TriState Capital Holdings, Inc.
Form 10-K
February 19, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

Commission file number: 001-35913

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

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

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

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

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

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

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

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

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

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ý Yes ¨ No

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

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

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- deterioration of our asset quality;
- our ability to prudently manage our growth and execute our strategy, including the successful integration of past and future acquisitions and our ability to fully realize the cost savings and other benefits of our acquisitions, manage risks related to business disruption following those acquisitions, and customer disintermediation;
- possible loan losses and changes in the value of collateral securing our loans;
- possible changes in the speed of loan prepayments by customers and loan origination or sales volumes;
- business and economic conditions generally and in the financial services industry, nationally and within our local market area;
- changes in management personnel;
- our ability to maintain important deposit customer relationships, our reputation and otherwise avoid liquidity risks;
- our ability to provide investment management performance competitive with our peers and benchmarks;
- operational risks associated with our business, including cyber-security related risks;
- volatility and direction of market interest rates;
- increased competition in the financial services industry, particularly from regional and national institutions;
- negative perceptions or publicity with respect to any products or services we offer;
- adverse judgments or other resolution of pending and future legal proceedings, and cost incurred in defending such proceedings;
- changes in the laws, rules, regulations, interpretations or policies relating to financial institutions, accounting, tax, trade, monetary and fiscal matters;
- our ability to comply with applicable capital and liquidity requirements, including our ability to generate liquidity internally or raise capital on favorable terms;
- regulatory limits on our ability to receive dividends from our subsidiaries and pay dividends to shareholders;
- further government intervention in the U.S. financial system;
- natural disasters and adverse weather, acts of terrorism, cyber-attacks, an outbreak of hostilities or other international or domestic calamities, and other matters beyond our control; and
- other factors that are discussed in the section entitled “Risk Factors,” in Part I - Item 1A.

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

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PART I

ITEM 1. BUSINESS

Overview

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

We operate two reportable segments: Bank and Investment Management.

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

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

On April 6, 2018, Chartwell completed the acquisition of investment management contracts, select personnel and related assets from Columbia Partners, L.L.C. Investment Management ("Columbia"), totaling approximately $1.07 billion in assets under management (the "Columbia acquisition").

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

Our Business Strategy

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

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

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

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

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

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

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

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

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

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

December 31,

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

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

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

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

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

Our Markets

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

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

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

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

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

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

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

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Our Products and Services

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

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

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

Loans

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

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

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

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

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

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

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

Commercial and Industrial Loans. Our commercial and industrial loan portfolio primarily includes loans made to service companies or manufacturers generally for the purposes of financing production, operating capacity, accounts receivable, inventory, equipment, acquisitions and recapitalizations. Cash flow from the borrower's operations is the primary source of repayment for these loans. The primary risks associated with commercial and industrial loans include potential declines in the value of collateral securing these loans, the highly-leveraged nature and inconsistent earnings of some commercial borrowers, and the larger average balances of commercial and industrial loans made to individual borrowers. We work throughout the lending process to manage and mitigate such risks within our commercial and industrial loan portfolio.

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

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

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

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

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

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

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

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

Loan Underwriting

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

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

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

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

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

Loan Portfolio Concentrations

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

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

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

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

Deposits

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

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

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

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

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

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Investment Management Products

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

Equity Investment Strategies:

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

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

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

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

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

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

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

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

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

Fixed Income Investment Strategies:

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

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

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

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

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

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

Balanced Investment Strategies:

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

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

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

	Year Ended December 31, 2018				
(Dollars in thousands)	Beginning Balance	Inflows [1]	Outflows [2]	Market Appreciation (Depreciation)	Ending Balance
Equity investment styles	$3,511,000	$844,000	$(565,000)	$ (371,000)	$3,419,000
Fixed income investment styles	3,049,000	1,588,000	(400,000)	26,000	4,263,000
Balanced investment styles	1,749,000	306,000	(531,000)	(17,000)	1,507,000
Total assets under management	$8,309,000	$2,738,000	$(1,496,000)	$ (362,000)	$9,189,000

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

Competition

We operate in a very competitive industry and face significant competition for customers from bank and non-bank competitors, particularly regional and national institutions, in originating loans, attracting deposits and providing other financial services. We compete for loans and deposits based upon the personal and responsive service offered by our highly experienced relationship managers, access to management and interest rates. As a result of our low operating costs, we believe we are able to compete for customers with the competitive interest rates that we pay on deposits and that we charge on our loans.

Our management believes that our most direct competition for deposits comes from commercial banks, savings and loan associations, credit unions, money market funds and brokerage firms, particularly national and large regional banks, which target the same customers as we do. Competition for deposit products is generally based on pricing because of the ease with which customers can transfer deposits from one institution to another. Our cost of funds fluctuates with market interest rates and our ability to further reduce our cost of funds may be affected by higher rates being offered by other financial institutions. During certain interest rate environments, additional significant competition for deposits may be expected to arise from corporate and government debt securities and money market mutual funds.

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Our competition in making commercial loans comes principally from national, regional and large community banks and insurance companies. Many large national and regional commercial banks have a significant number of branch offices in the areas in which we operate. Competition for our private banking loans is more limited than for commercial loans due largely to our niche offering of loans backed by cash, marketable securities, or cash value life insurance, which represent 54% of our entire loan portfolio. Aggressive pricing policies and terms of our competitors on middle-market and private banking loans may result in a decrease in our loan origination volume and a decrease in our yield on loans. We compete for loans principally through the quality of products and service we provide to middle-market customers and private banking referral relationships, while maintaining competitive interest rates, loan fees and other loan terms.

Our relationship-based approach to business also enables us to compete with other financial institutions in attracting loans and deposits. Our relationship managers and regional presidents have significant experience in the banking industry in the markets they serve and are focused on customer service. By capitalizing on this experience and by tailoring our products and services to the specific needs of our clients, we have been successful in cultivating stable relationships with our customers and also with financial intermediaries who refer their clients to us for banking services. We believe our approach to customer relationships will assist us in continuing to compete effectively for loans and deposits in our primary markets and nationally through our private banking channel.

The investment management business is intensely competitive. In the markets where we compete, there are over 1,000 firms which we consider to be primary competitors. In addition to competition from other institutional investment management firms, Chartwell, along with the active-management industry, competes with passive index funds, exchange traded funds (“ETFs”) and investment alternatives such as hedge funds. We compete for investment management business by delivering excellent investment performance with a committed customer service model.

Employees

As of December 31, 2018, we had approximately 257 full-time equivalent employees (189 in our banking business and 68 in our investment management business).

Supervision and Regulation

The following is a summary of material laws, rules and regulations governing banks, investment management businesses and bank holding companies, but does not purport to be a complete summary of all applicable laws, rules and regulations. These laws and regulations may change from time to time and the regulatory agencies often have broad discretion in interpreting them. We cannot predict the outcome of any future changes to these laws, regulations, regulatory interpretations, guidance and policies, which may have a material and adverse impact on the financial markets in general, and our operations and activities, financial condition, results of operations, growth plans and future prospects.

General

The common stock and preferred stock of TriState Capital Holdings, Inc. is publicly traded and listed and, as a result, we are subject to securities laws and stock market rules, including oversight from the Securities and Exchange Commission (“SEC”) and the Nasdaq Stock Market Rules. Banking is highly regulated under federal and state law. Regulation and supervision by the federal and state banking agencies are intended primarily for the protection of depositors, the Deposit Insurance Fund (“DIF”) administered by the FDIC, consumers and the banking system as a whole, and not for the protection of our investors. We are a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and are subject to supervision, regulation and examination by the Federal Reserve. TriState Capital Bank is a commercial bank chartered under the laws of the Commonwealth of Pennsylvania.

It is not a member of the Federal Reserve System and is subject to supervision, regulation and examination by the Pennsylvania Department of Banking and Securities and the FDIC.

Our investment management business is subject to extensive regulation in the United States. Chartwell and CTSC Securities are subject to Federal securities laws, principally the Securities Act of 1933, the Investment Company Act, the Advisers Act, state laws regarding securities fraud and regulations promulgated by various regulatory authorities, including the SEC, Financial Industry Regulatory Authority (“FINRA”), applicable state laws and stock exchanges. Our investment management business also may be subject to regulation by the U.S. Commodity Futures Trading Commission (“CFTC”) and the National Futures Association (“NFA”). Changes in laws, regulations or governmental policies, both domestically and abroad, and the costs associated with compliance, could materially and adversely affect our business, results of operations, financial condition and/or cash flows.

This system of supervision and regulation establishes a comprehensive framework for our operations. Failure to meet regulatory standards could have a material and adverse impact on our operations and activities, financial condition, results of operations, growth plans and future prospects.

Regulatory Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), enacted in 2010, has resulted in broad changes to the U.S. financial system where its provisions have resulted in enhanced regulation and supervision of the financial services industry. In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA") was signed into law. While the EGRRCPA preserves the fundamental elements of the post Dodd-Frank regulatory framework, it includes modifications that are intended to result in meaningful regulatory relief for smaller and certain regional banking organizations.

Over several years the Department of Labor ("DOL") developed a rule governing the circumstances in which a person rendering investment advice with respect to an employee benefit plan under the Employee Retirement Income Security Act of 1974 would be treated as a fiduciary for the recipient of the advice. DOL finalized a regulation in 2016, which might have affected our investment advisory business, but DOL extended the effective date, and the U.S. Court of Appeals for the Tenth Circuit effectively vacated the rule in 2018. While this matter now appears to be in abeyance, the SEC is considering a comparable rule, popularly known as Regulation BI, for best interest. The SEC has not issued a proposal, however, and we cannot predict what effect, if any, such a regulation might have on our investment advisory business.

Regulatory Capital Requirements

Capital adequacy. The Federal Reserve monitors the capital adequacy of our holding company, on a consolidated basis, and the FDIC and the Pennsylvania Department of Banking and Securities monitor the capital adequacy of TriState Capital Bank. The regulatory agencies use a combination of risk-based ratios and a leverage ratio to evaluate capital adequacy and consider these capital levels when taking action on various types of applications and when conducting supervisory activities related to safety and soundness. The current capital rules, which began to take effect in 2015, are popularly known as the Basel III Capital Rules because they are based on international standards known as Basel III. The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among financial institutions and their holding companies, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items, such as letters of credit and unfunded loan commitments, are assigned to broad risk categories, each with appropriate risk weights. Regulatory capital, in turn, is classified into three "tiers" of capital. Common Equity Tier 1 capital ("CET 1") includes common equity, retained earnings, and minority interests in equity accounts of consolidated subsidiaries, less goodwill, most intangible assets and certain other assets. "Tier 1" capital includes, among other things, qualifying non-cumulative perpetual preferred stock. "Tier 2" capital includes, among other things, qualifying subordinated debt and allowances for loan and lease losses, subject to limitations. Total capital is the total of all three tiers. The resulting capital ratios represent capital as a percentage of average assets or total risk-weighted assets, including off-balance sheet items.

As discussed above in connection with EGRRCPA, the Company and the Bank may be able to satisfy all the capital requirements, including those under both the Basel III Capital Rules, and prompt corrective action if both entities maintain the necessary CBLR. The federal banking agencies have not yet finalized a CBLR rule and until then we cannot know whether we will qualify. Assuming that the agencies fix the CBLR at 9%, we now exceed this standard, and we believe we will continue to do so in the future.

In the meantime, the Basel III Capital Rules apply to us and require banks and bank holding companies generally to maintain four minimum capital standards to be "adequately capitalized": (1) a tier 1 capital to total average assets ratio ("tier 1 leverage capital ratio") of at least 4%; (2) a common equity tier 1 capital to risk-weighted assets ratio ("CET 1 risk-based capital ratio") of at least 4.5%; (3) a tier 1 capital to risk-weighted assets ratio ("tier 1 risk-based capital ratio") of at least 6%; and (4) a total risk-based capital to risk-weighted assets ratio ("total risk-based capital ratio") of at least

8%. These capital requirements are minimum requirements. Higher capital levels may be required if warranted by the particular circumstances or risk profiles of individual institutions, or if required by the banking regulators due to the economic conditions impacting our primary markets. For example, FDIC regulations provide that higher capital may be required to take adequate account of, among other things, interest rate risk and the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

In addition, the Basel III Capital Rules subject a banking organization to certain limitations on capital distributions and discretionary bonus payments to executive officers if the organization does not maintain a capital conservation buffer (a ratio of CET1 to total risk-based assets of at least 2.5% on top of the minimum risk-based capital requirements). The implementation of the capital conservation buffer began on January 1, 2016, at 0.625%; in 2018 the buffer was 1.875%; and the full 2.5% requirement took effect on January 1, 2019. As a result, the Company and the Bank must adhere to the following minimum capital ratios to satisfy the Basel III Capital Rule requirements and to avoid the limitations on capital distributions and discretionary bonus payments to executive officers:

- 4.0% tier 1 leverage ratio;
- minimum CET1 risk-based capital ratio of 7.0%;
- minimum tier 1 risk-based capital ratio of 8.5%; and

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- minimum total risk-based capital ratio to 10.5%.

When assets are risk weighted for the purpose of the risk-based capital ratios, the Basel III Capital Rules present a large number of risk weight categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures. These categories may result in higher risk weights than under the earlier rules for a variety of asset classes, including certain commercial real estate mortgages. Additional aspects of the new capital rules that are most relevant to us include:

- a formula-based approach, referred to as the collateral haircut approach, to determine the risk weight of eligible margin loans collateralized by liquid and readily marketable debt or equity securities, where the collateral is marked to fair value daily, and the transaction is subject to daily margin maintenance requirements;
- consistent with the prior risk-based capital rules, assigning exposures secured by single family residential properties to either a 50% risk weight for first-lien mortgages that meet prudential underwriting standards or a 100% risk weight category for all other mortgages;
- providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (previously set at 0%);
- assigning a 150% risk weight to all exposures that are non-accrual or 90 days or more past due (previously set at 100%), except for those secured by single family residential properties, which will be assigned a 100% risk weight, consistent with the prior risk-based capital rules;
- applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate loans for acquisition, development and construction; and
- the option to use a formula-based approach referred to as the simplified supervisory formula approach to determine the risk weight of various securitization tranches in addition to the previous “gross-up” method (replacing the credit ratings approach for certain securitization).

Further, under the Dodd-Frank Act, the federal banking agencies adopted new capital requirements to address the risks that the activities of an institution poses to the institution and the public and private stakeholders, including risks arising from certain enumerated activities. Capital guidelines may continue to evolve and may have material impacts on us or our banking subsidiary.

Based on our calculations, we expect that TriState Capital Holdings, Inc. and TriState Capital Bank will meet all minimum capital requirements when effective and that we and the Bank would continue to meet all capital requirements as fully phased in without material adverse effects on our business. However, the capital rules may continue to evolve over time and future changes may have a material adverse effect on our business. Failure to meet capital guidelines could subject us to a variety of enforcement remedies, including issuance of a capital directive, a prohibition on accepting brokered deposits, other restrictions on our business and the termination of deposit insurance by the FDIC.

Prompt corrective action regulations. Under the prompt corrective action regulations, the FDIC is required and authorized to take supervisory actions against undercapitalized insured depository institutions. For this purpose, a bank is placed in one of the following five categories based on its capital: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.”

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Under the current prompt corrective action provisions of the FDIC, after adopting the Basel III Capital rules, an insured depository institution generally will be classified in the following categories based on the capital measures indicated:

"Well capitalized"	"Adequately capitalized"
Tier 1 leverage ratio of 5%,	Tier 1 leverage ratio of 4%,
CET 1 risk-based ratio of 6.5%,	CET 1 risk-based ratio of 4.5%,
Tier 1 risk-based ratio of 8%,	Tier 1 risk-based ratio of 6%, and
Total risk-based ratio of 10%, and	Total risk-based ratio of 8%
Not subject to written agreement, order, capital directive or prompt corrective action directive that requires a specific capital level.	
"Undercapitalized"	"Significantly undercapitalized"
Tier 1 leverage ratio less than 4%,	Tier 1 leverage ratio less than 3%,
CET 1 risk-based ratio less than 4.5%,	CET 1 risk-based ratio less than 3%,
Tier 1 risk-based ratio less than 6%, or	Tier 1 risk-based ratio less than 4%, or
Total risk-based ratio less than 8%	Total risk-based ratio less than 6%
"Critically undercapitalized"	
Tangible equity to total assets less than 2%	

Various consequences flow from a bank's prompt corrective action category. A bank that is adequately capitalized but not well capitalized must obtain a waiver from the FDIC in order to continue to accept, renew or roll over brokered deposits. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Subject to a narrow exception, banking regulators must appoint a receiver or conservator for an institution that is critically undercapitalized. An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. An undercapitalized institution also is generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

A bank holding company must guarantee that a subsidiary bank performs under a capital restoration plan, including an obligation to contribute capital to the bank up to the lesser of 5% of an "undercapitalized" subsidiary's assets at the time it became "undercapitalized" or the amount required to meet regulatory capital requirements.

The prompt corrective action classification of a bank affects the frequency of regulatory examinations, the bank's ability to engage in certain activities and the deposit insurance premiums paid by the bank. As of December 31, 2018, TriState Capital Bank met the requirements to be categorized as "well capitalized" based on the aforementioned ratios for purposes of the prompt corrective action regulations, as currently in effect.

Source of Strength Doctrine for Bank Holding Companies

Under longstanding Federal Reserve policy which has been codified by the Dodd-Frank Act, we are expected to act as a source of financial strength to, and to commit resources to support, TriState Capital Bank. This support may be required at times when we may not be inclined to provide it. In addition, any capital loans that we make to TriState Capital Bank are subordinate in right of payment to deposits and to certain other indebtedness of TriState Capital Bank. In the event of our bankruptcy, any commitment by us to a federal bank regulatory agency to maintain the capital of TriState Capital Bank will be assumed by the bankruptcy trustee and entitled to a priority of payment. These obligations are in addition to the performance guaranty we must provide in the event that TriState Capital Bank is required to develop a capital restoration plan under prompt corrective action.

Acquisitions by Bank Holding Companies

We must obtain the prior approval of the Federal Reserve before: (1) acquiring more than five percent of the voting stock of any bank or other bank holding company; (2) acquiring all or substantially all of the assets of any bank or bank holding company; or (3) merging or consolidating with any other bank holding company. The Federal Reserve may determine not to approve any of these transactions if it would result in or tend to create a monopoly or substantially lessen competition or otherwise function as a restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve also may not approve a transaction in which the resulting institution would hold a share of state or nationwide deposits in excess of certain caps. The Federal Reserve is also required to consider the financial condition and managerial resources and future prospects of the bank holding companies and banks concerned, the convenience and needs of the community to be served, whether the transaction would result in greater or more concentrated risks to the stability of the United States banking or financial system, the records of a bank holding company and its subsidiary bank(s) in compliance with applicable banking, consumer protection, and anti-money laundering laws.

Scope of Permissible Bank Holding Company Activities

In general, the Bank Holding Company Act limits the activities permissible for bank holding companies to the business of banking, managing or controlling banks and such other activities as the Federal Reserve has determined to be so closely related to banking as to be properly incident thereto.

A bank holding company may elect to be treated as a financial holding company if it and its depository institution subsidiaries are categorized as “well capitalized” and “well managed.” A financial holding company may engage in a range of activities that are (1) financial in nature or incidental to such financial activity or (2) complementary to a financial activity and which do not pose a substantial risk to the safety and soundness of a depository institution or to the financial system generally. These activities include securities dealing, underwriting and market making, insurance underwriting and agency activities, merchant banking and insurance company portfolio investments. Expanded financial activities of financial holding companies generally will be regulated according to the type of such financial activity: banking activities by banking regulators, securities activities by securities regulators and insurance activities by insurance regulators. While we may determine in the future to become a financial holding company, we do not have an intention to make that election at this time.

The Bank Holding Company Act does not place territorial limitations on permissible non-banking activities of bank holding companies. The Federal Reserve has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

Dividends

As a bank holding company, we are subject to certain restrictions on dividends under applicable banking laws and regulations. The Federal Reserve has issued a policy statement that provides that a bank holding company should not pay dividends unless: (1) its net income over the last four quarters (net of dividends paid) has been sufficient to fully fund the dividends; (2) the prospective rate of earnings retention appears to be consistent with the capital needs, asset quality and overall financial condition of the bank holding company and its subsidiaries; and (3) the bank holding company will continue to meet minimum required capital adequacy ratios. Accordingly, a bank holding company should not pay cash dividends that exceed its net income or that can only be funded in ways that weaken the bank holding company’s financial health, such as by borrowing. The Dodd-Frank Act and the Basel III Capital Rules impose additional restrictions on the ability of banking institutions to pay dividends, such as limits that come into play when the capital conservation buffer falls below the required ratio. In addition, in the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

A part of our income could be derived from, and a potential material source of our liquidity could be, dividends from TriState Capital Bank. The ability of TriState Capital Bank to pay dividends to us is also restricted by federal and state laws, regulations and policies. Under applicable Pennsylvania law, TriState Capital Bank may only pay cash dividends out of its accumulated net earnings, subject to certain requirements regarding the level of surplus relative to capital.

Under federal law, TriState Capital Bank may not pay any dividend to us if the Bank is undercapitalized or the payment of the dividend would cause it to become undercapitalized. The FDIC may further restrict the payment of dividends by requiring TriState Capital Bank to maintain a higher level of capital than would otherwise be required for it to be adequately capitalized for regulatory purposes. Moreover, if, in the opinion of the FDIC, TriState Capital Bank is engaged in an unsafe or unsound practice (which could include the payment of dividends), the FDIC may require, generally after notice and hearing, the Bank to cease such practice. The FDIC has indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe banking practice. The FDIC has also issued guidance to the effect that insured depository institutions generally should pay dividends out of current operating earnings.

Incentive Compensation Guidance

The federal banking agencies have issued comprehensive guidance intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of those organizations by encouraging excessive risk-taking. The incentive compensation guidance sets expectations for banking organizations concerning their incentive compensation arrangements and related risk-management, control and governance processes. In addition, under the incentive compensation guidance, a banking organization's federal supervisor may initiate enforcement action if the organization's incentive compensation arrangements pose a risk to the safety and soundness of the organization. Further, provisions of the Basel III regime described above limit discretionary bonus payments to bank and bank holding company executives if the institution's regulatory capital ratios fail to exceed certain thresholds. The scope and content of the U.S. banking regulators' policies on incentive compensation are likely to continue evolving. In 2016, the federal banking agencies, together with certain other federal agencies, proposed a regulation to limit certain incentive-based compensation arrangements that encourage inappropriate risks by banks, bank holding companies, and certain other financial institutions. We do not know when the agencies will finalize this regulation and what the final requirements will be.

