

TriState Capital Holdings, Inc.  
Form 10-Q  
November 07, 2013  
Table of Contents

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

FORM 10-Q

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

For the period ended September 30, 2013

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  
(State or other jurisdiction of incorporation or  
organization)

20-4929029  
(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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

As of October 31, 2013, there were 28,690,279 shares of the registrant's common stock, no par value, outstanding.

---

Table of Contents

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARY

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>8</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>35</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>68</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>68</u>

PART II – OTHER INFORMATION

<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>68</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>68</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>68</u>
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>68</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>68</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>68</u>
<u>ITEM 6. EXHIBITS</u>	<u>69</u>
<u>SIGNATURES</u>	<u>70</u>
<u>EXHIBIT INDEX</u>	<u>71</u>

---

Table of Contents

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARY  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands, except share data)	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
Cash	\$ 889	\$ 999
Interest-earning deposits with other institutions	135,340	192,055
Federal funds sold	3,612	7,026
Cash and cash equivalents	139,841	200,080
Investment securities available-for-sale, at fair value (cost: \$216,277 and \$188,586, respectively)	214,113	191,187
Investment securities held-to-maturity, at cost (fair value: \$24,687 and \$0, respectively)	25,293	—
Total investment securities	239,406	191,187
Loans held-for-investment	1,766,504	1,641,628
Allowance for loan losses	(18,281)	(17,874)
Loans receivable, net	1,748,223	1,623,754
Accrued interest receivable	5,708	5,340
Federal Home Loan Bank stock	2,336	2,426
Office properties and equipment, net	4,230	4,317
Prepaid FDIC insurance expense	—	7,843
Bank owned life insurance	41,559	20,886
Deferred tax asset	8,654	6,841
Prepaid expenses and other assets	10,940	10,455
Total assets	\$2,200,897	\$2,073,129
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Deposits	\$1,878,694	\$1,823,379
Borrowings	20,000	20,000
Accrued interest payable on deposits and borrowings	568	809
Other accrued expenses and other liabilities	12,569	11,217
Total liabilities	1,911,831	1,855,405
<b>Shareholders' Equity:</b>		
Preferred stock, 150,000 shares authorized:		
Series C, no par value; 0 shares authorized, issued and outstanding, and 48,780 shares authorized, issued and outstanding, respectively	—	46,011
Common stock, no par value; 45,000,000 shares authorized; 28,690,279 shares issued and outstanding, and 17,444,730 shares issued and outstanding, respectively	280,531	168,351
Additional paid-in capital	8,308	7,871
Retained earnings (accumulated deficit)	1,877	(6,180)

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

Accumulated other comprehensive income (loss), net	(1,650	) 1,671
Total shareholders' equity	289,066	217,724
Total liabilities and shareholders' equity	\$2,200,897	\$2,073,129

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2013	2012	2013	2012
<b>Interest income:</b>				
Loans	\$17,252	\$17,197	\$50,807	\$49,728
Investments	1,002	812	2,709	2,293
Interest-earning deposits	130	137	450	406
Total interest income	18,384	18,146	53,966	52,427
<b>Interest expense:</b>				
Deposits	2,591	3,325	8,502	10,360
Borrowings	21	2	64	2
Total interest expense	2,612	3,327	8,566	10,362
Net interest income before provision for loan losses	15,772	14,819	45,400	42,065
Provision for loan losses	4,911	1,537	7,714	5,161
Net interest income after provision for loan losses	10,861	13,282	37,686	36,904
<b>Non-interest income</b>				
Service charges	120	123	356	322
Net gain on the sale of investment securities available-for-sale	—	99	784	1,114
Swap fees	163	61	538	774
Commitment and other fees	506	881	1,561	2,103
Other income	329	381	971	766
Total non-interest income	1,118	1,545	4,210	5,079
<b>Non-interest expense</b>				
Compensation and employee benefits	5,904	6,333	18,446	17,911
Premises and occupancy costs	777	758	2,331	2,059
Professional fees	678	811	2,073	2,184
FDIC insurance expense	375	343	1,062	1,032
State capital shares tax	368	321	1,025	945
Travel and entertainment expense	447	282	1,106	881
Data processing expense	203	190	582	622
Other operating expenses	1,264	956	2,979	2,374
Total non-interest expense	10,016	9,994	29,604	28,008
Income before tax	\$1,963	\$4,833	\$12,292	\$13,975
Income tax expense	633	1,881	4,235	5,259
Net income	\$1,330	\$2,952	\$8,057	\$8,716
Preferred stock dividends and discount amortization on Series A and B	—	760	—	1,525
Net income available to common shareholders	\$1,330	\$2,192	\$8,057	\$7,191
<b>Earnings per common share:</b>				
Basic	\$0.05	\$0.11	\$0.31	\$0.39

Diluted	\$0.05	\$0.11	\$0.31	\$0.39
---------	--------	--------	--------	--------

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Dollars in thousands)	Three Months Ended September		Nine Months Ended September 30,	
	30, 2013	2012	2013	2012
Net income	\$1,330	\$2,952	\$8,057	\$8,716
Other comprehensive income (loss):				
Increase (decrease) in unrealized holding gains (losses) net of tax of \$182, (\$668), \$1,567 and (\$1,251), respectively	(328	) 1,057	(2,817	) 2,183
Reclassification adjustment for gains included in net income, net of tax of \$0, \$35, — \$280 and \$398, respectively		(64	) (504	) (716
Other comprehensive income (loss)	\$(328	) \$993	\$(3,321	) \$1,467
Total comprehensive income	\$1,002	\$3,945	\$4,736	\$10,183

See accompanying notes to unaudited condensed consolidated financial statements.



Table of Contents

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARY  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands)	Preferred Stock (Series A and B)	Preferred Stock (Series C)	Common Stock	Additional Paid-in-Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss), net	Total Shareholders' Equity
Balance, December 31, 2011	\$23,708	\$—	\$168,351	\$ 6,982	\$(15,327)	\$738	\$184,452
Net income	—	—	—	—	8,716	—	8,716
Other comprehensive income	—	—	—	—	—	1,467	1,467
Issuance of preferred stock (net of offering costs of \$3,989)	—	46,011	—	—	—	—	46,011
Retirement of preferred stock	(24,150)	—	—	—	—	—	(24,150)
Preferred stock dividend	—	—	—	—	(1,083)	—	(1,083)
Amortization of discount on preferred stock, series A	592	—	—	—	(592)	—	—
Accretion of premium on preferred stock, series B	(150)	—	—	—	150	—	—
Stock-based compensation expense	—	—	—	677	—	—	677
Balance, September 30, 2012	\$—	\$46,011	\$168,351	\$ 7,659	\$(8,136)	\$2,205	\$216,090
Balance, December 31, 2012	\$—	\$46,011	\$168,351	\$ 7,871	\$(6,180)	\$1,671	\$217,724
Net income	—	—	—	—	8,057	—	8,057
Other comprehensive loss	—	—	—	—	—	(3,321)	(3,321)
Issuance of common stock (net of offering costs and discounts of \$7,093)	—	—	65,990	—	—	—	65,990
Conversion of preferred stock to common stock	—	(46,011)	46,011	—	—	—	—
Exercise of stock options	—	—	179	(54)	—	—	125
Stock-based compensation expense	—	—	—	491	—	—	491
Balance, September 30, 2013	\$—	\$—	\$280,531	\$ 8,308	\$1,877	\$(1,650)	\$289,066

See accompanying notes to unaudited condensed consolidated financial statements.

6

---

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

(Dollars in thousands)	Nine Months Ended September 30,	
	2013	2012
Cash Flows from Operating Activities:		
Net income	\$8,057	\$8,716
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	780	631
Provision for loan losses	7,714	5,161
Net decrease in prepaid FDIC insurance expense	7,843	949
Compensation expense related to stock options and restricted stock	491	677
Net gain on the sale of investment securities available-for-sale	(784)	(1,114)
Income from investment securities trading	(120)	(458)
Purchase of investment securities trading	(77,244)	(84,290)
Proceeds from the sale of investment securities trading	77,378	84,749
Net amortization of premiums and discounts	1,697	1,549
Increase in accrued interest receivable	(368)	(1,388)
Decrease in accrued interest payable	(241)	(395)
Bank owned life insurance income	(673)	(352)
Decrease in income taxes payable	(106)	(1,614)
Increase in prepaid income taxes	(3,193)	—
Deferred tax benefit	—	(152)
Other, net	4,202	3,983
Net cash provided by operating activities	25,433	16,652
Cash Flows from Investing Activities:		
Purchase of investment securities available-for-sale	(150,318)	(65,883)
Purchase of investment securities held-to-maturity	(5,000)	—
Proceeds from the sale of investment securities available-for-sale	58,038	19,748
Principal repayments and maturities of investment securities available-for-sale	42,965	15,541
Purchase of bank owned life insurance	(20,000)	(10,000)
Net redemption (purchase) of Federal Home Loan Bank stock	90	(1,076)
Net increase in loans held-for-investment	(93,877)	(213,612)
Purchase of loans held-for-investment	(41,146)	—
Proceeds from loan sales	2,839	2,557
Additions to office properties and equipment	(693)	(917)
Net cash used in investing activities	(207,102)	(253,642)
Cash Flows from Financing Activities:		
Net increase in deposit accounts	55,315	132,762
Increase in FHLB advances	—	25,000
Net proceeds from issuance of preferred stock	—	46,011
Net proceeds from issuance of common stock	65,990	—
Net proceeds from exercise of stock options	125	—
Retirement of preferred stock	—	(24,150)
Dividends paid on preferred stock	—	(1,083)
Net cash provided by financing activities	121,430	178,540
Net change in cash and cash equivalents during the period	(60,239)	(58,450)
Cash and cash equivalents at beginning of the period	200,080	235,464
Cash and cash equivalents at end of the period	\$139,841	\$177,014

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:

Interest	\$8,807	\$10,757
Income taxes	\$7,495	\$6,199
Non-cash activity:		
Loan foreclosures and repossessions	\$—	\$322
Transfer of investment securities available-for-sale to held-to-maturity	\$20,335	\$—
Conversion of preferred stock to common stock	\$46,011	\$—

See accompanying notes to unaudited condensed consolidated financial statements.

7

---

Table of Contents

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

[1] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATION

TriState Capital Holdings, Inc. (the “Company”) is a registered bank holding company pursuant to the Bank Holding Company Act of 1956, as amended. The Company’s only significant asset is the stock of its wholly-owned subsidiary, TriState Capital Bank (the “Bank”), a Pennsylvania-chartered state bank. The Bank was established to serve the needs of middle-market businesses and high-net-worth individuals.

Regulatory approval was received and the Bank commenced operations on January 22, 2007. The Company and the Bank are subject to regulatory examination by the Federal Deposit Insurance Corporation (“FDIC”), the Pennsylvania Department of Banking and Securities, and the Federal Reserve.

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; Princeton, New Jersey; and New York, New York.

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 worse 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 and income taxes, which are discussed later in this section.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank, after elimination of inter-company accounts and transactions. The accounts of the Bank, in turn, include its wholly-owned subsidiary, Meadowood Asset Management, LLC, after elimination of inter-company accounts and transactions. The unaudited consolidated financial statements of the Company presented herein have been prepared pursuant to rules of the Securities and Exchange Commission for quarterly reports on form 10-Q and do not include all of the information and note disclosures required by GAAP for a full year presentation. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures, considered necessary for the fair presentation of the accompanying consolidated financial statements, have been included. Interim results are not necessarily reflective of the results of the entire year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2012, included in the Company's Registration Statement on Form S-1.

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 which 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 reported at amortized cost; (2) trading securities – debt and certain equity 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; or (3) available-for-sale debt and certain equity securities not classified as either held-to-maturity or trading securities and reported at fair value, with changes in fair value reported as a component of accumulated other comprehensive income (loss).

The cost of securities sold is determined on a specific identification basis. Amortization of premiums and accretion of discounts are recorded as interest income from investments over the 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 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. Impaired debt securities are determined to be other-than-temporarily impaired ("OTTI") if the Company concludes as of the balance sheet date that it has the intent to sell, or believes it will more likely than not be required to sell, an impaired debt security before a recovery of its amortized cost basis. Credit losses on OTTI debt

## Table of Contents

securities are recorded through earnings, regardless of the intent or the requirement to sell. Credit loss is measured as the difference between the present value of an impaired debt security's expected cash flows and its amortized cost basis. Non-credit related OTTI charges are recorded as decreases to accumulated other comprehensive income, in the statement of comprehensive income as well as the shareholders' equity section of our balance sheet, on an after-tax basis, as long as the Company has no intent or expected requirement to sell the impaired debt security before a recovery of its amortized cost basis.

### LOANS

Loans are stated at unpaid principal balances, net of deferred loan fees and costs. 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 income over the 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. Once a loan is deemed to be a TDR, the Company considers whether the loan should be placed in non-accrual status. In assessing accrual status, the Company considers the likelihood that repayment and performance according to modified terms will be achieved, as well as the borrower's historical payment performance. A loan is classified and reported as TDR until such loan is either paid-off or sold.

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 unpaid accrued 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 and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total 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.

### OTHER REAL ESTATE OWNED

Real estate, other than bank premises, is recorded at the lower of cost or fair value less estimated selling costs at the time of acquisition. Fair value is determined based on an independent appraisal. Expenses related to holding the property are charged against earnings in the current period. Depreciation is not recorded on the other real estate owned ("OREO") properties.

### ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established through provisions for loan losses that are charged to operations. Loans are charged 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.

The allowance is appropriate, in management's judgment, to cover probable losses inherent in the loan portfolio as of September 30, 2013. 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 components of the allowance for loan losses represent estimates based upon Accounting Standards Codification ("ASC") Topic 450, Contingencies, and ASC Topic 310, Receivables. ASC Topic 450 applies to homogeneous loan pools such as consumer installment, residential mortgages and consumer lines of credit, as well as commercial loans that are not individually evaluated for impairment under ASC Topic 310. ASC Topic 310 is applied to commercial loans that are individually evaluated for impairment.

Under ASC Topic 310, a loan is impaired, based upon current information and events, in management's opinion, when it is probable that the loan will not be repaid according to its original contractual terms, including both principal and interest.



## Table of Contents

Management performs individual assessments of impaired loans to determine the existence of loss exposure and, where applicable, based upon the fair value of the collateral less estimated selling costs where a loan is collateral dependent.

In estimating probable loan loss under ASC Topic 450 and the required general reserve, management considers numerous factors, including historical charge-off rates 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, as well as the results of internal loan reviews. Finally, management considers the impact of changes in current local and regional economic conditions in the markets that we serve. Assessment of relevant economic factors indicates that some of the Company's primary markets historically tend to lag the national economy, with local economies in our primary market areas also improving or weakening, as the case may be, but at a more measured rate than the national trends.

Management bases the computation of the allowance for loan losses under ASC Topic 450 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. Management has developed a methodology that is applied to each of the three primary loan portfolios, consisting of commercial and industrial, commercial real estate and private banking-personal loans. 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 may impact 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 which drives the secondary factor. There are nine (9) 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. The impact of each risk factor 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.

Loan participations follow the same underwriting and risk rating criteria, and are individually risk rated under the same process as loans directly originated by the Company. The ongoing credit review of the loan participation portfolio follows the same process that is followed by loans originated directly by the Company. Additionally, management does not rely on information from the lead bank when considering the appropriate level of allowance for loan losses to be recorded on any individual loan participation.

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.

### 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. Cash and stock dividends are reported as income from investment securities, in the Consolidated Statements of Income.

### 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 which extend the useful life are capitalized and depreciated to operating 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 executive officers and employees, with a pre-retirement death benefit structure, 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 or expense in the Consolidated Statements of Operations.

## Table of Contents

### DEPOSITS

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

### EARNINGS PER SHARE

We compute earnings per common share (“EPS”) in accordance with the two-class method, which requires that the Series C convertible preferred stock be treated as participating securities in the computation of EPS. The two-class method is an earnings allocation that determines EPS for each class of common stock and participating security. The Company’s basic EPS is computed by dividing net income allocable to common shareholders by the weighted average number of its common shares outstanding for the period. The Company’s diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in our earnings.

### 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 bases 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 and, therefore, recorded. 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. It is the Company’s policy to recognize interest and penalties, if any, related to unrecognized tax benefits, in income tax expense in the consolidated statement of income.

### 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.

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

### STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation awards based on estimated fair values, for all share-based awards, including stock options and restricted stock, made to employees and directors.

The Company accounts for stock-based employee compensation in accordance with the fair value recognition provisions of ASC 718, Compensation – Stock Compensation. As a result, compensation cost for all share-based payments is based on the grant-date fair value estimated in accordance with ASC 718. The value of the portion of the award that is ultimately expected to vest is included in stock-based employee compensation cost in the consolidated statement of income and recorded as a component of Additional Paid-In Capital, for equity-based awards. Compensation expense for options with graded vesting schedules is recognized on a straight-line basis over the requisite service period for the entire option grant.

Table of Contents

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

RECENT ACCOUNTING DEVELOPMENTS

In August 2013, the FASB issued Accounting Standards Update No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." This ASU requires an entity to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss (NOL) carryforward, or similar tax loss or tax credit carryforward, rather than as a liability when (1) the uncertain tax position would reduce the NOL or other carryforward under the tax law of the applicable jurisdiction and (2) the entity intends to use the deferred tax asset for that purpose. The ASU does not require new recurring disclosures. It is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013 and December 15, 2014, for public and nonpublic entities, respectively. Early adoption and retrospective application are permitted. The adoption of ASU 2013-11 is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In July 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-10, "Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes." This ASU permits the use of the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate), in addition to the U.S. government rate (UST) and London Interbank Offered Rate (LIBOR), as a U.S. benchmark interest rate for hedge accounting purposes under ASC Topic 815, Derivatives and Hedging. This ASU has no new transition or recurring disclosures. All entities may apply the ASU prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of ASU 2013-10 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In February 2013, the FASB issued Accounting Standards Update No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU 2013-02 clarifies the requirements for the reporting of reclassifications out of accumulated other comprehensive income. For items reclassified out of accumulated other comprehensive income and into net income in their entirety, companies must disclose the effect of the reclassification on each affected statement of income line item. For all other reclassifications, companies must cross reference to other required U.S. GAAP disclosures. This standards update is effective for the first interim period beginning on or after December 15, 2012. The adoption of ASU 2013-02 did not materially impact the Company's financial statements given that the only reclassifications out of other comprehensive income for the nine months ended September 30, 2013, relate to sales of available-for-sale investment securities, where gains/losses are recognized in non-interest income.

In January 2013, the FASB issued ASU No. 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities," in order to clarify the scope of ASU 2011-11, "Disclosures About Offsetting Assets and Liabilities," issued in December 2011. ASU 2011-11 required entities to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This ASU was issued to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under International Financial Reporting Standards, or IFRS. ASU 2013-01 clarified that ASU 2011-11 applies to derivatives, sale and repurchase agreements and reverse sale of repurchase agreements, and securities borrowing and securities lending arrangements,

but does not apply to standard commercial contracts allowing either party to net in the event of default or to broker-dealer unsettled regular-way trades. Both ASU's are effective for public companies retrospectively for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of ASU 2013-02 and 2011-11 impacted only our disclosures and did not have an impact on our results of operations or financial position.

In July 2012, the FASB issued ASU No. 2012-02, "Testing Indefinite-Lived Assets for Impairment," which reduces the cost and complexity of performing an impairment test for indefinite-lived asset categories by simplifying how an entity performs the testing of those assets. Similar to the amendments to goodwill impairment testing issued in September 2011, an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. If an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. The provisions of ASU 2012-02 are effective for annual and interim goodwill impairment tests performed for

Table of Contents

fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of ASU 2012-02 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities," which provides enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. This includes the effect or potential effect of rights of offset associated with an entity's recognized assets and recognized liabilities within the scope of this update. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. This pronouncement is effective for the Company retrospectively beginning January 1, 2013, and the adoption of this pronouncement did not have a material impact on the Company's financial statements.

