$6,950

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

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

IMPAIRED LOANS

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

OTHER REAL ESTATE OWNED

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

Table of Contents

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 March 31, 2018 and December 31, 2017:

(Dollars in thousands)	March 31, 2018		Significant Unobservable Inputs	Weighted Average Discount Rate	
	Fair Value	Valuation Techniques ⁽¹⁾		Discount due to restructured nature of operations	Discount due to salability conditions
Loans measured for impairment, net\$	3,374	Discounted cash flow		6	%
Other real estate owned	\$ 3,576	Appraisal value		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.

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

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	March 31, 2018		December 31, 2017	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	1	\$145,033	\$145,033	\$156,153	\$156,153
Debt securities available-for-sale	2	161,601	161,601	138,850	138,850

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

Debt securities held-to-maturity	2	58,355	58,863	59,275	60,141
Equity securities	1	8,602	8,602	8,635	8,635
Federal Home Loan Bank stock	2	16,792	16,792	13,792	13,792
Loans held-for-investment, net	3	4,287,948	4,279,492	4,169,827	4,167,775
Accrued interest receivable	2	15,012	15,012	13,519	13,519
Investment management fees receivable, net	2	7,526	7,526	7,720	7,720
Bank owned life insurance	2	67,019	67,019	66,593	66,593
Other real estate owned	3	3,576	3,576	3,576	3,576
Interest rate swaps	2	19,244	19,244	13,761	13,761
Financial liabilities:					
Deposits	2	\$4,098,955	\$4,096,463	\$3,987,611	\$3,985,883
Borrowings, net	2	304,764	304,697	335,913	336,051
Interest rate swaps	2	16,763	16,763	12,078	12,078

During the three months ended March 31, 2018 and 2017, there were no transfers between fair value Levels 1, 2 or 3.

Table of Contents

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

CASH AND CASH EQUIVALENTS

The carrying amount approximates fair value.

INVESTMENT SECURITIES

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

FEDERAL HOME LOAN BANK STOCK

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

LOANS HELD-FOR-INVESTMENT

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

ACCRUED INTEREST RECEIVABLE

The carrying amount approximates fair value.

INVESTMENT MANAGEMENT FEES RECEIVABLE

The carrying amount approximates fair value.

BANK OWNED LIFE INSURANCE

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

OTHER REAL ESTATE OWNED

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

DEPOSITS

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

BORROWINGS

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

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.

Table of Contents

[12] 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 March 31,					
	2018			2017		
	Investment Securities	Derivatives	Total	Investment Securities	Derivatives	Total
Balance, beginning of period	\$172	\$ 1,074	\$1,246	\$(297)	\$ 1,127	\$830
Change in unrealized holding gains (losses)	(758)	)722	(36)	) 183	55	238
Losses (gains) reclassified from other comprehensive income	(4)	)(121	)(125	) 1	(27	)(26)
Reclassification for equity securities under ASU 2016-01 (see Note 1)	286	—	286	—	—	—
Reclassification for certain income tax effects under ASU 2018-02 (see Note 1)	39	235	274	—	—	—
Net other comprehensive income (loss)	(437)	)836	399	184	28	212
Balance, end of period	\$(265)	\$ 1,910	\$1,645	\$(113)	\$ 1,155	\$1,042

[13] 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.

[14] SEGMENTS

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

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

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

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

(Dollars in thousands)	March 31, 2018	December 31, 2017
Assets:		
Bank	\$20,136	\$ 4,691,760
Investment management	83,233	84,714
Parent	184	1,423
and		

other

Total
\$4,906,753 \$ 4,777,897
assets

37

Table of Contents

(Dollars in thousands)	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017				
	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Income statement data:								
Interest income	\$41,350	\$ —	\$66	\$ 41,416	\$28,661	\$ —	\$76	\$ 28,737
Interest expense	14,549	—	605	15,154	7,270	—	551	7,821
Net interest income (loss)	26,801	—	(539)	)26,262	21,391	—	(475)	)20,916
Provision for loan losses	195	—	—	195	243	—	—	243
Net interest income (loss) after provision for loan losses	26,606	—	(539)	)26,067	21,148	—	(475)	)20,673
Non-interest income:								
Investment management fees	—	8,963	(55)	)8,908	—	9,396	(56)	)9,340
Net gain (loss) on the sale and call of debt securities	5	—	—	5	(2)	—	—	(2)
Other non-interest income	2,176	—	—	2,176	2,070	1	—	2,071
Total non-interest income	2,181	8,963	(55)	)11,089	2,068	9,397	(56)	)11,409
Non-interest expense:								
Intangible amortization expense	—	461	—	461	—	463	—	463
Other non-interest expense	15,786	7,573	30	23,389	13,605	7,039	51	20,695
Total non-interest expense	15,786	8,034	30	23,850	13,605	7,502	51	21,158
Income (loss) before tax	13,001	929	(624)	)13,306	9,611	1,895	(582)	)10,924
Income tax expense (benefit)	2,854	227	(176)	)2,905	2,928	727	(223)	)3,432
Net income (loss)	\$10,147	\$ 702	\$(448)	\$ 10,401	\$6,683	\$ 1,168	\$(359)	\$ 7,492

[15] SUBSEQUENT EVENTS

On April 6, 2018, TriState Capital Holdings, Inc. closed its previously announced acquisition of investment management firm Columbia Partners, L.L.C., Investment Management (“Columbia Partners”). Considering the close proximity of the closing of this acquisition, the disclosures required under ASC Topic 805, Business Combinations, will be provided in the Company’s next quarterly filing.

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

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 months ended March 31, 2018. The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and related notes contained herein and our consolidated financial statements and notes thereto and Management's Discussion and Analysis for the fiscal year ended December 31, 2017, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 23, 2018.

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. Forward-looking statements are by their nature 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, including cyber-security related risks;
- Volatility and direction of market interest rates;
- Increased competition in the financial services industry, particularly from regional and national institutions;
- 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, cyber-attacks, an outbreak of hostilities or other international or domestic calamities, and other matters beyond our control; and
- Other factors that are discussed in the section entitled "Risk Factors," in our Annual Report on Form 10-K, filed with the SEC on February 23, 2018, which is accessible at 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 and trusts. The Bank segment generates most of its revenue from interest on loans and investments, loan related fees including swap fees, and liquidity and treasury management related fees. Its primary source of funding for loans is deposits. 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 common share and total revenue. Other salient metrics include the ratio of allowance for loan losses to loans; net interest margin; the efficiency ratio of the Bank segment; assets under management; adjusted EBITDA of the Investment Management segment; return on average assets; return on average equity; 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 and trusts on a national basis through our private banking channel. We market and distribute our products and services through a scalable, branchless banking model, which creates significant operating leverage throughout our business as we continue to grow. Through 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 \$8.34 billion as of March 31, 2018. Our broker/dealer subsidiary supports marketing efforts for Chartwell's proprietary investment products that require SEC or FINRA licensing. On April 6, 2018, the Company closed on its Columbia Partners investment management acquisition bringing Chartwell's assets under management to more than \$9 billion.

For the three months ended March 31, 2018, our net income was \$10.4 million compared to \$7.5 million for the same period in 2017, an increase of \$2.9 million. This increase was primarily due to the impact of (1) a \$5.3 million, or 25.6%, increase in our net interest income; and (2) a \$527,000 decrease in income taxes; offset by (3) an increase of \$2.7 million in our non-interest expense; and (4) a decrease in non-interest income of \$320,000.