Restrictions on Transactions with Affiliates and Loans to Insiders

Federal law strictly limits the ability of banks to engage in transactions with their affiliates, including their bank holding companies. Section 23A and 23B of the Federal Reserve Act, and the Federal Reserve's Regulation W, impose quantitative limits, qualitative standards, and collateral requirements on certain transactions by a bank with, or for the benefit of, its affiliates, and generally require those transactions to be on terms at least as favorable to the bank as transactions with non-affiliates. The Dodd-Frank Act significantly expands the coverage and scope of the limitations on affiliate transactions within a banking organization, including an expansion of the covered transactions to include credit exposures related to derivatives, repurchase agreements and securities lending arrangements and an increase in the amount of time for which collateral requirements regarding covered transactions must be satisfied.

Federal law also limits a bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. In addition, the terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the bank's capital. TriState Capital Bank maintains a policy that does not permit loans to employees, including executive officers.

FDIC Deposit Insurance Assessments

FDIC-insured banks are required to pay deposit insurance assessments to the FDIC, which fund the Deposit Insurance Fund ("DIF"). The assessment rate for institutions with less than $10 billion in assets is now determined by the FDIC's financial ratios method, which takes into account seven financial ratios for each institution and the weighted average of the institution's CAMELS composite ratings. The rate may be adjusted by the institution's long-term unsecured debt and its brokered deposits. In addition, the FDIC can impose special assessments in certain instances. The FDIC has in past years raised assessment rates to increase funding for the Deposit Insurance Fund.

All assessment rates may change based on the reserve ratio of the DIF. The Dodd-Frank Act changed the way that deposit insurance premiums are calculated, increased the minimum designated reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminated the upper limit for the reserve ratio designated by the FDIC each year, and eliminates the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. As of September 30, 2018, the DIF's reserve ratio was 1.36%. Rates may be reduced if this ratio rises above 2.0% or 2.5%. We cannot predict how the reserve ratio may change in the future.

Further increases in assessment rates or special assessments may occur in the future, especially if there are significant additional financial institution failures. Continued action by the FDIC to replenish and increase the Deposit Insurance Fund, as well as the changes contained in the Dodd-Frank Act, may result in higher assessment rates, which could reduce our profitability or otherwise negatively impact our operations, financial condition or future prospects.

Branching and Interstate Banking

Under Pennsylvania law, TriState Capital Bank is permitted to establish additional branch offices within Pennsylvania, subject to the approval of the Pennsylvania Department of Banking and Securities. The Bank is also permitted to establish additional offices outside of Pennsylvania, subject to prior regulatory approval.

TriState Capital Bank operates four representative offices, with one each located in the states of Pennsylvania, Ohio, New Jersey and New York. Because our representative offices are not branches for purposes of applicable state law and FDIC regulations, there are restrictions on the types of activities we may conduct through our representative offices. Relationship managers in our representative offices may solicit loan and deposit products and services in their markets and act as liaisons to our headquarters in Pittsburgh, Pennsylvania.

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However, consistent with our centralized operations and regulatory requirements, we do not disburse or transmit funds, accept loan repayments or accept or contract for deposits or deposit-type liabilities through our representative offices.

Community Reinvestment Act

TriState Capital Bank has a responsibility under the Community Reinvestment Act ("CRA"), and related FDIC regulations to help meet the credit needs of its communities, including low-income and moderate-income borrowers. In connection with its examination of TriState Capital Bank, the FDIC is required to assess the Bank's record of compliance with the CRA. The Bank's failure to comply with the provisions of the CRA could result in denial of certain corporate applications, such as for branches or mergers, or in restrictions on its or our activities, including additional financial activities if we elect to be treated as a financial holding company.

CRA regulations provide that a financial institution may elect to have its CRA performance evaluated under the strategic plan option. The strategic plan enables the institution to structure its CRA goals and objectives to address the needs of its community consistent with its business strategy, operational focus, capacity and constraints. In January 2018, the FDIC approved our updated strategic plan to cover the years 2018 through 2020. TriState Capital Bank received an "outstanding" CRA rating in its most recent CRA examination, which covered an approximately three-year period ending on September 10, 2018.

Financial Privacy

The federal banking and securities regulators have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. These regulations affect how consumer information is transmitted through financial services companies and conveyed to outside vendors. In addition, consumers may also prevent disclosure of certain information among affiliated companies that is assembled or used to determine eligibility for a product or service, such as that shown on consumer credit reports and asset and income information from applications. Consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services. In addition to applicable federal privacy regulations, TriState Capital Bank is subject to certain state privacy laws.

Anti-Money Laundering and OFAC

Under federal law, including the Bank Secrecy Act and the USA PATRIOT Act of 2001, certain financial institutions must maintain anti-money laundering programs that are reasonably designed to prevent and detect money laundering and terrorist financing, including enhanced scrutiny of account relationships, and to comply with the recordkeeping and reporting requirements of the Bank Secrecy Act (the "BSA") including the requirement to report suspicious activities. The programs are to include established internal policies, procedures and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and customer identification in their dealings with foreign financial institutions and foreign customers. Law enforcement authorities also have been granted increased access to financial information maintained by financial institutions to investigate suspected money laundering or terrorist financing. The United States Department of Treasury's Financial Crimes Enforcement Network ("FinCEN") and the federal banking agencies continue to issue regulations and guidance with respect to the application and requirements of the BSA and their expectations for effective anti-money laundering programs.

The Office of Foreign Assets Control ("OFAC") administers laws and Executive Orders that prohibit U.S. entities from engaging in transactions with certain prohibited parties. OFAC publishes lists of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. Generally, if a bank identifies a transaction, account or wire transfer relating to a person or entity on an OFAC list, it must freeze the account or block the transaction, file a suspicious activity report and notify the appropriate authorities.

Bank regulators routinely examine institutions for compliance with these obligations and they must consider an institution's compliance in connection with the regulatory review of applications, including applications for bank mergers and acquisitions. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing and comply with OFAC sanctions, or to comply with relevant laws and regulations, could have serious legal, reputational and financial consequences for the institution.

Safety and Soundness Standards

Federal bank regulatory agencies have adopted guidelines that establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. Additionally, the agencies have adopted regulations that provide the authority to order an institution that has been given notice by an agency that it is not satisfying any of these safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the "prompt corrective action" provisions of the Federal Deposit Insurance Act. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

In addition to federal consequences for failure to satisfy applicable safety and soundness standards, the Pennsylvania Department of Banking and Securities Code grants the Pennsylvania Department of Banking and Securities the authority to impose a civil money penalty of up to $25,000 per violation against a Pennsylvania financial institution, or any of its officers, employees, directors, or trustees for: (1) violations of any law or department order; (2) engaging in any unsafe or unsound practice; or (3) breaches of a fiduciary duty in conducting the institution's business.

Bank holding companies are also prohibited from engaging in unsound banking practices. For example, the Federal Reserve's Regulation Y requires a holding company to give the Federal Reserve prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases in the preceding year, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. As another example, a holding company is forbidden from impairing its subsidiary bank's soundness by causing it to make funds available to non-banking subsidiaries or their customers if the Federal Reserve believed it not prudent to do so. The Federal Reserve has broad authority to prohibit activities of bank holding companies and their nonbanking subsidiaries that present unsafe and unsound banking practices or that constitute violations of laws or regulations.

In addition to the agencies' written regulations, standards and guidelines, banks and bank holding companies are regularly examined for safety and soundness by their appropriate federal and state regulators. These examinations are extensive and cover many items, including loan concentrations. At the end of an examination, a bank is assigned ratings for capital, assets, management, earnings, liquidity, and sensitivity to market risk as well as on overall composite rating for these elements, commonly referred to as the CAMELS rating. The Federal Reserve makes comparable findings for bank holding companies. These ratings and the reports on which they are based are highly confidential and not available to the public.

Consumer Laws and Regulations

TriState Capital Bank is subject to numerous laws and regulations intended to protect consumers in transactions with the Bank. These laws include, among others, laws regarding unfair, deceptive and abusive acts and practices, usury laws, and other federal consumer protection statutes. These federal laws include the Electronic Fund Transfer Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Real Estate Procedures Act of 1974, the S.A.F.E. Mortgage Licensing Act of 2008, the Truth in Lending Act and the Truth in Savings Act, among others. Many states and local jurisdictions have consumer protection laws analogous, and in addition, to those enacted under federal law. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions deal with customers when taking deposits, making loans and conducting other types of transactions. Failure to comply with these laws and regulations could give rise to regulatory sanctions, customer rescission rights, action by state and local attorneys general and civil or criminal liability.

In addition, the Dodd-Frank Act created a new independent Consumer Finance Protection Bureau that has broad authority to regulate and supervise retail financial services activities of banks and various non-bank providers. The Consumer Financial Protection Bureau has authority to promulgate regulations, issue orders, guidance and policy statements, conduct examinations and bring enforcement actions with regard to consumer financial products and services. In general, banks with assets of $10 billion or less, such as TriState Capital Bank, will continue to be examined for consumer compliance by their primary federal bank regulator. Nevertheless, positions established by the Consumer Financial Protection Bureau may become applicable to us, and the bureau has back-up enforcement authority.

Effect of Governmental Monetary Policies

Our commercial banking business and investment management business are affected not only by general economic conditions but also by U.S. fiscal policy and the monetary policies of the Federal Reserve. Some of the instruments of monetary policy available to the Federal Reserve include changes in the discount rate on member bank borrowings, the fluctuating availability of borrowings at the "discount window," open market operations, the imposition of and changes in reserve requirements against member banks' deposits and assets of foreign branches, the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates, and asset purchase programs. These policies influence to a significant extent the overall growth of bank loans, investments, and deposits, as well as the performance of our investment management products and services and the interest rates charged on loans or paid on deposits. We cannot predict the nature of future fiscal and monetary policies or the effect of these policies on our operations and activities, financial condition, results of operations, growth plans or future prospects.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley Act”) implemented a broad range of corporate governance, accounting and reporting measures for companies that have securities registered under the Exchange Act, including publicly-held bank holding companies. Specifically, the Sarbanes-Oxley Act and the various regulations promulgated thereunder, established, among other things: (i) requirements for audit committees, including independence, expertise, and responsibilities; (ii) responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) the forfeiture of bonuses or other incentive-based compensation and profits from the sale of the reporting company’s securities by the Chief Executive Officer and Chief Financial Officer in the twelve-month period following the initial publication of any financial statements that later require restatement; (iv) the creation of an independent accounting oversight board; (v) standards for auditors and regulation of audits, including independence provisions that restrict non-audit services that accountants may provide to their audit clients; (vi) disclosure and reporting obligations for the reporting company and their directors and executive officers, including accelerated reporting of stock transactions and a prohibition on trading during pension blackout periods; (vii) a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions on nonpreferential terms and in compliance with other bank regulatory requirements; and (viii) a range of civil and criminal penalties for fraud and other violations of the securities laws.

Asset Management

The asset management industry is subject to extensive federal, state and international laws and regulations promulgated by various governments, securities exchanges, central banks and regulatory bodies that are intended to benefit and protect investors in products. In addition, our distribution activities also may be subject to regulation by U.S. federal agencies, self-regulatory organizations and securities commissions in those jurisdictions in which we conduct business. Due to the extensive laws and regulations to which we are subject, we must devote substantial time, expense and effort to remaining vigilant about, and addressing, legal and regulatory compliance matters.

Existing U.S. Regulation

Chartwell is a registered investment adviser regulated by the SEC. Chartwell is also currently subject to regulation by the Department of Labor (the “DOL”) and other government agencies and regulatory bodies. The Investment Advisers Act of 1940 imposes numerous obligations on registered investment advisers such as Chartwell, including recordkeeping, operational and marketing requirements, disclosure obligations and prohibitions on fraudulent activities. The Investment Company Act of 1940 imposes stringent governance, compliance, operational, disclosure and related obligations on registered investment companies and their investment advisers and distributors. The SEC is authorized to institute proceedings and impose sanctions for violations of the Investment Advisers Act of 1940 and the Investment Company Act of 1940, ranging from fines and censure to termination of an investment adviser’s registration. Investment advisers also are subject to certain state securities laws and regulations. Non-compliance with the Investment Advisers Act of 1940, the Investment Company Act of 1940 or other federal and state securities laws and regulations could result in investigations, sanctions, disgorgement, fines and reputational damage.

Chartwell’s trading and investment activities for client accounts are also regulated under the Exchange Act, as well as the rules of various U.S. exchanges and self-regulatory organizations, including laws governing trading on inside information, market manipulation and a broad number of technical requirements and market regulation policies in the United States.

CTSC, our broker/dealer subsidiary, is subject to regulations that cover all aspects of the securities business. Much of the regulation of broker/dealers has been delegated to self-regulatory organizations, principally FINRA. These self-regulatory organizations have adopted extensive regulatory requirements relating to matters such as sales practices, compensation and disclosure, and conduct periodic examinations of member broker/dealers in accordance with rules they have adopted and amended from time to time, subject to approval by the SEC. The SEC, self-regulatory organizations and state securities commissions may conduct administrative proceedings that can result in censure, fine, suspension or expulsion of a broker/dealer, its officers or registered employees. These administrative proceedings, whether or not resulting in adverse findings, can require substantial expenditures and can have an adverse impact on the reputation or business of a broker/dealer. The principal purpose of regulation and discipline of broker/dealers is the protection of clients and the securities markets, rather than protection of creditors and stockholders of the regulated entity.

There has been substantial regulatory and legislative activity at federal and state levels regarding standards of care for financial services firms, related to both retirement and taxable accounts. This includes the DOL adoption of a fiduciary rule that was ultimately struck down by the Fifth Circuit Court of Appeals and the SEC’s proposal of a package of related rules and interpretations in April 2018. The ultimate action taken by the DOL, SEC or other applicable regulatory or legislative body may impact our business activities and increase our costs.

In addition, Chartwell also may be subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and related regulations, particularly insofar as they act as a “fiduciary” or “investment manager” under ERISA with respect to benefit plan clients.

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ERISA imposes duties on persons who are fiduciaries of ERISA plan clients, and ERISA and related provisions of the Internal Revenue Code prohibit certain transactions involving the assets of ERISA plan and Individual Retirement Account (“IRA”) clients and certain transactions by the fiduciaries (and several other related parties) to such clients. In April 2016, the Department of Labor, which administers ERISA, issued a final fiduciary rule expanding the circumstances in which advice furnished to retirement investors will be treated as fiduciary in nature as well as related prohibited transaction class exemptions.

Net Capital Requirements

CTSC is a non-clearing broker/dealer subsidiary with a primary business of wholesaling and marketing the proprietary investment products and services provided by Chartwell. CTSC is subject to net capital rules imposed by various federal, state, and foreign authorities that mandate that it maintain certain levels of capital.

Impact of Current Laws and Regulations

The cumulative effect of these laws and regulations, while providing certain benefits, add significantly to the cost of our operations and thus have a negative impact on our profitability. There has also been a notable expansion in recent years of financial service providers that are not subject to the examination, oversight, and other rules and regulations to which we are subject. Those providers, because they are not so highly regulated, may have a competitive advantage over us and may continue to draw large amounts of funds away from traditional banking institutions, with a continuing adverse effect on the banking industry in general.

Future Legislation and Regulatory Reform

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating in the United States. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute. Future legislation and policies, and the effects of that legislation and those policies, may have a significant influence on our operations and activities, financial condition, results of operations, growth plans or future prospects and the overall growth and distribution of loans, investments and deposits. Such legislation and policies have had a significant effect on the operations and activities, financial condition, results of operations, growth plans and future prospects of commercial banks and investment management businesses in the past and are expected to continue.

Available Information

All of our reports filed electronically with the United States Securities and Exchange Commission (“SEC”), including this Annual Report on Form 10-K for the fiscal year ended December 31, 2018, our Registration Statements on Forms S-1 and S-3, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements, as well as any amendments to those reports are accessible at no cost on our website at www.tristatecapitalbank.com under “Who We Are,” “Investor Relations,” “SEC Documents”. These filings are also accessible on the SEC’s website at www.sec.gov. You may read and copy any material we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

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ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. There are risks, many beyond our control, that could cause our financial condition or results of operations to differ materially from management's expectations. Some of the risks that may affect us are described below. If any of the following risks, singly or together with one or more other factors, actually occur, our business, financial condition, results of operations and future prospects could be materially and adversely affected. These risks are not the only risks that we may face. Our business, financial condition, results of operations and future prospects could also be affected by additional risks that apply to all companies operating in the United States, as well as other risks that are not currently known to us or that we currently consider to be immaterial to our business, financial condition, results of operations and growth prospects. Further, some statements contained herein constitute forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements" on page 4. The risks described below should also be considered together with the other information included in this Annual Report on Form 10-K, including the disclosures in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included in "Item 8. Financial Statements and Supplementary Data".

Risks Relating to our Business

We may not be able to adequately measure and limit our credit risk associated with our loan portfolio, which could lead to unexpected losses.

Our business depends on our ability to successfully measure and manage credit risk. The business of lending is inherently risky, including risks that the principal or interest on any loan will not be repaid timely or at all or that the value of any collateral supporting the loan will be insufficient to cover our outstanding exposure. In addition, we are exposed to risks with respect to the period of time over which loans may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual loans and borrowers. The creditworthiness of a borrower is affected by many factors including local market conditions and general economic conditions, and many of our loans are made to middle-market businesses that may be less able to withstand competitive, economic and financial pressures than larger borrowers. If the overall economic climate in the U.S., generally, or our market areas, specifically, experiences material disruption, our borrowers may experience difficulties in repaying their loans, the collateral we hold may decrease in value or become illiquid, and the level of non-performing loans, charge-offs and delinquencies could rise and require significant additional provisions for loan losses.

Our risk management practices, such as monitoring the concentration of our loans within specific industries and our credit approval, review and administrative practices, may not adequately reduce credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of our loan portfolio, which may result in loan defaults, foreclosures and additional charge-offs, and may require us to significantly increase our allowance for loan losses, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Our allowance for loan losses may prove to be insufficient to absorb losses inherent in our loan portfolio, which could have a material adverse effect on our financial condition and results of operations.

Our experience in the banking industry indicates that some portion of our loans will not be fully repaid in a timely manner or at all. Accordingly, we maintain an allowance for loan losses that represents management's judgment of probable losses inherent in our loan portfolio. The level of the allowance reflects management's continuing evaluation of historical default and loss experience in our portfolio, general economic conditions, diversification and seasoning of the loan portfolio, identified credit problems, delinquency levels and adequacy of collateral. The determination of the appropriate level of the allowance for loan losses is inherently subjective and requires us to make significant estimates of and assumptions regarding current credit risks and future trends, all of which may undergo material changes. Inaccurate management assumptions, deterioration of economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require us to increase our allowance for loan losses. In addition, our regulators, as an integral part of their periodic examination, review the adequacy of our allowance for loan losses and may direct us to make additions to the allowance based on their judgments about information available to them at the time of their examination. Further, if actual charge-offs in future periods exceed the amounts allocated to the allowance for loan losses we may need additional provision for loan losses to restore the adequacy of our allowance for loan losses. While we believe that our allowance for loan losses was adequate at December 31, 2018, there is no assurance that it will be sufficient to cover future loan losses, especially if there is a significant deterioration in economic conditions. If we are required to materially increase our level of allowance for loan losses for any reason, such increase could materially decrease our net income and could have a material adverse effect on our business, financial condition, results of operations and future prospects.

A material portion of our loan portfolio is comprised of commercial loans secured by general business assets, the deterioration in value of which could expose us to credit losses.

Historically, a material portion of our loans held-for-investment have been comprised of commercial loans to businesses collateralized by general business assets including, among other things, accounts receivable, inventory, equipment and owner-occupied real estate. These commercial loans are typically larger in amount than loans to individuals and, therefore, have the potential for larger losses on a single loan basis. Additionally, the repayment of commercial loans is subject to the ongoing business operations of the borrower. The collateral securing such loans generally includes movable property, such as equipment and inventory, which may decline in value more rapidly than we anticipate, exposing us to increased credit risk. In addition, a portion of our customer base, including customers in the energy and real estate businesses, may be exposed to volatile businesses or industries which are sensitive to commodity prices or market fluctuations, such as energy prices. Accordingly, negative changes in commodity prices and real estate values and liquidity could impair the value of the collateral securing these loans.

Historically, losses in our commercial credits have been higher than losses in other segments of our loan portfolio. Significant adverse changes in various industries could cause rapid declines in values and collectability associated with those business assets resulting in inadequate collateral coverage that may expose us to credit losses. An increase in specific reserves and charge-offs related to our commercial and industrial loan portfolio could have a materially adverse effect on our business, financial condition, results of operations and future prospects. As of December 31, 2018, we had commercial and industrial loans outstanding of $785.3 million, or 15.3% of our loans held-for-investment, and owner-occupied commercial real estate loans outstanding of $183.7 million, or 3.6% of our loans held-for-investment.

Because many of our customers are commercial enterprises, they may be adversely affected by any decline in general economic conditions in the United States which, in turn, could have a negative impact on our business.

Many of our customers are commercial enterprises whose business and financial condition are sensitive to changes in the general economy of the United States. Our businesses and operations are, in turn, sensitive to these same general economic conditions. If the United States experiences a deterioration or other significant volatility in economic conditions our growth and profitability could be constrained. In addition, economic conditions in foreign countries, including uncertainty over the stability of the euro currency and the withdrawal of the United Kingdom from the European Union, as well as concerns regarding terrorism and potential hostilities with various countries, could affect the stability of global financial markets, which could negatively affect U.S. economic conditions. Weak economic conditions can be characterized by deflation, fluctuations in debt and equity capital markets, lack of liquidity and depressed prices in the secondary market for loans, increased delinquencies on loans, real estate price declines, and lower commercial activity. All of these factors can be detrimental to the business and/or financial position of our customers as well as the value of the collateral supporting our loans and could adversely impact demand for our credit products as well as our credit quality. Our business is also sensitive to monetary and related policies of the U.S. federal government and its agencies. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control and difficult to predict. Adverse economic conditions and government policy responses to such conditions could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Our non-owner-occupied commercial real estate loan portfolio exposes us to credit risks that may be greater than the risks related to other types of loans.

Our loan portfolio includes non-owner-occupied commercial real estate loans for individuals and businesses for various purposes, which are secured by commercial properties, as well as real estate construction and development loans. As of December 31, 2018, we had outstanding loans secured by non-owner-occupied commercial properties of

$1.29 billion, or 25.2%, of our loans held-for-investment. These loans typically involve repayment dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service. The availability of such income for repayment may be adversely affected by changes in the economy or local market conditions. These loans typically expose a lender to greater credit risk than loans secured by other types of collateral due to a number of factors, including the concentration of principal in a limited number of loans and borrowers, the difficulty of liquidating the collateral securing these loans and the relatively larger loan balances compared to single borrowers or related groups of borrowers. In addition to these factors, the amount we may realize after a default is dependent upon factors outside of our control, including, but not limited to general or local economic conditions, any environmental cleanup liability, assessments, interest rates, real estate tax rates, operating expenses of the mortgaged properties, ability to obtain and maintain adequate occupancy of the properties, zoning laws, governmental and regulatory rules, and natural disasters. Accordingly, charge-offs on non-owner-occupied commercial real estate loans may be larger on a per loan basis than those incurred with residential or consumer loan portfolios.