## RECLASSIFICATION

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

## [2] INVESTMENT SECURITIES

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

	September 30, 2013			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Investment securities available-for-sale:				
Corporate bonds	\$56,962	\$97	\$676	\$56,383
Trust preferred securities	17,284	—	1,373	15,911
Non-agency mortgage-backed securities	7,742	29	21	7,750
Agency collateralized mortgage obligations	85,868	875	672	86,071
Agency mortgage-backed securities	48,421	283	706	47,998
Total investment securities available-for-sale	\$216,277	\$1,284	\$3,448	\$214,113
Investment securities held-to-maturity:				
Corporate bonds	\$5,000	\$130	\$—	\$5,130
Municipal bonds	20,293	—	736	19,557
Total investment securities held-to-maturity	\$25,293	\$130	\$736	\$24,687
Total	\$241,570	\$1,414	\$4,184	\$238,800
	December 31, 2012			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Investment securities available-for-sale:				
Corporate bonds	\$54,206	\$417	\$720	\$53,903
Municipal bonds	19,858	286	26	20,118
Non-agency mortgage-backed securities	7,748	574	—	8,322
Agency collateralized mortgage obligations	54,432	1,436	—	55,868
Agency mortgage-backed securities	52,342	634	—	52,976
Total investment securities available-for-sale	\$188,586	\$3,347	\$746	\$191,187





Table of Contents

As of September 30, 2013, investment securities held-to-maturity include municipal bonds reclassified from available-for-sale to held-to-maturity, in the second quarter of 2013, as well as a new security purchased in the third quarter of 2013.

As of September 30, 2013, the contractual maturities of the debt securities are:

(Dollars in thousands)	September 30, 2013			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$—	\$—	\$—	\$—
Due from one to five years	50,053	49,867	6,030	6,142
Due from five to ten years	9,344	9,005	7,226	7,022
Due after ten years	156,880	155,241	12,037	11,523
Total	\$216,277	\$214,113	\$25,293	\$24,687

Included in the \$155.2 million fair value of investment securities available-for-sale with a contractual maturity due after ten years as of September 30, 2013, are \$104.9 million or 67.6% in floating rate securities.

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

Proceeds from the sale of investment securities available-for-sale during the three months ended September 30, 2013 and 2012, were \$0 and \$3.1 million, respectively. Gross gains of \$0 and \$0.1 million were realized on these sales and reclassified out of accumulated other comprehensive income during the three months ended September 30, 2013 and 2012, respectively. There were no realized losses, during the three months ended September 30, 2013 and 2012, on investment securities available-for-sale.

Proceeds from the sale of investment securities available-for-sale during the nine months ended September 30, 2013 and 2012, were \$58.0 million and \$19.7 million, respectively. Gross gains of \$0.8 million and \$1.1 million were realized on these sales and reclassified out of accumulated other comprehensive income during the nine months ended September 30, 2013 and 2012, respectively. There were no realized losses, during the nine months ended September 30, 2013 and 2012, on investment securities available-for-sale.

Investment securities available-for-sale of \$29.2 million, as of September 30, 2013, are available as collateral for borrowings at the FHLB.

The following tables show the fair value and gross unrealized losses on investment securities available-for-sale and held-to-maturity, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position as of September 30, 2013 and December 31, 2012, respectively:

(Dollars in thousands)	September 30, 2013					
	Less than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Investment securities available-for-sale:						
Corporate bonds	\$32,233	\$412	\$2,936	\$264	\$35,169	\$676
Trust preferred securities	15,911	1,373	—	—	15,911	1,373
Non-agency mortgage-backed securities	4,360	21	—	—	4,360	21
Agency collateralized mortgage obligations	55,706	672	—	—	55,706	672
Agency mortgage-backed securities	22,903	706	—	—	22,903	706
Total investment securities available-for-sale	\$131,113	\$3,184	\$2,936	\$264	\$134,049	\$3,448

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

Investment securities held-to-maturity:

Municipal bonds	19,557	736	—	—	19,557	736
Total investment securities held-to-maturity	\$19,557	\$736	\$—	\$—	\$19,557	\$736
Total temporarily impaired securities	\$150,670	\$3,920	\$2,936	\$264	\$153,606	\$4,184

14

---

Table of Contents

(Dollars in thousands)	December 31, 2012					
	Less than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Investment securities available-for-sale:						
Corporate bonds	\$2,513	\$720	\$—	\$—	\$2,513	\$720
Municipal bonds	4,653	26	—	—	4,653	26
Non-agency mortgage-backed securities	—	—	—	—	—	—
Agency collateralized mortgage obligations	—	—	—	—	—	—
Agency mortgage-backed securities	—	—	—	—	—	—
Total temporarily impaired securities	\$7,166	\$746	\$—	\$—	\$7,166	\$746

The change in the fair values of our municipal bonds and fixed rate agency mortgage-backed securities are primarily the result of interest rate fluctuations. To assess for impairment on municipal bonds, corporate bonds, trust preferred securities and non-agency mortgage-backed securities, management reviews the underlying issuer, related credit rating and underlying financial performance through a review of publicly available financial statements. The Company does not intend to sell and it is not likely that it will be required to sell any of the securities, referenced in the table above, in an unrealized loss position before recovery of their amortized cost. Based on this, the Company considers all of the unrealized losses to be temporary impairment losses. Within the available-for-sale portfolio, there were 37 positions, aggregating to \$3.4 million, that were temporarily impaired as of September 30, 2013, and four positions, aggregating to \$0.7 million, that were temporarily impaired as of December 31, 2012. Within the held-to-maturity portfolio, there were 24 positions, aggregating to \$0.7 million, that were temporarily impaired as of September 30, 2013.

There were no investment securities classified as trading securities outstanding as of September 30, 2013 and December 31, 2012.

Proceeds from the sale of investment securities trading, comprised of U.S. Treasury Notes, during the three months ended September 30, 2013 and 2012, were \$28.3 million and \$39.9 million, respectively. Income on investment securities trading during the three months ended September 30, 2013 was \$4,000, compared to \$0.2 million during the three months ended September 30, 2012.

Proceeds from the sale of investment securities trading, comprised of U.S. Treasury Notes, during the nine months ended September 30, 2013 and 2012, were \$77.4 million and \$84.7 million, respectively. Income on investment securities trading during the nine months ended September 30, 2013 and 2012 was \$0.1 million and \$0.5 million, respectively.

**[3] LOANS RECEIVABLE, NET**

Loans receivable is comprised of the following:

(Dollars in thousands)	September 30, 2013			
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Loans held-for-investment, before deferred fees	\$882,459	\$521,606	\$ 367,387	\$1,771,452
Less: net deferred loan (fees) costs	(3,914)	(1,396)	) 362	(4,948 )
Loans held-for-investment, net of deferred fees	\$878,545	\$520,210	\$ 367,749	\$1,766,504
Less: allowance for loan losses	(12,949)	(4,476)	) (856)	) (18,281 )
Loans receivable, net	\$865,596	\$515,734	\$ 366,893	\$1,748,223



Table of Contents

(Dollars in thousands)	December 31, 2012			Total
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	
Loans held-for-investment, before deferred fees	\$876,443	\$474,679	\$ 296,224	\$1,647,346
Less: net deferred loan (fees) costs	(4,450)	)(1,471	)203	(5,718 )
Loans held-for-investment, net of deferred fees	\$871,993	\$473,208	\$ 296,427	\$1,641,628
Less: allowance for loan losses	(11,319)	)(5,252	)(1,303	)(17,874 )
Loans receivable, net	\$860,674	\$467,956	\$ 295,124	\$1,623,754

The Company's customers have unused loan commitments. 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 letters of credit, as of September 30, 2013 and December 31, 2012, was \$725.8 million and \$613.5 million, respectively. The interest rate for each commitment is based on the prevailing market conditions at the time of funding. The lending commitment maturities as of September 30, 2013, are as follows: \$328.5 million in one year or less; \$160.9 million in one to three years; and \$236.5 million in greater than three years. The reserve for losses on unfunded commitments was \$0.5 million and \$0.4 million, as of September 30, 2013 and December 31, 2012, respectively, which includes reserves for probable losses on unfunded loan commitments, including letters of credit, and also risk participations.

As of September 30, 2013 and December 31, 2012, the Company had loans in the process of origination totaling approximately \$51.8 million and \$46.2 million, respectively, which extend over varying periods of time with the majority being disbursed within a 30 to 60 day period.

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 unfunded commitments amount related to standby letters of credit as of September 30, 2013, included in the total listed above, is \$88.6 million of which a portion is collateralized. Should the Company be obligated to perform under the standby letters of credit the Company will seek recourse from the customer for reimbursement of amounts paid. As of September 30, 2013, \$18.7 million (in the aggregate) in standby letters of credit will expire within one year, while the remaining standby letters of credit will expire in periods greater than one year. During the three and nine months ended September 30, 2013, there was one standby letter of credit drawn for \$117,000 which was immediately repaid by the borrower. Most of these commitments are expected to expire without being drawn upon and the total amount does not necessarily represent future cash requirements. The probable liability for losses on standby letters of credit is 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 is 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 charged to income and recoveries of losses previously incurred. Reductions to the allowance occur as loans are charged off. Management evaluates the adequacy of the allowance at least 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. 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, commercial and industrial ("C&I"), commercial real estate ("CRE") and private banking-personal. In addition, management takes into account the historical loss experience of each loan portfolio, to ensure that the resultant allowance for loan losses is sufficient to cover probable losses inherent in such loan portfolios. Please 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:

16

---

## Table of Contents

C&I – This loan portfolio includes primarily loans made to service companies or manufacturers generally for the purpose of production, operating capacity, accounts receivable, inventory or equipment financing, acquisitions and recapitalizations. Cash flow from the borrower’s operations is the primary source of repayment for these loans, except for our commercial loans that are secured by cash and marketable securities.

The industry of the borrower is an important indicator of risk, but there are also more specific risks depending on the condition of the local/regional economy. Collateral for these types of loans often do not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt. Any C&I loan collateralized by cash and marketable securities are treated the same as private banking-personal loans for purposes of the allowance for loan loss calculation.

CRE – This loan portfolio includes loans secured by commercial purpose real estate, including both owner occupied properties and investment properties for various purposes including office, retail, industrial, multi-family and hospitality. Individual projects as well as global cash flows are the primary sources of repayment for these loans. Also included are commercial construction loans, which are loans made 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 of these loans is generally confined to the construction period. If there are problems, the project may not be completed, and as such, may not provide sufficient cash flow on its own to service the debt or have sufficient value in a liquidation to cover the outstanding principal.

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

Private Banking-Personal – Our private banking-personal lending activities are conducted on a national basis. This loan portfolio includes primarily loans made to high-net-worth individuals and/or trusts that may be secured by cash, marketable securities, residential property or other financial assets, as well as unsecured loans and lines of credit. 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. In addition, the condition of the local economy and the local housing market can also have a significant impact on this portfolio, since low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

Management further assesses risk within each loan portfolio using key inherent risk differentiators. The components of the allowance for loan losses represent estimates based upon ASC Topic 450, Contingencies, and ASC Topic 310, Receivables. ASC Topic 450 applies to homogeneous loan pools such as consumer installment, residential mortgages and consumer lines of credit, as well as commercial loans that are not individually evaluated for impairment under ASC Topic 310.

Impaired loans are individually evaluated for impairment under ASC Topic 310. The Company’s internal risk rating system is consistent with definitions found in current regulatory guidelines.

On a monthly basis, management monitors various credit quality indicators for both the commercial and consumer loan portfolios, including delinquency, non-performing status, changes in risk ratings, changes in the underlying performance of the borrowers and other relevant factors. Please refer to Note 1, Summary of Significant Accounting Policies, for the Company’s policy for determining past due status of loans.

Management continually monitors the loan portfolio through its internal risk rating system. Loan risk ratings are assigned based upon the creditworthiness of the borrower. Loan risk ratings are reviewed on an ongoing basis according to internal policies. Loans within the pass rating generally have a lower risk of loss than loans risk rated as special mention, substandard and doubtful, which generally have an increasing risk of loss.

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

Non-Rated – Loans to individuals and trusts are not individually risk rated, unless they are fully secured by liquid assets or cash, or have an exposure that exceeds \$0.25 million and have certain actionable covenants, such as a liquidity covenant or a financial reporting covenant. In addition, commercial loans with an exposure of less than \$0.5 million are not required to be individually risk rated. Any loan, regardless of size, is risk rated if it is secured by marketable securities or if it becomes a criticized loan. The majority of the private banking-personal loans that are not risk rated are residential mortgages and home equity loans. We monitor the performance of non-rated loans through ongoing reviews of payment delinquencies. These loans comprised 7.6% of the total loan portfolio, as of September 30, 2013. For loans that are not risk-rated, the most important indicators of risk are the existence of collateral, the type of collateral, and for consumer real estate loans, whether the Bank has a 1<sup>st</sup> or 2<sup>nd</sup> lien position.



Table of Contents

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

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

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

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

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

(Dollars in thousands)	September 30, 2013			
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total Loans
Non-rated	\$1,730	\$481	\$ 132,854	\$135,065
Pass	827,015	515,363	233,574	1,575,952
Special mention	23,539	—	1,218	24,757
Substandard	18,620	4,366	103	23,089
Doubtful	7,641	—	—	7,641
Total loans	\$878,545	\$520,210	\$ 367,749	\$1,766,504

(Dollars in thousands)	December 31, 2012			
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total Loans
Non-rated	\$1,242	\$120	\$ 100,611	\$101,973
Pass	832,750	458,143	194,461	1,485,354
Special mention	9,442	8,142	1,251	18,835
Substandard	28,559	6,803	104	35,466
Total loans	\$871,993	\$473,208	\$ 296,427	\$1,641,628

Changes in the allowance for loan losses are as follows for the three months ended September 30, 2013 and 2012:

(Dollars in thousands)	Three Months Ended September 30, 2013			
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Balance, beginning of period	\$12,656	\$3,735	\$ 1,317	\$17,708
Provision for loan losses	4,632	740	(461)	4,911
Charge-offs	(4,339)	)—	—	(4,339)
Recoveries	—	1	—	1
Balance, end of period	\$12,949	\$4,476	\$ 856	\$18,281



Table of Contents

(Dollars in thousands)	Three Months Ended September 30, 2012			
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Balance, beginning of period	\$11,001	\$5,204	\$ 1,259	\$17,464
Provision for loan losses	845	524	168	1,537
Charge-offs	—	—	—	—
Recoveries	—	—	—	—
Balance, end of period	\$11,846	\$5,728	\$ 1,427	\$19,001

Charge-offs of \$4.3 million for the three months ended September 30, 2013, represent one C&I loan, which was partially offset by recoveries on one CRE loan of \$1,000. There were no charge-offs for the three months ended September 30, 2012, and no recoveries for the three months ended September 30, 2012.

Changes in the allowance for loan losses are as follows for the nine months ended September 30, 2013 and 2012:

(Dollars in thousands)	Nine Months Ended September 30, 2013			
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Balance, beginning of period	\$11,319	\$5,252	\$ 1,303	\$17,874
Provision for loan losses	7,024	1,137	(447)	7,714
Charge-offs	(5,508)	(1,936)	—	(7,444)
Recoveries	114	23	—	137
Balance, end of period	\$12,949	\$4,476	\$ 856	\$18,281

(Dollars in thousands)	Nine Months Ended September 30, 2012			
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Balance, beginning of period	\$8,899	\$6,580	\$ 871	\$16,350
Provision for loan losses	2,843	1,762	556	5,161
Charge-offs	—	(2,614)	—	(2,614)
Recoveries	104	—	—	104
Balance, end of period	\$11,846	\$5,728	\$ 1,427	\$19,001

Charge-offs of \$7.4 million for the nine months ended September 30, 2013, included three C&I loans and one CRE loan, which were partially offset by recoveries on three C&I loans and two CRE loans of \$0.1 million. Charge-offs of \$2.6 million for the nine months ended September 30, 2012, included two CRE loans, which were partially offset by recoveries on one C&I loan of \$0.1 million.

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

(Dollars in thousands)	September 30, 2013					
	30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due	Current	Total Loans
Commercial and industrial	\$1,170	\$—	\$2,079	\$3,249	\$875,296	\$878,545
Commercial real estate	—	—	4,366	4,366	515,844	520,210
Private banking-personal	—	—	—	—	367,749	367,749
Total loans	\$1,170	\$—	\$6,445	\$7,615	\$1,758,889	\$1,766,504



Table of Contents

(Dollars in thousands)	December 31, 2012		Loans Past Due 90 Days or More	Total Past Due	Current	Total Loans
	30-59 Days Past Due	60-89 Days Past Due				
Commercial and industrial	\$—	\$—	\$3,033	\$3,033	\$868,960	\$871,993
Commercial real estate	—	—	3,780	3,780	469,428	473,208
Private banking-personal	—	—	—	—	296,427	296,427
Total loans	\$—	\$—	\$6,813	\$6,813	\$1,634,815	\$1,641,628

## 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 are 90 days or more past due or management has determined that a material deterioration in the borrower's financial condition exists. 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 Company will be unable to collect all interest and principal payments due according to the original contractual terms of the loan agreement or if a loan is classified as a troubled debt restructuring. Refer to Note 1, Summary of Significant Accounting Policies, for the Company's policy on evaluating loans for impairment and interest income.

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

(Dollars in thousands)	As of and for the Nine Months Ended September 30, 2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Commercial and industrial	\$16,403	\$24,267	\$5,508	\$13,480	\$—
Commercial real estate	—	—	—	—	—
Private banking-personal	—	—	—	—	—
Total with a related allowance recorded	\$16,403	\$24,267	\$5,508	\$13,480	\$—
Without a related allowance recorded:					
Commercial and industrial	\$1,311	\$2,522	\$—	\$1,562	\$—
Commercial real estate	4,366	10,573	—	4,395	—
Private banking-personal	—	—	—	—	—
Total without a related allowance recorded	\$5,677	\$13,095	\$—	\$5,957	\$—
Total:					
Commercial and industrial	\$17,714	\$26,789	\$5,508	\$15,042	\$—
Commercial real estate	4,366	10,573	—	4,395	—
Private banking-personal	—	—	—	—	—
Total	\$22,080	\$37,362	\$5,508	\$19,437	\$—

Table of Contents

(Dollars in thousands)	As of and for the Twelve Months Ended December 31, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Commercial and industrial	\$7,036	\$7,402	\$3,156	\$7,129	\$—
Commercial real estate	2,375	2,375	1,278	2,444	—
Private banking-personal	—	—	—	—	—
Total with a related allowance recorded	\$9,411	\$9,777	\$4,434	\$9,573	\$—
Without a related allowance recorded:					
Commercial and industrial	\$8,644	\$11,839	\$—	\$11,577	\$—
Commercial real estate	4,428	10,630	—	4,483	—
Private banking-personal	—	—	—	—	—
Total without a related allowance recorded	\$13,072	\$22,469	\$—	\$16,060	\$—
Total:					
Commercial and industrial	\$15,680	\$19,241	\$3,156	\$18,706	\$—
Commercial real estate	6,803	13,005	1,278	6,927	—
Private banking-personal	—	—	—	—	—
Total	\$22,483	\$32,246	\$4,434	\$25,633	\$—

Impaired loans as of September 30, 2013 and December 31, 2012, were \$22.1 million and \$22.5 million, respectively. There was no interest income recognized on these loans for the nine months ended September 30, 2013 and the twelve months ended December 31, 2012, while these loans were on non-accrual status. As of September 30, 2013 and December 31, 2012, there were no loans 90 days or more past due and still accruing interest income.

Impaired loans were evaluated using the fair value of the collateral as the measurement method or an evaluation of estimated losses, based on a discounted cash flow method, for non-collateral dependent loans. Based on those evaluations, as of September 30, 2013, there was a specific reserve established totaling \$5.5 million, which is included in the \$18.3 million allowance for loan losses. The specific reserve as of September 30, 2013, includes a \$1.4 million specific reserve recorded on our largest non-performing loan, which represented approximately 34.6% of total impaired loans as of September 30, 2013. Also included in impaired loans are two C&I loans and two CRE loans with a combined balance of \$5.7 million as of September 30, 2013, with no corresponding specific reserve since these loans were written down to the level which management believes will be recovered from the borrower.

As of December 31, 2012, there was a specific reserve established totaling \$4.4 million, which is included in the \$17.9 million allowance for loan losses. Also included in impaired loans are two C&I loans and two CRE loans with a combined balance of \$13.1 million as of December 31, 2012, with no corresponding specific reserve since these loans were written down to the level which management believes will be recovered from the borrower.