Our diluted EPS was \$0.36 for the three months ended March 31, 2018, compared to \$0.26 for the same period in 2017. The increase is a result of our continued growth in earnings.

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

For the three months ended March 31, 2018, total revenue increased \$5.0 million, or 15.5%, to \$37.3 million from \$32.3 million for the same period in 2017, driven largely by higher net interest income for the Bank.

Our annualized net interest margin was 2.35% and 2.24% for the three months ended March 31, 2018 and 2017, respectively. The increase in net interest margin for the three months ended March 31, 2018, was driven by an increase in the yield on loans partially offset by an increase in the cost of funds.

Our annualized non-interest expense to average assets was 2.03% and 2.15% for the three months ended March 31, 2018 and 2017, respectively. The Bank's efficiency ratio was 54.48% and 57.99% for the three months ended March 31, 2018 and 2017, respectively.

Our annualized return on average assets was 0.89% and 0.76% for the three months ended March 31, 2018 and 2017, respectively. Our annualized return on average equity was 10.64% and 8.52% for the three months ended March 31, 2018 and 2017, respectively. Both of these ratios increased largely due to continued growth in earnings.

Table of Contents

Total assets of \$4.91 billion as of March 31, 2018, increased \$128.9 million, or 10.9% on an annualized basis, from December 31, 2017. Loans held-for-investment grew by \$118.5 million to \$4.30 billion as of March 31, 2018, an annualized increase of 11.5%, from December 31, 2017, as a result of growth in both our commercial and private banking loan portfolios. Total deposits increased \$111.3 million, or 11.3% on an annualized basis, to \$4.10 billion as of March 31, 2018, from December 31, 2017.

Adverse rated credits to total loans declined to 0.67% at March 31, 2018, from 0.71% at December 31, 2017. The allowance for loan losses to loans was 0.34% as of March 31, 2018 and December 31, 2017, reflecting lower non-performing loans and lower levels of provision required for private banking loans. The provision for loan losses was \$195,000 and \$243,000 for the three months ended March 31, 2018 and 2017, respectively.

Our book value per common share increased \$0.26 to \$13.87 as of March 31, 2018, from \$13.61 as of December 31, 2017, largely as a result of an increase in our net income, partially offset by the issuance of restricted stock during three months ended March 31, 2018.

Non-GAAP Financial Measures

The information set forth above contains certain financial information determined by methods other than in accordance with GAAP. These non-GAAP financial measures are “tangible common equity,” “tangible book value per common share,” “total revenue,” “efficiency ratio,” “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 common shareholders’ equity reduced by intangible assets, including goodwill. We believe this measure is important to management and investors to better understand and assess changes from period to period in common shareholders’ equity exclusive of changes in intangible assets. Intangible assets are created when we buy businesses which add relationships and revenue to our Company. Intangible assets have the effect of increasing both equity and assets, while not increasing our tangible equity or tangible assets.

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

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

“Efficiency ratio” is defined as non-interest expense, 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.

“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)	March 31, 2018	December 31, 2017
Tangible book value per common share:		
Common shareholders' equity	\$ 401,789	\$ 389,071
Less: intangible assets	64,897	65,358
Tangible common equity	\$ 336,892	\$ 323,713
Common shares outstanding	28,976,214	28,591,101
Tangible book value per common share	\$ 11.63	\$ 11.32

Table of Contents

(Dollars in thousands)	Three Months Ended	
	2018	2017
Total revenue:		
Net interest income	\$26,262	\$20,916
Total non-interest income	11,089	11,409
Less: net gain (loss) on the sale and call of debt securities	5	(2)
Total revenue	\$37,346	\$32,327
Efficiency ratio:		
Total non-interest expense	\$23,850	\$21,158
Less: intangible amortization expenses	461	463
Total non-interest expense, as adjusted (numerator)	\$23,389	\$20,695
Total revenue (denominator)	\$37,346	\$32,327
Efficiency ratio	62.63	%64.02 %

BANK SEGMENT

(Dollars in thousands)	Three Months Ended	
	2018	2017
Bank total revenue:		
Net interest income	\$26,801	\$21,391
Total non-interest income	2,181	2,068
Less: net gain (loss) on the sale and call of debt securities	5	(2)
Bank total revenue	\$28,977	\$23,461
Bank efficiency ratio:		
Total non-interest expense (numerator)	\$15,786	\$13,605
Total revenue (denominator)	\$28,977	\$23,461
Bank efficiency ratio	54.48	%57.99 %

INVESTMENT MANAGEMENT SEGMENT

(Dollars in thousands)	Three Months	
	2018	2017
Investment Management EBITDA:		
Net income	\$702	\$1,168
Interest expense	—	—
Income taxes expense	227	727
Depreciation expense	125	117
Intangible amortization expense	461	463
EBITDA	\$1,515	\$2,475

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 70.3% and 64.7% of total revenue for the three months ended March 31, 2018 and 2017, respectively.

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

(Dollars in thousands)	Three Months Ended		
	March 31,		
	2018	2017	
Interest income	\$41,416	\$28,737	
Fully taxable equivalent adjustment	29	61	
Interest income adjusted	41,445	28,798	
Less: interest expense	15,154	7,821	
Net interest income adjusted	\$26,291	\$20,977	
Yield on earning assets	3.70	%3.07	%
Cost of interest-bearing liabilities	1.51	%0.94	%
Net interest spread	2.19	%2.13	%
Net interest margin ⁽¹⁾	2.35	%2.24	%

⁽¹⁾ 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 March 31, 2018 and 2017. Non-accrual loans are included in the calculation of the average loan balances, while interest payments collected on non-accrual loans are recorded as a reduction to principal. Where applicable, interest income and yield are reflected on a fully taxable equivalent basis, and have been adjusted based on the statutory federal income tax rate of 21% for 2018 and 35% for 2017.

Table of Contents

(Dollars in thousands)	Three Months Ended March 31, 2018			2017		
	Average Balance	Interest Income (1)/ Expense	Average Yield/ Rate	Average Balance	Interest Income (1)/ Expense	Average Yield/ Rate
Assets						
Interest-earning deposits	\$ 150,121	\$ 579	1.56 %	\$ 114,709	\$ 238	0.84 %
Federal funds sold	7,042	26	1.50 %	6,427	11	0.69 %
Debt securities available-for-sale	142,323	958	2.73 %	159,675	778	1.98 %
Debt securities held-to-maturity	58,953	595	4.09 %	54,591	574	4.26 %
Equity securities	8,627	66	3.10 %	8,408	76	3.67 %
FHLB stock	14,195	194	5.54 %	12,376	102	3.34 %
Total loans	4,165,180	39,027	3.80 %	3,448,837	27,019	3.18 %
Total interest-earning assets	4,546,441	41,445	3.70 %	3,805,023	28,798	3.07 %
Other assets	208,679			185,357		
Total assets	\$4,755,120			\$3,990,380		
Liabilities and Shareholders' Equity						
Interest-bearing deposits:						
Interest-bearing checking accounts	\$464,247	\$1,621	1.42 %	\$217,704	\$362	0.67 %
Money market deposit accounts	2,281,606	8,113	1.44 %	1,916,428	4,098	0.87 %
Certificates of deposit	977,689	3,667	1.52 %	934,913	2,253	0.98 %
Borrowings:						
FHLB borrowings	310,000	1,147	1.50 %	270,222	554	0.83 %
Line of credit borrowings	5,373	52	3.92 %	—	—	— %
Subordinated notes payable, net	34,731	554	6.47 %	34,528	554	6.51 %
Total interest-bearing liabilities	4,073,646	15,154	1.51 %	3,373,795	7,821	0.94 %
Noninterest-bearing deposits	228,257			218,007		
Other liabilities	56,655			41,960		
Shareholders' equity	396,562			356,618		
Total liabilities and shareholders' equity	\$4,755,120			\$3,990,380		
Net interest income (1)		\$26,291			\$20,977	
Net interest spread			2.19 %			2.13 %
Net interest margin (1)			2.35 %			2.24 %