Unexpected deterioration in the credit quality of our non-owner-occupied commercial real estate loan portfolio could require us to increase our provision for loan losses, which would reduce our profitability and have a material adverse effect on our business, financial condition, results of operations and future prospects.

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Our private banking business could be negatively impacted by a prolonged downturn in the securities markets.

Marketable-securities-backed private banking loans represent a material portion of our business and are the fastest growing portion of our loan portfolio. As of December 31, 2018, we had outstanding marketable-securities-backed private banking loans of $2.77 billion, or 54.0% of our loans held-for-investment. We expect to continue to increase the percentage of our loan portfolio represented by marketable-securities-backed private banking loans in the future. A sharp or prolonged decline in the value of the collateral that secures these loans, such as the market volatility experienced throughout the fourth quarter of 2018, could materially adversely affect the growth prospects and loan performance in this segment of our loan portfolio and, as a result, could materially adversely affect our business, financial condition, results of operations and future prospects.

A prolonged downturn in the real estate market, especially in our primary markets, could result in losses and adversely affect our profitability.

A material portion of our loans are secured by real estate as a primary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time credit is extended. A general decline in real estate values, particularly in our primary market areas, could impair the value of our collateral and our ability to sell the collateral upon any foreclosure, which would likely require us to increase our provision for loan losses. In addition, we could be subject to environmental liabilities with respect to these any foreclosed properties, which could be costly. In the event of a default with respect to any of these loans, the amount we receive upon sale of the collateral may be insufficient to recover the outstanding principal and interest on the loan. If we are required to re-value the collateral securing a loan to satisfy the debt during a period of reduced real estate values or to increase our allowance for loan losses, our profitability could be adversely affected, which could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Our commercial banking business is concentrated in, and largely dependent upon, the continued growth and welfare of the general geographic markets in which we operate.

Our commercial banking operations are concentrated in Pennsylvania, New Jersey, New York, and Ohio. As a result, our financial condition, results of operations and cash flows are affected by changes in the economic conditions of any of those states or the regions of which they are a part. Our success depends to a significant extent upon the business activity, population, income levels, deposits and real estate activity in these markets, and we are vulnerable to a downturn in the local economies in these areas. Declines in the economy affecting these markets would lower the value of the collateral securing those loans, which could cause us to realize losses in the event of increased foreclosures. Furthermore, local economic conditions have a significant impact on the ability of borrowers to repay loans as well as our ability to originate new loans.

In addition, among other things, shale gas exploration and production is a significant force in driving the economies of Western Pennsylvania and Northeastern Ohio, two of our significant commercial banking markets, and low energy prices have adversely impacted and may continue to adversely impact shale gas exploration and production, negatively impacting those economies. Although we do not make loans to companies directly engaged in oil and gas exploration and production, adverse conditions that affect these market areas could reduce our growth rate, affect the ability of our customers to repay their loans, affect the value of collateral underlying loans, impact our ability to attract deposits and generally affect our business, financial condition and results of operations. Because of our geographic concentration, we may be less able than other regional or national financial institutions to diversify our credit risks across multiple markets.

Our loan portfolio contains large loans to certain borrowers, and deterioration in the financial condition of these borrowers could have a material adverse impact on our asset quality and profitability.

Along with other risks inherent in our loans, such as the deterioration of the underlying businesses or collateral securing these loans, the higher average size of our loans presents a risk to our lending operations. If only a few of our largest borrowers become unable to repay their loan obligations as a result of economic or market conditions or personal circumstances, our non-performing loans and our provision for loan losses could increase significantly, which could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Our lending limit may restrict our growth and prevent us from effectively implementing our business strategy.

We are limited in the amount we can loan to a single borrower by the amount of our capital. Generally, under current law, we may lend up to 15.0% of our unimpaired capital and surplus to any one borrower. We have established an internal lending limit that is significantly lower than our legal lending limit. Based upon our current capital levels, the amount we may lend is significantly less than that of many of our competitors and may discourage potential borrowers who have credit needs in excess of our lending limit from doing business with us. We accommodate larger loans by selling participations in those loans to other financial institutions, but this strategy may not always be available. If we are unable to compete effectively for loans from our target customers, we may not be able to effectively implement our business strategy, which could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We must maintain and follow high loan underwriting standards to grow safely.

Our ability to grow our assets safely depends on maintaining disciplined and prudent underwriting standards and ensuring that our relationship managers and lending personnel follow those standards. The weakening of these standards for any reason, such as to seek higher yielding loans, or a lack of discipline or diligence by our employees in underwriting and monitoring loans, may result in loan defaults, foreclosures and additional charge-offs and may necessitate that we significantly increase our allowance for loan losses, any of which could adversely affect our net income. Relatedly, as we attempt to uphold those standards in an increasingly competitive lending environment, we may experience increased refinancing of existing loans and reduced new loan growth. As a result, our business, financial condition, results of operations and future prospects could be adversely affected.

We rely heavily on our executive management team and other key employees, and the loss of the services of any of these individuals could adversely impact our business and reputation.

Our success depends in large part on the performance of our key personnel, as well as on our ability to attract, motivate and retain highly qualified senior and middle management and other skilled employees. Competition for employees is intense, and the process of locating key personnel with the combination of skills and attributes required to execute our business plan may be lengthy. We currently do not have any employment or non-compete agreements with any of our executive officers or key employees other than certain non-solicitation and restrictive agreements that we received from certain key employees in connection with our investment management business. We may not be successful in retaining our key employees, and the unexpected loss of services of one or more of our key personnel could have a material adverse effect on our business because of their skills, knowledge of our primary markets, years of industry experience and the difficulty of promptly finding qualified replacement personnel. If the services of any of our key personnel should become unavailable for any reason, we may not be able to identify and hire qualified persons on terms acceptable to us, or at all, which could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Our business has grown rapidly, and we may not be able to maintain our historical rate of growth, which could have a material adverse effect on our ability to successfully implement our business strategy.

Our business has grown rapidly. Although rapid business growth can be a favorable business condition, financial institutions that grow rapidly can experience significant difficulties as a result of rapid growth. We seek to grow safely and consistently which requires us to manage several different elements simultaneously. Successful growth in our banking business requires that we follow adequate loan underwriting standards, balance loan and deposit growth while managing interest rate risk and our net interest margin, maintain adequate capital at all times, produce investment performance results competitive with our peers and benchmarks, further diversify our revenue sources, meet the expectations of our clients, and hire and retain qualified employees. If we do not manage our growth successfully, then our business, financial condition, results of operations or future prospects may be adversely affected.

We may not be able to sustain our historical rate of growth or continue to grow our business at all. Because of factors such as the uncertainty in the general economy and the recent government intervention in the credit markets, it may be difficult for us to repeat our historic earnings growth as we continue to expand. Failure to grow or failure to manage our growth effectively could have a material adverse effect on our business, financial condition, results of operations and future prospects, and could adversely affect our ability to successfully implement our business strategy.

Our utilization of brokered deposits could adversely affect our liquidity and results of operations.

Since our inception, we have utilized both brokered and non-brokered deposits as a source of funds to support our growing loan demand and other liquidity needs. As a bank regulatory supervisory matter, reliance upon brokered deposits as a significant source of funding is discouraged. Brokered deposits may not be as stable as other types of deposits and, in the future, those depositors may not renew their deposits when they mature, or we may have to pay a higher rate of interest to keep those deposits or may have to replace them with other deposits or with funds from other sources. Additionally, if TriState Capital Bank ceases to be categorized as "well capitalized" for bank regulatory purposes, it will not be able to accept, renew or roll over brokered deposits without a waiver from the FDIC. Our inability to maintain or replace these brokered deposits as they mature could adversely affect our liquidity and results of operations. Further, paying higher interest rates to maintain or replace these deposits could adversely affect our net interest margin and our results of operations and financial condition.

Liquidity risk could impair our ability to fund operations and meet our obligations as they become due.

Our ability to implement our business strategy will depend on our liquidity and ability to obtain funding for loan originations, working capital and other general purposes. Our preferred source of funds for our banking business consists of customer deposits; however, we rely on other sources such as brokered deposits and Federal Home Loan Bank or “FHLB” advances. In addition to our competition with other banks for deposits, such account and deposit balances can decrease when customers perceive alternative investments as providing a better risk/return trade off. If customers move money out of bank deposits and into other investments, we may increase our utilization of brokered deposits, FHLB advances and other wholesale funding sources necessary to fund desired growth levels.

We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities and other sources of liquidity, respectively, to ensure that we have adequate liquidity to fund our banking operations. Any decline in available funding could adversely impact our ability to fund new loan balances, invest in securities, meet our expenses or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse effect on our liquidity, financial condition, results of operations and future prospects.

We may need to raise additional capital in the future, and if we fail to maintain sufficient capital, we may not be able to maintain regulatory compliance.

We face significant capital and other regulatory requirements as a financial institution. We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, which could include the possibility of financing acquisitions. In addition, we, on a consolidated basis, and Tristate Capital Bank, on a stand-alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity in such amounts as regulators may require from time to time. Importantly, regulatory capital requirements could increase from current levels, which could require us to raise additional capital or reduce our operations. Even if we satisfy all applicable regulatory capital requirements, our regulators could ask us to maintain capital levels that are in excess of such requirements. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, as well as on our financial condition and performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, we could be subject to enforcement actions or other regulatory consequences, which could have an adverse effect on our business, financial condition, results of operations and future prospects.

Any future reductions in our credit ratings may increase our funding costs or impair our ability to effectively compete for business and clients.

We have used and may in the future use debt as a funding source. One or more rating agencies regularly evaluate us and their ratings of our long-term debt are based on a number of factors, including our financial strength and conditions affecting the financial services industry generally. In general, rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix and level and quality of earnings, and we may not be able to maintain our current credit ratings. Credit ratings are subject to change at any time, and it is possible that any rating agency will take action to downgrade us in the future.

Any future decrease in our credit ratings by one or more rating agencies could impact our access to the capital markets or short-term funding or increase our financing costs, and thereby adversely affect our financial condition and liquidity. Our clients and counterparties may also be sensitive to the risks posed by a ratings downgrade and may terminate their relationships with us, be less likely to engage in transactions with us, or only engage in transactions with us on terms that are less favorable to us. We cannot predict whether client relationships or opportunities for future relationships could be adversely affected by clients who choose to do business with a higher-rated institution. The inability to retain clients or to effectively compete for new business may have a material adverse effect on our business, financial condition, results of operations or future prospects.

Additionally, rating agencies have themselves been subject to scrutiny arising from the financial crisis such that the rating agencies may make or may be required to make substantial changes to their ratings policies and practices. Such changes may, among other things, adversely affect the ratings of our securities or other securities in which we have an economic interest.

Changes in interest rates could negatively impact the profitability of our banking business.

Our profitability, like that of most financial institutions, depends to a significant extent on our net interest income, which is the difference between our interest income on interest-earning assets, such as loans and investment securities, and our interest expense on interest-bearing liabilities, such as deposits and borrowings. Net interest income is affected by changes in market interest rates because different types of assets and liabilities may react differently, and at different times, to market interest rate changes. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a period, an increase in market rates of interest could reduce net interest income. Similarly, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could reduce net interest income. These rates are highly sensitive to many factors beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, in particular the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the interest we pay on deposits and borrowings, but such changes could also affect our ability to originate loans and obtain deposits, the fair value of our financial assets and liabilities, and the average duration of our assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore net income, could be adversely affected. If our net interest income is adversely affected by changes in interest rates, it could have a material adverse effect on our business, financial condition, results of operations and future prospects.

One of the ways in which we currently attempt to manage interest rate risk is by maintaining an asset sensitive balance sheet combined with some level of longer-term deposits, but conditions could prevent us from successfully implementing this strategy in the future.

Our loans are predominantly variable rate loans, with the majority being based on the London Interbank Offered Rate (“LIBOR”). A decline in interest rates could cause the spread between our loan yields and our deposit rates paid to compress our net interest margin and our net income could be adversely affected. Further, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our business, financial condition, results of operations and future prospects.

In addition, an increase in interest rates could also have a negative impact on our results of operations by reducing the market value of our investment securities and the ability of borrowers to repay their current loan obligations. These circumstances could not only result in increased loan defaults, foreclosures and charge-offs, but also necessitate increases to our allowance for loan losses. Each of these factors could have a material adverse effect on our business, results of operations, financial condition and future prospects.

The phasing out and ultimate replacement of LIBOR with an alternative reference rate and changes in the manner of calculating other reference rates may adversely impact the value of loans and other financial instruments we hold that are linked to LIBOR or other reference rates in ways that are difficult to predict and could adversely impact our financial condition and results of operations.

In July 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021, and for LIBOR to be replaced with an alternative reference rate that will be calculated in a different manner. Similar changes have occurred or may occur with respect to other reference rates. It is not currently possible to determine whether, or to what extent, any such changes would impact the value of any loans, derivatives and other financial obligations or extensions of credit we hold or that are due to us that are linked to LIBOR or other reference rates or whether, or to what extent, such changes would impact our business, financial condition, results of operations or future prospects.

Our investment management business may be negatively impacted by competition, changes in economic and market conditions, changes in interest rates and investment performance.

A material portion of our earnings is derived from Chartwell, our investment management business. Chartwell may be negatively impacted by competition, changes in economic and market conditions, changes in interest rates and investment performance. The investment management business is intensely competitive. In the markets where we compete, there are over 1,000 firms which we consider to be primary competitors. In addition to competition from other institutional investment management firms, Chartwell, along with the active-management industry in general, compete with passive index funds, ETFs and investment alternatives such as hedge funds. Our ability to successfully attract and retain investment management clients will depend on, among other things, our ability to compete with our competitors’ investment products, level of investment performance, fees, client services, marketing and distribution capabilities. Our ability to retain investment management clients may be impaired by the fact that investment management contracts are typically terminable in nature. Most of our clients may withdraw funds from under our management at their discretion at any time for any reason, including the performance of the investment advice, a change in the client's investment strategy or other factors. If we cannot effectively compete to attract and retain customers, our business, financial condition, results of operations and future prospects may be adversely affected.

Additionally, it is possible our management fees could be reduced for a variety of reasons, including, among other things, pressure resulting from competition in the investment management sector or regulatory changes, and we may from time to time reduce or waive investment management fees, or limit total expenses, on certain products or services offered as part of the our investment management business for particular time periods to manage fund expenses, to help retain or increase managed assets or for other reasons. If our revenues decline without a commensurate reduction in our expenses, our net income from our investment management business would be reduced, which could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Our investment management business may be negatively impacted by changes in general economic and market conditions. The financial markets and businesses operating in the securities industry are highly volatile (meaning that performance results can vary greatly within short periods of time) and are directly affected by, among other factors, domestic and foreign economic conditions and general trends in business and finance, all of which are beyond our control. We cannot guaranty that broad market performance will be favorable in the future. Declines in the financial markets or a lack of sustained growth may result in declines in the performance of our investment management business and the level of assets under management. Because the revenues of our investment management business are, to a large extent, fees based on assets under management, such declines could have a material adverse effect on that business.

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Further, changes in interest rates could also adversely affect our investment management business by decreasing the net asset values of our assets under management and potentially causing investors to shift assets in ways that negatively impact the fees generated by that business.

The termination or failure to renew fund agreements could have adverse effects on our investment management business.

A material portion of our earnings is derived from investment management agreements and sub-advisor investment management agreements related to multiple sponsored funds. Investment management agreements are, as required by law, terminable upon 60 days' notice. In addition, investment management agreements of this nature must be approved and renewed annually by each fund's board of directors or trustees, including independent members of the board, or its shareholders, as required by law. Failure to renew, changes resulting in lower fees, or termination of a significant number of these agreements could have a material adverse impact on our business, financial condition, results of operations and future prospects.

Our investment management business may be negatively impacted by our investment performance.

Success in the investment management business is largely dependent on investment performance relative to market conditions and the performance of competing products. Good performance generally assists retention and growth of managed assets, resulting in additional revenues. Conversely, poor performance tends to result in decreased sales and increased redemptions with corresponding decreases in revenues to the investment management business. It also could adversely impact any performance-based fees for which we are eligible. Poor performance could, therefore, have a material adverse effect on our business, financial condition, results of operations or future prospects. A significant and prolonged decline in the assets under management of our investment management business could have a material adverse effect on our future revenues and, to a lesser extent, net income due to related reductions in distribution expenses associated with these funds.

The failure or negative performance of products offered by other investment management companies may adversely impact our investment management business regardless of that business' performance.

Many competitors offer similar products to those offered by Chartwell and the failure or negative performance of competitors' products could lead to a loss of confidence in similar Chartwell products, regardless of the performance of such products. Any loss of confidence in a product type could lead to withdrawals, redemptions and liquidity issues in such products, which may cause the assets under management, revenue and earnings of our investment management business to decline.

We face significant competitive pressures that could impair our growth, decrease our profitability or reduce our market share.

We operate in the highly competitive financial services industry and face significant competition for customers from bank and non-bank competitors, particularly regional and nationwide institutions, in originating loans, attracting deposits, providing financial management products and services, and providing other financial services. Our competitors are generally larger and may have significantly more resources, greater name recognition, and more extensive and established branch networks or geographic footprints than we do. Because of their scale, many of these competitors can be more aggressive than we can on loan, deposit and financial services pricing. In addition, many of our non-bank and non-institutional financial management competitors have fewer regulatory constraints and may have lower cost structures. We expect competition to continue to intensify due to financial institution consolidation; legislative, regulatory and technological changes; and the emergence of alternative banking sources and investment management products and services. Additionally, technology has lowered barriers to entry.

Our ability to compete successfully will depend on a number of factors, including, among other things:

- our ability to build and maintain long-term customer relationships while ensuring high ethical standards and safe and sound business practices;
- the scope, relevance, performance and pricing of products and services that we offer;
- customer satisfaction with our products and services;
- industry and general economic trends; and
- our ability to keep pace with technological advances and to invest in new technology.

Increased competition could require us to increase the rates we pay on deposits or lower the rates we offer on loans or the fees we charge on banking or investment management products and services, all of which could reduce our profitability. Our failure to compete effectively

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in our primary markets could cause us to lose market share and could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Our ability to maintain our reputation is critical to the success of our business.

Our business plan emphasizes building and maintaining strong relationships with our clients. We have benefited from strong relationships with and among our customers, and also from our relationships with financial intermediaries. As a result, our reputation is one of the most valuable components of our business.

Our growth over the past several years has depended on attracting new customers from competing financial institutions thereby increasing our market share, primarily through involvement in our primary markets and word-of-mouth advertising. As such, we strive to enhance our reputation by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities and markets that we serve and delivering superior service to our customers. If our reputation is negatively affected by the actions of our employees or otherwise, our existing relationships may be damaged. We could lose some of our existing customers, including groups of large customers who have relationships with each other, and we may not be successful in attracting new customers. Any of these developments could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Deterioration in the fiscal position of the U.S. federal government and downgrades in U.S. Treasury and federal agency securities could adversely affect us and our banking operations.

The business environment in the markets in which we operate and in the United States as a whole have a significant effect on our financial performance, the ability of borrowers to pay interest on and repay the principal of outstanding loans, the value of collateral securing those loans, and demand for loans and other products and services we offer and whose success we rely on to drive our future growth. Some elements of the business environment that affect our financial performance include short-term and long-term interest rates, the prevailing yield curve, inflation, monetary supply, fluctuations in the debt and equity capital markets, and the strength of the domestic economy and the local economies in the markets in which we operate. Unfavorable market conditions can result in a deterioration of the credit quality of borrowers, an increase in the number of loan delinquencies, defaults and charge-offs, additional provisions for loan losses, adverse asset values and a reduction in assets under management. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence, limitations on the availability of or increases in the cost of credit and capital, increases in inflation, changes in interest rates, high unemployment, natural disasters, state or local government insolvency, or a combination of these or other factors. Any unfavorable change in the general business environment in which we operate, in the United States as a whole or abroad could adversely affect our business, financial condition, results of operations or future prospects.

During the past decade there has at times been concern about the fiscal position of the U.S. federal government, as illustrated by a 2011 downgrade by certain rating agencies of the credit rating of the government. In addition to causing economic and financial market disruptions, any future downgrade of the credit rating of the United States, failures to raise the U.S. statutory debt limit, or deterioration in the fiscal outlook of the United States federal government, could, among other things, materially adversely affect the market value of the U.S. and other government and governmental agency securities that we may hold, the availability of those securities as collateral for borrowing, and our ability to access capital markets on favorable terms. It also could increase interest rates and disrupt payment systems, money markets, and long-term or short-term fixed income markets, adversely affecting the cost and availability of funding, which could negatively affect our profitability. The adverse consequences of any downgrade could also extend to those to whom we extend credit and could adversely affect their ability to repay their loans. In addition, any resulting decline in the financial markets could affect the value of marketable securities that serve as collateral for our loans, which would, in turn, adversely affect our credit quality and could impede the growth that we expect to achieve within this segment of our loan portfolio. Any of these developments could have a material adverse effect on our business, financial condition, results of operations and future prospects.

The fair value of our investment securities can fluctuate due to factors outside of our control.

Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect to the securities, defaults by the issuer or with respect to the underlying securities, changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized or unrealized losses in future periods, which could have a material adverse effect on our business, financial condition, results of operations and future prospects. The process for determining whether impairment of a security is other-than-temporary often requires complex, subjective judgments about whether there has been a significant deterioration in the financial condition of the issuer, whether management has the intent or ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value, the future financial performance and liquidity of the issuer and any collateral underlying the security, and other relevant factors.

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Our financial results depend on management’s selection of accounting methods and certain assumptions and estimates.

Our financial condition and results of operations are based on our consolidated financial statements, which are prepared in accordance with generally accepted accounting principles in the United States, or GAAP and with general practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that have a greater possibility of producing results that could be materially different than originally reported.

For example, the Bank will adopt new guidance for estimating credit losses on loans receivable, held-to-maturity debt securities, and unfunded loan commitments effective January 1, 2020. The current expected credit losses (“CECL”) model is based on lifetime expected losses, rather than incurred losses, and requires the recognition of credit loss expense in the statement of income and a related allowance for credit losses on the statement of financial condition at the time of origination or purchase of a loan receivable or held-to-maturity debt security. The CECL model requires the use of not only relevant historical experience and current conditions, but also reasonable and supportable forecasts of future events and circumstances, thus incorporating a broad range of information in developing credit loss estimates, which could result in significant changes to both the timing and amount of credit loss expense and allowance. Adoption of this guidance may cause our allowance for loan losses to change materially, which could have a material adverse effect on our business, financial condition, results of operations and future prospects.

By engaging in derivative transactions, we are exposed to additional credit and market risk in our banking business.