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

(Dollars in thousands)	September 30, 2013			
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Allowance for loan losses:				
Individually evaluated for impairment	\$5,508	\$—	\$ —	\$5,508
Collectively evaluated for impairment	7,441	4,476	856	12,773
Total allowance for loan losses	\$12,949	\$4,476	\$ 856	\$18,281

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

Portfolio loans:

Individually evaluated for impairment	\$17,714	\$4,366	\$ —	\$22,080
Collectively evaluated for impairment	860,831	515,844	367,749	1,744,424
Total portfolio loans	\$878,545	\$520,210	\$ 367,749	\$1,766,504

21

---

Table of Contents

(Dollars in thousands)	December 31, 2012			
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Allowance for loan losses:				
Individually evaluated for impairment	\$3,156	\$1,278	\$ —	\$4,434
Collectively evaluated for impairment	8,163	3,974	1,303	13,440
Total allowance for loan losses	\$11,319	\$5,252	\$ 1,303	\$17,874
Portfolio loans:				
Individually evaluated for impairment	\$15,680	\$6,803	\$ —	\$22,483
Collectively evaluated for impairment	856,313	466,405	296,427	1,619,145
Total portfolio loans	\$871,993	\$473,208	\$ 296,427	\$1,641,628

Troubled Debt Restructuring

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

(Dollars in thousands)	September 30, 2013	December 31, 2012
Aggregate recorded investment of impaired loans with terms modified through a troubled debt restructuring:		
Accruing interest	\$530	\$253
Non-accrual	13,422	4,210
Total troubled debt restructurings	\$13,952	\$4,463

Of the non-accrual loans as of September 30, 2013, four C&I loans and one CRE loan were classified by the Company as TDRs. There was one C&I loan that was still accruing interest and classified by the Company as a TDRs as of September 30, 2013. The aggregate recorded investment of these loans was \$14.0 million. There was \$0.7 million of unused commitments on these loans as of September 30, 2013, of which \$0.2 million was related to an accruing TDR.

Of the non-accrual loans as of December 31, 2012, two C&I loans and one CRE loan were classified by the Company as TDRs. There was also one CRE loan that was still accruing interest and classified by the Company as a performing TDR as of December 31, 2012. The aggregate net carrying value of these loans is \$4.5 million. There was \$0.9 million of unused commitments on these loans as of December 31, 2012.

The modifications made to restructured loans typically consist of an extension or reduction of the payment terms, or the deferral of principal payments. We generally do not forgive principal when restructuring loans. There were no payment defaults, during the three months ended September 30, 2013 and 2012, for loans modified as TDRs within twelve months of the corresponding balance sheet dates. There were no modifications made during the three months ended September 30, 2013 and 2012.

There were no payment defaults, during the nine months ended September 30, 2013 and 2012, for loans modified as TDRs within twelve months of the corresponding balance sheet dates. The financial effects of our modifications made during the nine months ended September 30, 2013 and 2012, are as follows:

(Dollars in thousands)	Count	Nine Months Ended September 30, 2013			
		Recorded Investment at the time of Modification	Current Recorded Investment	Allowance for Loan Losses at the time of Modification	Current Allowance for Loan Losses
Commercial and industrial:					



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

Extension of term	1	\$2,691	\$2,577	\$1,100	\$1,100
Advanced additional funds	2	6,957	8,170	2,000	1,357
Total	3	\$9,648	\$10,747	\$3,100	\$2,457

22

---

Table of Contents

(Dollars in thousands)	Nine Months Ended September 30, 2012				
	Count	Recorded Investment at the time of Modification	Current Recorded Investment	Allowance for Loan Losses at the time of Modification	Current Allowance for Loan Losses
Commercial and industrial:					
Extension of term	1	\$2,848	\$2,776	\$1,000	\$1,000
Commercial real estate:					
Extension of term	1	714	681	—	—
Total	2	\$3,562	\$3,457	\$1,000	\$1,000

## Other Real Estate Owned

As of September 30, 2013 and December 31, 2012, the balance of the Other Real Estate Owned portfolio was \$0.3 million and \$0.3 million, respectively.

## [5] DEPOSITS

(Dollars in thousands)	Interest Rate as of September 30, 2013	Weighted Average Interest Rate as of		Balance as of	
	September 30, 2013	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Demand and savings accounts:					
Noninterest-bearing checking accounts	—	—	—	\$113,313	\$100,395
Interest-bearing checking accounts	0.00 to 0.18%	0.06	%0.06	% 6,243	7,043
Money market deposit accounts	0.05 to 0.80%	0.38	%0.47	% 934,906	890,884
Total demand and savings accounts				\$1,054,462	\$998,322
Time deposits	0.05 to 5.21%	0.75	%1.03	% 824,232	825,057
Total deposit balance				\$1,878,694	\$1,823,379
Average rate paid on interest-bearing accounts		0.55	%0.74	%	

As of September 30, 2013 and December 31, 2012, the Bank had total brokered deposits of \$724.9 million and \$717.8 million, respectively. The amount for brokered deposits includes reciprocal Certificate of Deposit Account Registry Service® (“CDARS®”) and reciprocal Insured Cash Sweep® (“ICS®”) totaling \$430.0 million and \$456.2 million as of September 30, 2013 and December 31, 2012, respectively.

As of September 30, 2013 and December 31, 2012, time deposits with balances of \$100,000 or more, excluding brokered certificates of deposit, amounted to \$385.3 million and \$380.1 million, respectively.

The contractual maturity of time deposits, including brokered deposits, is as follows:

(Dollars in thousands)	September 30, 2013	December 31, 2012
12 months or less	\$678,338	\$618,898
12 months to 24 months	140,168	167,288

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

24 months to 36 months	5,726	38,871
36 months to 48 months	—	—
48 months to 60 months	—	—
Over 60 months	—	—
Total	\$824,232	\$825,057

23

---

Table of Contents

Interest expense on deposits is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2013	2012	2013	2012
Interest-bearing checking accounts	\$1	\$1	\$3	\$2
Money market deposit accounts	899	1,049	2,834	2,944
Time deposits	1,691	2,275	5,665	7,414
Total interest expense on deposits	\$2,591	\$3,325	\$8,502	\$10,360

**[6] BORROWINGS**

As of September 30, 2013 and December 31, 2012, borrowings were comprised of the following:

	September 30, 2013			December 31, 2012		
(Dollars in thousands)	Interest Rate	Ending Balance	Maturity Date	Interest Rate	Ending Balance	Maturity Date
FHLB borrowing	0.42	20,000	9/25/2014	0.42	20,000	9/25/2014
Total		\$20,000			\$20,000	

The Bank maintains an unsecured line of credit of \$10.0 million with M&T Bank and an unsecured line of credit of \$20.0 million with Texas Capital Bank. As of September 30, 2013, the full amount of these established lines were available to the Bank.

The Bank has borrowing capacity with the FHLB. The borrowing capacity is based on the collateral value of certain securities and loans pledged to the FHLB. The Bank submits a quarterly Qualified Collateral Report ("QCR") to the FHLB to update the value of the loans pledged. As of September 30, 2013, the Bank's borrowing capacity is based on the information provided in the June 30, 2013, QCR filing. As of September 30, 2013, the Bank had agency bond collateral with a fair value of \$29.1 million, combined with pledged loans of \$456.3 million, for a total borrowing capacity of \$326.2 million, net of \$20.0 million outstanding in advances from the FHLB as reflected in the table above. As of December 31, 2012, there was \$20.0 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.

**[7] SHAREHOLDERS' EQUITY**

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 Tier 1 and Total risk-based capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). As of September 30, 2013, TriState Capital Holdings, Inc. and TriState Capital Bank exceeded all capital adequacy requirements to which they are subject.

Financial institutions are categorized as Well Capitalized if they meet minimum Total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios (Tier 1 capital to average assets) as set forth in the tables below. Based upon the information in the most recently filed FR Y-9C report and Call Report, both the Company and 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 FR Y-9C report or Call Report that management believes have changed the Company's or the Bank's capital.

Table of Contents

The following tables set forth certain information concerning the Company's and the Bank's regulatory capital as of September 30, 2013 and December 31, 2012:

September 30, 2013

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
Total risk-based capital ratio							
Company	\$309,255	14.51	% N/A	N/A	N/A	N/A	
Bank	\$242,426	11.38	% \$170,472	8.00	% \$213,091	10.00	%
Tier 1 risk-based capital ratio							
Company	\$290,456	13.63	% N/A	N/A	N/A	N/A	
Bank	\$223,627	10.49	% \$85,236	4.00	% \$127,854	6.00	%
Tier 1 leverage ratio							
Company	\$290,456	13.23	% N/A	N/A	N/A	N/A	
Bank	\$223,627	10.18	% \$175,700	8.00	% \$175,700	8.00	%

December 31, 2012

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
Total risk-based capital ratio							
Company	\$234,370	11.88	% N/A	N/A	N/A	N/A	
Bank	\$233,723	11.84	% \$157,875	8.00	% \$197,344	10.00	%
Tier 1 risk-based capital ratio							
Company	\$216,053	10.95	% N/A	N/A	N/A	N/A	
Bank	\$215,406	10.92	% \$78,937	4.00	% \$118,406	6.00	%
Tier 1 leverage ratio							
Company	\$216,053	10.35	% N/A	N/A	N/A	N/A	
Bank	\$215,406	10.31	% \$167,070	8.00	% \$167,070	8.00	%

Given its status as a de novo bank, the Company and the Bank must obtain consent from their primary regulators, including the FDIC, Pennsylvania Department of Banking and Securities and the Federal Reserve, prior to declaring and paying cash dividends. As part of its operating and financial strategies, the Company has not paid dividends to its holders of its common shares since its inception in 2007 and it does not anticipate paying cash dividends to its holders of its common shares in the foreseeable future.

#### [8] EMPLOYEE BENEFIT PLANS

The Company participates in a qualified 401(k) defined contribution plan under which eligible employees may contribute a percentage of their salary, at their discretion. Beginning in 2011 and continuing through 2013, the Company automatically contributed three percent of the employee's base salary to the individual's 401(k) plan, subject to IRS limitations. Full-time employees are eligible to participate upon the first month following their first day of employment or having attained age 21, whichever is later. Substantially all employees received an automatic contribution of three percent of their base salary for the three and nine months ended September 30, 2013 and 2012. The Company's contribution expense was \$0.1 million and \$0.1 million for the three months ended September 30,

2013 and 2012, respectively, including incidental administrative fees paid to a third party administrator of the plan. The Company's contribution expense was \$0.3 million and \$0.3 million for the nine months ended September 30, 2013 and 2012, respectively, including incidental administrative fees paid to a third party administrator of the plan.

[9] ISSUANCE OF STOCK

On May 14, 2013, the Company completed the issuance and sale of 6,355,000 shares of its common stock, no par value, in its initial public offering of Common Stock, including 855,000 shares sold pursuant to the exercise in full by its underwriters of their option to

25

---

purchase additional shares from the Company, at a price to the public of \$11.50 per share. The shares were offered pursuant to the Company's Registration Statement on Form S-1. The Company received net proceeds of \$66.0 million from the initial public offering, after deducting underwriting discounts and commissions and direct offering expenses.

In connection with the closing of initial public offering, on May 14, 2013, the Company converted all of its 48,780,488 outstanding shares of Series C preferred stock to shares of common stock, resulting in the issuance of 4,878,049 shares of common stock upon conversion.

#### [10] EARNINGS PER COMMON SHARE

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

(Dollars in thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income available to common shareholders	\$ 1,330	\$ 2,192	\$ 8,057	\$ 7,191
Less: earnings allocated to participating stock	—	300	748	363
Net income available to common shareholders, after required adjustments for the calculation of basic EPS	\$ 1,330	\$ 1,892	\$ 7,309	\$ 6,828
Basic shares	28,690,034	17,394,730	23,207,969	17,394,411
Preferred shares - dilutive	—	2,757,158	2,376,485	925,761
Unvested restricted shares - dilutive	—	40,183	2,564	33,785
Stock options - dilutive	424,761	—	303,018	—
Diluted shares	29,114,795	20,192,071	25,890,036	18,353,957
Earnings per common share:				
Basic	\$0.05	\$0.11	\$0.31	\$0.39
Diluted	\$0.05	\$0.11	\$0.31	\$0.39

Anti-dilutive shares <sup>(1)</sup>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	61,500	1,948,000	163,000	1,948,000

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

#### [11] DERIVATIVES AND HEDGING ACTIVITY

##### RISK MANAGEMENT OBJECTIVE OF USING DERIVATIVES

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and through the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage



differences in the amount, timing, and duration of the Company's known or expected cash receipts related to certain of the Company's fixed rate loan assets. The Company also has derivatives that are a result of a service the Company provides to certain qualifying customers. The Company manages a matched book with respect to its derivative instruments offered as a part of this service to its customers in order to minimize its net risk exposure resulting from such transactions.

Table of Contents

## FAIR VALUES OF DERIVATIVE INSTRUMENTS ON THE BALANCE SHEET

The tables below present the fair value of the Company's derivative financial instruments as well as their classification on the Balance Sheet as of September 30, 2013 and December 31, 2012:

(Dollars in thousands)	Asset Derivatives as of September 30, 2013		Liability Derivatives as of September 30, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivative designated as hedging instruments				
Interest rate products	Other assets	\$—	Other liabilities	\$850
Derivative not designated as hedging instruments				
Interest rate products	Other assets	\$3,280	Other liabilities	\$3,425
(Dollars in thousands)	Asset Derivatives as of December 31, 2012		Liability Derivatives as of December 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivative designated as hedging instruments				
Interest rate products	Other assets	\$—	Other liabilities	\$1,299
Derivative not designated as hedging instruments				
Interest rate products	Other assets	\$5,681	Other liabilities	\$5,955

## FAIR VALUE HEDGES OF INTEREST RATE RISK

The Company is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in benchmark interest rates, which relate predominantly to LIBOR. Interest rate swaps designated as fair value hedges involve the receipt of variable rate payments from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. As of September 30, 2013, the Company had eight interest rate swaps, with a notional amount of \$8.3 million that were designated as fair value hedges of interest rate risk associated with the Company's fixed-rate loan assets. The notional amounts for the derivatives express the face amount of the positions, however, credit risk is considered insignificant in 2013 and 2012. There were no counterparty default losses on derivatives for the three and nine months ended September 30, 2013, and the twelve months ended December 31, 2012.

For derivatives that are 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. Two of the Company's eight interest rate swaps are designated as fair value hedges applying the "shortcut" method. As such, the gain or loss on these two derivatives exactly offsets the loss or gain on the hedged items, resulting in zero net earnings impact. The remaining six hedges have been designated as fair value hedges 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. During the three and nine months ended September 30, 2013, the Company recognized gain of \$5,000 and \$6,000, respectively, in non-interest income related to hedge ineffectiveness. The Company also recognized a decrease to interest income of \$159,000 and \$389,000, respectively, for the three and nine months ended September 30, 2013, related to the Company's fair value hedges, which includes net settlements on the derivatives, and any amortization adjustment of the basis in the hedged items.

## 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 or are hedges that were previously designated in qualifying hedging relationships that no longer meet the strict requirements to apply hedge accounting, as discussed in the Fair Value Hedges of Interest Rate Risk section. The Company executes interest rate derivatives with its commercial banking customers to facilitate their respective risk management strategies. Those derivatives are simultaneously economically hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of September 30, 2013, the Company had seventy-six derivative transactions with an aggregate notional amount of \$253.6 million related to this program and two interest rate swaps with embedded floors that no longer meet the requirements to apply hedge accounting with an aggregate notional amount of \$7.7 million. During the three and nine months ended September 30, 2013, the Company recognized a net loss of \$19,000 and a net gain of \$107,000, respectively, related to changes in fair value of the derivatives not designated in hedging relationships.

Table of Contents**EFFECT OF DERIVATIVE INSTRUMENTS ON THE INCOME STATEMENT**

The tables below present the effect of the Company's derivative financial instruments on the Income Statement for the periods presented:

		Three Months Ended September 30,	
(Dollars in thousands)		2013	2012
Derivative in fair value hedging relationships	Location of Gain (Loss) recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
Interest rate products	Interest income (expense)	\$(159	)\$(155 )
	Non-interest income (expense)	5	19
Total		\$(154	)\$(136 )

		Amount of Gain (Loss) Recognized in Income on Derivative	
Derivative not designated as hedging instruments	Location of Gain (Loss) recognized in Income on Derivative		
Interest rate products	Non-interest income (expense)	\$(19	)\$(17 )
Total		\$(19	)\$(17 )

		Nine Months Ended September 30,	
(Dollars in thousands)		2013	2012
Derivative in fair value hedging relationships	Location of Gain (Loss) recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
Interest rate products	Interest income (expense)	\$(389	)\$(588 )
	Non-interest income (expense)	6	13
Total		\$(383	)\$(575 )

		Amount of Gain (Loss) Recognized in Income on Derivative	
Derivative not designated as hedging instruments	Location of Gain (Loss) recognized in Income on Derivative		
Interest rate products	Non-interest income (expense)	\$107	\$(116 )
Total		\$107	\$(116 )

**CREDIT-RISK-RELATED CONTINGENT FEATURES**

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

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

As of September 30, 2013, the termination value of derivatives, including accrued interest, in a net liability position related to these agreements was \$3.9 million. As of September 30, 2013, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of \$3.1 million. If the Company had breached any of these provisions as of September 30, 2013, it could have been required to settle its obligations under the agreements at their termination value.

[12] DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Table of Contents

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as of September 30, 2013 and December 31, 2012:

**CASH AND CASH EQUIVALENTS**

The carrying amount approximates fair value.

**INVESTMENT SECURITIES**

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

**LOANS HELD-FOR-INVESTMENT**

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

**FEDERAL HOME LOAN BANK STOCK**

The carrying value of our FHLB stock, which is a marketable equity investment, approximates market value.

**BANK OWNED LIFE INSURANCE**

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

**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 certificates of deposit 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 our 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

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

(Dollars in thousands)	September 30, 2013			December 31, 2012	
	Fair Value Level	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	1	\$ 139,841	\$ 139,841	\$ 200,080	\$ 200,080
Investment securities available-for-sale	2	214,113	214,113	191,187	191,187
Investment securities held-to-maturity	2	25,293	24,687	—	—
Loans held-for-investment, net	3	1,748,223	1,764,354	1,623,754	1,631,578
Federal Home Loan Bank stock	2	2,336	2,336	2,426	2,426
Bank owned life insurance	2	41,559	41,559	20,886	20,886
Interest rate swaps	2	3,280	3,280	5,681	5,681
Other real estate owned	3	290	290	290	290
Financial liabilities:					
Deposits	2	\$ 1,878,694	\$ 1,880,937	\$ 1,823,379	\$ 1,828,107
Borrowings	2	20,000	20,006	20,000	19,976
Interest rate swaps	2	4,275	4,275	7,254	7,254

**FAIR VALUE MEASUREMENTS**

In accordance with U.S. GAAP the Company must account for certain financial assets and liabilities at fair value on a recurring and non-recurring basis. The Company utilizes a three-level fair value hierarchy of valuation techniques to estimate the fair value of its financial assets and liabilities based on whether the inputs to those valuation techniques are observable or unobservable. The fair value hierarchy gives the highest priority to quoted prices with readily available independent data in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable market inputs (Level 3). When various inputs for measurement fall within multiple levels of the fair value hierarchy, the lowest level input that has a significant impact on fair value measurement is used.