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

Net Interest Income for the Three Months Ended March 31, 2018 and 2017. Net interest income, calculated on a fully taxable equivalent basis, increased \$5.3 million, or 25.3%, to \$26.3 million for the three months ended March 31, 2018, from \$21.0 million for the same period in 2017. The increase in net interest income for the three months ended March 31, 2018, was primarily attributable to a \$741.4 million, or 19.5%, increase in average interest-earning assets driven primarily by loan growth. The increase in net interest income reflects an increase of \$12.6 million, or 43.9%, in interest income, partially offset by an increase of \$7.3 million, or 93.8%, in interest expense. Net interest margin was 2.35% for the three months ended March 31, 2018, compared to 2.24% for the same period in 2017.

The increase in interest income on interest-earning assets was primarily the result of an increase in average total loans of \$716.3 million, or 20.8%, which is our primary earning asset, and an increase of 62 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 63 basis points to 3.70% for the three months ended March 31, 2018, as compared to 3.07% for the same period in 2017, primarily from higher loan yields.

The increase in interest expense on interest-bearing liabilities was primarily the result of an increase of 57 basis points in the average rate paid on our interest-bearing liabilities for the three months ended March 31, 2018, as well as an increase of \$699.9 million, or 20.7%, in average interest-bearing liabilities, compared to the same period in 2017. 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

Table of Contents

an increase of \$365.2 million in average money market deposit accounts, an increase of \$246.5 million in average interest-bearing checking accounts, an increase of \$42.8 million in average certificates of deposit and an increase of \$39.8 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 three months ended March 31, 2018 compared to 2017. The effect of a change in balances is measured by applying the average rate during the first period to the balance (“volume”) change between the two periods. The effect of changes in rate is measured by applying the change in rate between the two periods to the average volume during the first period.

(Dollars in thousands)	Three Months Ended		
	March 31, 2018 over 2017		
	Yield/Rate	Volume	Change ⁽¹⁾
Increase (decrease) in:			
Interest income:			
Interest-earning deposits	\$251	\$90	\$ 341
Federal funds sold	14	1	15
Debt securities available-for-sale	272	(92)	180
Debt securities held-to-maturity	(24)	45	21
Equity securities	(12)	2	(10)
FHLB stock	75	17	92
Total loans	5,830	6,178	12,008
Total increase in interest income	6,406	6,241	12,647
Interest expense:			
Interest-bearing deposits:			
Interest-bearing checking accounts	620	639	1,259
Money market deposit accounts	3,119	896	4,015
Certificates of deposit	1,307	107	1,414
Borrowings:			
FHLB borrowings	501	92	593
Line of credit borrowings	—	52	52
Subordinated notes payable, net	(3)	3	—
Total increase in interest expense	5,544	1,789	7,333
Total increase in net interest income	\$862	\$4,452	\$ 5,314

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

Provision for Loan Losses

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

Provision for Loan Losses for the Three Months Ended March 31, 2018 and 2017. We recorded provision for loan losses of \$195,000 for the three months ended March 31, 2018, compared to provision of \$243,000 for the three months ended March 31, 2017. The provision for loan losses for the three months ended March 31, 2018, was comprised of a net increase in general reserves of \$431,000, partially offset by recoveries of \$206,000 and a decrease to specific reserves of \$30,000 on non-performing loans. The provision for loan losses for the three months ended March 31, 2017, was comprised of a net increase of \$215,000 of specific reserves on non-performing loans and a net increase in general reserves of \$97,000, partially offset by recoveries of \$69,000.

Non-Interest Income

Non-interest income is an important component of our revenue and it is comprised primarily of investment management fees from Chartwell coupled with fees generated from loan and deposit relationships 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

Table of Contents

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 March 31, 2018 and 2017:

(Dollars in thousands)	Three Months Ended March 31, 2018				Three Months Ended March 31, 2017			
	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Investment management fees	\$—	\$ 8,963	\$(55)	\$ 8,908	\$—	\$ 9,396	\$(56)	\$ 9,340
Service charges	134	—	—	134	94	—	—	94
Net gain (loss) on the sale and call of debt securities	5	—	—	5	(2)	—	—	(2)
Swap fees	1,248	—	—	1,248	1,099	—	—	1,099
Commitment and other fees	332	—	—	332	408	—	—	408
Other income ⁽¹⁾	462	—	—	462	469	1	—	470
Total non-interest income	\$2,181	\$ 8,963	\$(55)	\$ 11,089	\$2,068	\$ 9,397	\$(56)	\$ 11,409

⁽¹⁾ 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 March 31, 2018 and 2017. Our non-interest income was \$11.1 million for the three months ended March 31, 2018, a decrease of \$320,000, or 2.8%, from \$11.4 million for the same period in 2017, 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 \$149,000 for the three months ended March 31, 2018, as compared to the same period in 2017, driven by increases in customer demand for long-term interest rate protection. The level and frequency of income associated with swap transactions can vary materially from period to period, based on customers' expectations of market conditions and term loan originations.

Investment Management Segment:

Investment management fees decreased \$433,000 for the three months ended March 31, 2018, as compared to the same period in 2017, which reflected a high proportion of gross inflows into lower average fee rate products, particularly fixed income, relative to outflows from higher fee products and market depreciation in higher fee equity products. Assets under management of \$8.34 billion as of March 31, 2018, increased \$152.0 million from March 31, 2017.

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 March 31, 2018 and 2017:

(Dollars in thousands)	Three Months Ended March 31, 2018				Three Months Ended March 31, 2017			
	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Compensation and employee benefits	\$9,899	\$ 6,333	\$(764)	\$ 15,468	\$8,493	\$ 5,450	\$(50)	\$ 13,893
Premises and occupancy costs	1,009	285	(4)	1,290	961	305	—	1,266
Professional fees	770	423	(98)	1,095	705	164	(18)	851
FDIC insurance expense	1,146	—	—	1,146	953	—	—	953
General insurance expense	179	68	—	247	198	103	—	301
State capital shares tax	427	—	—	427	352	—	—	352
Travel and entertainment expense	465	282	(101)	646	409	206	—	615
Intangible amortization expense	—	461	—	461	—	463	—	463
Other operating expenses ⁽¹⁾	1,891	182	997	3,070	1,534	811	119	2,464
Total non-interest expense	\$ 15,786	\$ 8,034	\$ 30	\$ 23,850	\$ 13,605	\$ 7,502	\$ 51	\$ 21,158
Full-time equivalent employees ⁽²⁾	169	63	—	232	162	66	—	228

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

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

⁽²⁾ Full-time equivalent employees shown are as of the end of the period presented.