We use interest rate swaps to help manage our interest rate risk in our banking business from recorded financial assets and liabilities when they can be demonstrated to effectively hedge a designated asset or liability and the asset or liability exposes us to interest rate risk or risks inherent in customer related derivatives. We use other derivative financial instruments to help manage other economic risks, such as liquidity and credit risk, including 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. Our derivative financial instruments are used to manage differences in the amount, timing, and duration of our known or expected cash receipts principally related to certain of our fixed-rate loan assets or certain of our variable-rate borrowings. We also have derivatives that result from a service we provide to certain qualifying customers approved through our credit process, and therefore, are not used to manage interest rate risk in our assets or liabilities.

Hedging interest rate risk is a complex process, requiring sophisticated models and routine monitoring, and is not a perfect science. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation will generally be offset by income or loss on the derivative instruments that are linked to the hedged assets and liabilities. By engaging in derivative transactions, we are exposed to credit and market risk. If the counterparty fails to perform, credit risk exists to the extent of the fair value gain in the derivative. Market risk exists to the extent that interest rates change in ways that are significantly different from what we expected when we entered into the derivative transaction. The existence of credit and market risk associated with our derivative instruments could adversely affect our net interest income and, therefore, could have an adverse effect on our business, financial condition, results of operations and future prospects.

We may be adversely affected by a decrease in the soundness of other financial institutions.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to different industries and counterparties, including through transactions with counterparties in the financial services industry such as broker/dealers, commercial banks, investment banks and other financial intermediaries. In addition, we participate in loans originated by other financial institutions (including shared national credits) in which other lenders serve as the lead bank. Further, our private banking channel relies on relationships with a number of other financial institutions for referrals. As a result, declines in the financial condition of, or even rumors or questions about, one or more financial institutions, financial service companies or the financial services industry generally, may lead to market-wide liquidity, asset quality or other problems and could lead to losses or defaults by us or by other institutions. These problems, losses or defaults could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We rely on third parties to provide key components of our business infrastructure, and a failure of these parties to perform for any reason could disrupt our operations.

Third parties provide key components of our business infrastructure such as loan and account servicing, data processing, internet connections, network access, core application processing, statement production and account analysis. Our business depends on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. Further, data or model imprecision, software or other technology malfunctions, programming inaccuracies and similar or other circumstances or events may impair the performance of systems and technology. Replacing vendors or addressing other issues with our third-party service providers could entail significant delay and expense. If we are unable to efficiently replace ineffective service providers, or if we experience a significant, sustained or repeated, system failure or service denial, it could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business or financial damages from customer businesses, and subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We utilize the information systems of third parties to monitor the value of and control marketable securities that collateralize our loans, and a failure of those systems or third parties could adversely affect our ability to assess and manage the risk in our loan portfolio.

A significant portion of our loan portfolio is secured by marketable securities that are held by third-party custodians or other financial services or wealth management firms. We utilize the systems of these third parties to provide information to us so that we can quickly and accurately monitor changes in the value of the securities that serve as collateral. We also rely on these parties to provide control over marketable securities for purposes of perfecting our security interests and retaining the collateral in the applicable accounts. While we have been careful in selecting the third-parties with which we do business, we do not control their actions, their systems or the information that they provide to us. Any problems caused by these third parties, including as a result of their failure to provide services or information to us for any reason, or their performing services poorly or providing us with incorrect information, could adversely affect our ability to deliver products and services to our customers or could adversely affect our ability to manage, appropriately assess and react to risk in our loan portfolio, which, in turn, could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We could be subject to losses, regulatory action and reputational harm due to fraudulent and negligent acts on the part of loan applicants, our borrowers, our clients, our employees and our vendors.

In deciding whether to extend credit or enter into other transactions with clients and counterparties, we may rely on information furnished by or on behalf of clients and counterparties, including financial statements, property appraisals, title information, employment and income documentation, account information and other financial information. We may also rely on representations of clients and counterparties as to the accuracy and completeness of such information and, with respect to financial statements, on reports of independent auditors. Any such misrepresentation or incorrect or incomplete information may not be detected prior to funding a loan or during our ongoing monitoring of outstanding loans. In addition, one or more of our employees or vendors could cause a significant operational breakdown or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our loan documentation, operations or systems. Any of these developments could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Our growth and expansion strategy may involve strategic investments or acquisitions, and we may not be able to overcome risks associated with such transactions.

Although we plan to continue to grow our business organically, we may seek opportunities to invest in or acquire investment management businesses or other businesses that we believe would complement our existing business model. Any potential future investment or acquisition activities could be material to our business and involve a number of risks, including the following:

- incurring time and expense associated with identifying and evaluating potential investments or acquisitions and negotiating potential transactions, resulting in our attention being diverted from the operation of our existing business;

- an inability to attract funding to support additional growth within acceptable risk tolerances;
- the limited experience of our management team in working together on certain acquisitions and related integration activities that could be undertaken;
- the time, expense and difficulty of integrating the operations and personnel and standards, procedures and policies of the combined businesses;
- an inability to realize expected synergies or returns on investment;
- potential disruption of our ongoing banking business;
- an inability to maintain adequate regulatory capital; and
- a loss of key employees or key customers following an investment or acquisition.

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We may not be successful in overcoming these risks or any other problems encountered in connection with pending or potential investments or acquisitions. Our inability to overcome these risks could have an adverse effect on our ability to implement our business strategy and enhance shareholder value, which, in turn, could have a material adverse effect on our business, financial condition, results of operations and future prospects.

New lines of business or new or enhanced products and services may subject us to additional risks.

From time to time, we may develop, grow or acquire new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing, implementing and marketing new lines of business and/or new or enhanced products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business or new or enhanced product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new or enhanced products or services could have a material adverse effect on our business, financial condition, results of operations and future prospects.

The value of our goodwill and other intangible assets may decline in the future.

In our acquisitions we have generally recognized intangible assets, including customer relationship intangible assets and goodwill, in our consolidated statements of financial condition, but we may not realize the value of these assets. Management performs an annual review of the carrying values of goodwill and indefinite-lived intangible assets and periodically reviews the carrying values of all other intangible assets to determine whether events and circumstances indicate that an impairment in value may have occurred. Although we have determined that goodwill and other intangible assets were not impaired during 2018, a significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or other factors could result in impairment of goodwill or other intangible assets. Should a review indicate impairment, a write-down of the carrying value of the asset would occur, resulting in a non-cash charge which could result in a material charge to earnings and would adversely affect our results of operations.

Unauthorized access, cyber-crime and other threats to data security may require significant resources, harm our reputation, and adversely affect our business.

We necessarily collect, use and hold personal and financial information concerning individuals and businesses with which we have a relationship. In addition, we provide our clients with the ability to bank [and make investment decisions] remotely, including over the internet. The secure transmission of confidential information over the internet is a critical element of remote banking. Threats to data security, including unauthorized access and cyber-attacks, rapidly emerge and change, exposing us to additional costs related to protection or remediation and competing time constraints to secure our data in accordance with customer expectations, statutory and regulatory privacy regulations, and other requirements. It is difficult or impossible to defend against every risk being posed by changing technologies, as well as the intent of criminals, terrorists or foreign governments or their agents with respect to committing cyber-crime. Because of the increasing sophistication of cyber-criminals and terrorists, data breaches could result despite our best efforts. These risks may increase in the future as we continue to increase our internet-based product offerings and expand our internal use of web-based products and applications, and controls employed by our information technology department and our other employees and vendors could prove inadequate to resolve or mitigate these risks.

We could also experience a breach due to intentional or negligent conduct on the part of employees, vendors or other internal sources, software bugs or other technical malfunctions, or other causes. As a result of any of these threats, our customer accounts and the personal and financial information of our customers and employees may become vulnerable to account takeover schemes, identity theft or cyber-fraud. In addition, our customers use their own electronic devices, such as computers, tablets and cellular phones, to do business with us and may provide their information to a third party in connection with obtaining services from such third party. Our ability to assure safety and security is limited in these instances. Our systems and those of our third-party vendors may also become vulnerable to damage or disruption due to circumstances beyond our or their control, such as catastrophic events, power anomalies or outages, natural disasters, network failures, viruses and malware.

A breach of our security or the security of any of our third-party vendors that results in unauthorized access to our data, including personal and financial information of our customers, could expose us to a disruption or challenges relating to our daily operations as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs, regulatory scrutiny and reputational damage. Maintaining our security measures to seek to protect against the latest types of threats may also create risks associated with implementing new systems and integrating them with existing ones. In addition, our investment management business could be harmed by cyber incidents affecting issuers in which its customers' assets are invested, and our private banking business could be harmed by such incidents affecting the issuers of marketable securities that secure its loans. Any such breaches of security or cyber incidents could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Beyond breaches of our security or the security of our third party vendors, as a result of financial entities and technology systems becoming more interdependent and complex, a cyber incident, information breach or loss, or technology failure that compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including us. We have taken measures to implement backup systems and other safeguards to support our operations, but our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties with whom we interact. We also may incur costs as a result of data or security breaches of third parties with whom we do not have a significant direct relationship.

We are subject to laws regarding the privacy, information security and protection of personal information and any violation of these laws or another incident involving personal, confidential or proprietary information of individuals could damage our reputation and otherwise adversely affect our operations and financial condition.

Our business requires the collection and retention of large volumes of customer data, including personally identifiable information in various information systems that we maintain and in those maintained by third parties with whom we contract to provide data services. We also maintain important internal company data such as personally identifiable information about our employees and information relating to our operations. We are subject to complex and evolving laws and regulations governing the privacy and protection of personal information of individuals (including customers, employees, suppliers and other third parties). Various state and federal banking regulators and states have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Ensuring that our collection, use, transfer and storage of personal information comply with all applicable laws and regulations can increase our costs. Furthermore, we may not be able to ensure that all of our clients, suppliers, counterparties and other third parties have appropriate controls in place to protect the confidentiality of the information that they exchange with us, particularly where such information is transmitted by electronic means. If personal, confidential or proprietary information of customers or others were to be mishandled or misused (in situations where, for example, such information was erroneously provided to parties who are not permitted to have the information, or where such information was intercepted or otherwise compromised by third parties), we could be exposed to litigation or regulatory sanctions under personal information laws and regulations. Concerns regarding the effectiveness of our measures to safeguard personal information, or even the perception that such measures are inadequate, could cause us to lose customers or potential customers for our products and services and thereby reduce our revenues. Accordingly, any failure or perceived failure to comply with applicable privacy or data protection laws and regulations may subject us to inquiries, examinations and investigations that could result in requirements to modify or cease certain operations or practices or in significant liabilities, fines or penalties, and could damage our reputation and otherwise adversely affect our business, financial condition, results of operations and future prospects.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology, or we may experience operational challenges when implementing new technology.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations as we continue to grow and expand our product and service offerings. Although we are committed to keeping pace with technological advances and to invest in new technology, our competitors may, through the use of new technologies that we have not implemented, whether due to cost or otherwise, be able to offer additional or superior products to those that we will be able to provide, which would put us at a competitive disadvantage. We also may not be able to effectively implement new technology-driven products and services, be successful in marketing such products and services to our customers or replace technologies that are obsolete or out of date with new technologies, which could result in a loss of customers seeking new technology-driven products and services to the extent we are unable to provide such products and services. In addition, the implementation of technological changes and upgrades to maintain current systems and integrate new ones may cause service interruptions, transaction processing errors and system conversion delays, may cause us to fail to comply with applicable laws, and may cause us to incur additional expenses, which may be substantial. Failure to successfully keep pace with technological change affecting the financial services industry and avoid interruptions, errors and delays could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We may take tax filing positions or follow tax strategies that may be subject to challenge.

The amount of income taxes that we are required to pay on our earnings is based on federal and state legislation and regulations. We provide for current and deferred taxes in our financial statements based on our results of operations, business activity, legal structure and interpretation of tax statutes. We may take filing positions or follow tax strategies that are subject to audit and may be subject to challenge.

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Our net income may be reduced if a federal, state or local authority assesses charges for taxes that have not been provided for in our consolidated financial statements. Taxing authorities could change applicable tax laws, challenge filing positions or assess taxes and interest charges. If taxing authorities take any of these actions, our business, financial condition, results of operations and future prospects could be adversely affected, perhaps materially.

Risks Relating to Regulations

We operate in a highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, could subject us to regulatory action or penalties.

Banking is highly regulated under federal and state law. We are subject to extensive regulation and supervision that governs almost all aspects of our operations. As a registered bank holding company, we are subject to supervision, regulation and examination by the Federal Reserve. As a commercial bank chartered under the laws of Pennsylvania, TriState Capital Bank is subject to supervision, regulation and examination by the Pennsylvania Department of Banking and Securities and the FDIC. Our investment management business is subject to extensive regulation in the United States. Chartwell and Chartwell TSC are subject to federal securities laws, principally the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, the Investment Advisers Act of 1940, as amended, and other regulations promulgated by various regulatory authorities, including the SEC, the Financial Industry Regulatory Authority, Inc., or FINRA, stock exchanges, and applicable state laws. Our investment management business also may be subject to regulation by the Commodity Futures Trading Commission and the National Futures Association. Our investment management business also is affected by various regulations governing banks and other financial institutions. Failure to appropriately comply with any such laws, regulations or regulatory policies could result in sanctions by regulatory agencies, civil monetary penalties or damage to our reputation, all of which could adversely affect our business, financial condition, results of operations and future prospects.

The banking agencies have broad enforcement power over bank holding companies and banks, including the authority, among other things, to enjoin “unsafe or unsound” practices, require affirmative action to correct any violation or practice, issue administrative orders that can be judicially enforced, direct increases in capital, direct the sale of subsidiaries or other assets, limit dividends and distributions, restrict growth, assess civil monetary penalties, remove officers and directors and, with respect to banks, terminate a bank’s charter, terminate its deposit insurance or place a bank into conservatorship or receivership.

In addition to the safety and soundness focus, there are significant banking regulations relating to other aspects of our business, including borrower protection and community development. With respect to our community development obligations under the Community Reinvestment Act (the “CRA”), we have an approved CRA strategic plan for the years 2018 through 2020. While we currently believe we will succeed in obtaining approval for our CRA strategic plan commencing in 2021, we cannot guaranty that we will obtain such an approval, in which case we would be subject to the CRA for traditional large banks, which could have material adverse effects on our business, financial of operation, financial condition and future prospects. For additional information, see “Supervision and Regulation-Community Reinvestment Act.”

Compliance with the myriad laws and regulations applicable to our organization can be difficult and costly. In addition, these laws, regulations and policies are subject to continual review by governmental authorities, and changes to these laws, regulations and policies, including changes in interpretation or implementation of these laws, regulations and policies, could affect us in substantial and unpredictable ways and often impose additional compliance costs. Further, any new laws, rules and regulations, could make compliance more difficult or expensive. Failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, which could have an adverse impact on our business, financial condition, results of operations and future prospects.

The ongoing implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, could require significant management attention and resources and subject us to more stringent regulatory requirements.

The Dodd-Frank Act comprehensively reformed the regulation of financial institutions, products and services. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. While a significant number of regulations have already been promulgated to implement the Dodd-Frank Act, many of the details and much of the impact of the Dodd-Frank Act may not be known for lengthy periods. We may be forced to invest significant management attention and resources to make any necessary changes related to the Dodd-Frank Act and regulations promulgated thereunder, which may adversely affect our business, financial condition, results of operations and future prospects. We cannot predict the specific impact and long-term effects the Dodd-Frank Act and the regulations promulgated thereunder will have on our financial performance, the markets in which we operate or the financial industry generally.

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Federal and state bank regulators periodically conduct examinations of our business and we may be required to remediate adverse examination findings.

The Federal Reserve, the FDIC and the Pennsylvania Department of Banking and Securities periodically conduct examinations of our business, including our compliance with laws and regulations. If, as a result of an examination, a bank regulatory agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we or TriState Capital Bank were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against us, TriState Capital Bank or our respective officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate TriState Capital Bank’s charter or deposit insurance and place the Bank into receivership or conservatorship. Any regulatory action against us could have a material adverse effect on our business, financial condition, results of operations and future prospects.

The Bank’s FDIC deposit insurance premiums and assessments may increase.

The deposits of TriState Capital Bank are insured by the FDIC up to legal limits and, accordingly, subject the Bank to the payment of FDIC deposit insurance assessments. The Bank’s regular assessments are determined by its risk category, which is based on a combination of its financial ratios and supervisory ratings, and which, among other things, generally demonstrates its regulatory capital levels and level of supervisory concern. Moreover, the FDIC has the unilateral authority to change deposit insurance assessment rates and the manner in which deposit insurance is calculated, and also to charge special assessments to FDIC-insured institutions. High levels of bank failures since 2007 and increases in the statutory deposit insurance limits have increased costs to the FDIC to resolve bank failures and have put significant pressure on the Deposit Insurance Fund. In order to maintain a strong funding position and restore the reserve ratios of the Deposit Insurance Fund, the FDIC increased deposit insurance assessment rates and charged a special assessment to all FDIC-insured financial institutions. Further increases in assessment rates or special assessments may occur in the future, especially if there are significant additional financial institution failures.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act, or the CRA, and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The CFPB, the Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution’s performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution’s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We face a risk of noncompliance with and enforcement action under the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports when appropriate. In addition to other bank regulatory agencies, the federal Financial

Crimes Enforcement Network of the Department of the Treasury is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with state and federal banking regulators, as well as the Department of Justice, the CFPB, the Drug Enforcement Administration, the Office of Foreign Assets Control, ("OFAC"), and the Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by OFAC regarding, among other things, the prohibition of transacting business with, and the need to freeze assets of, certain persons and organizations identified as a threat to the national security, foreign policy or economy of the United States. To comply with regulations, guidelines and examination procedures in these areas, we have dedicated significant resources to our anti-money laundering program and OFAC compliance. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including any acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We are a holding company and we depend upon our subsidiaries for liquidity. Applicable laws and regulations, including capital and liquidity requirements, may restrict our ability to transfer funds from our subsidiaries to us or other subsidiaries.

TriState Capital Holdings, Inc., as the parent company, is a separate and distinct legal entity from our banking and nonbank subsidiaries. We evaluate and manage liquidity on a legal entity basis. Legal entity liquidity is an important consideration as there are legal and other limitations on our ability to utilize liquidity from one legal entity to satisfy the liquidity requirements of another, including the parent company. For instance, the parent company depends on distributions and other payments from our banking and nonbank subsidiaries to fund all payments on our other obligations, including debt obligations. Our bank and investment management subsidiaries are subject to laws that restrict dividend payments, or authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to the parent company or other subsidiaries. In addition, our bank and investment management subsidiaries are subject to restrictions on their ability to lend to or transact with affiliates and to minimum regulatory capital and liquidity requirements, as well as restrictions on their ability to use funds deposited with them in bank or brokerage accounts to fund their businesses. These limitations may hinder our ability to implement our business strategy and enhance shareholder value which, in turn, could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Risks Relating to an Investment in our Common Stock and Preferred Stock

Shares of our common stock and preferred stock are not an insured deposit.

Shares of our common stock and our preferred stock are not bank deposits and are not insured or guaranteed by the FDIC or any other government agency. An investment in our common stock or our preferred stock has risks, and you may lose your entire investment.

An active, liquid market for our common stock may not be sustained.

Our common stock is listed on Nasdaq, but we may be unable to meet continued listing standards. In addition, an active, liquid trading market for our common stock may not be sustained. A public trading market having the desired characteristics of depth, liquidity and orderliness depends upon the presence in the marketplace and independent decisions of willing buyers and sellers of our common stock, over which we have no control. Without an active, liquid trading market for our common stock, shareholders may not be able to sell their shares at the volume, prices and times desired. Moreover, the lack of an established market could materially and adversely affect the value of our common stock.

Our preferred stock is thinly traded.

There is only a limited trading volume in our preferred stock due to the small size of the issue and its largely institutional holder base. Significant sales of our preferred stock, or the expectation of these sales, could cause the price of the preferred stock to fall substantially.

Future sales of our common stock may adversely affect our stock price.

The market price of our common stock may be adversely affected by the sale of a significant quantity of our outstanding common stock (including any securities convertible into or exercisable or exchangeable for common stock), or the perception that such a sale could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to raise additional capital by selling equity securities in the future at a time and price that we deem appropriate.

The market price of our common stock may be subject to substantial fluctuations, which may make it difficult for you to sell your shares at the volume, prices and times desired.

The market price of our common stock may be highly volatile, which may make it difficult to resell shares of our common stock at the volume, prices and times desired. There are many factors that may impact the market price and trading volume of our common stock, including, without limitation:

- actual or anticipated fluctuations in our operating results, financial condition or asset quality;
- changes in economic or business conditions;
- the effects of, and changes in, trade, monetary and fiscal policies, including the interest rate policies of the Federal Reserve or in laws or regulations affecting us;
- changes in accounting standards, policies, guidance, interpretations or principles;
- public reaction to our press releases, our other public announcements or our filings with the SEC;

- publication of research reports about us, our competitors, or the financial services industry generally, or changes in, or failure to meet, securities analysts' estimates of our financial and operating performance, or lack of research reports by industry analysts or ceasing of coverage;
- operating and stock price performance of companies that investors deemed comparable to us;
- additional or anticipated sales of our common stock or other securities by us or our existing shareholders;
- additions or departures of key personnel;
- perceptions in the marketplace regarding our competitors and/or us;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving our competitors or us;
- other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services; and
- other news, announcements or disclosures (whether by us or others) related to us, our competitors, our core market or the financial services industry.

The stock market and, in particular, the market for financial institution stocks have experienced substantial fluctuations in recent years, which in many cases have been unrelated to the operating performance and prospects of particular companies. In addition, significant fluctuations in the trading volume in our common stock may cause significant price variations to occur. Increased market volatility may materially and adversely affect the market price of our common stock, which could make it difficult to sell your shares at the volume, prices and times desired.

Actual or anticipated issuances or sales of our common stock in the future could adversely affect the prevailing market price of our common stock and could impair our ability to raise capital through future sales of equity securities.

Actual or anticipated issuances or sales of substantial amounts of our common stock could cause the market price of our common stock to decline significantly and make it more difficult for us to sell equity or equity-related securities in the future at a time and on terms that we deem appropriate. The issuance of any shares of our common stock in the future also would, and the issuance of equity-related securities could, dilute the percentage ownership interest held by shareholders prior to such issuances. We may issue additional equity securities, or debt securities convertible into or exercisable or exchangeable for equity securities, from time to time to raise additional capital, support growth or to make acquisitions. Further, we expect to issue stock options or other stock awards to retain and motivate our employees, executives and directors. These issuances of securities could dilute the voting and economic interests of our existing shareholders, result in a significant decline in the market price of our common stock and make it more difficult for us to raise capital through future sales of equity securities.

Securities analysts may not continue coverage on our common stock.