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

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

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

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

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





Table of Contents

The following tables represent assets and liabilities measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012:

(Dollars in thousands)	September 30, 2013			Total Assets / Liabilities at Fair Value
	Level 1	Level 2	Level 3	
<b>Financial assets:</b>				
Investment securities available-for-sale:				
Corporate bonds	\$—	\$56,383	\$—	\$56,383
Trust preferred securities	—	15,911	—	15,911
Non-agency mortgage-backed securities	—	7,750	—	7,750
Agency collateralized mortgage obligations	—	86,071	—	86,071
Agency mortgage-backed securities	—	47,998	—	47,998
Interest rate swaps	—	3,280	—	3,280
Total financial assets	\$—	\$217,393	\$—	\$217,393
<b>Financial liabilities:</b>				
Interest rate swaps	\$—	\$4,275	\$—	\$4,275
Total financial liabilities	\$—	\$4,275	\$—	\$4,275
<b>December 31, 2012</b>				
(Dollars in thousands)	December 31, 2012			Total Assets / Liabilities at Fair Value
	Level 1	Level 2	Level 3	
<b>Financial assets:</b>				
Investment securities available-for-sale:				
Corporate bonds	\$—	\$53,903	\$—	\$53,903
Municipal bonds	—	20,118	—	20,118
Non-agency mortgage-backed securities	—	8,322	—	8,322
Agency collateralized mortgage obligations	—	55,868	—	55,868
Agency mortgage-backed securities	—	52,976	—	52,976
Interest rate swaps	—	5,681	—	5,681
Total financial assets	\$—	\$196,868	\$—	\$196,868
<b>Financial liabilities:</b>				
Interest rate swaps	\$—	\$7,254	\$—	\$7,254
Total financial liabilities	\$—	\$7,254	\$—	\$7,254

**INVESTMENT SECURITIES**

Generally, investment securities are valued using pricing for similar securities, recently executed transactions, and other pricing models utilizing observable inputs. The valuation for debt securities are classified as either Level 1 or Level 2. U.S. Treasury Notes are classified as Level 1 because these securities are in actively traded markets. Investment securities within Level 2 include corporate bonds, trust preferred securities, municipal bonds, non-agency mortgage-backed securities, collateralized mortgage obligations and mortgage-backed securities issued by U.S. government agencies.

**INTEREST RATE SWAPS**

The fair value is estimated by the counterparty 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 LIBOR swap curve, the basis for the underlying interest rate.

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.

31

---

Table of Contents

The following tables represent the balances of assets measured at fair value on a non-recurring basis as of September 30, 2013 and December 31, 2012:

(Dollars in thousands)	September 30, 2013			Total Assets at Fair Value
	Level 1	Level 2	Level 3	
Loans measured for impairment	\$—	\$—	\$16,572	\$16,572
Other real estate owned	—	—	290	290
Total assets	\$—	\$—	\$16,862	\$16,862

  

(Dollars in thousands)	December 31, 2012			Total Assets at Fair Value
	Level 1	Level 2	Level 3	
Loans measured for impairment	\$—	\$—	\$18,049	\$18,049
Other real estate owned	—	—	290	290
Total assets	\$—	\$—	\$18,339	\$18,339

As of September 30, 2013, the Company recorded \$5.5 million of specific reserves to the allowance for loan losses as a result of adjusting the fair value of the collateral for certain collateral dependent impaired loans to \$9.4 million, and as a result of adjusting the value based upon the discounted cash flow to \$7.2 million, as of September 30, 2013.

As of December 31, 2012, the Company recorded \$4.4 million of specific allowance for loan losses as a result of adjusting the fair value of the collateral for certain collateral dependent impaired loans to \$11.1 million, and as a result of adjusting the value based upon the discounted cash flow to \$6.9 million as of December 31, 2012.

The Company obtains updated appraisals for collateral dependent impaired loans on an annual basis, unless circumstances require a more frequent appraisal.

**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 classified as a troubled debt restructuring. Impairment is measured based on the fair value of the underlying collateral or discounted cash flows when collateral does not exist. 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 which may cause us to believe our recovered value may be less than the independent appraised value. Accordingly, impaired loans are classified as Level 3. The Company measures impairment on all loans for which it has established specific reserves as part of the allocated allowance component 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 the lower of the related loan balance or fair value, less estimated disposition costs, with the fair value being determined by appraisal. Subsequently, foreclosed assets are valued at the lower of the amount recorded at acquisition date or fair value, less estimated disposition costs. Accordingly, real estate owned is classified as Level 3.

Table of Contents

The following table presents additional quantitative information about assets measured at fair value on a recurring and non-recurring basis and for which we have utilized Level 3 inputs to determine fair value as of September 30, 2013 and December 31, 2012:

(Dollars in thousands)	September 30, 2013				Weighted Average	
	Fair Value	Valuation Techniques <sup>(1)</sup>	Significant Unobservable Inputs	Discount due to salability conditions		
Loans measured for impairment	\$9,389	<sup>(2)</sup> Appraisal value	Discount due to salability conditions	10	%	
Loans measured for impairment	\$7,183	<sup>(3)</sup> Discounted cash flow	Lack of market data	14	%	
Other real estate owned	\$290	Appraisal value	Discount due to salability conditions	10	%	

Fair value is generally determined through independent appraisals of the underlying collateral, which may include <sup>(1)</sup> level 3 inputs that are not identifiable, or by using the discounted cash flow method if the loan is not collateral dependent.

<sup>(2)</sup> Loans measured for impairment based on appraisal value of \$9.4 million are net of specific reserve of \$2.9 million.

<sup>(3)</sup> Loans measured for impairment based on discounted cash flow of \$7.2 million are net of specific reserve of \$2.7 million.

(Dollars in thousands)	December 31, 2012				Weighted Average	
	Fair Value	Valuation Techniques <sup>(1)</sup>	Significant Unobservable Inputs	Discount due to salability conditions		
Loans measured for impairment	\$11,111	<sup>(2)</sup> Appraisal value	Discount due to salability conditions	7	%	
Loans measured for impairment	\$6,938	<sup>(3)</sup> Discounted cash flow	Lack of market data	5	%	
Other real estate owned	\$290	Appraisal value	Discount due to salability conditions	10	%	

Fair value is generally determined through independent appraisals of the underlying collateral, which may include <sup>(1)</sup> level 3 inputs that are not identifiable, or by using the discounted cash flow method if the loan is not collateral dependent.

<sup>(2)</sup> Loans measured for impairment based on appraisal value of \$11.1 million are net of specific reserve of \$4.4 million.

<sup>(3)</sup> Loans measured for impairment based on discounted cash flow of \$6.9 million are net of specific reserve of \$0.

**[13] CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following tables show the changes in accumulated other comprehensive income, for the periods presented:  
Three Months Ended September 30,

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

(Dollars in thousands)	2013	2012
	Unrealized Gains and Losses on Investment Securities	Unrealized Gains and Losses on Investment Securities
Balance, beginning of period	\$(1,322	)\$1,212
Increase (decrease) in unrealized holding gains (losses)	(328	)1,057
Gains reclassified from other comprehensive income <sup>(1)</sup>	—	(64
Net other comprehensive income	(328	)993
Balance, end of period	\$(1,650	)\$2,205

Consists of realized gains on securities (net gain on sale of investment securities available-for-sale) of \$0 and <sup>(1)</sup> \$99,000, net of tax (income tax expense) of \$0 and \$35,000 for the three months ended September 30, 2013 and 2012, respectively.

Table of Contents

(Dollars in thousands)	Nine Months Ended September 30,	
	2013	2012
	Unrealized Gains and Losses on Investment Securities	Unrealized Gains and Losses on Investment Securities
Balance, beginning of period	\$1,671	\$738
Increase (decrease) in unrealized holding gains (losses)	(2,817	)2,183
Gains reclassified from other comprehensive income <sup>(1)</sup>	(504	)716
Net other comprehensive income	(3,321	)1,467
Balance, end of period	\$(1,650	)\$2,205

Consists of realized gains on securities (net gain on sale of investment securities available-for-sale) of \$0.8 and <sup>(1)</sup> \$1.1 million, net of tax (income tax expense) of \$0.3 and \$0.4 million for the nine months ended September 30, 2013 and 2012, respectively.

## [14] CONTINGENT LIABILITIES

The Company is not subject to any asserted claims nor is it 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.

Table of Contents

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

This section presents management's perspective on our financial condition and results of operations and highlights material changes to the financial condition and results of operations as of and for the three and nine months ended September 30, 2013. 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 included in the Company's Prospectus filed with the Securities and Exchange Commission on May 9, 2013, as part of the Company's Registration Statement on Form S-1 (File No. 333-187681).

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 not guarantees of performance and are therefore subject to risks and uncertainties. Forward-looking statements that are comparable of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, 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;
- Operational risks associated with our business;
- Volatility and direction of market interest rates;
- Increased competition in the financial services industry, particularly from regional and national institutions;
- Changes in the laws, rules, regulations, interpretations or policies relating to financial institution, accounting, tax, trade, monetary and fiscal matters;
- Further government intervention in the U.S. financial system;
- Natural disasters and adverse weather, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, and other matters beyond our control; and
- Other factors that are discussed in the section entitled "Risk Factors," in our Registration Statement on Form S-1, Registration No. 333-187681, filed with the SEC on April 23, 2013, and in our Quarterly Report on Form 10Q for the period ending March 31, 2013, filed with the SEC, which are accessible at [www.sec.gov](http://www.sec.gov).

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



## Table of Contents

### General

The following discussion and analysis presents our financial condition and results of operations on a consolidated basis. However, because we conduct all of our material business operations through TriState Capital Bank, the discussion and analysis relates to activities primarily conducted at TriState Capital Bank.

As a bank holding company that operates through one segment, we generate most of our revenue from interest on loans and investments, loan related fees and deposit-related fees. Our primary source of funding for our loans is deposits. Our largest expenses are interest on these deposits and salaries and related employee benefits. We measure our performance primarily through our pre-tax, pre-provision net revenue; net interest margin; efficiency ratio; ratio of provision for loan losses to average total loans; return on average assets and return on average equity, among other metrics, while maintaining appropriate regulatory leverage and risk-based capital ratios.

### Executive Overview

TriState Capital Holdings, Inc. is a bank holding company headquartered in Pittsburgh, Pennsylvania. Through our wholly owned bank subsidiary, TriState Capital Bank, we serve middle market businesses in our primary markets throughout the states of Pennsylvania, Ohio, New Jersey and New York. We also serve high net worth individuals 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.

For the three months ended September 30, 2013, our net income available to common shareholders was \$1.3 million compared to \$2.2 million for the same period in 2012, a decrease of \$862,000, or 39.3%, primarily due to the impact of (1) an increase of \$3.4 million in our provision for loan losses, (2) a decrease of \$427,000, or 27.6%, in our non-interest income, partially offset by (3) a \$953,000, or 6.4%, increase in our net interest income, (4) a decrease in income tax expense of \$1.2 million and (5) the elimination of dividends on our Series A and Series B preferred shares, which we redeemed in September 2012.

For the nine months ended September 30, 2013, our net income available to common shareholders was \$8.1 million compared to \$7.2 million for the same period in 2012, an increase of \$866,000, or 12.0%, primarily due to the impact of (1) a \$3.3 million, or 7.9%, increase in our net interest income, (2) a decrease in income tax expense of \$1.0 million and (3) the elimination of dividends on our Series A and Series B preferred shares, partially offset by (4) an increase of \$2.6 million in our provision for loan losses, (5) a \$869,000 or 17.1% decrease in non-interest income partially due to a \$330,000 lower gain on sale of securities, and (6) a \$1.6 million, or 5.7%, increase in our non-interest expense.

Our diluted EPS was \$0.05 for the three months ended September 30, 2013, compared to \$0.11 for the same period in 2012. The dilutive impact of our August 2012 issuance of \$50.0 million in our Series C preferred stock (net proceeds of \$46.0 million), coupled with the impact of the issuance and sale of 6,355,000 shares of our common stock in connection with our initial public offering (net proceeds of \$66.0 million), plus a decrease of \$862,000, or 39.3%, in our net income available to common shareholders impacted the quarterly diluted EPS.

Our diluted EPS was \$0.31 for the nine months ended September 30, 2013, compared to \$0.39 for the same period in 2012. The dilutive impact of our August 2012 issuance of \$50.0 million in our Series C preferred stock (net proceeds of \$46.0 million), coupled with the impact of the issuance and sale of 6,355,000 shares of our common stock in connection with our initial public offering (net proceeds of \$66.0 million), were partially offset by an increase of \$0.9 million, or 12.0%, in our net income available to common shareholders.

Our annualized return on average assets was 0.24% for the three months ended September 30, 2013, as compared to 0.59% for the same period in 2012, and 0.50% for the nine months ended September 30, 2013, as compared to 0.61% for the same period in 2012. Our annualized return on average equity was 1.81% and 4.20%, for the three and nine months ended September 30, 2013, respectively, as compared to 5.39% and 5.85% for the three and nine months ended September 30, 2012, respectively. The resulting decrease was from the effect of additional equity stemming from the issuance of our Series C preferred stock and shares of our common stock in connection with our initial public offering, which we have not yet fully leveraged, and the impact on EPS from the increase in the provision for loan losses.

Our annualized net interest margin was 2.93% for the three months ended September 30, 2013 and 2.90% for the nine months ended September 30, 2013, as compared to 3.04% and 3.00%, respectively, for the same periods in 2012. This decrease was primarily due to the impact of the continued low interest rate environment coupled with competition for quality commercial and private banking loans. Historically, we have mitigated the pressure on our net interest margin in part by managing the rates paid on our deposits and improving the mix of our deposit portfolio toward lower rate deposits. A continued low interest rate environment may limit our ability to reduce rates on our deposits faster than our loan yields decline, without sacrificing loan or deposit growth, deposit source composition or competitive positioning.

Table of Contents

For the three and nine months ended September 30, 2013, our efficiency ratio was 59.30% and 60.63%, respectively, as compared to 61.44% and 60.85%, respectively, for the same periods in 2012, primarily as a result of our total revenue growing faster than our non-interest expense. The increase in our total revenue was driven by growth in our loan and investment portfolios, as well as a decrease in the cost of funds for the three and nine months ended September 30, 2013 compared to the same periods in 2012. Our non-interest expense to average assets for the three and nine months ended September 30, 2013, were 1.81% and 1.84%, respectively, compared to 2.00% and 1.96%, respectively, for the same periods in 2012.

For the three months ended September 30, 2013, total revenue increased \$625,000, or 3.8%, to \$16.9 million from \$16.3 million for the same period in 2012, driven primarily by growth in net interest income due largely to decreased funding costs partially offset by a decrease in our non-interest income. Pre-tax, pre-provision net revenue increased \$603,000, or 9.6%, to \$6.9 million for the three months ended September 30, 2013, from \$6.3 million for the same period in 2012, primarily the result of the increase in total revenue noted above.

For the nine months ended September 30, 2013, total revenue increased \$2.8 million, or 6.1%, to \$48.8 million from \$46.0 million for the same period in 2012, driven by growth in net interest income due largely to decreased funding cost, partially offset by a decrease in our non-interest income. Pre-tax, pre-provision net revenue increased \$1.2 million, or 6.7%, to \$19.2 million for the nine months ended September 30, 2013, from \$18.0 million for the same period in 2012, primarily resulting from growth of \$2.8 million, or 6.1%, in total revenue, partially offset by an increase of \$1.6 million, or 5.7%, in non-interest expense.

Total assets of \$2.2 billion as of September 30, 2013, increased \$127.8 million, or 8.2% on an annualized basis, from December 31, 2012. Total loans grew by \$124.9 million to \$1.8 billion as of September 30, 2013, an annualized increase of 10.2% from December 31, 2012, primarily as a result of growth in our three loan portfolios; commercial and industrial, commercial real estate and private banking-personal loans. Total deposits increased \$55.3 million, or 4.1% on an annualized basis, to \$1.9 billion as of September 30, 2013, from \$1.8 billion, as of December 31, 2012.

Non-performing assets to total assets decreased to 0.99% as of September 30, 2013, from 1.10% as of December 31, 2012. Annualized net charge-offs to average loans for the three months ended September 30, 2013, was 0.98%, as compared to none for the same period in 2012. Annualized net charge-offs to average loans for the nine months ended September 30, 2013, was 0.57%, as compared to 0.22% for the same period in 2012.

The allowance for loan losses to total loans decreased to 1.03% as of September 30, 2013, from 1.09% as of December 31, 2012, primarily as a result of the overall increase in the loan portfolio of 7.6% and overall improvement in the private banking-personal loan portfolio. The allowance for loan losses to non-performing loans increased to 84.83% as of September 30, 2013, from 79.50% as of December 31, 2012. The increase in this ratio is a result of the sale of one non-performing loan and an increase in specific reserves. The provision for loan losses was \$4.9 million for the three months ended September 30, 2013, compared to \$1.5 million for the same period in 2012 as a result of a \$4.3 million specific reserve, which was subsequently charged-off, in the three months ended September 30, 2013. The provision for loan losses was \$7.7 million for the nine months ended September 30, 2013, compared to \$5.2 million for the same period in 2012.

Our book value per common share, assuming preferred shares were converted to common shares, increased \$0.33 or 3.4%, to \$10.08 as of September 30, 2013, from \$9.75 as of December 31, 2012. Our tangible equity to tangible assets ratio increased to 13.13% as of September 30, 2013, from 10.50% as of December 31, 2012. Both trends are primarily the result of the capital raised in connection with our initial public offering and growth in our retained earnings.

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 “total revenue,” “pre-tax, pre-provision net revenue,” “efficiency ratio,” “tangible equity,” “tangible equity to tangible assets,” “common shares outstanding with preferred converted to common,” and “book value per share with preferred converted to common.” 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 equity” is defined as shareholders' equity reduced by intangible assets, including goodwill, if any. We believe this measure is important to management and investors to better understand and assess changes from period to period in shareholders' equity exclusive of changes in intangible assets. Goodwill, an intangible asset that is recorded in a purchase business combination, has the effect of increasing both equity and assets, while not increasing our tangible equity or tangible assets. We had no goodwill recorded on our balance sheet as of September 30, 2013.

“Tangible equity to tangible assets” is defined as the ratio of shareholders' equity reduced by intangible assets, divided by total assets reduced by intangible assets. We believe this measure is important to many investors who are interested in relative changes from period to period in equity and total assets, each exclusive of changes in intangible assets.

Table of Contents

“Common shares outstanding with preferred converted to common” is defined as shares of our common stock issued and outstanding, inclusive of our issued and outstanding Series C preferred stock. We believe this measure is important to many investors who are interested in changes from period to period in our shares of common stock issued and outstanding giving effect to the conversion of shares of our Series C preferred stock which were convertible at the option of the holder and were converted to common stock immediately prior to the closing of the initial public offering, which closed on May 14, 2013. Convertible shares of preferred stock had the effect of not impacting shares of common stock issued and outstanding until they were converted, at which point they added to the number of shares of common stock issued and outstanding.

“Book value per share with preferred converted to common” is defined as book value, divided by shares of common stock issued and outstanding with preferred stock converted to common stock. We believe this measure is important to many investors who are interested in changes from period to period in book value per share inclusive of shares of preferred stock that could be converted to shares of common stock. Prior to conversion, convertible shares of preferred stock had the effect of not impacting book value per common share, but reduced our book value per share with preferred converted to common.

“Total revenue” is defined as net interest income and non-interest income, excluding gains and losses on sales of investment securities available-for-sale. 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 other items that are unrelated to our core business.

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

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

(Dollars in thousands, except share and per share data)	September 30, 2013	December 31, 2012
Book value per share with preferred converted to common:		
Common shareholders' equity	\$289,066	\$171,713
Preferred stock (convertible)	—	46,011
Total common shareholders' equity and preferred stock to Series C	\$289,066	\$217,724
Preferred shares outstanding	—	48,780.488
Conversion factor	—	100
Preferred shares converted to common shares outstanding	—	4,878,049
Common shares outstanding	28,690,279	17,444,730
Common shares with preferred shares converted to common	28,690,279	22,322,779
Book value per share with preferred converted to common	\$10.08	\$9.75
Tangible equity to tangible assets:		
Total shareholders' equity	\$289,066	\$217,724
Less: intangible assets	—	—

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

Tangible equity	\$289,066	\$217,724	
Total assets	\$2,200,897	\$2,073,129	
Less: intangible assets	—	—	
Tangible assets	\$2,200,897	\$2,073,129	
Tangible equity to tangible assets	13.13	% 10.50	%

38

---

Table of Contents

(Dollars in thousands)	Three Months Ended September		Nine Months Ended September		
	30, 2013	2012	30, 2013	2012	
Pre-tax, pre-provision net revenue:					
Net interest income before provision for loan losses	\$ 15,772	\$ 14,819	\$ 45,400	\$ 42,065	
Total non-interest income	1,118	1,545	4,210	5,079	
Less: net gain on the sale of investment securities available-for-sale	—	99	784	1,114	
Total revenue	16,890	16,265	48,826	46,030	
Less: total non-interest expense	10,016	9,994	29,604	28,008	
Pre-tax, pre-provision net revenue	\$ 6,874	\$ 6,271	\$ 19,222	\$ 18,022	
Efficiency ratio:					
Total non-interest expense (numerator)	\$ 10,016	\$ 9,994	\$ 29,604	\$ 28,008	
Total revenue (denominator)	\$ 16,890	\$ 16,265	\$ 48,826	\$ 46,030	
Efficiency ratio	59.30	% 61.44	% 60.63	% 60.85	%

## Results of Operations

## Net Interest Income

Net interest income represents the difference between the interest and fees earned 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 rates paid. Maintaining consistent spreads between earning assets and interest-bearing liabilities is very significant to our financial performance because net interest income comprised 93.0% and 91.4% of total revenue for the nine months ended September 30, 2013 and 2012, respectively.