Non-Interest Expense for the Three Months Ended March 31, 2018 and 2017. Our non-interest expense for the three months ended March 31, 2018, increased \$2.7 million, or 12.7%, as compared to the same period in 2017, of which \$2.2 million relates to the increase in expenses of the Bank segment and \$532,000 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 March 31, 2018, increased by \$1.4 million, compared to the same period in 2017, primarily due to an increase in the number of full-time equivalent employees, increases in the overall annual wage and benefits costs of our existing employees, and increases in incentive and stock-based compensation expenses.

FDIC insurance expense for the three months ended March 31, 2018, increased by \$193,000, compared to the same period in 2017, due to the increase in the Bank's assets.

- Other operating expenses for the three months ended March 31, 2018, increased by \$357,000 compared to the same period in 2017, primarily related to higher data processing expenses.

Investment Management Segment:

Chartwell's compensation and employee benefits costs for the three months ended March 31, 2018, increased by \$883,000, compared to the same period in 2017, primarily due to increases in the overall annual wage and benefits costs of our existing employees, and increases in stock-based compensation expenses.

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 March 31, 2018 and 2017. For the three months ended March 31, 2018, we recognized income tax expense of \$2.9 million, or 21.8% of income before tax, as compared to income tax expense of \$3.4 million, or 31.4% of income

Table of Contents

before tax, for the same period in 2017. Our effective tax rate of 21.8% for the three months ended March 31, 2018, decreased as compared to the prior year largely due to the decrease in the federal income tax rate from 35% to 21% from recent tax legislation.

Financial Condition

Our total assets as of March 31, 2018, were \$4.91 billion, which was an increase of \$128.9 million, or 10.9% on an annualized basis, from December 31, 2017, driven primarily by growth in our loan portfolio. As of March 31, 2018, our loan portfolio of \$4.30 billion, increased \$118.5 million, or 11.5% annualized, from December 31, 2017. Total investment securities increased \$24.8 million, or 45.6% annualized, to \$245.4 million, as of March 31, 2018, from December 31, 2017, primarily as a result of the net activity of purchases, calls, and sales of certain securities. Cash and cash equivalents decreased \$11.1 million, to \$145.0 million, as of March 31, 2018, from December 31, 2017. As of March 31, 2018, our total deposits of \$4.10 billion increased \$111.3 million, or 11.3% annualized, from December 31, 2017. Net borrowings decreased \$31.1 million, to \$304.8 million, as of March 31, 2018, from December 31, 2017. Our shareholders' equity increased \$51.2 million to \$440.2 million as of March 31, 2018, from December 31, 2017. This increase was primarily the result of the issuance of \$38.4 million in preferred stock, \$10.4 million in net income and the impact of \$2.0 million in stock-based compensation.

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 March 31, 2018, 91.2% of our loans had a floating rate.

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

	March 31, 2018		December 31, 2017	
	Percent		Percent	
(Dollars in thousands)	Outstandingof		Outstandingof	
	Loans		Loans	
Private banking loans	\$2,342,024	54.4 %	\$2,265,737	54.1 %
Middle-market banking loans:				
Commercial and industrial	683,417	15.9 %	667,684	16.0 %
Commercial real estate	1,277,325	29.7 %	1,250,823	29.9 %
Total middle-market banking loans	1,960,742	45.6 %	1,918,507	45.9 %
Loans held-for-investment	\$4,302,766	100.0 %	\$4,184,244	100.0 %

Loans Held-for-Investment. Loans held-for-investment increased by \$118.5 million, or 11.5% on an annualized basis, to \$4.30 billion as of March 31, 2018, as compared to December 31, 2017. Our growth for the three months ended March 31, 2018, was comprised of an increase in private banking loans of \$76.3 million, an increase in commercial and industrial loans of \$15.7 million, and an increase in commercial real estate loans of \$26.5 million.

Primary Loan Categories

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

As of March 31, 2018, there were \$2.22 billion, or 94.9%, of private banking loans that were secured by cash, marketable securities or cash value life insurance as compared to \$2.14 billion, or 94.6%, as of December 31, 2017. Our private banking lines of credit are typically due on demand. The growth in these loans is expected to continue as a result of our focus on this portion of our private banking business as we believe we have strong competitive advantages in this line of business. These loans tend to have a lower risk profile and are an efficient use of capital because they typically are zero percent risk-weighted for regulatory capital purposes. On a daily basis, we monitor the collateral of the loans secured by cash, marketable securities or cash value life insurance, which further reduces the risk profile of the private banking portfolio. Since inception, we have had no charge-offs related to our loans secured by cash, marketable securities or cash value life insurance.

Table of Contents

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

(Dollars in thousands)	March 31, 2018	December 31, 2017
Private banking loans:		
Secured by cash, marketable securities or cash value life insurance	\$2,223,158	\$2,142,384
Secured by real estate	91,772	93,169
Other	27,094	30,184
Total private banking loans	\$2,342,024	\$2,265,737

Middle-Market Banking - Commercial and Industrial Loans. Our commercial and industrial loan portfolio primarily includes loans made to service companies or manufacturers generally for the purposes of financing production, operating capacity, accounts receivable, inventory, equipment, acquisitions and recapitalizations. Cash flow from the borrower's operations is the primary source of repayment for these loans, except for certain commercial loans that are secured by marketable securities.

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 March 31, 2018, there were \$1.11 billion of total commercial real estate loans with a floating interest rate and \$167.3 million with a fixed interest rate, as compared to \$1.07 billion and \$178.1 million, respectively, as of December 31, 2017.

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)	March 31, 2018				Total
	One Year or Less ⁽¹⁾	One to Five Years	Greater Than Five Years		
Loan maturity:					
Private banking	\$2,208,070	\$69,594	\$64,360		\$2,342,024
Commercial and industrial	155,674	392,675	135,068		683,417
Commercial real estate	265,957	529,582	481,786		1,277,325
Loans held-for-investment	\$2,629,701	\$991,851	\$681,214		\$4,302,766
Interest rate sensitivity:					
Fixed interest rates	\$133,563	\$116,147	\$128,285		\$377,995
Floating or adjustable interest rates	2,496,138	875,704	552,929		3,924,771
Loans held-for-investment	\$2,629,701	\$991,851	\$681,214		\$4,302,766

- (1) The loans outstanding reflected in the One Year or Less category in the table above include \$2.17 billion of loans that are due on demand with no stated maturity.

Interest Reserve Loans

As of March 31, 2018, loans with interest reserves totaled \$200.5 million, which represented 4.7% of loans held-for-investment, as compared to \$205.1 million, or 4.9%, as of December 31, 2017. Certain loans reserve a portion of the proceeds to be used to pay interest due on the loan. These loans with interest reserves are common for construction and land development loans. The use of interest reserves is based on the feasibility of the project, the creditworthiness of the borrower and guarantors, and the loan to value coverage of the collateral. The interest reserve may be used by the borrower, when certain financial conditions are met, to draw loan funds to pay interest charges on the outstanding balance of the loan. When drawn, the interest is capitalized and added to the loan balance, subject to conditions specified during the initial underwriting and at the time the credit is approved. We have procedures and controls for monitoring compliance

Table of Contents

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.

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 quarterly.