The trading market for our common stock depends in part on the research and reports that securities analysts publish about us and our business. We do not have any control over these securities analysts, and they may not cover our common stock. If securities analysts do not cover our common stock, the lack of research coverage may adversely affect its market price. To the extent that we are covered by securities analysts, and our common stock is the subject of an unfavorable report, the price of our common stock may decline. If one or more of these analysts cease to cover us or fail to publish regular reports on us, we could lose visibility in the financial markets, which could cause the price or trading volume of our common stock to decline.

Our current management and board of directors have significant control over our business.

Our directors, as well as their related parties, and executive officers beneficially own a material portion of our outstanding common stock. Consequently, our directors and executive officers, acting together, may be able to significantly affect the outcome of the election of directors and the potential outcome of other matters submitted to a vote of our shareholders, such as mergers, the sale of substantially all of our assets and other extraordinary corporate matters. The interests of these insiders could conflict with the interest of our shareholders, including you.

The rights of holders of our common stock are generally subordinate to the rights of holders of our debt securities and preferred stock and may be subordinate to the rights of holders of any class of preferred stock or any debt securities that we may issue in the future.

Our board of directors has the authority to issue debt securities as well as an aggregate of up to 150,000 shares of preferred stock on the terms it determines without shareholder approval. In 2018, we issued 40,250 shares of our 6.75% Fixed-to-Floating Rate Series A non-Cumulative Perpetual Preferred Stock, or Series A Preferred Stock, in the form of 1,610,000 depositary shares, each representing a 1/40th interest in a share of Series A Preferred Stock. We also have issued subordinated debt which as of December 31, 2018, had an outstanding balance of $35.0 million. Any debt or shares of preferred stock that we may issue in the future will be senior to our common stock. Because our decision to issue debt or equity securities or incur other borrowings in the future will depend on market conditions and other factors beyond our control, the amount, timing, nature or success of our future capital raising efforts is uncertain. Thus, holders of our common stock bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings may negatively affect the market price of our common stock.

We no longer qualify as an “emerging growth company,” and we will be required to comply with certain provisions of the Sarbanes Oxley Act and can no longer take advantage of reduced disclosure requirements available to emerging growth companies.

As of December 31, 2018, we are no longer an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act (“JOBS Act”). For as long as we were an emerging growth company, we were permitted to take advantage of reduced regulatory and reporting requirements that are otherwise generally applicable to public companies. These included, without limitation, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments. As we are no longer an emerging growth company, we expect to incur additional expenses and devote substantial management effort toward ensuring compliance with those requirements applicable to companies that are not emerging growth companies.

We have not paid dividends on our common stock and are subject to regulatory restrictions on our ability to pay dividends in the foreseeable future.

We have not paid any dividends on our common stock since inception. Instead, we have utilized our earnings for working capital to support our operations and to finance the growth and development of our business. In addition, we are subject to certain restrictions on the payment of cash dividends as a result of banking laws, regulations and policies. Moreover, because TriState Capital Bank is our most significant asset, our ability to pay dividends to our shareholders depends in large part on our receipt of dividends from the Bank, which is also subject to restrictions on dividends as a result of banking laws, regulations and policies. Even if we decide to pay dividends on our common stock in the future (and we have not made such a decision), we would also have to comply with these regulatory restrictions. Finally, so long as any shares of our Series A Preferred Stock remain outstanding, unless we have paid in full (or declared and set aside funds sufficient for) applicable dividends on the Series A Preferred Stock, we may not declare or pay any dividend on our common stock, other than a dividend payable solely in shares of common stock or in connection with a shareholder rights plan.

Our corporate governance documents, and certain corporate and banking laws applicable to us, could make a takeover more difficult.

Certain provisions of our amended and restated articles of incorporation, our bylaws, as amended, and corporate and federal banking laws, could make it more difficult for a third party to acquire control of our organization or conduct a proxy contest, even if those events were perceived by many of our shareholders as beneficial to their interests. These provisions, and the corporate and banking laws and regulations applicable to us:

- empower our board of directors, without shareholder approval, to issue preferred stock, the terms of which, including voting power, are set by our board of directors;
- divide our board of directors into four classes serving staggered four-year terms;
- eliminate cumulative voting in elections of directors;
- require the request of holders of at least 10% of the outstanding shares of our capital stock entitled to vote at a meeting to call a special shareholders' meeting;
- require at least 60 days' advance notice of nominations by shareholders for the election of directors and the presentation of shareholder proposals at meetings of shareholders; and
- require prior regulatory application and approval of any transaction involving control of our organization.

These provisions may discourage potential acquisition proposals and could delay or prevent a change in control, including circumstances in which our shareholders might otherwise receive a premium over the market price of our shares.

There are substantial regulatory limitations on changes of control of bank holding companies.

With certain limited exceptions, federal regulations prohibit a person or company or a group of persons deemed to be “acting in concert” from, directly or indirectly, acquiring more than 10% (5% if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a majority of our directors or otherwise direct the management or policies of our company without prior notice or application to and the approval of the Federal Reserve. Accordingly, prospective investors need to be aware of and comply with these requirements, if applicable, in connection with any purchase of shares of our common stock. These provisions effectively inhibit certain mergers or other business combinations, which, in turn, could adversely affect the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our main office consists of leased office space located at One Oxford Centre, Suite 2700, 301 Grant Street, Pittsburgh, Pennsylvania. We also lease office space for each of our four representative bank offices in the metropolitan areas of Philadelphia, Pennsylvania; Cleveland, Ohio; Edison, New Jersey; and New York, New York; and we lease office space for Chartwell Investment Partners, LLC in Berwyn, Pennsylvania. The leases for our facilities have terms expiring at dates ranging from 2020 to 2024, although certain of the leases contain options to extend beyond these dates. We believe that our current facilities are adequate for our current level of operations.

ITEM 3. LEGAL PROCEEDINGS

From time to time the Company is a party to various litigation matters incidental to the conduct of its business. During the year ended December 31, 2018, the Company was not a party to any legal proceedings the resolution of which management believes will be material to the Company’s business, future prospects, financial condition, liquidity, results of operation, cash flows or capital levels.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on The Nasdaq Global Select Market under the symbol "TSC". On January 31, 2019, there were approximately 164 holders of record of our common stock, listed with our registered agent.

No cash dividends have ever been paid by us on our common stock. Our principal source of funds to pay cash dividends on our common stock would be cash dividends from our Bank and Chartwell subsidiaries. The payment of dividends by our bank is subject to certain restrictions imposed by federal and state banking laws, regulations and authorities.

Stock Performance Graph

The following graph sets forth the cumulative total stockholder return for the Company's common stock for the five-year period ending December 31, 2018, compared to an overall stock market index (Russell 2000 Index) and the Company's peer group index (Nasdaq Bank Index). The Russell 2000 Index and Nasdaq Bank Index are based on total returns assuming reinvestment of dividends. The graph assumes an investment of $100 on December 31, 2013. The performance graph represents past performance and should not be considered to be an indication of future performance.

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Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The table below sets forth information regarding the Company's purchases of its common stock during its fiscal quarter ended December 31, 2018:

	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs*
October 1, 2018 - October 31, 2018	60,000	$ 23.98	60,000	$ 3,976,530
November 1, 2018 - November 30, 2018	15,604	25.16	15,604	3,584,011
December 1, 2018 - December 31, 2018	18,000	21.74	18,000	3,192,609
Total	93,604	$ 23.75	93,604	$ 3,192,609

* On January 16, 2018, the Company announced that its board of directors had approved a share repurchase program authorizing the Company to repurchase up to $5 million of its common stock from time to time on the open market or in privately negotiated transactions. On October 16, 2018, the Company announced that its board of directors had approved an additional share repurchase program of up to $5 million. Under this authorization, purchases of shares may be made at the discretion of management from time to time in the open market or through negotiated transactions, as well as purchases of shares or the options to acquire shares subject to common stock incentive compensation award agreements from officers, directors or employees of the Company. In accordance with that authorization, in addition to the shares purchased as described in the above table, the Company and holders of certain options agreed to cancel options as set forth in the table below. The approximate dollar value of shares that may yet be purchased under the share repurchase program in the above table has been reduced by the amount expended in connection with the option cancellations.

	Total Number of Shares Subject to Canceled Options	Weighted Average Price Paid per Option Canceled
October 1, 2018 - October 31, 2018	—	$ —
November 1, 2018 - November 30, 2018	—	—
December 1, 2018 - December 31, 2018	65,446	14.44
Total	65,446	$ 14.44

Recent Sales of Unregistered Securities

None.

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ITEM 6. SELECTED FINANCIAL DATA

You should read the selected financial data set forth below in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the related notes included elsewhere in this Form 10-K. We have derived the selected statements of income data for the years ended December 31, 2018, 2017 and 2016, and the selected balance sheet data as of December 31, 2018 and 2017, from our audited consolidated financial statements included elsewhere in this Form 10-K. We have derived the selected statements of income data for the years ended December 31, 2015 and 2014, and the selected balance sheet data as of December 31, 2016, 2015 and 2014, from our audited consolidated financial statements not included in this Form 10-K. The performance, asset quality and capital ratios are unaudited and derived from the audited financial statements as of and for the years presented. Average balances have been computed using daily averages. Our historical results may not be indicative of our results for any future period.

	As of and for the Years Ended December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Period-end balance sheet data:					
Cash and cash equivalents	$189,985	$156,153	$103,994	$96,676	$105,710
Total investment securities	466,759	220,552	238,473	225,411	211,893
Loans held-for-investment	5,132,873	4,184,244	3,401,054	2,841,284	2,400,052
Allowance for loan losses	(13,208)	(14,417)	(18,762)	(17,974)	(20,273)
Loans held-for-investment, net	5,119,665	4,169,827	3,382,292	2,823,310	2,379,779
Goodwill and other intangibles, net	67,863	65,358	67,209	50,816	52,374
Other assets	191,383	166,007	138,489	105,958	96,207
Total assets	$6,035,655	$4,777,897	$3,930,457	$3,302,171	$2,845,963
Deposits	$5,050,461	$3,987,611	$3,286,779	$2,689,844	$2,336,953
Borrowings, net	404,166	335,913	239,510	254,308	164,106
Other liabilities	101,674	65,302	52,361	32,042	39,514
Total liabilities	5,556,301	4,388,826	3,578,650	2,976,194	2,540,573
Preferred stock	38,468	—	—	—	—
Common shareholders' equity	440,886	389,071	351,807	325,977	305,390
Total shareholders' equity	479,354	389,071	351,807	325,977	305,390
Total liabilities and shareholders' equity	$6,035,655	$4,777,897	$3,930,457	$3,302,171	$2,845,963
Income statement data:					
Interest income	$199,786	$134,295	$98,312	$83,596	$78,085
Interest expense	86,382	42,942	23,499	15,643	12,251
Net interest income	113,404	91,353	74,813	67,953	65,834
Provision (credit) for loan losses	(205)	(623)	838	13	10,159
Net interest income after provision for loan losses	113,609	91,976	73,975	67,940	55,675
Non-interest income:					
Investment management fees	37,647	37,100	37,035	29,618	25,062
Net gain (loss) on the sale and call of debt securities	(70)	310	77	33	1,428
Other non-interest income	10,340	9,556	9,396	5,832	5,059
Total non-interest income	47,917	46,966	46,508	35,483	31,549
Non-interest expense:					
Intangible amortization expense	1,968	1,851	1,753	1,558	1,299
Change in fair value of acquisition earn out	(218)	—	(3,687)	—	1,614
Other non-interest expense	99,407	89,621	80,728	68,485	61,414
Non-interest expense	101,157	91,472	78,794	70,043	64,327

Income before tax	60,369	47,470	41,689	33,380	22,897
Income tax expense	5,945	9,482	13,048	10,892	6,969
Net income	$54,424	$37,988	$28,641	$22,488	$15,928
Preferred stock dividends on Series A	2,120	—	—	—	—
Net income available to common shareholders	$52,304	$37,988	$28,641	$22,488	$15,928

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	As of and for the Years Ended December 31,				
(Dollars in thousands, except per share data)	2018	2017	2016	2015	2014
Per share and share data:					
Earnings per common share:					
Basic	$1.90	$1.38	$1.04	$0.81	$0.56
Diluted	$1.81	$1.32	$1.01	$0.80	$0.55
Book value per common share	$15.27	$13.61	$12.38	$11.62	$10.88
Tangible book value per common share (1)	$12.92	$11.32	$10.02	$9.81	$9.02
Common shares outstanding, at end of period	28,878,674	28,591,101	28,415,654	28,056,195	28,060,888
Weighted average common shares outstanding:					
Basic	27,583,519	27,550,833	27,593,725	27,771,345	28,628,631
Diluted	28,833,396	28,711,322	28,359,152	28,237,453	29,017,906
Performance ratios:					
Return on average assets	1.00%	0.89%	0.81%	0.74%	0.61%
Return on average common equity	12.57%	10.30%	8.48%	7.13%	5.25%
Net interest margin (2)	2.26%	2.25%	2.23%	2.36%	2.62%
Total revenue (1)	$161,391	$138,009	$121,244	$103,403	$95,955
Bank efficiency ratio (1)	53.09%	57.39%	61.17%	62.30%	59.93%
Non-interest expense to average assets	1.93%	2.15%	2.23%	2.32%	2.44%
Asset quality:					
Non-performing loans	$2,237	$3,183	$17,790	$16,660	$30,232
Non-performing assets	$5,661	$6,759	$21,968	$18,390	$31,602
Other real estate owned	$3,424	$3,576	$4,178	$1,730	$1,370
Non-performing assets to total assets	0.09%	0.14%	0.56%	0.56%	1.11%
Non-performing loans to total loans	0.04%	0.08%	0.52%	0.59%	1.26%
Allowance for loan losses to loans	0.26%	0.34%	0.55%	0.63%	0.84%
Allowance for loan losses to non-performing loans	590.43%	452.94%	105.46%	107.89%	67.06%
Net charge-offs	$1,004	$3,722	$50	$2,312	$8,882
Net charge-offs to average total loans	0.02%	0.10%	—%	0.09%	0.41%
Capital ratios:					
Average equity to average assets	8.49%	8.65%	9.56%	10.43%	11.53%
Tier 1 leverage ratio	7.28%	7.25%	7.90%	9.05%	9.21%
Common equity tier 1 risk-based capital ratio	9.64%	11.14%	11.49%	12.20%	N/A
Tier 1 risk-based capital ratio	10.58%	11.14%	11.49%	12.20%	9.24%
Total risk-based capital ratio	10.86%	11.72%	12.66%	13.88%	11.02%
Investment Management Segment:					
Assets under management	$9,189,000	$8,309,000	$8,055,000	$8,005,000	$7,714,000
EBITDA (1)	$6,900	$7,421	$13,208	$8,481	$5,338

(1) These measures are not measures recognized under GAAP and are therefore considered to be non-GAAP financial measures. See “Non-GAAP Financial Measures” for a reconciliation of these measures to their most directly comparable GAAP measures.

(2) Net interest margin is calculated on a fully taxable equivalent basis.

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Non-GAAP Financial Measures

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

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

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

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

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

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

The following tables present the financial measures calculated and presented in accordance with GAAP that are most directly comparable to the non-GAAP financial measures and a reconciliation of the differences between the GAAP financial measures and the non-GAAP financial measures.

	December 31,				
(Dollars in thousands, except per share data)	2018	2017	2016	2015	2014
Tangible book value per common share:					
Common shareholders' equity	$ 440,886	$ 389,071	$ 351,807	$ 325,977	$ 305,390
Less: goodwill and intangible assets	67,863	65,358	67,209	50,816	52,374
Tangible common equity (numerator)	$ 373,023	$ 323,713	$ 284,598	$ 275,161	$ 253,016
Common shares outstanding (denominator)	28,878,674	28,591,101	28,415,654	28,056,195	28,060,888
Tangible book value per common share	$ 12.92	$ 11.32	$ 10.02	$ 9.81	$ 9.02

	Years Ended December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Total revenue:					
Net interest income	$113,404	$91,353	$74,813	$67,953	$65,834
Total non-interest income	47,917	46,966	46,508	35,483	31,549
Less: net gain (loss) on the sale and call of debt securities	(70)	310	77	33	1,428
Total revenue	$161,391	$138,009	$121,244	$103,403	$95,955

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BANK SEGMENT

	Years Ended December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Bank total revenue:					
Net interest income	$115,455	$93,380	$76,727	$69,899	$66,841
Total non-interest income	11,042	9,864	9,470	5,873	6,449
Less: net gain (loss) on the sale and call of debt securities	(70)	310	77	33	1,428
Bank total revenue	$126,567	$102,934	$86,120	$75,739	$71,862
Bank efficiency ratio:					
Total non-interest expense	$67,190	$59,073	$52,676	$47,186	$43,115
Less: acquisition related items	—	—	—	—	45
Total non-interest expense, as adjusted (numerator)	$67,190	$59,073	$52,676	$47,186	$43,070
Total revenue (denominator)	$126,567	$102,934	$86,120	$75,739	$71,862
Bank efficiency ratio	53.09 %	57.39 %	61.17 %	62.30 %	59.93 %

INVESTMENT MANAGEMENT SEGMENT

	Years Ended December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Investment Management EBITDA:					
Net income	$3,851	$4,551	$6,933	$4,368	$2,479
Interest expense	—	—	—	—	—
Income tax expense	579	522	4,357	2,477	1,527
Depreciation expense	502	497	165	78	33
Intangible amortization expense	1,968	1,851	1,753	1,558	1,299
EBITDA	$6,900	$7,421	$13,208	$8,481	$5,338

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ITEM 7. 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 year ended December 31, 2018. The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes contained herein.

General

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

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

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

Executive Overview

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

2018 Compared to 2017 Operating Performance

For the year ended December 31, 2018, our net income available to common shareholders was $52.3 million compared to $38.0 million in 2017, an increase of $14.3 million, or 37.7%. This increase was primarily due to the net impact of (1) a $22.1 million, or 24.1%, increase in our net interest income; (2) a decrease in the credit to provision for loan losses of $418,000; (3) an increase of $951,000, or 2.0%, in non-interest income; (4) an increase of $9.7 million, or 10.6%, in our non-interest expense; (5) a $3.5 million decrease in income taxes; and (6) an increase in preferred stock dividends of $2.1 million.

Our diluted EPS was $1.81 for the year ended December 31, 2018, compared to $1.32 in 2017. The increase in diluted EPS is a result of our continued growth in net income available to common shareholders.

For the year ended December 31, 2018, total revenue increased $23.4 million, or 16.9%, to $161.4 million from $138.0 million in 2017, driven by higher net interest income and swap fees for the Bank, as well as higher investment management fees for Chartwell.

Our net interest margin was 2.26% for the year ended December 31, 2018, as compared to 2.25% in 2017. The increase in net interest margin for the year ended December 31, 2018, was driven by an increase in the yield on loans, largely offset by an increase in the cost of funds.

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Our non-interest income is largely comprised of investment management fees for Chartwell, which totaled $37.6 million for the year ended December 31, 2018, as compared to $37.1 million in 2017. The increase was driven by higher assets under management related to the Columbia acquisition and net inflows, partially offset by market depreciation.

For the year ended December 31, 2018, the Bank's efficiency ratio was 53.09%, as compared to 57.39% in 2017, primarily as a result of growth in total revenue, tempered by the growth in non-interest expense. Our non-interest expense to average assets for the year ended December 31, 2018, was 1.93%, as compared to 2.15% in 2017.

Our return on average assets was 1.00% for the year ended December 31, 2018, as compared to 0.89% in 2017. Our return on average common equity was 12.57% for the year ended December 31, 2018, as compared to 10.30% in 2017. The increase in these ratios is due to continued growth in earnings.

Total assets of $6.04 billion as of December 31, 2018, increased $1.26 billion, or 26.3%, from December 31, 2017. Loans held-for-investment grew by $948.6 million to $5.13 billion as of December 31, 2018, an increase of 22.7% from December 31, 2017, as a result of growth in our commercial and private banking loan portfolios. Total deposits increased $1.06 billion, or 26.7%, to $5.05 billion as of December 31, 2018, from $3.99 billion as of December 31, 2017.

Our ratio of adverse-rated credits to total loans declined to 0.48% at December 31, 2018, from 0.71% at December 31, 2017. Our ratio of allowance for loan losses to loans decreased to 0.26% as of December 31, 2018, from 0.34% as of December 31, 2017, reflecting low non-performing loans and lower levels of provision required for private banking loans.

Our book value per common share increased $1.66, or 12.2%, to $15.27 as of December 31, 2018, from $13.61 as of December 31, 2017, largely as a result of an increase in our net income available to common shareholders, partially offset by the issuance of restricted stock and the purchase of treasury shares during year ended December 31, 2018.

2017 Compared to 2016 Operating Performance

For the year ended December 31, 2017, our net income was $38.0 million compared to $28.6 million in 2016, an increase of $9.3 million, or 32.6%. This increase was primarily due to the net impact of (1) a $16.5 million, or 22.1%, increase in our net interest income due largely to our continued loan growth; (2) a decrease in provision for loan losses of $1.5 million; (3) an increase of $458,000 in non-interest income largely related to higher swap revenue; (4) an increase of $12.7 million in our non-interest expense largely due to a full year of expenses related to the TKG acquisition as well as higher compensation and FDIC insurance expenses; and (5) a $3.6 million decrease in income taxes largely due to the enactment of the Tax Cuts and Jobs Act in December 2017.

Our diluted EPS was $1.32 for the year ended December 31, 2017, compared to $1.01 in 2016. The increase is a result of an increase of $9.3 million, or 32.6%, in our net income in 2017 which included a $2.4 million, or $0.08 per diluted share, one-time tax adjustment as a result of the enactment of the Tax Cuts and Jobs Act in December 2017.

For the year ended December 31, 2017, total revenue increased $16.8 million, or 13.8%, to $138.0 million from $121.2 million in 2016, driven by higher net interest income and swap fees.

Our net interest margin was 2.25% for the year ended December 31, 2017, as compared to 2.23% in 2016. The increase in net interest margin for the year ended December 31, 2017, was driven by an increase in the yield on loans, partially offset by an increase in the cost of funds.

Our non-interest income is largely comprised of investment management fees for Chartwell, which totaled $37.1 million for the year ended December 31, 2017 as compared to $37.0 million in 2016. The increase included a full year of assets under management related to the TKG acquisition, partially offset by the loss of a sub-advisory relationship.

For the year ended December 31, 2017, the Bank’s efficiency ratio was 57.39%, as compared to 61.17% in 2016, primarily as a result of higher total revenue partially offset by higher compensation and FDIC insurance expenses for the Bank during the year ended December 31, 2017. Our non-interest expense to average assets for the year ended December 31, 2017, was 2.15%, as compared to 2.23% in 2016.

Our return on average assets was 0.89% for the year ended December 31, 2017, as compared to 0.81% in 2016. Our return on average common equity was 10.30% for the year ended December 31, 2017, as compared to 8.48% in 2016. The increase in these ratios is due to continued growth in earnings.