The table below reflects an analysis of net interest income, on a fully taxable equivalent basis, for the periods indicated. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax exempt income by one minus the statutory federal income tax rate of 35.0%.

(Dollars in thousands)	Three Months Ended September		Nine Months Ended September		
	30, 2013	2012	30, 2013	2012	
Interest income	\$ 18,384	\$ 18,146	\$ 53,966	\$ 52,427	
Fully taxable equivalent adjustment	59	50	168	71	
Interest income adjusted	18,443	18,196	54,134	52,498	
Interest expense	2,612	3,327	8,566	10,362	
Net interest income adjusted	\$ 15,831	\$ 14,869	\$ 45,568	\$ 42,136	
Yield on earning assets	3.42	% 3.72	% 3.45	% 3.74	%
Cost of interest-bearing liabilities	0.58	% 0.84	% 0.64	% 0.92	%
Net interest spread	2.84	% 2.88	% 2.81	% 2.82	%
Net interest margin <sup>(1)</sup>	2.93	% 3.04	% 2.90	% 3.00	%

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

The following table provides information regarding the average balances and yields earned on interest-earning assets and the average balances and rates paid on interest-bearing liabilities for the three months ended September 30, 2013 and 2012. Non-accrual loans are included in the calculation of the average loan balances, while interest collected on non-accrual loans is recorded as a reduction to principal. Where applicable, interest income and yield are reflected on a tax equivalent basis, and have been adjusted based on the statutory federal income tax rate of 35.0%.



Table of Contents

(Dollars in thousands)	Three Months Ended September 30, 2013			2012				
	Average Balance	Interest Income <sup>(1)</sup> / Expense	Average Yield/ Rate		Average Balance	Interest Income <sup>(1)</sup> / Expense	Average Yield/ Rate	
<b>Assets</b>								
Interest-earning deposits	\$ 135,519	\$ 129	0.38	%	\$ 158,938	\$ 135	0.34	%
Federal funds sold	6,900	1	0.06	%	7,950	2	0.10	%
Investment securities available-for-sale	218,513	814	1.48	%	185,760	831	1.78	%
Investment securities held-to-maturity	23,737	192	3.21	%	—	—	—	%
Investment securities trading	6,869	44	2.54	%	4,328	19	1.75	%
Total loans	1,750,101	17,263	3.91	%	1,588,933	17,209	4.31	%
Total interest-earning assets	2,141,639	18,443	3.42	%	1,945,909	18,196	3.72	%
Other assets	52,549				37,800			
Total assets	\$2,194,188				\$1,983,709			
<b>Liabilities and Shareholders' Equity</b>								
<b>Interest-bearing deposits:</b>								
Interest-bearing checking accounts	\$5,348	\$ 1	0.07	%	\$3,553	\$ 1	0.11	%
Money market deposit accounts	935,858	899	0.38	%	698,354	1,049	0.60	%
Time deposits (excluding CDARS <sup>®</sup> )	465,435	1,068	0.91	%	505,942	1,469	1.16	%
CDARS <sup>®</sup> time deposits	359,845	623	0.69	%	369,075	806	0.87	%
Borrowings	20,000	21	0.42	%	1,631	2	0.49	%
Total interest-bearing liabilities	1,786,486	2,612	0.58	%	1,578,555	3,327	0.84	%
Noninterest-bearing deposits	102,649				171,277			
Other liabilities	14,182				15,922			
Shareholders' equity	290,871				217,955			
Total liabilities and shareholders' equity	\$2,194,188				\$1,983,709			
Net interest income		\$15,831				\$14,869		
Net interest spread			2.84	%			2.88	%
Net interest margin <sup>(1)</sup>			2.93	%			3.04	%

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

Net Interest Income for the Three Months Ended September 30, 2013 and 2012. Net interest income, calculated on a fully taxable equivalent basis, increased \$962,000 or 6.5%, to \$15.8 million for the three months ended September 30, 2013, from \$14.9 million for the same period in 2012. The increase in net interest income for the three months ended September 30, 2013, was primarily attributable to a \$195.7 million, or 10.1%, increase in average interest-earning assets, partially offset by a decrease in net interest margin of 11 basis points to 2.93%. The increase in net interest income reflects an increase of \$247,000, or 1.4%, in interest income, coupled with a decrease of \$715,000, or 21.5%, in interest expense.

The increase in interest income was primarily the result of an increase in average total loans of \$161.2 million, or 10.1%, which is our highest yielding earning asset and our core business, as well as an increase of \$32.8 million, or 17.6%, in average investment securities available-for-sale, partially offset by a decrease of 40 basis points in yield on our total loans. The declining yield on our loan portfolio was reflective of the low interest rate environment, coupled with market pressure from competition for higher quality loans. Although our yield on loans declined 40 basis points, the overall yield on interest-earning assets declined 30 basis points to 3.42% for the three months ended September 30, 2013, as compared to 3.72% for the same period in 2012, primarily as a result of the shift in the composition of

our earning assets from lower yielding interest-earning deposits to higher yielding loans and securities.

Interest expense on interest-bearing liabilities of \$2.6 million, for the three months ended September 30, 2013, decreased \$715,000 or 21.5% from the same period in 2012 as a result of a decrease of 26 basis points in the average rate paid on our average interest-bearing liabilities compared to the same period in 2012, partially offset by an increase of \$207.9 million or 13.2% in average interest-bearing liabilities for the three months ended September 30, 2013, for the same period. The decrease in average rate paid was reflective of decreases in rates paid across all interest-bearing deposit categories, as well as a shift in our deposit mix. The increase in average interest-bearing liabilities was driven primarily by an increase of \$237.5 million, or 34.0%, in average money market deposit accounts, coupled

Table of Contents

with an increase of \$18.4 million in average borrowings, partially offset by a decrease of \$40.5 million, or 8.0%, in average time deposits (excluding CDARS®) and a decline in average CDARS® time deposits of \$9.2 million, or 2.5%.

The following tables analyze the dollar amount of change in interest income and interest expense with respect to the primary components of interest-earning assets and interest-bearing liabilities. The table shows the amount of the change in interest income or interest expense caused by either changes in outstanding balances or changes in interest rates for the three months ended September 30, 2013 and 2012. The effect of a change in balances is measured by applying the average rate during the first period to the balance (“volume”) change between the two periods. The effect of changes in rate is measured by applying the change in rate between the two periods to the average volume during the first period.

(Dollars in thousands)	Three Months Ended September 30, 2013 over 2012		
	Yield/Rate	Volume	Change <sup>(1)</sup>
Increase (decrease) in:			
Interest income:			
Interest-earning deposits	\$ 15	\$(21 )	\$(6 )
Federal funds sold	(1 )	—	(1 )
Investment securities available-for-sale	(151 )	134	(17 )
Investment securities held-to-maturity	96	96	192
Investment securities trading	11	14	25
Total loans	(1,609 )	1,663	54
Total increase (decrease) in interest income	(1,639 )	1,886	247
Interest expense:			
Interest-bearing deposits:			
Interest-bearing checking accounts	—	—	—
Money market deposit accounts	(444 )	294	(150 )
Time deposits (excluding CDARS®)	(290 )	(111 )	(401 )
CDARS® time deposits	(163 )	(20 )	(183 )
Borrowings	—	19	19
Total increase (decrease) in interest expense	(897 )	182	(715 )
Total increase (decrease) in net interest income	\$(742 )	\$1,704	\$962

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

The following table provides information regarding the average balances and yields earned on interest-earning assets and the average balances and rates paid on interest-bearing liabilities for the nine months ended September 30, 2013 and 2012. Non-accrual loans are included in the calculation of the average loan balances, while interest collected on non-accrual loans is recorded as a reduction to principal. Where applicable, interest income and yield are reflected on a tax equivalent basis, and have been adjusted based on the statutory federal income tax rate of 35.0%.

Table of Contents

(Dollars in thousands)	Nine Months Ended September 30, 2013			2012			
	Average Balance	Interest Income <sup>(1)</sup> / Expense	Average Yield/ Rate	Average Balance	Interest Income <sup>(1)</sup> / Expense	Average Yield/ Rate	
<b>Assets</b>							
Interest-earning deposits	\$ 159,669	\$ 442	0.37	% \$ 170,447	\$ 399	0.31	%
Federal funds sold	9,066	7	0.10	% 8,427	7	0.11	%
Investment securities available-for-sale	209,523	2,536	1.62	% 180,287	2,295	1.70	%
Investment securities held-to-maturity	10,233	238	3.11	% —	—	—	%
Investment securities trading	4,091	71	2.32	% 3,150	42	1.78	%
Total loans	1,707,014	50,840	3.98	% 1,510,789	49,755	4.40	%
Total interest-earning assets	2,099,596	54,134	3.45	% 1,873,100	52,498	3.74	%
Other assets	48,547				32,256		
Total assets	\$ 2,148,143				\$ 1,905,356		
<b>Liabilities and Shareholders' Equity</b>							
<b>Interest-bearing deposits:</b>							
Interest-bearing checking accounts	\$ 5,484	\$ 3	0.07	% \$ 3,910	\$ 2	0.07	%
Money market deposit accounts	923,962	2,834	0.41	% 648,750	2,944	0.61	%
Time deposits (excluding CDARS <sup>®</sup> )	479,609	3,614	1.01	% 466,200	4,626	1.33	%
CDARS <sup>®</sup> time deposits	354,172	2,051	0.77	% 383,101	2,788	0.97	%
Borrowings	20,000	64	0.43	% 548	2	0.49	%
Total interest-bearing liabilities	1,783,227	8,566	0.64	% 1,502,509	10,362	0.92	%
Noninterest-bearing deposits	88,018				189,357		
Other liabilities	20,126				14,439		
Shareholders' equity	256,772				199,051		
Total liabilities and shareholders' equity	\$ 2,148,143				\$ 1,905,356		
Net interest income		\$ 45,568			\$ 42,136		
Net interest spread			2.81	%		2.82	%
Net interest margin <sup>(1)</sup>			2.90	%		3.00	%

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

Net Interest Income for the Nine Months Ended September 30, 2013 and 2012. Net interest income, calculated on a fully taxable equivalent basis, increased \$3.4 million or 8.1%, to \$45.6 million for the nine months ended September 30, 2013, from \$42.1 million for the same period in 2012. The increase in net interest income for the nine months ended September 30, 2013, was primarily attributable to a \$226.5 million, or 12.1%, increase in average interest-earning assets, partially offset by a decrease in net interest margin of 10 basis points to 2.90%. The increase in net interest income reflects an increase of \$1.6 million, or 3.1%, in interest income, coupled with a decrease of \$1.8 million, or 17.3%, in interest expense.

The increase in interest income was primarily the result of an increase in average total loans of \$196.2 million, or 13.0%, which is our highest yielding earning asset and our core business, as well as an increase of \$29.2 million, or 16.2%, in average investment securities available-for-sale, partially offset by a decrease of 42 basis points in yield on our loans. The declining yield on our loan portfolio was reflective of the low interest rate environment, coupled with market pressure from competition for higher quality loans. The overall yield on interest-earning assets declined 29 basis points to 3.45% for the nine months ended September 30, 2013, as compared to 3.74% for the same period in 2012, primarily as a result of the shift in the composition of our earning assets from lower yielding interest-earning

deposits to higher yielding loans and investment securities.

Interest expense on interest-bearing liabilities of \$8.6 million, for the nine months ended September 30, 2013, decreased \$1.8 million or 17.3% from the same period in 2012 as a result of a decrease of 28 basis points in the average rate paid on our average interest-bearing liabilities compared to the same period in 2012, partially offset by an increase of \$280.7 million or 18.7% in average interest-bearing liabilities for the nine months ended September 30, 2013, for the same period. The decrease in average rate paid was reflective of decreases in rates paid across all interest-bearing deposit categories, as well as a shift in our deposit mix. The increase in average interest-bearing liabilities was driven primarily by an increase of \$275.2 million, or 42.4%, in average money market deposit accounts, coupled with an

Table of Contents

increase of \$13.4 million, or 2.9%, in average time deposits (excluding CDARS®) and an increase of \$19.5 million in average borrowings, partially offset by a decline in average CDARS® time deposits of \$28.9 million, or 7.6%.

The following tables analyze the dollar amount of change in interest income and interest expense with respect to the primary components of interest-earning assets and interest-bearing liabilities. The table shows the amount of the change in interest income or interest expense caused by either changes in outstanding balances or changes in interest rates for the nine months ended September 30, 2013 and 2012. The effect of a change in balances is measured by applying the average rate during the first period to the balance (“volume”) change between the two periods. The effect of changes in rate is measured by applying the change in rate between the two periods to the average volume during the first period.

(Dollars in thousands)	Nine Months Ended September 30, 2013 over 2012		
	Yield/Rate	Volume	Change <sup>(1)</sup>
Increase (decrease) in:			
Interest income:			
Interest-earning deposits	\$ 70	\$ (27 )	\$ 43
Federal funds sold	—	—	—
Investment securities available-for-sale	(110 )	351	241
Investment securities held-to-maturity	119	119	238
Investment securities trading	15	14	29
Total loans	(4,900 )	5,985	1,085
Total increase (decrease) in interest income	(4,806 )	6,442	1,636
Interest expense:			
Interest-bearing deposits:			
Interest-bearing checking accounts	—	1	1
Money market deposit accounts	(1,121 )	1,011	(110 )
Time deposits (excluding CDARS®)	(1,139 )	127	(1,012 )
CDARS® time deposits	(536 )	(201 )	(737 )
Borrowings	—	62	62
Total increase (decrease) in interest expense	(2,796 )	1,000	(1,796 )
Total increase (decrease) in net interest income	\$(2,010 )	\$5,442	\$3,432

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

### Provision for Loan Losses

The provision for loan losses represents our determination of the amount necessary to be charged 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 and Nine Months Ended September 30, 2013 and 2012. We recorded a \$4.9 million and \$7.7 million provision for loan losses for the three and nine months ended September 30, 2013, respectively. The provision for loan losses was largely driven by the deterioration and charge-offs of individual credits totaling \$4.3 million and \$7.4 million for the three and nine months ended September 30, 2013, respectively. These

charge-offs represent one commercial and industrial loan for the three months ended September 30, 2013, and three commercial and industrial loans and one commercial real estate loan for the nine months ended September 30, 2013. There were no charge-offs for the private banking-personal portfolio for the nine months ended September 30, 2013, as a result of the overall high asset quality of this portfolio.

#### Non-Interest Income

Non-interest income is an important component of our revenue and it is comprised primarily of certain fees generated from loan and deposit relationships with our customers, coupled with income generated from swap transactions entered into as a direct result of transactions with our customers. In addition, from time to time as opportunities arise, we sell portions of our investment securities. Gains

Table of Contents

or losses experienced on these sales are less predictable than many of the other components of our non-interest income because the amount of realized gains or losses are impacted by a number of factors, including the nature of the security sold, the purpose of the sale, the interest rate environment and other market conditions.

The following tables present the components of our non-interest income for the three months ended September 30, 2013 and 2012:

(Dollars in thousands)	Three Months Ended September 30,		2013 Change from 2012		
	2013	2012	Amount	Percent	
Service charges	\$120	\$123	\$(3)	(2.4)	)%
Net gain on the sale of investment securities available-for-sale	—	99	(99)	(100.0)	)%
Interest rate swap fees	163	61	102	167.2	%
Commitment and other fees	506	881	(375)	(42.6)	)%
Other income <sup>(1)</sup>	329	381	(52)	(13.6)	)%
Total non-interest income	\$1,118	\$1,545	\$(427)	(27.6)	)%

<sup>(1)</sup> Other income includes such items as income from BOLI, change in the market value of swap related assets, trading income and other general operating income.

Non-Interest Income for the Three Months Ended September 30, 2013 and 2012. Our non-interest income was \$1.1 million for the three months ended September 30, 2013, a decrease of \$427,000, or 27.6%, from \$1.5 million for the same period in 2012, primarily related to a decrease in commitment and other fees.

We recognized a net gain on the sale of investment securities available-for-sale of \$99,000 for the three months ended September 30, 2012, compared to no gain for the same period in 2013. During the three months ended September 30, 2012, we identified opportunities in the marketplace to sell certain investment securities to help fund our loan growth. Although income resulting from these transactions is reported within non-interest income, we exclude such income in the computation of our revenue and efficiency ratio, since we view these transactions as an opportunistic component of our funding strategy and not as a core component of our non-interest income. In addition, the level and frequency of income generated from these transactions can vary materially based on market conditions.

Swap fees of \$163,000 for the three months ended September 30, 2013, represented an increase of \$102,000, or 167.2%, from the same period in 2012, driven by fluctuations 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 for market conditions.

Commitment and other fees for the three months ended September 30, 2013, decreased \$375,000, or 42.6%, to \$506,000, compared to \$881,000 for the same period in 2012, driven by fluctuations in fees related to loans and loan commitments.

Other income of \$329,000 for the three months ended September 30, 2013, decreased \$52,000 or 13.6% from \$381,000 for the same period in 2012, primarily due to \$219,000 of lower trading income on our trading investment securities partially offset by \$170,000 of higher income from BOLI, as our investment in this product increased to \$41.6 million, as of September 30, 2013, from \$20.7 million, as of September 30, 2012.

The following tables present the components of our non-interest income for the nine months ended September 30, 2013 and 2012:

(Dollars in thousands)	Nine Months Ended September 30,		2013 Change from 2012		
	2013	2012	Amount	Percent	



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

Service charges	\$356	\$322	\$34	10.6	%
Net gain on the sale of investment securities available-for-sale	784	1,114	(330)	(29.6)	%
Interest rate swap fees	538	774	(236)	(30.5)	%
Commitment and other fees	1,561	2,103	(542)	(25.8)	%
Other income <sup>(1)</sup>	971	766	205	26.8	%
Total non-interest income	\$4,210	\$5,079	\$(869)	(17.1)	%

<sup>(1)</sup> Other income includes such items as income from BOLI, change in the market value of swap related assets, trading income and other general operating income.

Table of Contents

Non-Interest Income for the Nine Months Ended September 30, 2013 and 2012. Our non-interest income was \$4.2 million for the nine months ended September 30, 2013, a decrease of \$869,000, or 17.1%, from \$5.1 million for the same period in 2012, primarily related to decreases in swap fees, net gain on sale of investment securities available-for-sale and commitment and other fees, partially offset by an increase in other income.

We recognized a net gain on the sale of investment securities available-for-sale of \$784,000 for the nine months ended September 30, 2013, compared to \$1.1 million for the same period in 2012.

Swap fees of \$538,000 for the nine months ended September 30, 2013, represented a decrease of \$236,000, or 30.5%, from the same period in 2012, driven by fluctuations 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 for market conditions.

Commitment and other fees for the nine months ended September 30, 2013, decreased \$542,000, or 25.8%, to \$1.6 million, compared to \$2.1 million for the same period in 2012, driven by fluctuations in fees related to loans and loan commitments.

Other income of \$971,000 for the nine months ended September 30, 2013, increased \$205,000 or 26.8% from \$766,000 for the same period in 2012, primarily due to \$321,000 higher income from BOLI as a result of an increase in our investment in this product coupled with \$197,000 higher income resulting from an increase in the values of our swaps, partially offset by \$338,000 lower trading income on our trading investment securities.