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

(Dollars in thousands)	March 31, December 31,	
	2018	2017
General reserves	\$12,341	\$ 11,910
Specific reserves	2,477	2,507
Total allowance for loan losses	\$14,818	\$ 14,417
Allowance for loan losses to loans	0.34	%0.34

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

Table of Contents

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

(Dollars in thousands)	March 31, 2018		December 31, 2017	
	Percent		Percent	
	Reserve of	Loans	Reserve of	Loans
Private banking	\$1,556	54.4 %	\$1,577	54.1 %
Commercial and industrial	8,466	15.9 %	8,043	16.0 %
Commercial real estate	4,796	29.7 %	4,797	29.9 %
Total allowance for loan losses	\$14,818	100.0 %	\$14,417	100.0 %

Allowance for Loan Losses as of March 31, 2018 and December 31, 2017. Our allowance for loan losses increased to \$14.8 million, or 0.34% of loans, as of March 31, 2018, as compared to \$14.4 million, or 0.34% of loans, as of December 31, 2017. Our allowance for loan losses related to private banking loans decreased \$21,000 from December 31, 2017 to March 31, 2018, which was attributable to lower specific reserves related to paydowns on non-performing loans partially offset by growth in this portfolio. Our allowance for loan losses related to commercial and industrial loans increased \$423,000 from December 31, 2017 to March 31, 2018, which was attributable to increases in general reserves. Our allowance for loan losses related to commercial real estate loans decreased by \$1,000 from December 31, 2017 to March 31, 2018, primarily due to the overall strong credit quality of this portfolio 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	
	March 31, 2018	March 31, 2017
Beginning balance	\$14,417	\$18,762
Charge-offs:		
Private banking	—	—
Commercial and industrial	—	(2,889)
Commercial real estate	—	—
Total charge-offs	—	(2,889)
Recoveries:		
Private banking	—	—
Commercial and industrial	206	69
Commercial real estate	—	—

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

Total recoveries	206	69	
Net recoveries (charge-offs)	206	(2,820)	
Provision for loan losses	195	243	
Ending balance	\$14,818	\$16,185	
Net loan charge-offs (recoveries) to average total loans, annualized	(0.02)	%0.33	%
Provision for loan losses to average total loans, annualized	0.02	%0.03	%

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 March 31, 2018 and December 31, 2017, and there was no interest income recognized on loans while on non-accrual status for the three months ended March 31, 2018 and 2017. As of March 31, 2018, non-performing loans were \$2.5 million, or 0.06% of total loans, compared to \$3.2 million, or 0.08%, as of December 31, 2017. We had specific reserves of \$2.5 million and \$2.5 million as of March 31, 2018 and December 31, 2017, respectively, on these non-performing loans. The net loan balance of our non-performing loans was 0.0% and 18.4% of the customer's outstanding balance after payments, charge-offs and specific reserves as of March 31, 2018 and December 31, 2017, respectively.

For additional information on our non-performing loans as of March 31, 2018 and December 31, 2017, 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/or sold to repay the original loan. Historically, foreclosure trends in our loan portfolio have been low due to the seasoning of our portfolio. Any loans that are modified or extended are reviewed for potential classification as a TDR loan. For borrowers that are experiencing financial difficulty, we complete a process that outlines the terms of the modification, the reasons for the proposed modification and documents the current status of the borrower.

We had non-performing assets of \$6.1 million, or 0.12% of total assets, as of March 31, 2018, as compared to \$6.8 million, or 0.14% of total assets, as of December 31, 2017. The decrease in non-performing assets was due to \$706,000 in paydowns on non-performing loans during the three months ended March 31, 2018. This decrease was considered within the assessment of the determination of the allowance for loan losses. As of March 31, 2018 and December 31, 2017, we had OREO properties totaling \$3.6 million and \$3.6 million, respectively.

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

(Dollars in thousands)	March 31, December 31,		
	2018	2017	
Non-performing loans:			
Private banking	\$ 338	\$ 368	
Commercial and industrial	2,139	2,815	
Commercial real estate	—	—	
Total non-performing loans	\$ 2,477	\$ 3,183	
Other real estate owned	3,576	3,576	
Total non-performing assets	\$ 6,053	\$ 6,759	
Non-performing troubled debt restructured loans	\$ 2,477	\$ 3,183	
Performing troubled debt restructured loans	\$ 3,374	\$ 3,371	
Non-performing loans to total loans	0.06	% 0.08	%
Allowance for loan losses to non-performing loans	598.22	% 452.94	%
Non-performing assets to total assets	0.12	% 0.14	%

Potential Problem Loans

Potential problem loans are those loans that are not categorized as non-performing loans, but where current information indicates that the borrower may not be able to comply with repayment terms. Among other factors, we monitor 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 March 31, 2018 and December 31, 2017, refer to Note 4, Allowance for Loan Losses, to our unaudited condensed consolidated financial statements.

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

Table of Contents

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 March 31, 2018 and December 31, 2017, 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 debt securities, held-to-maturity debt securities, equity securities and from time to time, debt securities held for trading purposes. Also included in our investment securities is Federal Home Loan Bank Stock. For additional information on FHLB stock, refer to Note 2, Investment Securities, to our unaudited condensed consolidated financial statements. Debt securities purchased with the intent to sell under trading activity and equity securities are recorded at fair value and changes to fair value are recognized in the consolidated statements of income. Debt securities categorized as available-for-sale are recorded at fair value and changes in the fair value of these securities are recognized as a component of total shareholders' equity, within accumulated other comprehensive income (loss), net of deferred taxes. Debt securities categorized as held-to-maturity are securities that the Company intends to hold until maturity and are recorded at amortized cost.

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

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

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

Our available-for-sale debt securities portfolio consists of U.S. government agency obligations, mortgage-backed securities, collateralized loan obligations, corporate bonds, single-issuer trust preferred securities, all with varying contractual maturities. Our held-to-maturity debt securities consists of certain municipal bonds, agency obligations and corporate bonds while our trading portfolio, when active, typically consists of U.S. Treasury Notes, also with varying contractual maturities. However, these maturities do not necessarily represent the expected life of the securities as the securities may be called or paid down without penalty prior to their stated maturities. The effective duration of our securities portfolio as of March 31, 2018, was approximately 1.7, where duration is defined as the approximate percentage change in price for a 100 basis point change in rates. No investment in any of these securities exceeds any applicable limitation imposed by law or regulation. Our Asset/Liability Management Committee (“ALCO”) reviews the investment portfolio on an ongoing basis to ensure that the investments conform to our investment policy.

Available-for-Sale Debt Securities. We held \$161.6 million and \$138.9 million in debt securities available-for-sale as of March 31, 2018 and December 31, 2017, respectively. The increase of \$22.8 million was primarily attributable to purchases of \$29.0 million, net of repayments, including calls and maturities, of \$3.1 million and sales of \$2.0 million of certain securities during the three months ended March 31, 2018.

Table of Contents

On a fair value basis, 44.2% of our available-for-sale debt securities as of March 31, 2018, were floating-rate securities, for which yields increase or decrease based on changes in market interest rates. As of December 31, 2017, floating-rate securities comprised 52.2% of our available-for-sale debt securities.

On a fair value basis, 37.3% of our available-for-sale debt securities as of March 31, 2018, 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. As of December 31, 2017, agency securities comprised 41.6% of our available-for-sale debt securities.

Held-to-Maturity Debt Securities. We held \$58.4 million and \$59.3 million in debt securities held-to-maturity as of March 31, 2018 and December 31, 2017, respectively. The decrease of \$920,000 was primarily attributable to calls of \$895,000 of certain securities during the three months ended March 31, 2018. As part of our asset and liability management strategy, we determined that we have the intent and ability to hold these bonds until maturity, and these securities were reported at amortized cost, as of March 31, 2018 and December 31, 2017.