Total assets of $4.78 billion as of December 31, 2017, increased $847.4 million, or 21.6%, from December 31, 2016. Loans held-for-investment grew by $783.2 million to $4.18 billion as of December 31, 2017, an increase of 23.0% from December 31, 2016, as a result

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of growth in our commercial and private banking loan portfolios. Total deposits increased $700.8 million, or 21.3%, to $3.99 billion as of December 31, 2017, from $3.29 billion, as of December 31, 2016.

Adverse-rated credits to total loans declined to 0.71% at December 31, 2017, from 1.25% at December 31, 2016. The allowance for loan losses to loans decreased to 0.34% as of December 31, 2017, from 0.55% as of December 31, 2016. The trend of our allowance for loan losses reflects the change in composition of our loan portfolio over recent years, with a continued decrease in adverse-rated credits and a much larger percentage of the portfolio in loans secured by marketable securities.

Our book value per common share increased $1.23, or 9.9%, to $13.61 as of December 31, 2017, from $12.38 as of December 31, 2016, largely as a result of an increase in our net income, partially offset by the issuance of restricted stock and the purchase of treasury shares during year ended December 31, 2017.

Results of Operations

Net Interest Income

Net interest income represents the difference between the interest received on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the volume of interest-earning assets and interest-bearing liabilities and changes in interest yields earned and interest rates paid. Net interest income comprised 70.3%, 66.2% and 61.7% of total revenue for the years ended December 31, 2018, 2017 and 2016, respectively.

The table below reflects an analysis of net interest income, on a fully taxable equivalent basis, for the periods indicated. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the statutory federal income tax rate of 21% for 2018 and 35.0% for 2017 and 2016.

	Years Ended December 31,		
(Dollars in thousands)	2018	2017	2016
Interest income	$199,786	$134,295	$98,312
Fully taxable equivalent adjustment	112	241	264
Interest income adjusted	199,898	134,536	98,576
Less: interest expense	86,382	42,942	23,499
Net interest income adjusted	$113,516	$91,594	$75,077
Yield on earning assets	3.98 %	3.30 %	2.92 %
Cost of interest-bearing liabilities	1.93 %	1.18 %	0.79 %
Net interest spread	2.05 %	2.12 %	2.13 %
Net interest margin (1)	2.26 %	2.25 %	2.23 %

(1) Net interest margin is calculated on a fully taxable equivalent basis.

The following table provides information regarding the average balances and yields earned on interest-earning assets and the average balances and rates paid on interest-bearing liabilities for the years ended December 31, 2018, 2017 and 2016. Non-accrual loans are included in the calculation of average loan balances, while interest payments collected on non-accrual loans are recorded as a reduction to principal. Where applicable, interest income and yield are reflected on a fully taxable equivalent basis, and have been adjusted based on the statutory federal income tax rate of 21% for 2018 and 35.0% for 2017 and 2016.

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(Dollars in thousands)	Years Ended December 31, 2018 Average Balance	Interest Income [1]/ Expense	Average Yield/ Rate	2017 Average Balance	Interest Income [1]/ Expense	Average Yield/ Rate	2016 Average Balance	Interest Income [1]/ Expense	Average Yield/ Rate
Assets									
Interest-earning deposits	$188,921	$3,598	1.90 %	$126,888	$1,466	1.16 %	$110,455	$595	0.54 %
Federal funds sold	8,315	156	1.88 %	6,923	68	0.98 %	6,116	22	0.36 %
Debt securities available-for-sale	205,652	6,195	3.01 %	144,735	3,122	2.16 %	172,428	2,949	1.71 %
Debt securities held-to-maturity	90,895	3,399	3.74 %	58,635	2,463	4.20 %	48,357	1,958	4.05 %
Debt securities trading	—	—	— %	188	4	2.13 %	—	—	— %
Equity securities	10,517	277	2.63 %	8,539	266	3.12 %	8,032	285	3.55 %
FHLB stock	15,136	924	6.10 %	13,286	603	4.54 %	10,363	494	4.77 %
Total loans	4,500,117	185,349	4.12 %	3,711,701	126,544	3.41 %	3,014,645	92,273	3.06 %
Total interest-earning assets	5,019,553	199,898	3.98 %	4,070,895	134,536	3.30 %	3,370,396	98,576	2.92 %
Other assets	221,467			193,532			161,054		
Total assets	$5,241,020			$4,264,427			$3,531,450		
Liabilities and Shareholders' Equity									
Interest-bearing deposits:									
Interest-bearing checking accounts	$612,921	$11,440	1.87 %	$336,337	$3,706	1.10 %	$171,431	$813	0.47 %
Money market deposit accounts	2,429,203	45,106	1.86 %	1,999,399	22,350	1.12 %	1,676,455	11,376	0.68 %
Certificates of deposit	1,071,556	21,947	2.05 %	967,503	11,429	1.18 %	874,615	7,618	0.87 %
Borrowings:									
FHLB borrowings	325,356	5,555	1.71 %	295,315	3,152	1.07 %	228,934	1,477	0.65 %
Line of credit borrowings	2,568	119	4.63 %	2,214	90	4.07 %	—	—	— %
Subordinated notes payable, net	34,807	2,215	6.36 %	34,605	2,215	6.40 %	34,402	2,215	6.44 %
Total interest-bearing liabilities	4,476,411	86,382	1.93 %	3,635,373	42,942	1.18 %	2,985,837	23,499	0.79 %
Noninterest-bearing deposits	244,090			210,860			170,573		
Other liabilities	75,473			49,279			37,441		
Shareholders' equity	445,046			368,915			337,599		
Total liabilities and shareholders' equity	$5,241,020			$4,264,427			$3,531,450		
Net interest income [1]		$113,516			$91,594			$75,077	
Net interest spread			2.05 %			2.12 %			2.13 %
Net interest margin [1]			2.26 %			2.25 %			2.23 %

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

Net Interest Income for the Years Ended December 31, 2018 and 2017. Net interest income, calculated on a fully taxable equivalent basis, increased $21.9 million, or 23.9%, to $113.5 million for the year ended December 31, 2018, from $91.6 million in 2017. The increase in net interest income for the year ended December 31, 2018, was primarily attributable to a $948.7 million, or 23.3%, increase in average interest-earning assets driven primarily by loan growth. The increase in net interest income reflects an increase of $65.4 million, or 48.6%, in interest income, partially offset by an increase of $43.4 million, or 101.2%, in interest expense. Net interest margin increased to 2.26% for the year ended December 31, 2018, as compared to 2.25% in 2017, driven by a higher yield on our loan portfolio, largely offset by the higher cost of deposits and FHLB borrowings.

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The increase in interest income on interest-earning assets was primarily the result of an increase in average total loans, which are our primary earning assets, of $788.4 million, or 21.2% and an increase of 71 basis points in yield on our loans. The most significant factor driving the yield on our loan portfolio was the effect of four Federal Reserve's increases in 2018 to the target federal funds rate on our floating-rate loans, which was partially offset by the shift toward lower-risk marketable-securities-backed private banking loans. The overall yield on interest-earning assets increased 68 basis points to 3.98% for the year ended December 31, 2018, as compared to 3.30% in 2017, primarily from the higher loan yields.

The increase in interest expense on interest-bearing liabilities was primarily the result of an increase of 75 basis points in the average rate paid on our average interest-bearing liabilities, as well as an increase of $841.0 million, or 23.1%, in average interest-bearing liabilities for the year ended December 31, 2018, compared to 2017. The increase in average rate paid was reflective of increases in rates paid in all interest-bearing deposit categories and FHLB borrowings, which was driven by the effect of four Federal Reserve's increases in 2018 to the target federal funds rate on our variable-rate liabilities. The increase in average interest-bearing liabilities was driven primarily by an increase of $429.8 million in average money market deposit accounts, an increase of $276.6 million in average interest-bearing checking accounts and an increase of $104.1 million in average certificates of deposit.

Net Interest Income for the Years Ended December 31, 2017 and 2016. Net interest income, calculated on a fully taxable equivalent basis, increased $16.5 million, or 22.0%, to $91.6 million for the year ended December 31, 2017, from $75.1 million in 2016. The increase in net interest income for the year ended December 31, 2017, was primarily attributable to a $700.5 million, or 20.8%, increase in average interest-earning assets driven primarily by loan growth. The increase in net interest income reflects an increase of $36.0 million, or 36.5%, in interest income, partially offset by an increase of $19.4 million, or 82.7%, in interest expense. Net interest margin increased to 2.25% for the year ended December 31, 2017, as compared to 2.23% in 2016, driven primarily by a higher yield on the loan portfolio, partially offset by higher interest expense associated with the higher volumes and costs of deposits and FHLB borrowings.

The increase in interest income on interest-earning assets was primarily the result of an increase in average total loans, which are our primary earning assets, of $697.1 million, or 23.1% and an increase of 35 basis points in yield on our loans. The most significant factors driving the yield on our loan portfolio was the effect of three Federal Reserve's increases in 2017 to the target federal funds rate on our floating-rate loans, partially offset by the shift toward lower-risk marketable-securities-backed private banking loans. The overall yield on interest-earning assets increased 38 basis points to 3.30% for the year ended December 31, 2017, as compared to 2.92% in 2016, primarily from higher loan yields.

The increase in interest expense on interest-bearing liabilities was primarily the result of an increase of 39 basis points in the average rate paid on our average interest-bearing liabilities, as well as an increase of $649.5 million, or 21.8%, in average interest-bearing liabilities for the year ended December 31, 2017, compared to 2016. The increase in average rate paid was reflective of increases in rates paid in all interest-bearing deposit categories and FHLB borrowings driven largely by the effect of three Federal Reserve's increases in 2017 to the target federal funds rate. The increase in average interest-bearing liabilities was driven primarily by an increase of $322.9 million in average money market deposit accounts, an increase of $164.9 million in average interest-bearing checking accounts, an increase of $92.9 million in average certificates of deposit and an increase of $66.4 million in average FHLB borrowings.

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The following tables analyze the dollar amount of the change in interest income and interest expense with respect to the primary components of interest-earning assets and interest-bearing liabilities. The tables show 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 periods indicated. The effect of changes in balance 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.

	Years Ended December 31, 2018 over 2017		
(Dollars in thousands)	Yield/Rate	Volume	Change[1]
Increase (decrease) in:			
Interest income:			
Interest-earning deposits	$1,216	$916	$2,132
Federal funds sold	72	16	88
Debt securities available-for-sale	1,491	1,582	3,073
Debt securities held-to-maturity	(295)	1,231	936
Debt securities trading	—	(4)	(4)
Equity securities	(45)	56	11
FHLB stock	229	92	321
Total loans	29,100	29,705	58,805
Total increase in interest income	31,768	33,594	65,362
Interest expense:			
Interest-bearing deposits:			
Interest-bearing checking accounts	3,539	4,195	7,734
Money market deposit accounts	17,172	5,584	22,756
Certificates of deposit	9,174	1,344	10,518
Borrowings:			
FHLB borrowings	2,054	349	2,403
Line of credit borrowings	14	15	29
Subordinated notes payable, net	(13)	13	—
Total increase in interest expense	31,940	11,500	43,440
Total increase (decrease) in net interest income	$(172)	$22,094	$21,922

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

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	Years Ended December 31, 2017 over 2016		
(Dollars in thousands)	Yield/Rate	Volume	Change[(1)]
Increase (decrease) in:			
Interest income:			
Interest-earning deposits	$771	$100	$871
Federal funds sold	43	3	46
Debt securities available-for-sale	696	(523)	173
Debt securities held-to-maturity	80	425	505
Debt securities trading	—	4	4
Equity securities	(36)	17	(19)
FHLB stock	(23)	132	109
Total loans	11,509	22,762	34,271
Total increase in interest income	13,040	22,920	35,960
Interest expense:			
Interest-bearing deposits:			
Interest-bearing checking accounts	1,679	1,214	2,893
Money market deposit accounts	8,471	2,503	10,974
Certificates of deposit	2,943	868	3,811
Borrowings:			
FHLB borrowings	1,163	512	1,675
Line of credit borrowings	—	90	90
Subordinated notes payable, net	(9)	9	—
Total increase in interest expense	14,247	5,196	19,443
Total increase (decrease) in net interest income	$(1,207)	$17,724	$16,517

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

Provision for Loan Losses

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

We recorded a credit to provision for loan losses of $205,000 for the year ended December 31, 2018, compared to a credit to provision for loan losses of $623,000 for the year ended December 31, 2017, and provision for loan losses of $838,000 for the year ended December 31, 2016.

The credit to provision for loan losses for the year ended December 31, 2018, was comprised of recoveries of $1.1 million related to commercial and industrial loans, partially offset by a net increase of $861,000 in general reserves due to growth of the loan portfolio.

The credit to provision for loan losses for the year ended December 31, 2017, was comprised of a net decrease of $130,000 in specific reserves on non-performing loans and recoveries of $580,000 predominately related to commercial and industrial loans, partially offset by a net increase of $87,000 in general reserves.

The provision for loan losses for the year ended December 31, 2016, was comprised of a net increase of $6.9 million in specific reserves primarily on three commercial and industrial non-performing loans, of which $4.3 million was charged-off, partially offset by recoveries of $4.2 million predominately related to commercial real estate loans and an overall improvement in adverse-rated credits.

Non-Interest Income

Non-interest income is an important component of our revenue and is comprised primarily of investment management fees from Chartwell coupled with fees generated from loan and deposit relationships with our Bank customers, including swap transactions. The information provided under the caption “Parent and Other” represents general operating activity of the Company not considered to be a reportable

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segment, which includes parent company activity as well as eliminations and adjustments that are necessary for purposes of reconciliation to the consolidated amounts.

The following table presents the components of our non-interest income by operating segment for the years ended December 31, 2018 and 2017:

	Year Ended December 31, 2018				Year Ended December 31, 2017			
(Dollars in thousands)	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Investment management fees	$—	$ 37,939	$(292)	$ 37,647	$—	$ 37,309	$(209)	$ 37,100
Service charges on deposits	570	—	—	570	399	—	—	399
Net gain (loss) on the sale and call of debt securities	(70)	—	—	(70)	310	—	—	310
Swap fees	7,311	—	—	7,311	5,353	—	—	5,353
Commitment and other loan fees	1,411	—	—	1,411	1,462	—	—	1,462
Bank owned life insurance income	1,716	—	—	1,716	1,778	—	—	1,778
Other income (loss)	104	1	(773)	(668)	562	2	—	564
Total non-interest income	$11,042	$ 37,940	$(1,065)	$ 47,917	$9,864	$ 37,311	$(209)	$ 46,966

Non-Interest Income for the Years Ended December 31, 2018 and 2017. Our non-interest income was $47.9 million for the year ended December 31, 2018, an increase of $951,000, or 2.0%, from $47.0 million for 2017. This increase was primarily related to increases in swap fees and investment management fees, partially offset by decreases in net gain (loss) on debt securities and other income (loss), as follows:

Investment Management Segment:

- Investment management fees increased $630,000 for the year ended December 31, 2018, as compared to 2017, which included higher assets under management related to the Columbia acquisition, which closed on April 6, 2018, and net inflows, partially offset by market depreciation. Assets under management were $9.19 billion as of December 31, 2018, an increase of $880.0 million from December 31, 2017. For additional information on assets under management, refer to Item 1, Business - Investment Management Products.

Bank Segment:

- Swap fees increased $2.0 million for the year ended December 31, 2018, as compared to 2017, driven by increases in customer demand for long-term interest rate protection. The level and frequency of income associated with swap transactions can vary materially from period to period based on customers' expectations of market conditions and loan originations.

- There was a net loss on the sale and call of debt securities of $70,000 for the year ended December 31, 2018, as compared to a net gain of $310,000 for the year ended December 31, 2017.

- Other income (loss) decreased $458,000 for the year ended December 31, 2018, as compared to 2017, primarily due to lower gain on the sale of OREO and lower unrealized gains on swaps.

Parent and Other

- Other income (loss) reflected $775,000 of unrealized losses on equity securities for the year ended December 31, 2018, related to our mutual funds invested in short-duration, corporate bonds and mid-cap value equities.

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The following table presents the components of our non-interest income by operating segment for the years ended December 31, 2017 and 2016:

	Year Ended December 31, 2017				Year Ended December 31, 2016			
(Dollars in thousands)	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Investment management fees	$—	$ 37,309	$(209)	$ 37,100	$—	$ 37,258	$(223)	$ 37,035
Service charges on deposits	399	—	—	399	504	—	—	504
Net gain on the sale and call of debt securities	310	—	—	310	77	—	—	77
Swap fees	5,353	—	—	5,353	4,384	—	—	4,384
Commitment and other loan fees	1,462	—	—	1,462	2,029	—	—	2,029
Bank owned life insurance income	1,778	—	—	1,778	1,796	—	—	1,796
Other income	562	2	—	564	680	3	—	683
Total non-interest income	$9,864	$ 37,311	$(209)	$ 46,966	$9,470	$ 37,261	$(223)	$ 46,508

Non-Interest Income for the Years Ended December 31, 2017 and 2016. Our non-interest income was $47.0 million for the year ended December 31, 2017, an increase of $458,000, or 1.0%, from $46.5 million for 2016, primarily related to increases in swap fees partially offset by the decreases in commitment and other loan fees.

Investment Management Segment:

- Investment management fees increased $51,000 for the year ended December 31, 2017, as compared to 2016, driven primarily by the additional four months of revenue provided by the operations of The Killen Group, Inc. (“TKG”), which was acquired at the end of April 2016, partially offset by the loss of a sub-advisory relationship in December 2016.

Bank Segment:

- Swap fees increased $969,000 for the year ended December 31, 2017, as compared to 2016, driven by increases in customer demand for long-term interest rate protection. The level and frequency of income associated with swap transactions can vary materially from period to period, based on customers’ expectations of market conditions and loan originations.

- Commitment and other loan fees were $567,000 lower for the year ended December 31, 2017, as compared to 2016, driven largely by lower letter of credit fee income.

Non-Interest Expense

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

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The following table presents the components of our non-interest expense by operating segment for the years ended December 31, 2018 and 2017:

	Year Ended December 31, 2018				Year Ended December 31, 2017			
(Dollars in thousands)	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Compensation and employee benefits	$41,226	$ 23,545	$—	$ 64,771	$36,415	$ 22,901	$—	$ 59,316
Premises and occupancy costs	4,444	1,136	—	5,580	3,850	1,160	—	5,010
Professional fees	3,642	1,058	29	4,729	3,199	789	(115)	3,873
FDIC insurance expense	4,543	—	—	4,543	4,238	—	—	4,238
General insurance expense	762	268	—	1,030	738	309	—	1,047
State capital shares tax	1,521	—	—	1,521	1,546	—	—	1,546
Travel and entertainment expense	2,864	952	—	3,816	2,212	906	—	3,118
Data processing expense	1,565	—	—	1,565	582	—	—	582
Charitable contributions	1,028	11	—	1,039	1,027	30	—	1,057
Intangible amortization expense	—	1,968	—	1,968	—	1,851	—	1,851
Change in fair value of acquisition earn out	—	(218)	—	(218)	—	—	—	—
Other operating expenses (1)	5,595	4,790	428	10,813	5,266	4,292	276	9,834
Total non-interest expense	$67,190	$ 33,510	$ 457	$ 101,157	$59,073	$ 32,238	$161	$ 91,472
Full-time equivalent employees (2)	189	68	—	257	167	63	—	230

(1) Other operating expenses largely include items such as organizational dues and subscriptions, investment research fees, sub-advisory fees, telephone, marketing, employee-related expenses and other general operating expenses.
(2) Full-time equivalent employees shown are as of the end of the period presented.

Non-Interest Expense for the Years Ended December 31, 2018 and 2017. Our non-interest expense for the year ended December 31, 2018, increased $9.7 million, or 10.6%, as compared to 2017, of which $8.1 million relates to the increase in expenses of the Bank segment and $1.3 million relates to the increase in expenses of the Investment Management segment. Notable changes in each segment's expenses are as follows:

Bank Segment:

- Compensation and employee benefits of the Bank segment for the year ended December 31, 2018, increased by $4.8 million compared to 2017, primarily due to an increase in the number of full-time equivalent employees, increases in the overall annual wage and benefits costs of our existing employees, and increases in incentive and stock-based compensation expenses.

- Premises and occupancy costs for the year ended December 31, 2018, increased by $594,000 compared to 2017, primarily due to continued improvements to our infrastructure.

- Professional fees for the year ended December 31, 2018, increased by $443,000 compared to 2017, due to general growth in the business.

- FDIC insurance expense for the year ended December 31, 2018, increased by $305,000 compared to 2017, due to the increase in the Bank's assets.

- Travel and entertainment expense for the year ended December 31, 2018, increased by $652,000 compared to 2017, primarily due to a higher level of officer and relationship manager business development activity consistent with our continued growth.

- Data processing expense for the year ended December 31, 2018, increased by $983,000 compared to 2017. In 2017, we received certain one-time credits related to certain technology applications.

- Other operating expenses for the year ended December 31, 2018, increased by $329,000 compared to 2017, primarily due to higher costs of $337,000 related to information services associated with our private banking loans and higher provision for unfunded commitments of $184,000, partially offset by lower marketing expenses of $298,000.

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Investment Management Segment:

- Chartwell's compensation and employee benefits costs for the year ended December 31, 2018, increased by $644,000 compared to 2017, primarily driven by normal increases in compensation expenses.

- Professional fees for the year ended December 31, 2018, increased by $269,000 compared to 2017, which included costs related to the Columbia acquisition and general growth in the business.

- There was a decrease in the fair value of the Columbia acquisition earn out of $218,000 for the year ended December 31, 2018, based on management's final determination of the annualized run-rate revenue of Columbia at December 31, 2018. For additional information, refer to Note 2, Business Combination, to our consolidated financial statements.

- Other operating expenses for the year ended December 31, 2018, increased by $498,000 compared to 2017, primarily due to higher investment research fees.

The following table presents the components of our non-interest expense by operating segment for the years ended December 31, 2017 and 2016:

	Year Ended December 31, 2017				Year Ended December 31, 2016			
(Dollars in thousands)	Bank	Investment Management	Parent and Other	Consolidated	Bank	Investment Management	Parent and Other	Consolidated
Compensation and employee benefits	$36,415	$ 22,901	$—	$ 59,316	$32,247	$ 22,275	$—	$ 54,522
Premises and occupancy costs	3,850	1,160	—	5,010	3,859	1,006	—	4,865
Professional fees	3,199	789	(115)	3,873	2,928	1,053	(131)	3,850
FDIC insurance expense	4,238	—	—	4,238	3,058	—	—	3,058
General insurance expense	738	309	—	1,047	745	292	—	1,037
State capital shares tax	1,546	—	—	1,546	1,394	—	—	1,394
Travel and entertainment expense	2,212	906	—	3,118	2,233	829	—	3,062
Data processing expense	582	—	—	582	1,153	—	—	1,153
Charitable contributions	1,027	30	—	1,057	957	39	—	996
Intangible amortization expense	—	1,851	—	1,851	—	1,753	—	1,753
Change in fair value of acquisition earn out	—	—	—	—	—	(3,687)	—	(3,687)
Other operating expenses (1)	5,266	4,292	276	9,834	4,102	2,411	278	6,791
Total non-interest expense	$59,073	$ 32,238	$161	$ 91,472	$52,676	$ 25,971	$147	$ 78,794
Full-time equivalent employees (2)	167	63	—	230	156	68	—	224

(1) Other operating expenses largely include items such as organizational dues and subscriptions, investment research fees, sub-advisory fees, telephone, marketing, employee-related expenses and other general operating expenses.
(2) Full-time equivalent employees shown are as of the end of the period presented.