## Non-Interest Expense

Our non-interest expense represents the operating cost of maintaining and growing our business. The largest portion of non-interest expense 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 following table presents the components of our non-interest expense for the three months ended September 30, 2013 and 2012:

(Dollars in thousands)	Three Months Ended		2013 Change from 2012		
	September 30, 2013	September 30, 2012	Amount	Percent	
Compensation and employee benefits	\$5,904	\$6,333	\$(429)	(6.8)	)%
Premises and occupancy costs	777	758	19	2.5	%
Professional fees	678	811	(133)	(16.4)	)%
FDIC insurance expense	375	343	32	9.3	%
State capital shares tax	368	321	47	14.6	%
Travel and entertainment expense	447	282	165	58.5	%
Data processing expense	203	190	13	6.8	%
Other operating expenses <sup>(1)</sup>	1,264	956	308	32.2	%
Total non-interest expense	\$10,016	\$9,994	\$22	0.2	%
Full-time equivalent employees <sup>(2)</sup>	128	116	12	10.3	%

Other operating expenses includes such items as general bank insurance, investor relations, investment management fees, charitable contributions, telephone, marketing, loan-related expenses, 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 September 30, 2013 and 2012. Our non-interest expense for the three months ended September 30, 2013, increased \$22,000, or 0.2%, as compared to the same period in 2012, primarily related to increases in travel and entertainment expenses and other operating expenses offset by decreases in compensation and employee benefits and professional fees.

For the three months ended September 30, 2013, compensation and employee benefits decreased by \$429,000, or 6.8%, to \$5.9 million, from \$6.3 million for the same period in 2012. The decrease was primarily due to lower incentive compensation expense offset by an increase in the number of full-time equivalent employees and the overall increased wage and benefits costs of our existing employees.

Professional fees expense decreased \$133,000 or 16.4%, to \$678,000 for the three months ended September 30, 2013, as compared to \$811,000 for the same period in 2012 largely due to lower legal expenses.

Table of Contents

Travel and entertainment expense increased \$165,000 or 58.5%, to \$447,000 for the three months ended September 30, 2013, as compared to \$282,000 for the same period in 2012 due to an increase in the number of relationship managers and also increased investor relations activity related to being a public company.

Other operating expenses of \$1.3 million for the three months ended September 30, 2013, increased by \$308,000, or 32.2%, as compared to the same period in 2012, primarily as a result of an increase of \$234,000 in investor relations and insurance costs related to being a public company.

The following table presents the components of our non-interest expense for the nine months ended September 30, 2013 and 2012:

(Dollars in thousands)	Nine Months Ended		2013 Change from 2012		
	September 30, 2013	September 30, 2012	Amount	Percent	
Compensation and employee benefits	\$18,446	\$17,911	\$535	3.0	%
Premises and occupancy costs	2,331	2,059	272	13.2	%
Professional fees	2,073	2,184	(111)	(5.1)	)%
FDIC insurance expense	1,062	1,032	30	2.9	%
State capital shares tax	1,025	945	80	8.5	%
Travel and entertainment expense	1,106	881	225	25.5	%
Data processing expense	582	622	(40)	(6.4)	)%
Other operating expenses <sup>(1)</sup>	2,979	2,374	605	25.5	%
Total non-interest expense	\$29,604	\$28,008	\$1,596	5.7	%

Other operating expenses includes such items as general bank insurance, investor relations, investment

<sup>(1)</sup> management fees, charitable contributions, telephone, marketing, loan-related expenses, employee-related expenses and other general operating expenses.

Non-Interest Expense for the Nine Months Ended September 30, 2013 and 2012. Our non-interest expense for the nine months ended September 30, 2013, increased \$1.6 million, or 5.7%, as compared to the same period in 2012, primarily related to increases in compensation and employee benefits, premises and occupancy costs, travel and entertainment expenses and other operating expenses partially offset by lower professional fees.

For the nine months ended September 30, 2013, compensation and employee benefits increased by \$535,000, or 3.0%, to \$18.4 million, from \$17.9 million for the same period in 2012. The increase was primarily due to an increase in the number of full-time equivalent employees and the overall increased wage and benefits costs of our existing employees.

For the nine months ended September 30, 2013, premises and occupancy costs increased by \$272,000, or 13.2%, to \$2.3 million, from \$2.1 million for the same period in 2012, primarily as a result of the establishment of our new representative office in New York and higher depreciation expense.

Professional fees expense decreased \$111,000 or 5.1%, to \$2.1 million for the nine months ended September 30, 2013, as compared to \$2.2 million for the same period in 2012 largely due to lower legal expenses.

For the nine months ended September 30, 2013, travel and entertainment expenses increased by \$225,000, or 25.5%, to \$1.1 million, from \$881,000 for the same period in 2012 due to an increase in the number of relationship managers.

Other operating expenses of \$3.0 million for the nine months ended September 30, 2013, increased by \$605,000, or 25.5%, as compared to the same period in 2012, primarily as a result of an increase of \$353,000 in investor relations and insurance costs related to being a public company.

## Income Taxes

We utilize the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities with regard to a change in tax rates is recognized in income in the period that includes the enactment date. We evaluate whether it is more likely than not that we will be able to realize the benefit of identified deferred tax assets.

Income Taxes for the Three Months Ended September 30, 2013 and 2012. For the three months ended September 30, 2013, we recognized income tax expense of \$633,000 or 32.2% of income before tax, as compared to income tax expense of \$1.9 million, or 38.9%, of income before tax, for the same period in 2012. Our effective tax rate for the three months ended September 30, 2012, was elevated by the limitation of deductible compensation expense under section 162(m) of the Internal Revenue Service. Conversely, our effective tax rate for the three months ended September 30, 2013, was lower due to increased levels of bank owned life insurance premiums and tax exempt interest income as compared to the same period last year.

Income Taxes for the Nine Months Ended September 30, 2013 and 2012. For the nine months ended September 30, 2013, we recognized income tax expense of \$4.2 million or 34.5% of income before tax, as compared to income tax expense of \$5.3 million, or 37.6%, of income before tax, for the same period in 2012. Our effective tax rate for the nine months ended September 30, 2012, was elevated by the limitation of deductible compensation expense under section 162(m) of the Internal Revenue Service. Conversely, our effective tax rate for the nine months ended September 30, 2013, was lower due to increased levels of bank owned life insurance premiums and tax exempt interest income as compared to the same period last year.

#### Financial Condition

Our total assets as of September 30, 2013, totaled \$2.2 billion which was an increase of \$127.8 million or 8.2% on an annualized basis, from December 31, 2012, as growth in our earning assets, which was driven primarily by growth in our loan portfolio and investments securities, was partially offset by a decrease in cash and cash equivalents as we funded our growth partially with excess cash. Our loan portfolio increased \$124.9 million or 10.2% on an annualized basis, to \$1.8 billion, as of September 30, 2013, from \$1.6 billion, as of December 31, 2012. Total investment securities increased \$48.2 million or 33.7% on an annualized basis, to \$239.4 million, as of September 30, 2013, from \$191.2 million, as of December 31, 2012. Cash and cash equivalents decreased \$60.2 million, to \$139.8 million, as of September 30, 2013, from \$200.1 million, as of December 31, 2012. Our total deposits increased \$55.3 million, or 4.1% on an annualized basis, to \$1.9 billion as of September 30, 2013. Our shareholders' equity increased \$71.3 million to \$289.1 million as of September 30, 2013, compared to \$217.7 million as of December 31, 2012. This increase was primarily the result of net proceeds from the issuance of common stock of \$66.0 million, coupled with \$8.1 million in net income, partially offset by a decrease of \$3.3 million in other comprehensive income, which represents the increase in the unrealized loss on our investment portfolio.

#### Loans

Our primary source of income is interest on loans. Our loan portfolio consists primarily of commercial and industrial loans, real estate loans secured by commercial real estate properties and loans to our private banking clients. Our loan portfolio represents the highest yielding component of our earning asset base.

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

(Dollars in thousands)	September 30, December 31,	
	2013	2012
Commercial and industrial	\$ 878,545	\$ 871,993
Commercial real estate	520,210	473,208
Private banking-personal	367,749	296,427
Total loans	\$ 1,766,504	\$ 1,641,628

Total loans. Total loans increased by \$124.9 million or 10.2% on an annualized basis, to \$1.8 billion as of September 30, 2013, as compared to December 31, 2012. Our growth for the nine months ended September 30, 2013, has been comprised of an increase in commercial and industrial loans of \$6.6 million or 1.0% on an annualized basis,

an increase in commercial real estate loans of \$47.0 million or 13.3% on an annualized basis, and an increase in private banking-personal loans of \$71.3 million or 32.2% on an annualized basis.

#### Primary Loan Categories

**Commercial and Industrial Loans.** Our commercial and industrial loan portfolio primarily includes loans made to service companies or manufacturers generally for the purpose of production, operating capacity, accounts receivable, inventory, equipment financing, acquisitions and recapitalizations. Cash flow from the borrower's operations is the primary source of repayment for these loans, except for our private banking commercial loans which are mostly secured by cash and marketable securities.

As of September 30, 2013, our commercial and industrial loans comprised \$878.5 million or 49.7% of total loans, compared to \$872.0 million or 53.1% of total loans as of December 31, 2012. Included in our commercial and industrial loans as of September 30, 2013, are

Table of Contents

\$120.2 million of loans sourced through our private banking channel with the proceeds used for a commercial or business purpose. The majority of our commercial loans sourced through our private banking channel are secured by cash and marketable securities.

**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, retail, industrial, multi-family and hospitality. 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 cash flow from income producing properties or the sale of property from construction and development loans are the primary sources of repayment for these loans.

Commercial real estate loans as of September 30, 2013, totaled \$520.2 million or 29.5% of total loans, as compared to \$473.2 million or 28.8% as of December 31, 2012. As of September 30, 2013, \$364.5 million of total commercial real estate loans were at a floating rate and \$155.8 million were at a fixed rate, as compared to \$352.8 million and \$120.4 million, respectively, as of December 31, 2012. Included in our commercial real estate loans as of September 30, 2013, are \$20.5 million of loans sourced through our private banking channel with the proceeds used for a commercial or business purpose.

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

As of September 30, 2013, private banking-personal loans (excluding those used for commercial purposes) were approximately \$367.7 million or 20.8% of total loans, of which \$193.2 million or 52.5% were secured by cash and marketable securities. This compared to the level, as of December 31, 2012, of \$296.4 million or 18.1% of total loans, of which \$141.7 million or 47.8% were secured by cash and marketable securities. Furthermore, as shown in the table below, aggregate loans secured by cash and marketable securities, including personal and commercial loans, grew by \$53.0 million or 22.4%, in the nine months ended September 30, 2013, to \$290.1 million as of September 30, 2013, from \$237.1 million as of December 31, 2012. The growth in loans secured by cash and marketable securities is expected to increase as a result of our strategy to focus on this portion of our private banking business as we believe these loans tend to have a lower risk profile.

As discussed above, loans through our private banking channel also include loans for commercial and business purposes, a majority of which are secured by cash and marketable securities. These loans are included in, and are discussed in connection with, the above-described commercial and industrial loan category. The table below includes all loans made through our private banking channel, by collateral type, as of the dates indicated.

(Dollars in thousands)	September 30, 2013	December 31, 2012
Private banking-personal loans:		
Secured by residential real estate	\$ 167,972	\$ 137,140
Secured by cash and marketable securities	193,185	141,745
Other	6,592	17,542
Total private banking-personal loans	\$367,749	\$296,427
Private banking-commercial loans:		
Secured by commercial real estate	\$20,504	\$19,510



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

Secured by cash marketable securities	96,929	95,372
Other	23,304	24,573
Total private banking-commercial loans	\$140,737	\$139,455
Total private banking channel loans	\$508,486	\$435,882

48

---

Table of Contents

## Loan Maturities and Interest Rate Sensitivity

The following tables present the contractual maturity ranges and the amount of such loans with fixed and adjustable rates in each maturity range as of the dates indicated.

(Dollars in thousands)	September 30, 2013			Total
	One Year or Less	One to Five Years	Greater Than Five Years	
Loan maturity:				
Commercial and industrial	\$782,307	\$73,100	\$23,138	\$878,545
Commercial real estate	354,579	114,832	50,799	520,210
Private banking-personal	208,670	94,325	64,754	367,749
Total loans	\$1,345,556	\$282,257	\$138,691	\$1,766,504
Interest rate sensitivity:				
Fixed interest rates	\$32,907	\$150,752	\$125,312	\$308,971
Floating or adjustable interest rates	1,312,649	131,505	13,379	1,457,533
Total loans	\$1,345,556	\$282,257	\$138,691	\$1,766,504

(Dollars in thousands)	December 31, 2012			Total
	One Year or Less	One to Five Years	Greater Than Five Years	
Loan maturity:				
Commercial and industrial	\$796,310	\$65,964	\$9,719	\$871,993
Commercial real estate	312,619	128,514	32,075	473,208
Private banking-personal	170,481	104,696	21,250	296,427
Total loans	\$1,279,410	\$299,174	\$63,044	\$1,641,628
Interest rate sensitivity:				
Fixed interest rates	\$24,515	\$151,704	\$48,965	\$225,184
Floating or adjustable interest rates	1,254,895	147,470	14,079	1,416,444
Total loans	\$1,279,410	\$299,174	\$63,044	\$1,641,628

## Interest Reserve Loans

As of September 30, 2013, loans with interest reserves totaled \$20.4 million, which represented 1.2% of total loans, as compared to \$34.3 million or 2.1% as of December 31, 2012. 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 effective and ongoing procedures and controls for monitoring compliance with loan covenants for advancing funds and determining default conditions. In addition, most of our construction lending is performed within our geographic footprint and our lenders are familiar with trends in the local real estate market.

## Allowance for Loan Losses

Our allowance for loan losses represents our estimate of probable loan losses inherent in the loan portfolio at a specific point in time. This estimate includes losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the loan portfolio. Additions are made to the allowance through both periodic provisions charged to income and recoveries of losses previously incurred. Reductions to the allowance occur as loans are charged off. Management evaluates the adequacy of the allowance at least quarterly. This evaluation is subjective and requires material estimates that may change over time.

The components of the allowance for loan losses represent estimates based upon ASC Topic 450, Contingencies, and ASC Topic 310, Receivables. ASC Topic 450 applies to homogeneous loan pools such as consumer installment, residential mortgages and consumer lines

Table of Contents

of credit, as well as commercial loans that are not individually evaluated for impairment under ASC Topic 310. ASC Topic 310 is applied to commercial loans that are individually evaluated for impairment.

Under ASC Topic 310, a loan is impaired when, based upon current information and events, 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 classified as a troubled debt restructuring. Management performs individual assessments of impaired loans to determine the existence of loss exposure and, where applicable, based upon the fair value of the collateral less estimated selling costs where a loan is collateral dependent.

In estimating probable loan loss under ASC Topic 450 and the required general reserve, we consider numerous factors, including historical charge-off rates and subsequent recoveries. We also consider, but are not limited to, qualitative factors that influence our credit quality, such as delinquency and non-performing loan trends, changes in loan underwriting guidelines and credit policies, as well as the results of internal loan reviews. Finally, we consider the impact of changes in current local and regional economic conditions in the markets that we serve. Assessment of relevant economic factors indicates that some of our primary markets historically tend to lag the national economy, with local economies in those primary markets also improving or weakening, as the case may be, but at a more measured rate than the national trends.

We base the computation of the allowance for loan losses under ASC Topic 450 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. Management has developed a methodology that is applied to each of our three primary loan portfolios, consisting of commercial and industrial, commercial real estate and private banking-personal loans. 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 may impact 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 which drives the secondary factor. There are nine risk factors and each risk factor is assigned a reserve level, based on 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. Monthly updates are presented to our board of directors as to the status of loan quality.

Loan participations follow the same underwriting and risk rating criteria and are individually risk-rated under the same process as loans we directly originated. Our ongoing credit review of the loan participation portfolio follows the same process we use for loans we originate directly. Management does not rely on information from the lead bank when considering the appropriate level of allowance for loan losses to be recorded on our loan participations.

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

(Dollars in thousands)	September 30, 2013	December 31, 2012	
General reserves	\$ 12,773	\$ 13,440	
Specific reserves	5,508	4,434	
Total allowance for loan losses	\$ 18,281	\$ 17,874	
Allowance for loan losses to total loans	1.03	% 1.09	%

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

As of September 30, 2013, we had specific reserves totaling \$5.5 million, related to six commercial and industrial loans, with an aggregated total outstanding balance of \$16.4 million. All of these loans were on non-accrual status as of September 30, 2013.

As of December 31, 2012, we had specific reserves totaling \$4.4 million related to four commercial and industrial loans and one commercial real estate loan, with an aggregated total outstanding balance of \$9.4 million. All of these loans were on non-accrual status as of December 31, 2012.

Table of Contents

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

(Dollars in thousands)	September 30, 2013			December 31, 2012			
	Reserve	Percent of Reserve	Percent of Loans	Reserve	Percent of Reserve	Percent of Loans	
Commercial and industrial	\$12,949	70.8	%49.7	% \$11,319	63.3	%53.1	%
Commercial real estate	4,476	24.5	%29.5	% 5,252	29.4	%28.8	%
Private banking-personal	856	4.7	%20.8	% 1,303	7.3	%18.1	%
Total allowance for loan losses	\$18,281	100.0	%100.0	% \$17,874	100.0	%100.0	%

Allowance for Loan Losses as of September 30, 2013 and December 31, 2012. Our allowance for loan losses increased to \$18.3 million, or 1.03%, of total loans as of September 30, 2013, as compared to \$17.9 million, or 1.09% of total loans, as of December 31, 2012. The increase in the total reserve was primarily attributable to an increase in specific reserves related to two commercial and industrial loans offset by a decrease in specific reserves related to the sale of one commercial real estate loan and continued strong credit results in the private banking-personal loan portfolio.

Our allowance for loan losses related to commercial and industrial loans increased to \$12.9 million as of September 30, 2013, as compared to \$11.3 million as of December 31, 2012. This increase was primarily attributable to an increase in related specific reserves on two loans. Our allowance for loan losses related to commercial real estate loans decreased by \$776,000, to \$4.5 million as of September 30, 2013, as compared to \$5.3 million as of December 31, 2012. This decrease was primarily attributable to the decrease in specific reserves related to the sale of one commercial real estate loan. Our allowance for loan losses related to private banking-personal loans decreased \$447,000, to \$856,000 as of September 30, 2013, as compared to \$1.3 million at December 31, 2012, as there were no charge-offs during the nine month ended September, 30, 2013, due to the overall high asset quality of this portfolio.

#### Net Charge-Offs

Our charge-off policy for commercial 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.

Table of Contents

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

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,		
	2013	2012	2013	2012	
Beginning balance	\$17,708	\$17,464	\$17,874	\$16,350	
Charge-offs:					
Commercial and industrial	(4,339	) —	(5,508	) —	
Commercial real estate	—	—	(1,936	) (2,614	)
Private banking-personal	—	—	—	—	
Total charge-offs	(4,339	) —	(7,444	) (2,614	)
Recoveries:					
Commercial and industrial	—	—	114	104	
Commercial real estate	1	—	23	—	
Private banking-personal	—	—	—	—	
Total recoveries	1	—	137	104	
Net charge-offs	(4,338	) —	(7,307	) (2,510	)
Provision for loan losses	4,911	1,537	7,714	5,161	
Ending balance	\$18,281	\$19,001	\$18,281	\$19,001	
Net loan charge-offs to average total loans <sup>(1)</sup>	0.98	%—	% 0.57	%0.22	%
Provision for loan losses to average total loans <sup>(1)</sup>	1.11	%0.38	% 0.60	%0.46	%
Allowance for loan losses to net loan charge-offs <sup>(1)</sup>	106.22	%—	% 187.12	%566.72	%
Provision for loan losses to net loan charge-offs <sup>(1)</sup>	113.21	%—	% 105.57	%205.62	%

<sup>(1)</sup> Interim period ratios are annualized.

The following table shows the changes in the allowance for loan losses by category for the three months ended September 30, 2013 and 2012:

(Dollars in thousands)	Three Months Ended September 30, 2013				
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total	
Balance, beginning of period	\$12,656	\$3,735	\$ 1,317	\$17,708	
Provision for loan losses	4,632	740	(461	) 4,911	
Charge-offs	(4,339	)—	—	(4,339	)
Recoveries	—	1	—	1	
Balance, end of period	\$12,949	\$4,476	\$ 856	\$18,281	
(Dollars in thousands)	Three Months Ended September 30, 2012				
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total	
Balance, beginning of period	\$11,001	\$5,204	\$ 1,259	\$17,464	
Provision for loan losses	845	524	168	1,537	
Charge-offs	—	—	—	—	
Recoveries	—	—	—	—	
Balance, end of period	\$11,846	\$5,728	\$ 1,427	\$19,001	

Net Charge-Offs for the Three Months Ended September 30, 2013. Our net loan charge-offs of \$4.3 million or 0.98% of average loans on an annualized basis, for the three months ended September 30, 2013, were comprised a charge-off of \$4.3 million on one commercial and industrial loan, partially offset by a recovery of \$1,000 on one commercial real estate loan.