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

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

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

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

Table of Contents

(Dollars in thousands)	December 31, 2017			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Debt securities available-for-sale:				
Corporate bonds	\$61,616	\$ 216	\$ 143	\$61,689
Trust preferred securities	17,840	741	—	18,581
Non-agency collateralized loan obligations	811	—	6	805
Agency collateralized mortgage obligations	38,873	25	76	38,822
Agency mortgage-backed securities	19,007	96	150	18,953
Total debt securities available-for-sale	138,147	1,078	375	138,850
Debt securities held-to-maturity:				
Corporate bonds	32,189	785	33	32,941
Agency debentures	1,984	3	—	1,987
Municipal bonds	25,102	122	11	25,213
Total debt securities held-to-maturity	59,275	910	44	60,141
Total debt securities	\$197,422	\$ 1,988	\$ 419	\$198,991

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.

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 March 31, 2018. 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)	March 31, 2018									
	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
Debt securities available-for-sale:										
Corporate bonds	\$16,115	2.11%	\$44,287	2.76%	\$21,584	4.91%	\$—	—%	\$81,986	3.20%
Trust preferred securities	—	—%	—	—%	9,475	3.63%	9,057	3.99%	18,532	3.80%
Non-agency collateralized loan obligations	—	—%	—	—%	—	—%	755	4.13%	755	4.13%
Agency collateralized mortgage obligations	—	—%	819	1.66%	—	—%	37,395	2.04%	38,214	2.04%
Agency mortgage-backed securities	—	—%	—	—%	—	—%	18,355	1.89%	18,355	1.89%
Agency debentures	—	—%	—	—%	—	—%	3,759	2.97%	3,759	2.97%
Total debt securities available-for-sale	16,115		45,106		31,059		69,321		161,601	
Weighted average yield		2.11%		2.74%		4.53%		2.32%		2.84%
Debt securities held-to-maturity:										
Corporate bonds	5,079	6.38%	—	—%	27,776	5.33%	—	—%	32,855	5.49%
Agency debentures	—	—%	—	—%	1,956	2.83%	—	—%	1,956	2.83%
Municipal bonds	1,002	1.65%	13,369	2.31%	9,681	2.66%	—	—%	24,052	2.42%
Total debt securities held-to-maturity	6,081		13,369		39,413		—		58,863	
Weighted average yield		5.59%		2.31%		4.53%		—%		4.13%
Total debt securities	\$22,196		\$58,475		\$70,472		\$69,321		\$220,464	
Weighted average yield		3.05%		2.64%		4.53%		2.32%		3.18%

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.

Assets Under Management

Our total assets under management of \$8.34 billion increased \$35.0 million, or 0.4%, as of March 31, 2018, from \$8.31 billion as of December 31, 2017.

The following table shows the changes of our assets under management by investment style for the three months ended March 31, 2018.

(Dollars in thousands)	Three Months Ended March 31, 2018				
	Beginning Balance	Inflows ⁽¹⁾	Outflows ⁽²⁾	Market Appreciation (Depreciation)	Ending Balance
Equity investment styles	\$3,511,000	\$92,000	\$(79,000)	\$(49,000)	\$3,475,000
Fixed income investment styles	3,049,000	240,000	(101,000)	(8,000)	3,180,000
Balanced investment styles	1,749,000	79,000	(136,000)	(3,000)	1,689,000

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

Total assets under management \$8,309,000\$411,000\$(316,000)\$ (60,000) \$8,344,000

(1) Inflows consist of new business as well as contributions from existing accounts.

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

Table of Contents

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 March 31, 2018, we consider approximately 88% of our total deposits to be relationship-based deposits. Some of our relationship-based deposits, including reciprocal certificates of deposit placed through CDARS® and reciprocal demand deposits placed through ICS®, have been classified for some regulatory purposes as brokered deposits, while for other regulatory purposes they are not classified as brokered deposits. As of March 31, 2018, the Bank had CDARS® and ICS® reciprocal deposits totaling \$497.0 million and other brokered deposits of \$473.3 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.

The table below depicts average balances of and rates paid on our deposit portfolio broken out by deposit type, for the three months ended March 31, 2018 and 2017.

	Three Months Ended March 31,			
	2018		2017	
(Dollars in thousands)	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
Interest-bearing checking accounts	\$464,247	1.42 %	\$217,704	0.67 %
Money market deposit accounts	2,281,606	1.44 %	1,916,428	0.87 %
Certificates of deposit	977,689	1.52 %	934,913	0.98 %
Total average interest-bearing deposits	3,723,542	1.46 %	3,069,045	0.89 %
Noninterest-bearing deposits	228,257	—	218,007	—
Total average deposits	\$3,951,799	1.38 %	\$3,287,052	0.83 %

Average Deposits for the Three Months Ended March 31, 2018 and 2017. For the three months ended March 31, 2018, our average total deposits were \$3.95 billion, representing an increase of \$664.7 million, or 20.2%, from the same period in 2017. The average deposit growth was driven by increases in all deposit categories. Our average cost of interest-bearing deposits increased 57 basis points to 1.46% for the three months ended March 31, 2018, from 0.89% for the same period in 2017, as average rates paid were higher in all interest-bearing deposit categories. Average money market deposits decreased to 61.3% of total average interest-bearing deposits, for the three months ended March 31, 2018, from 62.4% for the same period in 2017. Average certificates of deposit decreased to 26.2% of total average interest-bearing deposits for the three months ended March 31, 2018, compared to 30.5% for the same period in 2017. Average interest-bearing checking accounts increased to 12.5% of total average interest-bearing deposits for the three months ended March 31, 2018, compared to 7.1% for the same period in 2017. Average

noninterest-bearing deposits increased \$10.3 million, or 4.7%, in the three months ended March 31, 2018, from the three months ended March 31, 2017, and the average cost of total deposits increased 55 basis points to 1.38% for the three months ended March 31, 2018, from 0.83% for the same period in 2017.

Certificates of Deposit

Maturities of certificates of deposit of \$100,000 or more outstanding are summarized below, as of March 31, 2018.

(Dollars in thousands)	March 31, 2018
Months to maturity:	
Three months or less	\$ 368,598
Over three to six months	163,885
Over six to 12 months	113,081
Over 12 months	146,569
Total	\$ 792,133

Table of Contents

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 March 31, 2018 and December 31, 2017.