Non-Interest Expense for the Years Ended December 31, 2017 and 2016. Our non-interest expense for the year ended December 31, 2017, increased $12.7 million, or 16.1%, as compared to 2016, of which $6.4 million relates to the increase in expenses of the Bank segment and $6.3 million relates to the increase in expenses of the Investment Management segment. Notable changes in each segment's expenses are described below.

Bank Segment:

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Compensation and employee benefits of the Bank segment for the year ended December 31, 2017, increased by $4.2 million compared to 2016, primarily due to an increase in the number of full-time equivalent employees, increases in the overall annual wage and benefits costs of our existing employees, and increases in incentive and stock-based compensation expenses.

- FDIC insurance expense for the year ended December 31, 2017, increased by $1.2 million compared to 2016, due to a change in the FDIC assessment methodology effective in the third quarter of 2016, and the increase in the Bank's assets.

- Other operating expenses for the year ended December 31, 2017, increased by $1.2 million compared to 2016, primarily related to $590,000 of one-time higher marketing expenses largely related to the Company's 10-year anniversary customer appreciation

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celebrations, $244,000 of higher costs related to information services associated with our private banking loans, and $229,000 of higher company meeting expenses.

Investment Management Segment:

- There was a decrease in the fair value of the TKG acquisition earn out of $3.7 million for the year ended December 31, 2016, based on management's final determination of the annualized run-rate EBITDA of TKG at December 31, 2016.

- Excluding the earnout adjustment, Chartwell's non-interest expenses for the year ended December 31, 2017, increased by $2.6 million compared to 2016, primarily due to four months of additional expenses contributed by the operations of TKG, which was acquired at the end of April 2016.

Income Taxes

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

Income Taxes for the Years Ended December 31, 2018 and 2017. For the year ended December 31, 2018, we recognized income tax expense of $5.9 million, or 9.8% of income before tax, as compared to income tax expense of $9.5 million, or 20.0% of income before tax, for 2017. Our effective tax rate for the year ended December 31, 2018, decreased to 9.8% as compared to the prior year largely due to the decrease in the statutory federal income tax rate from 35% to 21% and additional tax credit investments made in the year ended December 31, 2018.

Income Taxes for the Years Ended December 31, 2017 and 2016. For the year ended December 31, 2017, we recognized income tax expense of $9.5 million, or 20.0% of income before tax, as compared to income tax expense of $13.0 million, or 31.3% of income before tax, for 2016. In December 2017, H.R.1 ("Tax Cuts and Jobs Act") was signed into law, which lowered the maximum corporate tax rate from 35% to 21%. Due to this enactment, income tax provision for the year ended December 31, 2017, was impacted by a $2.4 million one-time benefit on the re-measurement of the Company's deferred tax liability. The adjustment was largely related to the acceleration of an incentive compensation deduction for tax purposes and favorable depreciation treatment associated with renewable energy credits.

Financial Condition

Our total assets as of December 31, 2018, were $6.04 billion, an increase of $1.26 billion, or 26.3%, from December 31, 2017, driven primarily by growth in our loan and investment portfolios. As of December 31, 2018, our loan portfolio was $5.13 billion, an increase of $948.6 million, or 22.7%, from $4.18 billion, as of December 31, 2017. Total investment securities increased $246.2 million, or 111.6%, to $466.8 million, as of December 31, 2018, from $220.6 million as of December 31, 2017, largely as a result of securities purchases made to continue to strengthen the balance sheet and liquidity of the Bank. Cash and cash equivalents increased $33.8 million to $190.0 million as of December 31, 2018, from $156.2 million as of December 31, 2017. As of December 31, 2018, our total deposits were $5.05 billion, an increase of $1.06 billion, or 26.7%, from December 31, 2017, and were primarily used to fund loan growth. Net borrowings increased $68.3 million, or 20.3%, to $404.2 million as of December 31, 2018, compared to $335.9 million as of December 31, 2017. Our shareholders' equity increased $90.3 million to $479.4 million as of December 31, 2018, compared to $389.1 million as of December 31, 2017. This increase was primarily the result of the issuance of $38.5 million in preferred stock, $54.4 million in net income, the impact of $8.2 million in stock-based compensation and $1.7 million in proceeds from the stock option exercises, partially offset by the purchase of $6.8 million in treasury stock, a decrease of $3.1 million in other accumulated comprehensive income (loss) and preferred stock dividends declared of $2.1 million.

Our total assets as of December 31, 2017, totaled $4.78 billion, an increase of $847.4 million, or 21.6%, from December 31, 2016, which was primarily driven by growth in our loan portfolio. Our loan portfolio increased $783.2 million, or 23.0%, to $4.18 billion, as of December 31, 2017, from $3.40 billion, as of December 31, 2016. Total investment securities decreased $17.9 million, or 7.5%, to $220.6 million, as of December 31, 2017, from $238.5 million, as of December 31, 2016, as a result of the net activity of calls, sales, maturities and purchases of certain securities. Cash and cash equivalents increased $52.2 million, to $156.2 million, as of December 31, 2017, from $104.0 million, as of December 31, 2016. As of December 31, 2017, our total deposits of $3.99 billion increased $700.8 million, or 21.3%, from December 31, 2016, which was used to fund loan growth. Net borrowings increased $96.4 million, or 40.3%, to $335.9 million as of December 31, 2017, compared to $239.5 million as of December 31, 2016. Our shareholders' equity increased $37.3 million to $389.1 million as of December 31, 2017, compared to $351.8 million as of December 31, 2016. This increase was primarily the result

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of $38.0 million in net income, the impact of $5.9 million in stock-based compensation and $1.7 million in stock option exercises, partially offset by the purchase of $8.7 million in treasury stock.

Loans

Our loan portfolio, which represents our largest earning asset, primarily consists of loans to our private banking clients, commercial and industrial loans, and real estate loans secured by commercial properties.

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

	December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Private banking loans	$2,869,543	$2,265,737	$1,735,928	$1,344,864	$989,302
Middle-market banking loans:					
Commercial and industrial	785,320	667,684	587,423	634,232	677,493
Commercial real estate	1,478,010	1,250,823	1,077,703	862,188	733,257
Total middle-market banking loans	2,263,330	1,918,507	1,665,126	1,496,420	1,410,750
Loans held-for-investment	$5,132,873	$4,184,244	$3,401,054	$2,841,284	$2,400,052

Loans held-for-investment. Loans held-for-investment increased by $948.6 million, or 22.7%, to $5.13 billion as of December 31, 2018, as compared to December 31, 2017. Our growth for the year ended December 31, 2018, was comprised of an increase in private banking loans of $603.8 million, or 26.6%; an increase in commercial real estate loans of $227.2 million, or 18.2%; and an increase in commercial and industrial loans of $117.6 million, or 17.6%.

Loans held-for-investment increased by $783.2 million, or 23.0%, to $4.18 billion as of December 31, 2017, as compared to December 31, 2016. Our growth for the year ended December 31, 2017, was comprised of an increase in private banking loans of $529.8 million, or 30.5%; an increase in commercial real estate loans of $173.1 million, or 16.1%; and an increase in commercial and industrial loans of $80.3 million, or 13.7%.

Primary Loan Categories

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

As of December 31, 2018, private banking loans were approximately $2.87 billion, or 55.9% of loans held-for-investment, of which $2.77 billion, or 96.7%, were secured by cash, marketable securities or cash value life insurance. As of December 31, 2017, private banking loans were approximately $2.27 billion, or 54.1% of loans held-for-investment, of which $2.14 billion, or 94.6%, were secured by cash, marketable securities or cash value life insurance. Our private banking lines of credit are typically due on demand. The growth in these loans is expected to increase, as a result of our continued focus on this portion of our private banking business. We believe we have strong competitive advantages in this line of business given our proprietary technology and distribution channels. These loans tend to have a lower risk profile and are an efficient use of capital because they typically are zero percent risk-weighted for regulatory capital purposes. On a daily basis, we monitor the collateral of loans secured by cash, marketable securities or cash value life insurance, which further reduces the risk profile of the private banking portfolio. Since inception, we have had no charge-offs related to our loans secured by cash, marketable securities or cash value life insurance.

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

	December 31,		
(Dollars in thousands)	2018	2017	2016
Private banking loans:			
Secured by cash, marketable securities or cash value life insurance	$2,774,800	$2,142,384	$1,584,373
Secured by real estate	69,766	93,169	110,476
Other	24,977	30,184	41,079
Total private banking loans	$2,869,543	$2,265,737	$1,735,928

As of December 31, 2018, there were $2.75 billion of total private banking loans with a floating interest rate and $122.6 million with a fixed interest rate, as compared to $2.15 billion and $111.8 million, respectively, as of December 31, 2017.

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

As of December 31, 2018, our commercial and industrial loans comprised $785.3 million, or 15.3% of loans held-for-investment, as compared to $667.7 million, or 16.0%, as of December 31, 2017. As of December 31, 2018, there were $645.5 million of total commercial and industrial loans with a floating interest rate and $139.8 million with a fixed interest rate, as compared to $576.5 million and $91.2 million, respectively, as of December 31, 2017.

Middle-Market Banking: Commercial Real Estate Loans. Our commercial real estate loan portfolio includes loans secured by commercial purpose real estate, including both owner-occupied properties and investment properties for various purposes, including office, industrial, multifamily, retail, hospitality, healthcare and self-storage. Also included are commercial construction loans to finance the construction or renovation of structures as well as to finance the acquisition and development of raw land for various purposes. Individual project cash flows, global cash flows and liquidity from the developer, or the sale of the property, are the primary sources of repayment for commercial real estate loans secured by investment properties. The primary source of repayment for commercial real estate loans secured by owner-occupied properties is cash flow from the borrower’s operations. There were $183.7 million and $144.7 million of owner-occupied commercial real estate loans as of December 31, 2018 and December 31, 2017, respectively.

Commercial real estate loans as of December 31, 2018, totaled $1.48 billion, or 28.8% of loans held-for-investment, as compared to $1.25 billion, or 29.9%, as of December 31, 2017. As of December 31, 2018, $1.34 billion of total commercial real estate loans had a floating interest rate and $137.5 million had a fixed interest rate, as compared to $1.07 billion and $178.1 million, respectively, as of December 31, 2017.

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Loan Maturities and Interest Rate Sensitivity

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

(Dollars in thousands)	December 31, 2018 One Year or Less (1)	One to Five Years	Greater Than Five Years	Total
Loan maturity:				
Private banking	$2,708,695	$69,288	$91,560	$2,869,543
Commercial and industrial	172,294	426,928	186,098	785,320
Commercial real estate	261,883	626,114	590,013	1,478,010
Loans held-for-investment	$3,142,872	$1,122,330	$867,671	$5,132,873
Interest rate sensitivity:				
Fixed interest rates	$143,979	$119,460	$136,419	$399,858
Floating or adjustable interest rates	2,998,893	1,002,870	731,252	4,733,015
Loans held-for-investment	$3,142,872	$1,122,330	$867,671	$5,132,873

(1) The loans outstanding reflected in the One Year or Less category in the table above include $2.67 billion of loans that are due on demand with no stated maturity.

Large Credit Relationships

We originate and maintain large credit relationships with numerous customers in the ordinary course of our business. We have established a preferred limit on loans that is significantly lower than our legal lending limit of approximately $65.7 million as of December 31, 2018. Our present preferred lending limit is $10.0 million based upon our total credit exposure to any one borrowing relationship. However, exceptions to this limit may be made based on the strength of the underlying credit and sponsor, type and composition of the credit exposure, collateral support, structure of the credit facilities as well as the presence of other potential positive credit factors. Additionally, we review this along with other aspects of our credit policy which can change from time to time. As of December 31, 2018, our average commercial loan size was approximately $3.7 million and average private banking loan size was approximately $468,000.

The following table summarizes the aggregate committed and outstanding balances of our larger credit relationships as of December 31, 2018 and December 31, 2017.

	December 31, 2018			December 31, 2017		
(Dollars in thousands)	Number of Relationships	Commitment (based on availability)	Outstanding Balance	Number of Relationships	Commitment (based on availability)	Outstanding Balance
Large credit relationships:						
>$25 million	6	$ 211,908	$ 192,083	3	$ 92,564	$ 49,090
>$20 million to $25 million	13	$ 297,174	$ 217,061	6	$ 141,739	$ 102,330
>$15 million to $20 million	22	$ 389,673	$ 259,635	13	$ 237,189	$ 166,483
>$10 million to $15 million	65	$ 832,005	$ 569,071	38	$ 476,370	$ 375,529

Approximately $817.1 million and $478.5 million of commitments to large credit relationships were secured by cash, marketable securities or cash value life insurance as of December 31, 2018 and December 31, 2017, respectively.

Loan Pricing

We generally extend variable-rate loans on which the interest rate fluctuations are based upon a predetermined indicator, such as the LIBOR or United States prime rate. Our use of variable-rate loans is designed to mitigate our interest rate risk to the extent that the rates that we charge on our variable-rate loans will rise or fall in tandem with rates that we must pay to acquire deposits and vice versa. As of December 31, 2018, approximately 92.2% of our loans had a floating rate.

Interest Reserve Loans

As of December 31, 2018, loans with interest reserves totaled $255.4 million, which represented 5.0% of loans held-for-investment, as compared to $205.1 million, or 4.9%, as of December 31, 2017, largely attributable to growth in the commercial real estate portfolio. Certain loans reserve a portion of the proceeds to be used to pay interest due on the loan. These loans with interest reserves are common for construction and land development loans. The use of interest reserves is based on the feasibility of the project, the creditworthiness of the borrower and guarantors, and the loan to value coverage of the collateral. The interest reserve may be used by the borrower, when certain financial conditions are met, to draw loan funds to pay interest charges on the outstanding balance of the loan. When drawn, the interest is capitalized and added to the loan balance, subject to conditions specified during the initial underwriting and at the time the credit is approved. We have procedures and controls for monitoring compliance with loan covenants, advancing funds and determining default conditions. In addition, most of our construction lending is performed within our geographic footprint and our lenders are familiar with trends in the local real estate market.

Allowance for Loan Losses

Our allowance for loan losses represents our estimate of probable loan losses inherent in the loan portfolio at a specific point in time. This estimate includes losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the loan portfolio. Additions are made to the allowance through both periodic provisions recorded in the consolidated statements of income and recoveries of losses previously incurred. Reductions to the allowance occur as loans are charged off or when the credit history of any of the three loan portfolios improves. Refer to Note 1, Summary of Significant Accounting Policies and Note 6, Allowance for Loan Losses, for more details on the Company’s allowance for loan losses.

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

	December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
General reserves	$12,771	$11,910	$11,823	$13,429	$14,690
Specific reserves	437	2,507	6,939	4,545	5,583
Total allowance for loan losses	$13,208	$14,417	$18,762	$17,974	$20,273
Allowance for loan losses to loans	0.26 %	0.34 %	0.55 %	0.63 %	0.84 %

As of December 31, 2018, we had specific reserves totaling $437,000 related to impaired loans with an aggregated total outstanding balance of $2.2 million. As of December 31, 2017, we had specific reserves totaling $2.5 million related to impaired loans with an aggregated total outstanding balance of $3.2 million. All loans with specific reserves were on non-accrual status as of December 31, 2018 and December 31, 2017.

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

	December 31,									
	2018		2017		2016		2015		2014	
(Dollars in thousands)	Reserve	Percent of Loans	Reserve	Percent of Loans	Reserve	Percent of Loans	Reserve	Percent of Loans	Reserve	Percent of Loans
Private banking	$1,942	55.9 %	$1,577	54.1 %	$1,424	51.0 %	$1,566	47.3 %	$2,017	41.2 %
Commercial and industrial	5,764	15.3 %	8,043	16.0 %	12,326	17.3 %	11,064	22.4 %	13,501	28.2 %
Commercial real estate	5,502	28.8 %	4,797	29.9 %	5,012	31.7 %	5,344	30.3 %	4,755	30.6 %
Total allowance for loan losses	$13,208	100.0%	$14,417	100.0%	$18,762	100.0%	$17,974	100.0%	$20,273	100.0%

Allowance for Loan Losses as of December 31, 2018 and 2017. Our allowance for loan losses was $13.2 million, or 0.26% of loans, as of December 31, 2018, as compared to $14.4 million, or 0.34% of loans, as of December 31, 2017, which reflects the change in composition of our loan portfolio over the past year, with a higher percentage of the portfolio in private banking loans secured by marketable securities, and also a decline in our adverse-rated credits. Our allowance for loan losses related to private banking loans increased $365,000 to $1.9 million as of December 31, 2018, as compared to $1.6 million as of December 31, 2017, which was attributable to higher general reserves due to growth in this portfolio and higher specific reserves on non-performing loans. Our allowance for loan losses related to commercial and industrial loans decreased $2.3 million to $5.8 million as of December 31, 2018, as compared to $8.0 million as of December 31, 2017, which was largely attributable to decreased specific reserves related to a charge-off. Our allowance for loan losses related to commercial real estate loans increased $705,000 to $5.5 million as of December 31, 2018, as compared to $4.8 million as of December 31, 2017, which was attributable to higher general reserves primarily due to growth in this portfolio.

Allowance for Loan Losses as of December 31, 2017 and 2016. Our allowance for loan losses was $14.4 million, or 0.34% of loans, as of December 31, 2017, as compared to $18.8 million, or 0.55% of loans, as of December 31, 2016, which reflects the change in composition of our loan portfolio over the past year with a higher percentage of the portfolio in private banking loans secured by marketable securities and also a decline in our adverse-rated credits. Our allowance for loan losses related to private banking loans increased $153,000 to $1.6

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million as of December 31, 2017, as compared to $1.4 million as of December 31, 2016, which was attributable to growth in this portfolio partially offset by lower specific reserves related to paydowns on non-performing loans. Our allowance for loan losses related to commercial and industrial loans decreased $4.3 million to $8.0 million as of December 31, 2017, as compared to $12.3 million as of December 31, 2016, which was largely attributable to charge-offs. Our allowance for loan losses related to commercial real estate loans decreased $215,000 to $4.8 million as of December 31, 2017, as compared to $5.0 million as of December 31, 2016, primarily due to the overall strong credit quality of this portfolio partially offset by loan growth.

Charge-Offs / Recoveries

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

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

	Years Ended December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Beginning balance	$14,417	$18,762	$17,974	$20,273	$18,996
Charge-offs:					
Private banking	—	—	—	—	—
Commercial and industrial	(2,068)	(4,302)	(4,258)	(3,353)	(9,521)
Commercial real estate	—	—	—	—	—
Total charge-offs	(2,068)	(4,302)	(4,258)	(3,353)	(9,521)
Recoveries:					
Private banking	—	—	—	13	94
Commercial and industrial	1,064	575	797	1,028	545
Commercial real estate	—	5	3,411	—	—
Total recoveries	1,064	580	4,208	1,041	639
Net charge-offs	(1,004)	(3,722)	(50)	(2,312)	(8,882)
Provision (credit) for loan losses	(205)	(623)	838	13	10,159
Ending balance	$13,208	$14,417	$18,762	$17,974	$20,273
Net loan charge-offs to average total loans	0.02%	0.10%	—%	0.09%	0.41%
Provision (credit) for loan losses to average total loans	—%	(0.02)%	0.03%	—%	0.47%

Non-Performing Assets

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

Our policy is to place loans in all categories on non-accrual status when collection of interest or principal is doubtful, or when interest or principal payments are 90 days or more past due. There were no loans 90 days or more past due and still accruing interest as of December 31, 2018, 2017 and 2016, and there was no interest income recognized on loans while on non-accrual status for the years ended December 31, 2018, 2017 and 2016. As of December 31, 2018, non-performing loans were $2.2 million, or 0.04% of total loans, compared to $3.2 million, or 0.08%, and $17.8 million, or 0.52%, as of December 31, 2017 and 2016, respectively. We had specific reserves of $437,000, $2.5 million and $6.9 million as of December 31, 2018, 2017 and 2016, respectively, on these non-performing loans. The net loan balance of our non-performing loans was 74.3%, 18.4% and 40.5% of the customer’s outstanding balance after payments, charge-offs and specific reserves as of December 31, 2018, 2017 and 2016, respectively.

For additional information on our non-performing loans as of December 31, 2018, 2017 and 2016, refer to Note 6, Allowance for Loan Losses, to our consolidated financial statements.

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

We had non-performing assets of $5.7 million, or 0.09% of total assets, as of December 31, 2018, as compared to $6.8 million, or 0.14% of total assets, as of December 31, 2017. The decrease in non-performing assets was due to $3.1 million in charge-offs and paydowns on non-performing loans, partially offset by the addition of a new non-performing loan of $2.0 million. This decrease was considered within the assessment of the determination of the allowance for loan losses. As of December 31, 2018, we had OREO properties totaling $3.4 million as compared to $3.6 million as of December 31, 2017.

We had non-performing assets of $6.8 million, or 0.14% of total assets, as of December 31, 2017, as compared to $22.0 million, or 0.56% of total assets, as of December 31, 2016. The decrease in non-performing assets was the result of $15.2 million in reductions to non-performing loans including a loan which was restructured and returned to performing status as well as charge-offs, paydowns and sales of OREO in 2017. This decrease was considered within the assessment of the determination of the allowance for loan losses. As of December 31, 2017, we had OREO properties totaling $3.6 million as compared to $4.2 million as of December 31, 2016. During the year ended December 31, 2017, a property was sold from OREO for $597,000.

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

	December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Non-performing loans:					
Private banking	$2,237	$368	$517	$1,948	$2,069
Commercial and industrial	—	2,815	17,273	11,800	24,665
Commercial real estate	—	—	—	2,912	3,498
Total non-performing loans	2,237	3,183	17,790	16,660	30,232
Other real estate owned	3,424	3,576	4,178	1,730	1,370
Total non-performing assets	$5,661	$6,759	$21,968	$18,390	$31,602
Non-performing troubled debt restructured loans	$237	$3,183	$17,273	$12,894	$14,107
Performing troubled debt restructured loans	$—	$3,371	$471	$510	$528
Non-performing loans to total loans	0.04 %	0.08 %	0.52 %	0.59 %	1.26 %
Allowance for loan losses to non-performing loans	590.43 %	452.94 %	105.46 %	107.89 %	67.06 %
Non-performing assets to total assets	0.09 %	0.14 %	0.56 %	0.56 %	1.11 %

Potential Problem Loans

Potential problem loans are those loans that are not categorized as non-performing loans, but where current information indicates that the borrower may not be able to comply with repayment terms. Among other factors, we monitor the past due status as an indicator of credit deterioration and potential problem loans. A loan is considered past due when the contractual principal and/or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. To the extent that loans become past due, we assess the potential for loss on such loans as we would with other problem loans and consider the effect of any potential loss in determining any provision for loan losses. We also assess alternatives to maximize collection of any past due loans, including and without limitation, restructuring loan terms, requiring additional loan guarantee(s) or collateral, or other planned action.