52

---



Table of Contents

Net Charge-Offs for the Three Months Ended September 30, 2012. There were no charge-offs for the three months ended September 30, 2012, and no recoveries for the three months ended September 30, 2012.

The following table shows the changes in the allowance for loan losses by category for the nine months ended September 30, 2013 and 2012:

(Dollars in thousands)	Nine Months Ended September 30, 2013			
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Balance, beginning of period	\$11,319	\$5,252	\$ 1,303	\$17,874
Provision for loan losses	7,024	1,137	(447	) 7,714
Charge-offs	(5,508	)(1,936	)—	(7,444 )
Recoveries	114	23	—	137
Balance, end of period	\$12,949	\$4,476	\$ 856	\$18,281

  

(Dollars in thousands)	Nine Months Ended September 30, 2012			
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Balance, beginning of period	\$8,899	\$6,580	\$ 871	\$16,350
Provision for loan losses	2,843	1,762	556	5,161
Charge-offs	—	(2,614	)—	(2,614 )
Recoveries	104	—	—	104
Balance, end of period	\$11,846	\$5,728	\$ 1,427	\$19,001

Net Charge-Offs for the Nine Months Ended September 30, 2013. Our net loan charge-offs of \$7.3 million or 0.57% of average loans on an annualized basis, for the nine months ended September 30, 2013, were comprised of charge-offs of \$5.5 million on three commercial and industrial loans and \$1.9 million on one commercial real estate loan, partially offset by recoveries of \$114,000 on three commercial and industrial loans and \$23,000 on two commercial real estate loans.

Net Charge-Offs for the Nine Months Ended September 30, 2012. Our net loan charge-offs of \$2.5 million, or 0.22% of average loans on an annualized basis, for the nine months ended September 30, 2012, were comprised of charge-offs of \$2.6 million on two commercial real estate loans, partially offset by a recovery of \$104,000 on one commercial and industrial loan.

#### Non-Performing Assets

Non-performing assets consist of non-performing loans, other real estate owned and other repossessed assets. Non-performing loans consist of loans that are on non-accrual status. OREO of real property acquired through foreclosure on the collateral underlying defaulted loans and includes in-substance foreclosures, which are loans for which the borrower has no equity in the collateral at market value and are therefore accounted for as if they had been foreclosed on. We initially record OREO at the lower of carrying value or fair value, less estimated costs to sell the assets. We account for TDRs in accordance with ASC 310, Receivables.

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 or the borrower files for federal bankruptcy protection. There were no loans 90 days or more past due and still accruing interest as of September 30, 2013 and

December 31, 2012, and there was no interest income recognized on these loans for the nine months ended September 30, 2013 and 2012, while these loans were on non-accrual. As of September 30, 2013, non-performing loans were \$21.6 million or 1.22% of total loans, compared to \$22.5 million or 1.37% of total loans, as of December 31, 2012.

Once the determination is made that a foreclosure is necessary, the loan is reclassified as “in-substance foreclosure” until a sale date and title to the property is finalized. Once we own the property, it is maintained, marketed, rented and sold to repay the original loan. Historically, foreclosure trends in our loan portfolio have been low due to the seasoning of our portfolio. Any loans that are modified or extended are reviewed for potential classification as a TDR loan. 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.

Table of Contents

We had non-performing assets of \$21.8 million, or 0.99% of total assets, as of September 30, 2013, as compared to \$22.8 million, or 1.10% of total assets, as of December 31, 2012. The decrease in non-performing assets in 2013 was considered within the assessment of the determination of the allowance for loan losses. As of September 30, 2013, we had one property that was OREO which totaled \$290,000, and no loans 90 days or more past due and still accruing interest.

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

(Dollars in thousands)	September 30, 2013	December 31, 2012	
Non-performing loans:			
Commercial and industrial	\$ 17,184	\$ 15,679	
Commercial real estate	4,366	6,804	
Private banking-personal	—	—	
Total non-performing loans	\$ 21,550	\$ 22,483	
Other real estate owned	290	290	
Total non-performing assets	\$ 21,840	\$ 22,773	
Non-performing troubled debt restructured loans <sup>(1)</sup>	\$ 13,422	\$ 4,210	
Performing troubled debt restructured loans	\$ 530	\$ 253	
Loans past due 90 days and still accruing	\$ —	\$ —	
Non-performing loans to total loans	1.22	% 1.37	%
Allowance for loan losses to non-performing loans	84.83	% 79.50	%
Non-performing assets to total assets	0.99	% 1.10	%

<sup>(1)</sup> Included in total non-performing loans.

## 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 present loan 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 probable loan losses. We also assess alternatives to maximize collection of any past due loans, including, without limitation, restructuring loan terms, requiring additional loan guarantee(s) or collateral or other planned action. The following table presents the age analysis of past due loans segregated by class of loan, as of the dates indicated.

(Dollars in thousands)	September 30, 2013				Current	Total Loans
	30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due		
Commercial and industrial	\$ 1,170	\$ —	\$ 2,079	\$ 3,249	\$ 875,296	\$ 878,545
Commercial real estate	—	—	4,366	4,366	515,844	520,210
Private banking-personal	—	—	—	—	367,749	367,749
Total loans	\$ 1,170	\$ —	\$ 6,445	\$ 7,615	\$ 1,758,889	\$ 1,766,504

  

(Dollars in thousands)	December 31, 2012	
	Current	Total Loans

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

	30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due		
Commercial and industrial	\$—	\$—	\$3,033	\$3,033	\$868,960	\$871,993
Commercial real estate	—	—	3,780	3,780	469,428	473,208
Private banking-personal	—	—	—	—	296,427	296,427
Total loans	\$—	\$—	\$6,813	\$6,813	\$1,634,815	\$1,641,628

54

---

Table of Contents

On a monthly basis, we monitor various credit quality indicators for our loan portfolio, including delinquency, non-performing status, changes in risk ratings, changes in the underlying performance of the borrowers and other relevant factors.

We also monitor the loan portfolio through an internal risk rating system on a periodic basis. Loan risk ratings are assigned based upon the creditworthiness of the borrower. Loan risk ratings are reviewed on an ongoing basis according to internal policies. Loans within the pass rating are viewed to have a lower risk of loss than loans that are risk rated as special mention, substandard and doubtful, which are viewed to have an increasing risk of loss. Our internal risk ratings, which are consistent with regulatory guidance, are as follows:

**Non-Rated** - Loans to individuals and certain trusts are not individually risk rated, unless they are fully secured by liquid assets or cash, or have an exposure that exceeds \$250,000 and have certain actionable covenants, such as a liquidity covenant or a financial reporting covenant. In addition, commercial loans with an exposure of less than \$500,000 are not required to be individually risk rated. Any loan, regardless of size, is risk rated if it is secured by marketable securities or if it becomes a criticized loan. The majority of the private banking-personal loans that are not risk rated are residential mortgages and home equity loans. We monitor the performance of non-rated loans through ongoing reviews of payment delinquencies.

**Pass** - A pass 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 we will sustain some loss if the deficiencies are not corrected.

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

The following tables present the recorded investment in loans by credit quality indicator, as of the dates indicated. As shown in the tables below, our aggregate special mention, substandard and doubtful loans increased from \$54.3 million as of December 31, 2012, to \$55.5 million as of September 30, 2013.

(Dollars in thousands)	September 30, 2013			Total Loans
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	
Non-rated	1,730	481	132,854	\$ 135,065
Pass	827,015	515,363	233,574	1,575,952
Special mention	23,539	—	1,218	24,757
Substandard	18,620	4,366	103	23,089
Doubtful	7,641	—	—	7,641
Total loans	\$878,545	\$ 520,210	\$ 367,749	\$ 1,766,504

(Dollars in thousands)	December 31, 2012			Total Loans
	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	

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

Non-rated	\$1,242	\$120	\$ 100,611	\$101,973
Pass	832,750	458,143	194,461	1,485,354
Special mention	9,442	8,142	1,251	18,835
Substandard	28,559	6,803	104	35,466
Total loans	\$871,993	\$473,208	\$ 296,427	\$1,641,628

55

---

## Table of Contents

### Investment Securities

We utilize investment activities to enhance net interest income while supporting interest rate risk management and liquidity management. Our securities portfolio consists of available-for-sale securities, held-to-maturity securities and securities held for trading purposes, from time to time. Securities purchased with the intent to sell under trading activity are recorded at fair value and changes to fair value are recognized in the statement of income. Securities categorized as available-for-sale are recorded at fair value and changes in the fair value of these securities are recognized as a component of total shareholders' equity, within accumulated other comprehensive income (loss). Securities categorized as held-to-maturity are debt securities that the Company intends to hold until maturity and are reported at amortized cost.

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

Securities, like loans, are subject to interest rate and credit risk. In addition, by their nature, securities classified as available-for-sale or trading are also subject to fair value risks that could negatively affect the level of liquidity available to us, as well as shareholders' equity. We utilize an independent investment advisor to assist us in the management of our investment portfolio, subject to the investment parameters set forth in our investment policy.

Our investment securities can be classified as either held-to-maturity, available-for-sale or trading. Held-to-maturity securities are carried at amortized cost, while available-for-sale and trading securities are carried at fair value. For available-for-sale investment securities, unrealized gains or losses, net of deferred taxes, are reported in other comprehensive income. As of September 30, 2013, we reported securities in available-for-sale and held-to-maturity categories while as of December 31, 2012, all of our securities were classified as available-for-sale. 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 detailed valuation methodologies provided to us by our pricing services. Broker quotes may be adjusted to ensure that financial instruments are recorded at fair value. Adjustments may include unobservable parameters, among other things.

We perform a quarterly review of our investment securities to identify those that may indicate other-than-temporary impairment. Our policy for OTTI is based upon a number of factors, including but not limited to, the length of time and extent to which the estimated fair value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the investment security's ability to recover any decline in its estimated fair value and 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.

Our available-for-sale securities portfolio consists primarily of U.S. government agency obligations, mortgage-backed securities, corporate bonds and trust preferred securities, all with varying contractual maturities. Our held-to-maturity portfolio consists of certain municipal and corporate bonds and our trading portfolio typically consists of U.S. Treasury Notes. However, these maturities do not necessarily represent the expected life of the securities as the securities may be called or paid down without penalty prior to their stated maturities. The effective duration of our securities portfolio as of September 30, 2013, was approximately 2.5 years. 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 Investment Securities. We held \$214.1 million in investment securities available-for-sale as of September 30, 2013, an increase of \$22.9 million, or 16.0% annualized, from December 31, 2012. This increase was attributable to our strategy to increase the level of investment securities in an effort to improve earnings and liquidity, while maintaining an acceptable level of interest rate risk.

On a fair value basis, 50.2% of our available-for-sale investment securities as of September 30, 2013, were floating rate securities for which yields increase or decrease based on changes in market interest rates. As of December 31, 2012, floating rate securities comprised 37.2% of our available-for-sale investment securities.

On a fair value basis, 62.6% of our available-for-sale investment securities as of September 30, 2013, were agency securities, which tend to have a lower risk profile, while the remainder of the portfolio comprised of non-agency commercial mortgage-backed securities, corporate bonds and trust preferred securities. As of December 31, 2012, agency securities comprised 56.9% of our available-for-sale investment securities.

Held-to-Maturity Investment Securities. We held \$25.3 million and \$0 in investment securities held-to-maturity as of September 30, 2013 and December 31, 2012, respectively. The balance of held-to-maturity securities as of September 30, 2013, was comprised of fixed



Table of Contents

rate municipal bonds and a fixed rate corporate bond. As part of our asset and liability management strategy, we determined that we have the intent and ability to hold these bonds until maturity, and these securities were reported at amortized cost, as of September 30, 2013.

Trading Investment Securities. We held no in investment securities trading as of September 30, 2013 and December 31, 2012. From time to time, we may identify opportunities in the marketplace to generate supplemental income from trading activity, principally based on the volatility of U.S. Treasury Notes with maturities up to ten years. The level and frequency of income generated from these transactions can vary materially based upon market conditions.

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

(Dollars in thousands)	September 30, 2013			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Investment securities available-for-sale:				
Corporate bonds	\$56,962	\$97	\$676	\$56,383
Trust preferred securities	17,284	—	1,373	15,911
Non-agency mortgage-backed securities	7,742	29	21	7,750
Agency collateralized mortgage obligations	85,868	875	672	86,071
Agency mortgage-backed securities	48,421	283	706	47,998
Total investment securities available-for-sale	\$216,277	\$1,284	\$3,448	\$214,113
Investment securities held-to-maturity:				
Corporate bonds	\$5,000	\$130	\$—	\$5,130
Municipal bonds	20,293	—	736	19,557
Total investment securities held-to-maturity	\$25,293	\$130	\$736	\$24,687
Total	\$241,570	\$1,414	\$4,184	\$238,800

(Dollars in thousands)	December 31, 2012			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Investment securities available-for-sale:				
Corporate bonds	\$54,206	\$417	\$720	\$53,903
Municipal bonds	19,858	286	26	20,118
Non-agency mortgage-backed securities	7,748	574	—	8,322
Agency collateralized mortgage obligations	54,432	1,436	—	55,868
Agency mortgage-backed securities	52,342	634	—	52,976
Total investment securities available-for-sale	\$188,586	\$3,347	\$746	\$191,187

The following tables set forth the fair value, maturities and approximated weighted average yield based on estimated annual income divided by the average amortized cost of our available-for-sale and held-to-maturity investment securities portfolios as of the dates indicated. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Table of Contents

(Dollars in thousands)	September 30, 2013									
	Less Than One Year		One to Five Years		Five to 10 Years		Greater Than 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Investment securities available-for-sale:										
Corporate bonds	\$—	— %	\$49,867	1.52 %	\$6,516	4.00 %	\$—	— %	\$56,383	1.82 %
Trust preferred securities	—	— %	—	— %	—	— %	15,911	2.07 %	15,911	2.07 %
Non-agency mortgage-backed securities	—	— %	—	— %	—	— %	7,750	4.12 %	7,750	4.12 %
Agency collateralized mortgage obligations	—	— %	—	— %	2,489	0.71 %	83,582	0.94 %	86,071	0.94 %
Agency mortgage-backed securities	—	— %	—	— %	—	— %	47,998	1.50 %	47,998	1.50 %
Total investment securities available-for-sale	\$—		\$49,867		\$9,005		\$155,241		\$214,113	
Weighted average yield	— %		1.52 %		3.14 %		1.40 %		1.50 %	
Investment securities held-to-maturity:										
Corporate bonds	\$—	— %	\$5,130	6.38 %	\$—	— %	\$—	— %	\$5,130	6.38 %
Municipal bonds	—	— %	1,012	1.34 %	7,022	1.85 %	11,523	2.22 %	19,557	2.04 %
Total investment securities held-to-maturity	\$—		\$6,142		\$7,022		\$11,523		\$24,687	
Weighted average yield	— %		5.52 %		1.85 %		2.22 %		2.90 %	
Total	\$—		\$56,009		\$16,027		\$166,764		\$238,800	
Weighted average yield	— %		1.95 %		2.58 %		1.46 %		1.65 %	

(Dollars in thousands)	December 31, 2012									
	Less Than One Year		One to Five Years		Five to 10 Years		Greater Than 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Investment securities available-for-sale:										
Corporate bonds	\$48,674	2.32 %	\$5,229	3.99 %	\$—	— %	\$—	— %	\$53,903	2.50 %
Municipal bonds	—	— %	2,283	0.74 %	17,835	1.92 %	—	— %	20,118	1.78 %
Non-agency mortgage-backed securities	—	— %	—	— %	—	— %	8,322	4.13 %	8,322	4.13 %
Agency collateralized mortgage obligations	—	— %	—	— %	2,872	0.73 %	52,996	1.31 %	55,868	1.28 %
Agency mortgage-backed securities	—	— %	—	— %	—	— %	52,976	1.51 %	52,976	1.51 %
Total investment securities available-for-sale	\$48,674		\$7,512		\$20,707		\$114,294		\$191,187	
Weighted average yield	2.32 %		3.08 %		1.75 %		1.60 %		1.86 %	

For additional information regarding our investment securities portfolios, see note 2 to our unaudited condensed consolidated financial statements.

#### Deposits

Deposits are our primary source of funds to support our earning assets, and we source deposits through multiple channels. We have focused on creating and growing diversified, stable, and low all-in cost deposit channels without operating through a traditional branch

58

---

Table of Contents

network. These sources include primarily deposits from high net worth individuals, family offices, trust companies, wealth management firms, middle market businesses and their executives, and other financial institutions. We compete for deposits by offering a range of products and services to our customers, at competitive rates. We believe that our deposit base is stable, diversified and provides a low all-in cost. We further believe we have the ability to attract new deposits to fund our projected loan growth.

As of September 30, 2013, we consider more than 80.0% of our total deposits to be relationship-based deposits. Some of our relationship-based deposits, including reciprocal time deposits placed through Promontory's CDARS<sup>®</sup> service and demand deposits placed through Promontory's ICS<sup>®</sup> service, have been classified for regulatory purposes as brokered deposits.

During our initial years of operations, as we were building relationships, we relied more heavily on brokered deposits as the primary component of our overall deposit strategy. As our institution has matured, however, we have developed and enhanced relationships with customers within our primary markets and the amount of non-brokered deposits has grown as a percentage of our total deposits.

The table below depicts average balances of our deposit portfolio broken out by major deposit category, for the three months ended September 30, 2013 and 2012.

(Dollars in thousands)	Three Months Ended September 30,		2012			
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid		
Interest-bearing checking accounts	\$5,348	0.07	% \$3,553	0.11	%	
Money market deposit accounts	935,858	0.38	% 698,354	0.60	%	
Time deposits (excluding CDARS <sup>®</sup> )	465,435	0.91	% 505,942	1.16	%	
CDARS <sup>®</sup> time deposits	359,845	0.69	% 369,075	0.87	%	
Total interest-bearing deposits	\$1,766,486	0.58	% \$1,576,924	0.84	%	
Noninterest-bearing deposits	102,649	—	171,277	—		
Total average deposits	\$1,869,135	0.55	% \$1,748,201	0.76	%	

Average Deposits for the Three Months Ended September 30, 2013 and 2012. For the three months ended September 30, 2013, our average total deposits were \$1.9 billion, representing an increase of \$120.9 million, or 6.9%, from the same period in 2012. The deposit growth was driven primarily by increases in money market deposit accounts, partially offset by a decrease in time deposit accounts, noninterest-bearing deposits and CDARS<sup>®</sup> time deposits. Our average cost of interest-bearing deposits of 0.58%, for the three months ended September 30, 2013, decreased from 0.84%, for the same period in 2012, as a result of lower cost of deposits across all categories. Additionally, our mix of average interest-bearing deposits improved as a result of a higher level of lower cost deposits, as average money market deposits increased to 53.0% of total average interest-bearing deposits, for the three months ended September 30, 2013, from 44.3% for the same period in 2012. Average time deposits and average CDARS<sup>®</sup> time deposits decreased to 26.3% and 20.4%, respectively, of total average interest-bearing deposits for the three months ended September 30, 2013, compared to 32.1% and 23.4%, respectively, for the same period in 2012. The increase in our deposit mix comprised of lower rate deposits is the result of management's strategy to focus on growth of lower cost deposits while maintaining stability in our deposit base. The decrease of \$68.6 million or 40.1% in average noninterest-bearing deposits, from \$171.3 million for the three months ended September 30, 2012, to \$102.6 million, for the same period in 2013, is primarily the result of the December 31, 2012, expiration of the unlimited insurance coverage for noninterest-bearing transaction accounts that was provided under the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act. In connection with the expiration of this program, a majority of our deposits that had benefited from the additional insurance were moved into the Promontory ICS<sup>®</sup> reciprocal program, which continues to provide these customers with unlimited insurance.



Table of Contents

The table below depicts average balances of our deposit portfolio broken out by major deposit category, for the nine months ended September 30, 2013 and 2012.