(Dollars in thousands)	March 31, 2018					December 31, 2017				
	Amount	Interest Rate	Maximum Balance at Any Month End	Average Balance During the Period	Original Term	Amount	Interest Rate	Maximum Balance at Any Month End	Average Balance During the Period	Original Term
Daily FHLB borrowings	\$ 120,000	1.90%	\$ 185,000	\$ 163,889	1-4 days	\$ 195,000	1.57%	\$ 370,000	\$ 195,315	1-4 days
Term FHLB borrowings:										
Issued 12/29/2016	—	—%	—	—		—	0.85%	100,000	23,836	3 months
Issued 3/29/2017	—	—%	—	—		—	1.07%	100,000	25,205	3 months
Issued 6/29/2017	—	—%	—	—		—	1.32%	100,000	25,205	3 months
Issued 9/29/2017	—	—%	—	—		—	1.33%	100,000	24,932	3 months
Issued 12/29/2017	—	1.66%	100,000	96,667	3 months	100,000	1.66%	100,000	822	3 months
Issued 1/8/2018	50,000	1.69%	50,000	3,333	3 months	—	—%	—	—	
Issued 3/29/2018	100,000	2.04%	100,000	46,111	3 months	—	—%	—	—	
Line of credit borrowings	—	—%	6,200	5,373	12 months	6,200	4.56%	6,200	2,214	12 months
Subordinated notes payable	35,000	5.75%	35,000	35,000	5 years	35,000	5.75%	35,000	35,000	5 years
Total borrowings outstanding	\$ 305,000	2.35%	\$ 476,200	\$ 350,373		\$ 336,200	2.09%	\$ 911,200	\$ 332,529	

In June 2016, the Company entered into a three-year cash flow hedge derivative transaction to establish the interest rate paid on \$100.0 million of the FHLB borrowings at an effective rate of 0.83% plus the difference between the 3-month FHLB advance rate and 3-month LIBOR. In January 2018, the Company entered into a three-year cash flow hedge derivative transaction to establish the interest rate paid on \$50.0 million of the FHLB borrowings at an effective rate of 2.21% plus the difference between the 3-month FHLB advance rate and 3-month LIBOR. For additional information on the cash flow hedge, refer to Note 10, 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 March 31, 2018, 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, availability on our line of credit, and the net proceeds from the issuance of our debt or equity securities. As of March 31, 2018, our primary liquidity needs at the parent company level were the semi-annual interest payments on the subordinated notes payable, the dividend

on our preferred stock, 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 three months ended March 31, 2018, the parent company paid \$575,000 related to share repurchase programs and \$1.1 million related to interest payments on the subordinated notes and other borrowings. During the three months ended March 31, 2017, the parent company paid \$1.0 million related to interest payments on the subordinated notes and \$1.0 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 March 31, 2018. In addition, the holding company maintains an unsecured line of credit of \$25.0 million with Texas Capital Bank, of which the full amount was available as of March 31, 2018.

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

Table of Contents

policy designed to achieve and maintain earnings performance consistent with long-term goals while maintaining acceptable levels of interest rate risk, well capitalized regulatory status and adequate levels of liquidity. The ALCO has also established a contingency funding plan to address liquidity crisis conditions. The ALCO is designated as the body responsible for the monitoring and implementation of these policies. The ALCO, which includes members of executive management, reviews liquidity on a frequent basis and approves significant changes in strategies that affect balance sheet or cash flow positions.

Our principal sources of asset liquidity are cash, interest-earning deposits with other banks, federal funds sold, unpledged debt securities available-for-sale and equity securities, loan repayments (scheduled and unscheduled) and future earnings. Liability liquidity sources include a stable deposit base, the ability to renew maturing certificates of deposit, borrowing availability at the FHLB of Pittsburgh, unsecured lines with other financial institutions, access to reciprocal CDARS[®] and ICS[®] deposits and other brokered deposits, and the ability to raise debt and equity. Customer deposits are an important source of liquidity. This 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 83.5% and 83.5% as of March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018, we had available liquidity of \$816.4 million, or 16.6% of total assets. These sources consisted of liquid assets (cash and cash equivalents, and unpledged investment securities), totaling \$247.1 million, or 5.0% of total assets, coupled with secondary sources of liquidity (the ability to borrow from the FHLB and correspondent bank lines) totaling \$569.3 million, or 11.6% 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)	March 31, December 31,	
	2018	2017
Available cash	\$ 80,668	\$ 91,060
Unpledged debt securities available-for-sale and equity securities	166,413	143,499
Net borrowing capacity	569,284	535,907
Total liquidity	\$ 816,365	\$ 770,466

For the three months ended March 31, 2018, we generated \$14.9 million of cash from operating activities, compared to cash generated of \$1.3 million for the same period in 2017. This change in cash flow was primarily the result of an increase in net income of \$2.9 million for the three months ended March 31, 2018, a federal income tax refund of \$10.0 million and changes in working capital items largely related to timing.

Investing activities resulted in a net cash outflow of \$144.5 million, for the three months ended March 31, 2018, as compared to a net cash outflow of \$133.2 million for the same period in 2017. The outflows for the three months ended March 31, 2018, were primarily due to net loan growth of \$121.6 million and purchases of investment securities

totaling \$29.0 million, partially offset by the proceeds, principal repayments and maturities from investment securities totaling \$6.0 million. The outflows for the three months ended March 31, 2017, included net loan growth of \$145.7 million and purchases of investment securities totaling \$12.7 million, partially offset by the proceeds, principal repayments and maturities from investment securities totaling \$22.5 million.

Financing activities resulted in a net inflow of \$118.5 million for the three months ended March 31, 2018, compared to a net inflow of \$140.4 million for the same period in 2017. The inflows for the three months ended March 31, 2018, were primarily a result of a net increase in deposits of \$111.3 million, net proceeds from the issuance of preferred stock of \$38.4 million, and a net decrease in FHLB borrowings of \$25.0 million, compared to a \$31.1 million net increase in deposits and a net increase in FHLB borrowings of \$110.0 million for the three months ended March 31, 2017.

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.

Table of Contents

Capital Resources

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

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 \$440.2 million as of March 31, 2018, compared to \$389.1 million as of December 31, 2017. The \$51.2 million increase during the three months ended March 31, 2018, was primarily attributable to the issuance of \$38.4 million in preferred stock, net income of \$10.4 million, the impact of \$2.0 million in stock-based compensation and \$521,000 in exercises of stock options, partially offset by a decrease of \$161,000 in accumulated other comprehensive income (loss) and the purchase of \$575,000 in treasury stock.

In March 2018, the Company completed the issuance and sale of an underwritten public offering of 1,400,000 depository shares, each representing a 1/40th interest in a share of its 6.75% Fixed-to-Floating Rate Series A Non-Cumulative Perpetual Preferred Stock, no par value (the "Series A Preferred Stock"), with a liquidation preference of \$1,000 per share (equivalent to \$25 per depository share). In addition, the Company granted the underwriters an option to purchase additional depository shares of 210,000 which has been exercised. The shares were offered pursuant to the Company's Registration Statement on Form S-3. The Company received net proceeds of \$38.4 million from the sale of 40,250 shares of its Series A Preferred Stock (equivalent to 1,610,000 depository shares), after deducting underwriting discounts, commissions and direct offering expenses. The preferred stock provides Tier 1 capital for the holding company, under federal regulatory capital rules.

When, as, and if declared by the board of directors of the Company, dividends will be payable on the Series A Preferred Stock from the date of issuance to, but excluding April 1, 2023 at a rate of 6.75% per annum, payable quarterly, in arrears, and from and including April 1, 2023, dividends will accrue and be payable at a floating rate equal to three-month LIBOR plus a spread of 398.5 basis points per annum, payable quarterly, in arrears. The Company may redeem the Series A Preferred Stock at its option, subject to regulatory approval, on or after April 1, 2023, as described in the prospectus supplement relating to the offering filed with the SEC on March 19, 2018, pursuant to rule 424(b)(2).