For additional information on the age analysis of past due loans segregated by class of loan for December 31, 2018 and 2017, refer to Note 6, Allowance for Loan Losses, to our consolidated financial statements.

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

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

For additional information on the definitions of our internal risk rating and the recorded investment in loans by credit quality indicator for December 31, 2018 and 2017, refer to Note 6, Allowance for Loan Losses, to our consolidated financial statements.

Investment Securities

We utilize investment activities to enhance net interest income while supporting liquidity management and interest rate risk management. Our securities portfolio consists of available-for-sale debt securities, held-to-maturity debt securities, equity securities and, from time to time, debt securities held for trading purposes. Also included in our investment securities is Federal Home Loan Bank Stock. For additional information on FHLB stock, refer to Note 4, Federal Home Loan Bank Stock, to our consolidated financial statements. Debt securities purchased with the intent to sell under trading activity and equity securities are recorded at fair value and changes to fair value are recognized in non-interest income in the consolidated statements of income. Debt securities categorized as available-for-sale are recorded at fair value and changes in the fair value of these securities are recognized as a component of total shareholders' equity, within accumulated other comprehensive income (loss), net of deferred taxes. Debt securities categorized as held-to-maturity are debt securities that the Company intends to hold until maturity and are recorded at amortized cost.

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

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

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

Our available-for-sale debt securities portfolio consists of U.S. government agency obligations, mortgage-backed securities, collateralized mortgage and loan obligations, corporate bonds and single-issuer trust preferred securities, all with varying contractual maturities. Our held-to-maturity debt securities portfolio consists of certain municipal bonds, agency obligations, mortgage-backed securities and corporate bonds while our trading portfolio, when active, typically consists of U.S. treasury notes, also with varying contractual maturities. However, these maturities do not necessarily represent the expected life of the securities as certain securities may be called or paid down without penalty prior to their stated maturities. The effective duration of our debt securities portfolio as of December 31, 2018, was approximately 2.2, where duration is defined as the approximate percentage change in price for a 100 basis point change in rates. No investment in any of these securities exceeds any applicable limitation imposed by law or regulation. Our Asset/Liability Management Committee ("ALCO") reviews the investment portfolio on an ongoing basis to ensure that the investments conform to our investment policy.

Available-for-Sale Debt Securities. We held $233.3 million and $138.9 million in debt securities available-for-sale as of December 31, 2018 and December 31, 2017, respectively. The increase of $94.4 million was primarily attributable to purchases of $155.6 million made to strengthen the liquidity of the balance sheet, net of repayments, including calls and maturities, of $25.7 million and sales of $31.3 million, of certain securities during the year ended December 31, 2018.

On a fair value basis, 31.4% of our available-for-sale debt securities as of December 31, 2018, were floating-rate securities for which yields increase or decrease based on changes in market interest rates. As of December 31, 2017, floating-rate securities comprised 52.2% of our available-for-sale debt securities.

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On a fair value basis, 27.9% of our available-for-sale debt securities as of December 31, 2018, were U.S. agency securities, which tend to have a lower risk profile, than certain corporate bonds, single-issuer trust preferred securities and non-agency collateralized loan obligations, which comprised the remainder of the portfolio. As of December 31, 2017, agency securities comprised 41.6% of our available-for-sale debt securities.

Held-to-Maturity Debt Securities. We held $196.1 million and $59.3 million in debt securities held-to-maturity as of December 31, 2018 and December 31, 2017, respectively. The increase of $136.9 million was primarily attributable to purchases of $144.1 million made to strengthen the liquidity of the balance sheet, net of calls and maturities of $7.2 million, of certain securities during the year ended December 31, 2018. As part of our asset and liability management strategy, we determined that we have the intent and ability to hold these bonds until maturity, and these securities were reported at amortized cost as of December 31, 2018.

Trading Debt Securities. We held no trading debt securities as of December 31, 2018 and December 31, 2017. From time to time, we may identify opportunities in the marketplace to generate supplemental income from trading activity, principally based on the volatility of U.S. treasury notes with maturities up to ten years.

Equity Securities. Equity securities consists of mutual funds investing in short-duration, corporate bonds and mid-cap value equities. Our investment in these securities was $12.7 million and $8.6 million as of December 31, 2018 and December 31, 2017, respectively.

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

	December 31, 2018			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Debt securities available-for-sale:				
Corporate bonds	$152,691	$ 33	$ 1,661	$151,063
Trust preferred securities	17,964	—	1,115	16,849
Non-agency collateralized loan obligations	393	—	3	390
Agency collateralized mortgage obligations	33,680	42	4	33,718
Agency mortgage-backed securities	21,575	37	348	21,264
Agency debentures	9,994	67	49	10,012
Total debt securities available-for-sale	236,297	179	3,180	233,296
Debt securities held-to-maturity:				
Corporate bonds	27,184	353	22	27,515
Agency debentures	141,575	472	34	142,013
Municipal bonds	22,963	11	61	22,913
Agency mortgage-backed securities	4,409	—	27	4,382
Total debt securities held-to-maturity	196,131	836	144	196,823
Total debt securities	$432,428	$ 1,015	$ 3,324	$430,119

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

(Dollars in thousands)	December 31, 2016 Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Debt securities available-for-sale:				
Corporate bonds	$53,902	$ 164	$ 21	$54,045
Trust preferred securities	17,711	159	72	17,798
Non-agency mortgage-backed securities	5,750	14	—	5,764
Non-agency collateralized loan obligations	16,234	—	54	16,180
Agency collateralized mortgage obligations	44,051	49	279	43,821
Agency mortgage-backed securities	24,107	240	198	24,149
Agency debentures	4,760	23	—	4,783
Total debt securities available-for-sale	166,515	649	624	166,540
Debt securities held-to-maturity:				
Corporate bonds	28,693	596	30	29,259
Municipal bonds	25,247	88	96	25,239
Total debt securities held-to-maturity	53,940	684	126	54,498
Total debt securities	$220,455	$ 1,333	$ 750	$221,038

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

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The following table sets forth the fair value, contractual maturities and approximated weighted average yield, calculated on a fully taxable equivalent basis, of our available-for-sale and held-to-maturity debt securities portfolios as of December 31, 2018, based on estimated annual income divided by the average amortized cost of these securities. Contractual maturities may differ from expected maturities because issuers and/or borrowers may have the right to call or prepay obligations with or without penalties, which would also impact the corresponding yield.

	December 31, 2018									
	Less Than One Year		One to Five Years		Five to 10 Years		Greater Than 10 Years		Total	
(Dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Debt securities available-for-sale:										
Corporate bonds	$17,120	2.31%	$113,097	3.31%	$20,846	3.49%	$—	—%	$151,063	3.22%
Trust preferred securities	—	—%	—	—%	8,825	4.31%	8,024	4.61%	16,849	4.46%
Non-agency collateralized loan obligation	—	—%	—	—%	—	—%	390	4.76%	390	4.76%
Agency collateralized mortgage obligations	—	—%	691	2.80%	—	—%	33,027	2.79%	33,718	2.79%
Agency mortgage-backed securities	—	—%	—	—%	—	—%	21,264	2.85%	21,264	2.85%
Agency debentures	—	—%	—	—%	—	—%	10,012	3.18%	10,012	3.18%
Total debt securities available-for-sale	17,120		113,788		29,671		72,717		233,296	
Weighted average yield		2.31%		3.30%		3.73%		3.08%		3.22%
Debt securities held-to-maturity:										
Corporate bonds	—	—%	—	—%	27,515	5.33%	—	—%	27,515	5.33%
Agency debentures	—	—%	39,978	3.35%	70,328	3.89%	31,707	4.09%	142,013	3.78%
Municipal bonds	2,129	1.60%	12,441	2.19%	8,343	2.29%	—	—%	22,913	2.17%
Agency mortgage-backed securities	—	—%	—	—%	—	—%	4,382	3.59%	4,382	3.59%
Total debt securities held-to-maturity	2,129		52,419		106,186		36,089		196,823	
Weighted average yield		1.60%		3.07%		4.14%		4.02%		3.80%
Total debt securities	$19,249		$166,207		$135,857		$108,806		$430,119	
Weighted average yield		2.23%		3.23%		4.04%		3.39%		3.48%

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

Deposits

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

As of December 31, 2018, we consider approximately 87% of our total deposits to be relationship-based deposits, which include reciprocal certificates of deposit placed through CDARS® service and reciprocal demand deposits placed through ICS®. As of December 31, 2018, the Bank had CDARS® and ICS® reciprocal deposits totaling $565.3 million, which are classified as non-brokered deposits as a result of recent legislation. We continue to utilize brokered deposits as a tool for us to manage our cost of funds and to efficiently match changes in our liquidity needs based on our loan growth with our deposit balances and origination activity. As of December 31, 2018, brokered deposits were approximately 13% of total deposits. For additional information on our deposits, refer to Note 9, Deposits, to our consolidated financial statements.

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The table below depicts average balances of and rates paid on our deposit portfolio broken out by deposit type, for the years ended December 31, 2018, 2017 and 2016.

	Years Ended December 31,					
	2018		2017		2016	
(Dollars in thousands)	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
Interest-bearing checking accounts	$612,921	1.87 %	$336,337	1.10 %	$171,431	0.47 %
Money market deposit accounts	2,429,203	1.86 %	1,999,399	1.12 %	1,676,455	0.68 %
Certificates of deposit	1,071,556	2.05 %	967,503	1.18 %	874,615	0.87 %
Total average interest-bearing deposits	4,113,680	1.91 %	3,303,239	1.13 %	2,722,501	0.73 %
Noninterest-bearing deposits	244,090	—	210,860	—	170,573	—
Total average deposits	$4,357,770	1.80 %	$3,514,099	1.07 %	$2,893,074	0.68 %

Average Deposits for the Years Ended December 31, 2018 and 2017. For the year ended December 31, 2018, our average total deposits were $4.36 billion, representing an increase of $843.7 million, or 24.0%, from 2017. The average deposit growth was driven by increases in all deposit categories. Our average cost of interest-bearing deposits increased 78 basis points to 1.91% for the year ended December 31, 2018, from 1.13% in 2017, as average rates paid were higher in all interest-bearing deposit categories. Average money market deposits decreased to 59.1% of total average interest-bearing deposits for the year ended December 31, 2018, from 60.5% in 2017. Average certificates of deposit decreased to 26.0% of total average interest-bearing deposits for the year ended December 31, 2018, compared to 29.3% in 2017. Average interest-bearing checking accounts increased to 14.9% of total average interest-bearing deposits for the year ended December 31, 2018, compared to 10.2% in 2017. Average noninterest-bearing deposits increased $33.2 million, or 15.8%, for the year ended December 31, 2018, from 2017, and the average cost of total deposits increased 73 basis points to 1.80% for the year ended December 31, 2018, from 1.07% for the year ended December 31, 2017.

Average Deposits for the Years Ended December 31, 2017 and 2016. For the year ended December 31, 2017, our average total deposits were $3.51 billion, representing an increase of $621.0 million, or 21.5%, from 2016. The average deposit growth was driven by increases in all deposit categories. Our average cost of interest-bearing deposits increased 40 basis points to 1.13% for the year ended December 31, 2017, from 0.73% in 2016, as average rates paid were higher in all interest-bearing deposit categories. Average money market deposits decreased to 60.5% of total average interest-bearing deposits for the year ended December 31, 2017, from 61.6% in 2016. Average certificates of deposit decreased to 29.3% of total average interest-bearing deposits for the year ended December 31, 2017, compared to 32.1% in 2016. Average interest-bearing checking accounts increased to 10.2% of total average interest-bearing deposits for the year ended December 31, 2017, compared to 6.3% in 2016. Average noninterest-bearing deposits increased $40.3 million, or 23.6%, for the year ended December 31, 2017, from 2016, and the average cost of total deposits increased 39 basis points to 1.07% for the year ended December 31, 2017, from 0.68% for the year ended December 31, 2016.

Certificates of Deposit

Maturities of certificates of deposit of $100,000 or more outstanding are summarized below, as of the date indicated.

(Dollars in thousands)	December 31, 2018
Months to maturity:	
Three months or less	$332,643
Over three to six months	224,785

Over six to 12 months	208,285
Over 12 months	184,361
Total	$950,074

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 Federal Home Loan Bank 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.

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The following table presents certain information with respect to our outstanding borrowings, as of the following dates.

(Dollars in thousands)	December 31, 2018 Amount	Weighted Average Spot Rate	Maximum Balance at Any Month End	Average Balance During Year	Maximum Original Term	December 31, 2017 Amount	Weighted Average Spot Rate	Maximum Balance at Any Month End	Average Balance During Year	Maximum Original Term
FHLB borrowings	$365,000	2.61%	$565,000	$325,356	12 months	$295,000	1.60%	$470,000	$295,315	3 months
Line of credit borrowings	4,250	5.47%	6,200	2,568	12 months	6,200	4.56%	6,200	2,214	12 months
Subordinated notes payable	35,000	5.75%	35,000	35,000	5 years	35,000	5.75%	35,000	35,000	5 years
Total borrowings outstanding	$404,250	2.91%	$606,200	$362,924		$336,200	2.09%	$511,200	$332,529	

(Dollars in thousands)	December 31, 2016 Amount	Weighted Average Spot Rate	Maximum Balance at Any Month End	Average Balance During Year	Maximum Original Term
FHLB borrowings	$205,000	0.81%	$330,000	$228,934	15 months
Line of credit borrowings	—	—%	—	—	
Subordinated notes payable	35,000	5.75%	35,000	35,000	5 years
Total borrowings outstanding	$240,000	1.53%	$365,000	$263,934	

In June 2016, the Company entered into a three-year cash flow hedge transaction to establish the interest rate paid on $100.0 million of the FHLB borrowings at an effective rate of 0.83% plus the difference between the 3-month FHLB advance rate and 3-month LIBOR. In January 2018, the Company entered into a three-year cash flow hedge transaction to establish the interest rate paid on $50.0 million of the FHLB borrowings at an effective rate of 2.21% plus the difference between the 3-month FHLB advance rate and 3-month LIBOR. For additional information on cash flow hedges, refer to Note 17, Derivatives and Hedging Activity, to our consolidated financial statements.

Liquidity

We evaluate liquidity both at the holding company level and at the Bank level. As of December 31, 2018, the Bank and Chartwell represent our only material assets. Our primary sources of funds at the parent company level are cash on hand, dividends paid to us from the Bank and Chartwell, availability on our line of credit, and the net proceeds from the issuance of our debt and/or equity securities. As of December 31, 2018, our primary liquidity needs at the parent company level were the semi-annual interest payments on the subordinated notes payable, the quarterly dividend on our preferred stock, interest payments on other borrowings, our share repurchase programs and the earn out liability associated with the Columbia acquisition. All other liquidity needs were minimal and related solely to reimbursing the Bank for management, accounting and financial reporting services provided by Bank personnel. During the year ended December 31, 2018, the parent company paid $1.3 million related to the Columbia acquisition, $7.8 million related to our share repurchase programs (including stock option cancellations), $2.2 million related to interest payments on our subordinated notes and other borrowings, and $2.1 million related to our preferred stock dividend. During the year ended December 31, 2017, the parent company paid $2.1 million related to interest payments on subordinated notes and $8.7 million related to our share repurchase programs. We believe that our cash on hand at the parent company level, coupled with the dividend paying capacity of the Bank and Chartwell, were adequate to fund any foreseeable parent company obligations as of December 31, 2018. In addition, the holding company maintains an unsecured line of credit of $30.0 million with Texas Capital Bank, of which $25.8 million was available as of December 31, 2018.

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

Sources of asset liquidity are cash, interest-earning deposits with other banks, federal funds sold, certain unpledged debt and equity securities, loan repayments (scheduled and unscheduled), and future earnings. Sources of liability liquidity include a stable deposit base, the ability to renew maturing certificates of deposit, borrowing availability at the FHLB of Pittsburgh, unsecured lines with other financial institutions, access to reciprocal CDARS® and ICS® deposits and brokered deposits, and the ability to raise debt and equity. Customer deposits, which are an important source of liquidity, depend on the confidence of customers in us. Deposits are supported by our capital position and, up to applicable limits, the protection provided by FDIC insurance.

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

We believe that our liquidity position continues to be strong due to our ability to generate strong growth in deposits, which is evidenced by our ratio of total deposits to total assets of 83.7%, 83.5% and 83.6% as of December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018, we had available liquidity of $963.4 million, or 16.0% of total assets. These sources consisted of available cash and cash equivalents totaling $97.7 million, or 1.6% of total assets, certain unpledged investment securities of $389.0 million, or 6.4% of total assets, and the ability to borrow from the FHLB and correspondent bank lines totaling $476.7 million, or 7.9% of total assets. Available cash excludes pledged accounts for derivative and letter of credit transactions and the reserve balance requirement at the Federal Reserve.

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

	December 31,		
(Dollars in thousands)	2018	2017	2016
Available cash	$97,703	$91,060	$64,816
Certain unpledged debt and equity securities	389,010	143,499	169,830
Net borrowing capacity	476,686	535,907	509,906
Total liquidity	$963,399	$770,466	$744,552

For the year ended December 31, 2018, we generated $82.7 million in cash from operating activities, compared to $38.2 million in 2017. This change in cash flow was primarily the result of an increase in net income of $16.4 million for the year ended December 31, 2018, a net federal income tax refund of $6.5 million and changes in working capital items largely related to timing.

Investing activities resulted in a net cash outflow of $1.21 billion for the year ended December 31, 2018, as compared to a net cash outflow of $776.1 million in 2017. The outflows for the year ended December 31, 2018, were primarily due $956.7 million in net loan growth and $305.0 million for the purchase of investment securities, partially offset by proceeds from the sale, principal repayments and maturities of investments securities of $64.1 million. The outflows for the year ended December 31, 2017, were primarily due to $793.8 million in net loan growth and the purchase of investment securities of $38.9 million, partially offset by proceeds from the sale, principal repayments and maturities of investments securities of $61.1 million.

Financing activities resulted in a net inflow of $1.16 billion for the year ended December 31, 2018, compared to a net inflow of $790.0 million in 2017, primarily as a result of the net growth in deposits of $1.06 billion, an increase of $70.0 million in FHLB advances and the net proceeds from the issuance of preferred stock of $38.5 million, partially offset by payments of $7.8 million for share repurchase programs (including stock option cancellations) for the year ended December 31, 2018, compared to net growth of $700.8 million in deposits and an increase in FHLB advances of $90.0 million, partially offset by payments of $8.7 million for share repurchase programs for the year ended December 31, 2017.

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

Capital Resources

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

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The Company filed a registration statement on Form S-3 with the SEC on December 15, 2017, which went effective on December 21, 2017, and which provides a means to allow us to issue registered securities to finance our growth objectives.

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 $479.4 million as of December 31, 2018, compared to $389.1 million as of December 31, 2017. The $90.3 million increase during the year ended December 31, 2018, was primarily attributable to the issuance of $38.5 million in preferred stock, net income of $54.4 million, the impact of $8.2 million in stock-based compensation and $1.7 million in proceeds from stock options exercised, partially offset by the purchase of $6.8 million in treasury stock, preferred stock dividends declared of $2.1 million, $945,000 in cancellation of stock options and a decrease of $3.1 million in accumulated other comprehensive income (loss).

Shareholders' equity increased to $389.1 million as of December 31, 2017, compared to $351.8 million as of December 31, 2016. The $37.3 million increase during the year ended December 31, 2017, was attributable to net income of $38.0 million, the impact of $5.9 million in stock-based compensation, $1.7 million in stock options exercised and an increase of $416,000 in accumulated other comprehensive income (loss), partially offset by the purchase of $8.7 million in treasury stock.

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

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

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

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

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

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

	December 31, 2018					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ratio						
Company	$426,066	10.86 %	$313,789	8.00 %	N/A	N/A
Bank	$437,849	11.25 %	$311,497	8.00 %	$389,371	10.00 %
Tier 1 risk-based capital ratio						
Company	$414,808	10.58 %	$235,342	6.00 %	N/A	N/A
Bank	$424,418	10.90 %	$233,622	6.00 %	$311,497	8.00 %
Common equity tier 1 risk-based capital ratio						
Company	$378,117	9.64 %	$176,506	4.50 %	N/A	N/A
Bank	$424,418	10.90 %	$175,217	4.50 %	$253,091	6.50 %
Tier 1 leverage ratio						
Company	$414,808	7.28 %	$227,851	4.00 %	N/A	N/A
Bank	$424,418	7.49 %	$226,762	4.00 %	$283,453	5.00 %

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

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Contractual Obligations and Commitments

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

	December 31, 2018				
(Dollars in thousands)	One Year or Less	One to Three Years	Three to Five Years	Greater Than Five Years	Total
Transaction deposits	$3,657,092	$111,177	$50,000	$ —	$3,818,269
Certificates of deposit	992,468	239,724	—	—	1,232,192
Borrowings outstanding	404,250	—	—	—	404,250
Interest payments on certificates of deposit and borrowings	25,134	9,838	2,907	—	37,879
Operating leases	2,629	4,017	1,493	320	8,459
Commitments for low income housing and historic tax credits	14,379	8,205	3,312	225	26,121
Commitments for small business investment companies	3,859	—	—	—	3,859
Preferred dividends declared [(1)]	679	—	—	—	679
Acquisition earn out liability	2,920	—	—	—	2,920
Total contractual obligations	$5,103,410	$372,961	$57,712	$ 545	$5,534,628

(1) On January 17, 2019, the Company’s board of directors declared a dividend payable. For more information, refer to Note 24, Subsequent Event, to our consolidated financial statements.

Off-Balance Sheet Arrangements

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

Loan commitments are recorded on our financial statements as they are funded. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Loan commitments include unused commitments for open end lines secured by cash, marketable securities, cash value life insurance or residential properties, and commitments to fund loans secured by commercial real estate, construction loans, business lines of credit and other unused commitments of loans in various stages of funding. Not all commitments fund or fully fund. Often customers only draw on a portion of their available credit. We have the liquidity available to fund all unused loan commitments.

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

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

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

	December 31, 2018				
(Dollars in thousands)	One Year or Less [1]	One to Three Years	Three to Five Years	Greater Than Five Years	Total
Unused loan commitments	$2,970,736	$329,292	$138,103		