(Dollars in thousands)	Nine Months Ended September 30,					
	2013		2012			
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid		
Interest-bearing checking accounts	\$5,484	0.07	% \$3,910	0.07	%	
Money market deposit accounts	923,962	0.41	% 648,750	0.61	%	
Time deposits (excluding CDARS®)	479,609	1.01	% 466,200	1.33	%	
CDARS® time deposits	354,172	0.77	% 383,101	0.97	%	
Total interest-bearing deposits	\$1,763,227	0.64	% \$1,501,961	0.92	%	
Noninterest-bearing deposits	88,018	—	189,357	—		
Total average deposits	\$1,851,245	0.61	% \$1,691,318	0.82	%	

Average Deposits for the Nine Months Ended September 30, 2013 and 2012. For the nine months ended September 30, 2013, our average total deposits were \$1.9 billion, representing an increase of \$159.9 million, or 9.5%, from the same period in 2012. The deposit growth was driven by increases in money market deposit accounts and time deposit accounts, partially offset by a decrease in noninterest-bearing deposits and CDARS® time deposits. Our average cost of interest-bearing deposits of 0.64%, for the nine months ended September 30, 2013, decreased from 0.92%, for the same period in 2012, as a result of lower cost of deposits across all categories. Additionally, our mix of average interest-bearing deposits improved as a result of a higher level of lower cost deposits, as average money market deposits increased to 52.4% of total average interest-bearing deposits, for the nine months ended September 30, 2013, from 43.2% for the same period in 2012. Average time deposits and average CDARS® time deposits decreased to 27.2% and 20.1%, respectively, of total average interest-bearing deposits for the nine months ended September 30, 2013, compared to 31.0% and 25.5%, respectively, for the same period in 2012. The increase in our deposit mix comprised of lower rate deposits is the result of management's strategy to focus on growth of lower cost deposits while maintaining stability in our deposit base. The decrease of \$101.3 million or 53.5% in average noninterest-bearing deposits, from \$189.4 million for the nine months ended September 30, 2012, to \$88.0 million, for the same period in 2013, is primarily the result of the December 31, 2012, expiration of the unlimited insurance coverage for noninterest-bearing transaction accounts that was provided under the Dodd-Frank Act. In connection with the expiration of this program, a majority of our deposits that had benefited from the additional insurance were moved into the Promontory ICS® reciprocal program, which continues to provide these customers with unlimited insurance.

**Borrowings**

Deposits are the primary source of funds for our lending and investment activities, as well as 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 borrowings, as of September 30, 2013 and December 31, 2012.

(Dollars in thousands)	September 30, 2013				December 31, 2012			
	Amount	Rate	Maximum Outstanding at Any Month End	Original Term	Amount	Rate	Maximum Outstanding at Any Month End	Original Term
FHLB borrowings: short-term	\$—	—	\$—	—	\$—	0.23%	\$5,000	7 days
FHLB borrowings: long-term	20,000	0.42%	20,000	2 years	20,000	0.42%	20,000	2 years
Total borrowings	\$20,000	0.42%	\$20,000		\$20,000	0.42%	\$25,000	

## Liquidity

We evaluate liquidity both at the parent company level and at the Bank level. Since the Bank represents our only material asset, other than cash, our primary sources of funds at the parent company level are cash on hand, dividends paid to us from the Bank and the net proceeds from the sale of our securities. As of September 30, 2013, our primary liquidity needs at the parent company level were minimal and related solely to reimbursing the Bank for management, accounting and financial reporting services provided by bank personnel. For the nine months ended September 30, 2013, there were no material parent company obligations, as compared to \$1.1 million for the same period in 2012. Our parent company's only obligations for the nine months ended September 30, 2012, consisted of dividend payments on the Series A and Series B preferred stock that we had issued to the Department of the Treasury in connection with our

Table of Contents

participation in the Capital Purchase Program. We have funded all parent company obligations through dividends received from the Bank or with the net proceeds from the sale of our securities. We believe that our cash on hand at the parent company level, which was \$66.8 million, as of September 30, 2013, coupled with the dividend paying capacity of the Bank, were adequate to fund any foreseeable parent company obligations as of September 30, 2013.

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

Our principal sources of asset liquidity are cash and cash due from banks, interest-earning deposits with banks, federal funds sold, unpledged securities available-for-sale, loan repayments (scheduled and unscheduled payments) and earnings. Liability liquidity sources include a stable deposit base, the ability to renew maturing certificates of deposits, borrowing availability at the FHLB of Pittsburgh, unsecured lines with other financial institutions, access to the brokered CD market including CDARS®, and the ability to raise debt and equity. Customer deposits are an important source of liquidity which depends on the confidence of those customers in us, 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 time deposits, among others, all of which are utilized in measuring and managing our liquidity position. The ALCO also performs contingency funding and capital stress analyses at least quarterly to determine our ability to meet potential liquidity and capital needs under stress scenarios that cover varying time horizons ranging from immediate to long term. Policy guidelines require coverage ratios of potential sources greater than uses depending on the scenario and time horizon. These are reviewed on a quarterly basis with our board of directors.

We believe that our liquidity position continues to be strong as evidenced by our ability to generate strong growth in deposits. As a result, we are minimally reliant on borrowings as evidenced by our ratio of total deposits to total assets of 85.4% and 88.0% as of September 30, 2013 and December 31, 2012, respectively. As of September 30, 2013, we had available liquidity of \$662.1 million, or 30.1% of total assets. These sources were comprised of liquid assets (cash and cash equivalents, and investment securities available-for-sale or trading and not pledged under the FHLB borrowing capacity), totaling \$305.9 million, or 13.9% of total assets, coupled with secondary sources of liquidity (the ability to borrow from the FHLB and correspondent bank lines) totaling \$356.2 million, or 16.2% of total assets.

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

(Dollars in thousands)	September 30, 2013	December 31, 2012
Available cash	\$ 120,960	\$ 165,036
Unpledged investment securities	184,959	153,138



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

Net borrowing capacity	356,167	225,123
Total liquidity	\$662,086	\$543,297

For the nine months ended September 30, 2013, we generated \$25.4 million in cash from operating activities, compared to \$16.7 million for the same period in 2012. This increase was primarily the result of a refund of an FDIC insurance payment, net of proceeds from the sale of trading securities offset partially by purchases of investment securities trading, and an increase in prepaid income taxes. Investing activities resulted in a net cash outflow of \$207.1 million, for the nine months ended September 30, 2013, as compared to a net cash outflow of \$253.6 million for the same period in 2012. This decrease was primarily due to purchases of investment securities available-for-sale which totaled \$150.3 million, for the nine months ended September 30, 2013, compared to \$65.9 million for the same period in 2012, partially offset by net growth in loans of \$93.9 million for the nine months ended September 30, 2013 and purchased loans of \$41.1 million, compared to \$213.6 million in net growth of loans for the same period in 2012, coupled with proceeds from the sale of investment securities available-for-sale totaling \$58.0 million, for the nine months ended September 30, 2013, compared to \$19.7 million for the same period in 2012. Financing activities resulted in a net inflow of \$121.4 million for the nine months ended September 30, 2013, compared to a net inflow of \$178.5 million for the same period in 2012, primarily as a result of a net growth in deposits of \$55.3 million

Table of Contents

for the nine months ended September 30, 2013, compared to net growth of \$132.8 million in deposits, for the same period in 2012, coupled with the proceeds from the issuance of common stock of \$66.0 million.

We continue to evaluate the potential impact on liquidity management by regulatory proposals, including Basel III and those being established under the Dodd-Frank Act, as government regulators move closer to the final rule-making process.

## Capital Resources

The access to, and cost of, funding for new business initiatives, including acquisitions, the ability to engage in expanded business activities, the ability to pay dividends, the level of deposit insurance costs and the level and nature of regulatory oversight depend, in part, on our capital position.

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

Shareholders' Equity. Shareholders' equity increased to \$289.1 million as of September 30, 2013, compared to \$217.7 million as of December 31, 2012. The \$71.3 million, or 32.8%, increase during the nine months ended September 30, 2013, was attributable to net income of \$8.1 million, common stock proceeds of \$66.0 million, the impact of \$491,000 in stock-based compensation and \$125,000 stock options exercised, partially offset by a decrease of \$3.3 million in accumulated other comprehensive income.

Regulatory Capital. As of September 30, 2013 and December 31, 2012, 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 depending on our level of earnings. However, we expect to monitor and control our growth in order to remain categorized as "well capitalized" under the applicable regulatory guidelines and in compliance with all regulatory capital standards applicable to us.

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

(Dollars in thousands)	September 30, 2013							
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions			
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
Total risk-based capital ratio								
Company	\$309,255	14.51	% N/A	N/A	N/A	N/A	N/A	
Bank	\$242,426	11.38	% \$170,472	8.00	% \$213,091	10.00	%	
Tier 1 risk-based capital ratio								
Company	\$290,456	13.63	% N/A	N/A	N/A	N/A	N/A	
Bank	\$223,627	10.49	% \$85,236	4.00	% \$127,854	6.00	%	
Tier 1 leverage ratio								
Company	\$290,456	13.23	% N/A	N/A	N/A	N/A	N/A	
Bank	\$223,627	10.18	% \$175,700	8.00	% \$175,700	8.00	%	



Table of Contents

(Dollars in thousands)	December 31, 2012						
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
Total risk-based capital ratio							
Company	\$234,370	11.88	% N/A	N/A	N/A	N/A	
Bank	\$233,723	11.84	% \$157,875	8.00	% \$197,344	10.00	%
Tier 1 risk-based capital ratio							
Company	\$216,053	10.95	% N/A	N/A	N/A	N/A	
Bank	\$215,406	10.92	% \$78,937	4.00	% \$118,406	6.00	%
Tier 1 leverage ratio							
Company	\$216,053	10.35	% N/A	N/A	N/A	N/A	
Bank	\$215,406	10.31	% \$167,070	8.00	% \$167,070	8.00	%

## Contractual Obligations and Commitments

The following tables present significant fixed and determinable contractual obligations of principal that may require future cash payments as of the dates indicated.

(Dollars in thousands)	September 30, 2013					Total
	One Year or Less	One to Three Years	Three to Five Years	Greater Than Five Years		
Deposits without a stated maturity	\$1,054,462	\$—	\$—	\$—	\$—	\$1,054,462
Certificates and other time deposits	678,338	145,894	—	—	—	824,232
Borrowings	20,000	—	—	—	—	20,000
Operating leases	1,541	2,469	2,071	2,312	—	8,393
Total contractual obligations	\$1,754,341	\$148,363	\$2,071	\$2,312	\$—	\$1,907,087

(Dollars in thousands)	December 31, 2012					Total
	One Year or Less	One to Three Years	Three to Five Years	Greater Than Five Years		
Deposits without a stated maturity	\$998,322	\$—	\$—	\$—	\$—	\$998,322
Certificates and other time deposits	618,898	206,159	—	—	—	825,057
Borrowings	—	20,000	—	—	—	20,000
Operating leases	1,510	2,709	2,272	3,029	—	9,520
Total contractual obligations	\$1,618,730	\$228,868	\$2,272	\$3,029	\$—	\$1,852,899

## 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.

Generally, loan commitments have been granted on a temporary basis for working capital or commercial real estate financing requirements or may be reflective of loans in various stages of funding. These 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 one to four family residential properties and commercial properties, commitments to fund loans secured by commercial real estate, construction loans, business lines of credit and other unused commitments.

Standby letters of credit are written conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, we would be required to

Table of Contents

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 upon. There is no guarantee that the lines of credit will be used. The following is a summary of the total notional amount of loan commitments and standby letters of credit outstanding as of the dates indicated.

(Dollars in thousands)	September 30, 2013				
	One Year or Less	One to Three Years	Three to Five Years	Greater Than Five Years	Total
Unused loan commitments	\$309,763	\$122,138	\$170,889	\$34,488	637,278
Standby letters of credit	18,704	38,740	31,107	—	88,551
Total off-balance sheet arrangements	\$328,467	\$160,878	\$201,996	\$34,488	\$725,829

(Dollars in thousands)	December 31, 2012				
	One Year or Less	One to Three Years	Three to Five Years	Greater Than Five Years	Total
Unused loan commitments	\$224,410	\$126,339	\$158,819	\$13,149	522,717
Standby letters of credit	14,777	17,322	58,719	—	90,818
Total off-balance sheet arrangements	\$239,187	\$143,661	\$217,538	\$13,149	\$613,535

## Market Risk

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices. Our primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact the level of both income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which 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 have the option to prepay their loans when rates fall, while certain depositors can redeem their certificates when rates rise.

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

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

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

Table of Contents

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

(Dollars in thousands)	September 30, 2013			December 31, 2012		
	Amount Change from Base Case	Percent Change from Base Case	ALCO Guidelines	Amount Change from Base Case	Percent Change from Base Case	
Net interest income:						
+300	\$10,379	16.47	% -20.00	% \$10,655	17.74	%
+200	\$6,354	10.09	% -15.00	% \$6,233	10.38	%
+100	\$2,683	4.26	% -10.00	% \$2,471	4.11	%
-100	\$2,053	3.26	% -10.00	% \$1,908	3.18	%
Economic value of equity:						
+300	\$(27,031)	(8.94)	)% +/-30.00%	\$(13,315)	(5.99)	)%
+200	\$(18,703)	(6.19)	)% +/-20.00%	\$(8,817)	(3.96)	)%
+100	\$(9,670)	(3.20)	)% +/-10.00%	\$(3,803)	(1.71)	)%
-100	\$7,680	2.54	% +/-10.00%	\$5,940	2.67	%

Given the relatively low current interest rate environment, it is our strategy to continue to manage an asset sensitive interest rate risk position in our net interest income measure. Therefore, rising rates are expected to have a positive effect on net interest income versus net interest income if rates remain unchanged. The results of the EVE calculation, while demonstrating liability sensitivity, indicate a low level of interest rate risk. We also acknowledge and will simultaneously attempt to manage the liability sensitivity demonstrated in our economic value of equity measure.



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.

(Dollars in thousands)	Interest Rate Sensitivity Period							Total Balance	
	September 30, 2013	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
<b>Assets:</b>									
Interest-earning deposits	\$ 135,340	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$ 135,340
Federal funds sold	3,612	—	—	—	—	—	—	—	3,612
Total investment securities	107,417	6,711	15,197	45,648	16,522	45,661	2,250	239,406	239,406
Total loans	1,333,039	30,605	45,696	228,037	99,483	11,891	17,753	1,766,504	1,766,504
Other assets	—	—	—	—	—	—	56,035	56,035	56,035
Total assets	\$ 1,579,408	\$ 37,316	\$ 60,893	\$ 273,685	\$ 116,005	\$ 57,552	\$ 76,038	\$ 2,200,897	\$ 2,200,897
<b>Liabilities:</b>									
Transaction accounts	\$ 941,149	\$—	\$—	\$—	\$—	\$—	\$ 113,313	\$ 1,054,462	\$ 1,054,462
Certificates of deposit	160,713	161,215	356,410	145,894	—	—	—	824,232	824,232
Long-term borrowings	—	—	20,000	—	—	—	—	20,000	20,000
Other liabilities	—	—	—	—	—	—	13,137	13,137	13,137
Total liabilities	1,101,862	161,215	376,410	145,894	—	—	126,450	1,911,831	1,911,831
Equity	—	—	—	—	—	—	289,066	289,066	289,066
Total liabilities and equity	\$ 1,101,862	\$ 161,215	\$ 376,410	\$ 145,894	\$—	\$—	\$ 415,516	\$ 2,200,897	\$ 2,200,897
Interest rate sensitivity gap	\$ 477,546	\$ (123,899)	\$ (315,517)	\$ 127,791	\$ 116,005	\$ 57,552	\$ (339,478)		
Cumulative interest rate sensitivity gap	\$ 477,546	\$ 353,647	\$ 38,130	\$ 165,921	\$ 281,926	\$ 339,478			
Cumulative interest rate sensitive assets to rate sensitive liabilities	143.3	% 128.0	% 102.3	% 109.3	% 115.8	% 119.0	% 115.1	%	
Cumulative gap to total assets	21.7	% 16.1	% 1.7	% 7.5	% 12.8	% 15.4	%		



Table of Contents

(Dollars in thousands)	Interest Rate Sensitivity Period							Total Balance
	December 31, 2012							
	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	
<b>Assets:</b>								
Interest-earning deposits	\$ 192,055	\$—	\$—	\$—	\$—	\$—	\$—	\$ 192,055
Federal funds sold	7,026	—	—	—	—	—	—	7,026
Total investment securities	57,781	30,343	50,501	5,353	4,229	36,852	6,128	191,187
Total loans	1,241,895	23,259	38,245	254,629	72,860	(464 )	11,204	1,641,628
Other assets	—	—	—	—	—	—	41,233	41,233
Total assets	\$ 1,498,757	\$ 53,602	\$ 88,746	\$ 259,982	\$ 77,089	\$ 36,388	\$ 58,565	\$ 2,073,129
<b>Liabilities:</b>								
Transaction accounts	\$ 897,927	\$—	\$—	\$—	\$—	\$—	\$ 100,395	\$ 998,322
Certificates of deposit	148,287	96,053	374,558	206,159	—	—	—	825,057
Long-term borrowings	—	—	—	20,000	—	—	—	20,000
Other Liabilities	—	—	—	—	—	—	12,026	12,026
Total liabilities	1,046,214	96,053	374,558	226,159	—	—	112,421	1,855,405
Equity	—	—	—	—	—	—	217,724	217,724
Total liabilities and equity	\$ 1,046,214	\$ 96,053	\$ 374,558	\$ 226,159	\$—	\$—	\$ 330,145	\$ 2,073,129
Interest rate sensitivity gap	\$ 452,543	\$ (42,451 )	\$ (285,812 )	\$ 33,823	\$ 77,089	\$ 36,388	\$ (271,580 )	
Cumulative interest rate sensitivity gap	\$ 452,543	\$ 410,092	\$ 124,280	\$ 158,103	\$ 235,192	\$ 271,580		
Cumulative interest rate sensitive assets to rate sensitive liabilities	143.3	% 135.9	% 108.2	% 109.1	% 113.5	% 115.6	% 111.7	%
Cumulative gap to total assets	21.8	% 19.8	% 6.0	% 7.6	% 11.3	% 13.1	%	

The cumulative twelve-month ratio of interest rate sensitive assets to interest rate sensitive liabilities decreased to 102.3% as of September 30, 2013, as compared to 108.2% as of December 31, 2012, as the growth in our deposits during this period was primarily driven by growth in money market deposits.

Various loans across our portfolio have floating rate index floors. As of September 30, 2013 and December 31, 2012, there were \$187.0 million and \$241.5 million, respectively, in loans with a maturity greater than one year and an index floor rate greater than the current index rate. Of these amounts, \$92.6 million and \$110.4 million, respectively, have an index floor rate less than 100 basis points above the current index rate. These loans are allocated to the less than 90 days bucket in our gap analysis since we believe they would behave more like floating rate loans given a 100 basis point upward shock in interest rates. The remaining \$94.4 million and \$131.1 million, respectively, have an index floor rate greater than 100 basis points above the current index rate. These loans are allocated to the one to three years bucket in our gap analysis since we believe they would behave more like fixed rate loans given a 100 basis point upward shock in interest rates.

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 maturity 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 from a potential time-lag in the rate increase of our non-maturity, interest-bearing deposits.

Table of Contents

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.”

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of September 30, 2013. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2013.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2013, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time the Company is a party to various litigation matters incidental to the conduct of its business. During the three months ended September 30, 2013, the Company was not a party to any legal proceedings 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, which could cause our results to differ significantly from management's expectations. Any of the risks described in our Quarterly Report on Form 10-Q for the period ended March 31, 2013, 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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

68

---

Table of Contents

ITEM 6. EXHIBITS

Exhibit No. Description

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 101 The following materials from TriState Capital Holdings, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2013, formatted in XBRL: (i) the Unaudited Condensed Consolidated Statements of Financial Condition, (ii) the Unaudited Condensed Consolidated Statements of Income, (iii) the Unaudited Condensed Consolidated Statements of Comprehensive Income, (iv) the Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity, (v) the Unaudited Condensed Consolidated Statements of Cash Flows and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements.\*
- \* This information is deemed furnished, not filed.

Table of Contents

SIGNATURES

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

TRISTATE CAPITAL HOLDINGS, INC.

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

By /s/ Mark L. Sullivan  
Mark L. Sullivan  
Vice Chairman and Chief Financial Officer

Date: November 7, 2013



Table of Contents

EXHIBIT INDEX

Exhibit No. Description

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 101 The following materials from TriState Capital Holdings, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2013, 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.