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

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

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

Table of Contents

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

		March 31, 2018					
		Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)		Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ratio							
Company		\$391,012	12.84 %	\$243,549	8.00 %	N/A	N/A
Bank		\$387,893	12.83 %	\$241,883	8.00 %	\$302,354	10.00 %
Tier 1 risk-based capital ratio							
Company		\$373,083	12.25 %	\$182,662	6.00 %	N/A	N/A
Bank		\$375,085	12.41 %	\$181,412	6.00 %	\$241,883	8.00 %
Common equity tier 1 risk-based capital ratio							
Company		\$337,727	11.09 %	\$136,996	4.50 %	N/A	N/A
Bank		\$375,085	12.41 %	\$136,059	4.50 %	\$196,530	6.50 %
Tier 1 leverage ratio							
Company		\$373,083	7.96 %	\$187,574	4.00 %	N/A	N/A
Bank		\$375,085	8.03 %	\$186,853	4.00 %	\$233,566	5.00 %

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

Table of Contents

Contractual Obligations and Commitments

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

(Dollars in thousands)	March 31, 2018					Total
	One Year or Less	One to Three Years	Three to Five Years	Greater Than Five Years		
Transaction deposits	\$3,096,988	\$65,500	\$—	\$—		\$3,162,488
Certificates of deposit	735,110	201,357	—	—		936,467
Borrowings outstanding	270,000	35,000	—	—		305,000
Interest payments on certificates of deposit and borrowings	11,905	5,409	—	—		17,314
Operating leases	2,567	4,867	1,943	761		10,138
Commitments for low income housing and historic tax credits	8,492	10,805	423	56		19,776
Commitments for small business investment companies	4,595	—	—	—		4,595
Preferred dividends declared	762	—	—	—		762
Columbia Partners acquisition ⁽¹⁾	1,335	—	—	—		1,335
Total contractual obligations	\$4,131,754	\$322,938	\$2,366	\$ 817		\$4,457,875

⁽¹⁾ On January 24, 2018, the Company entered into a definitive asset purchase agreement to acquire Columbia Partners which closed on April 6, 2018.

Off-Balance Sheet Arrangements

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

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

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

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

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

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

March 31, 2018

(Dollars in thousands)	One Year or Less ⁽¹⁾	One to Three Years	Three to Five Years	Greater Than Five Years	Total
Unused loan commitments	\$2,216,306	\$175,138	\$75,496	\$76,987	\$2,543,927
Standby letters of credit	55,975	14,988	4,018	4,102	79,083
Total off-balance sheet arrangements	\$2,272,281	\$190,126	\$79,514	\$81,089	\$2,623,010

The off-balance sheet amounts reflected in the One Year or Less category in the table above include \$2.03 billion ⁽¹⁾ in unused loan commitments and \$3.2 million in standby letters of credit that are due on demand with no stated maturity.

Market Risk

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices. Our primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact the level of both income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing

Table of Contents

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.

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

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

We utilize an asset/liability model to measure and manage interest rate risk. The specific measurement tools used by management on at least a quarterly basis include net interest income 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 of value. 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.

	March 31, 2018		December 31, 2017	
	Amount Change	Percent Change	Amount Change	Percent Change
(Dollars in thousands)	from Base Case	from Base Case	from Base Case	from Base Case
Net interest income:				
+300	\$27,188	24.19 %	\$24,558	23.27 %
+200	\$18,153	16.15 %	\$16,380	15.52 %
+100	\$9,053	8.06 %	\$8,166	7.74 %
-100	\$(9,737)	(8.66) %	\$(8,928)	(8.46) %

Economic value of equity:

+300	\$3,976	0.91	%	\$(971)	)(0.25)%
+200	\$3,521	0.81	%	\$43	0.01 %
+100	\$1,854	0.43	%	\$55	0.01 %
-100	\$(2,261)	(0.52)	%	\$(391)	)(0.10)%

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

Table of Contents

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

March 31, 2018

(Dollars in thousands)	Less Than 90 Days	91 to 180 Days	181 to 365 Days	One to Three Years	Three to Five Years	Greater Than Five Years	Non-Sensitive	Total Balance
Assets:								
Interest-earning deposits	\$ 140,171	\$—	\$—	\$—	\$—	\$—	\$—	\$ 140,171
Federal funds sold	4,481	—	—	—	—	—	—	4,481
Total investment securities	90,993	11,485	28,060	70,730	23,217	22,012	(1,147)	245,350
Total loans	3,965,062	47,954	90,647	116,917	59,839	18,514	3,833	4,302,766
Other assets	—	—	—	—	—	—	213,985	213,985
Total assets	\$ 4,200,707	\$ 59,439	\$ 118,707	\$ 187,647	\$ 83,056	\$ 40,526	\$ 216,671	\$ 4,906,753
Liabilities:								
Transaction deposits	\$ 2,696,949	\$—	\$ 139,087	\$ 65,500	\$—	\$—	\$ 260,952	\$ 3,162,488
Certificates of deposit	429,981	190,489	114,640	201,357	—	—	—	936,467
Borrowings, net	120,000	—	—	185,000	—	—	(236)	304,764
Other liabilities	—	—	—	—	—	—	62,805	62,805
Total liabilities	3,246,930	190,489	253,727	451,857	—	—	323,521	4,466,524
Equity	—	—	—	—	—	—	440,229	440,229
Total liabilities and equity	\$ 3,246,930	\$ 190,489	\$ 253,727	\$ 451,857	\$—	\$—	\$ 763,750	\$ 4,906,753
Interest rate sensitivity gap	\$ 953,777	\$ (131,050)	\$ (135,020)	\$ (264,210)	\$ 83,056	\$ 40,526	\$ (547,079)	
Cumulative interest rate sensitivity gap	\$ 953,777	\$ 822,727	\$ 687,707	\$ 423,497	\$ 506,553	\$ 547,079		
Cumulative interest rate sensitive assets to rate sensitive liabilities	129.4	% 123.9	% 118.6	% 110.2	% 112.2	% 113.2	% 109.9	%
Cumulative gap to total assets	19.4	% 16.8	% 14.0	% 8.6	% 10.3	% 11.1	%	

The cumulative twelve-month ratio of interest rate sensitive assets to interest rate sensitive liabilities increased to 118.6% as of March 31, 2018, from 113.7% as of December 31, 2017.

In June 2016, the Company entered into a cash flow hedge derivative transaction to fix the interest rate on \$100.0 million of the Company's borrowings for a period of three years. In January 2018, the Company entered into a cash

flow hedge derivative transaction to fix the interest rate on \$50.0 million of the Company's borrowings for a period of three years. These transactions have the effect on our gap analysis of moving \$150.0 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 10, 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 March 31, 2018. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the 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 March 31, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2018, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time the Company is a party to various litigation matters incidental to the conduct of its business. During the three months ended March 31, 2018, 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, 2017, 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 March 31, 2018:

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

	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*
January 1, 2018 - January 31, 2018	—	\$ —	—	\$ 5,000,000
February 1, 2018 - February 28, 2018	13,000	23.17	13,000	4,698,786
March 1, 2018 - March 31, 2018	11,200	24.49	11,200	4,424,545
Total	24,200	\$ 23.78	24,200	\$ 4,424,545

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

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 March 31, 2018, formatted in XBRL: (i) the Unaudited Condensed Consolidated Statements of Financial Condition, (ii) the Unaudited Condensed Consolidated Statements of Income, (iii) the Unaudited Condensed Consolidated Statements of Comprehensive Income, (iv) the Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity, (v) the Unaudited Condensed Consolidated Statements of Cash Flows and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements.*

* This information is deemed furnished, not filed.

Table of Contents

SIGNATURES

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

TRISTATE CAPITAL HOLDINGS, INC.

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

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

Date: May 7, 2018