TriState Capital Holdings, Inc.
Form 10-Q
October 31, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the period ended September 30, 2016
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission file number: 001-35913

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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 October 14, 2016, there were 28,343,154 shares of the registrant’s common stock, no par value, outstanding.

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TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

(Dollars in thousands)	September 30, 2016	December 31, 2015
ASSETS		
Cash	$ 72	$ 294
Interest-earning deposits with other institutions	115,321	91,097
Federal funds sold	5,343	5,285
Cash and cash equivalents	120,736	96,676
Investment securities available-for-sale, at fair value (cost: $183,404 and $170,337, respectively)	183,134	168,319
Investment securities held-to-maturity, at cost (fair value: $52,193 and $48,099, respectively)	50,977	47,290
Federal Home Loan Bank stock	9,232	9,802
Total investment securities	243,343	225,411
Loans held-for-investment	3,174,653	2,841,284
Allowance for loan losses	(20,211)	(17,974)
Loans held-for-investment, net	3,154,442	2,823,310
Accrued interest receivable	8,559	7,056
Investment management fees receivable	8,166	6,191
Goodwill and other intangibles, net	67,671	50,816
Office properties and equipment, net	3,608	3,839
Bank owned life insurance	64,350	60,019
Deferred tax asset, net	10,614	12,186
Prepaid expenses and other assets	34,029	16,667
Total assets	$ 3,715,518	$ 3,302,171
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 3,087,230	$ 2,689,844
Borrowings, net	239,460	254,308
Accrued interest payable on deposits and borrowings	1,415	1,762
Other accrued expenses and other liabilities	44,274	30,280
Total liabilities	3,372,379	2,976,194
Shareholders' Equity:		
Preferred stock, no par value; Shares authorized - 150,000; Shares issued - none	—	—
Common stock, no par value; Shares authorized - 45,000,000; Shares issued - 29,651,429 and 29,056,195, respectively; Shares outstanding - 28,317,154 and 28,056,195, respectively	283,501	281,412
Additional paid-in capital	7,620	10,809
Retained earnings	66,173	45,103

Accumulated other comprehensive income (loss), net	58	(1,443)
Treasury stock (1,334,275 and 1,000,000 shares, respectively)	(14,213)	(9,904)
Total shareholders’ equity	343,139	325,977
Total liabilities and shareholders’ equity	$ 3,715,518	$ 3,302,171

See accompanying notes to unaudited condensed consolidated financial statements.

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TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Interest income:				
Loans	$23,369	$19,863	$67,689	$58,504
Investments	1,400	1,040	3,957	2,890
Interest-earning deposits	156	86	434	278
Total interest income	24,925	20,989	72,080	61,672
Interest expense:				
Deposits	5,187	3,274	13,928	9,342
Borrowings	1,034	710	2,852	1,989
Total interest expense	6,221	3,984	16,780	11,331
Net interest income	18,704	17,005	55,300	50,341
Provision (credit) for loan losses	(542)	(1,341)	(340)	(231)
Net interest income after provision for loan losses	19,246	18,346	55,640	50,572
Non-interest income:				
Investment management fees	10,333	7,020	26,814	22,189
Service charges	134	148	393	487
Net gain on the sale and call of investment securities	14	—	77	17
Swap fees	977	297	3,422	1,311
Commitment and other fees	488	487	1,497	1,487
Other income	551	63	656	951
Total non-interest income	12,497	8,015	32,859	26,442
Non-interest expense:				
Compensation and employee benefits	14,664	11,513	39,404	34,531
Premises and occupancy costs	1,285	1,173	3,583	3,439
Professional fees	693	829	2,483	2,590
FDIC insurance expense	933	461	2,023	1,474
General insurance expense	258	220	768	827
State capital shares tax	329	310	986	892
Travel and entertainment expense	718	711	2,140	1,873
Data processing expense	297	275	874	805
Intangible amortization expense	463	390	1,291	1,169
Change in fair value of acquisition earnout	(1,209)	—	(1,209)	—
Other operating expenses	2,083	1,419	5,634	4,385
Total non-interest expense	20,514	17,301	57,977	51,985
Income before tax	11,229	9,060	30,522	25,029
Income tax expense	2,775	2,942	9,452	8,127
Net income	$8,454	$6,118	$21,070	$16,902
Earnings per common share:				
Basic	$0.31	$0.22	$0.76	$0.61
Diluted	$0.30	$0.22	$0.75	$0.60

See accompanying notes to unaudited condensed consolidated financial statements.

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TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Net income	$8,454	$6,118	$21,070	$16,902
Other comprehensive income (loss):				
Unrealized holding gains (losses) on investment securities net of tax expense (benefit) of $397, $(389), $692 and $(145)	711	(698)	1,175	(275)
Reclassification adjustment for gains included in net income on investment securities, net of tax expense of $(6), $0, $(28) and $(6)	(8)	—	(49)	(11)
Unrealized holding gains on derivatives net of tax expense of $224, $0, $192 and $0	402	—	346	—
Reclassification adjustment for losses included in net income on derivatives, net of tax benefit of $17, $0, $17 and $0	29	—	29	—
Other comprehensive income (loss)	1,134	(698)	1,501	(286)
Total comprehensive income	$9,588	$5,420	$22,571	$16,616

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Dollars in thousands)	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 2014	$280,895	$ 9,253	$ 22,615	$ (627)	$ (6,746)	$ 305,390
Net income	—	—	16,902	—	—	16,902
Other comprehensive income (loss)	—	—	—	(286)	—	(286)
Exercise of stock options	482	(152)	—	—	—	330
Purchase of treasury stock	—	—	—	—	(3,158)	(3,158)
Stock-based compensation	—	1,362	—	—	—	1,362
Balance, September 30, 2015	$281,377	$ 10,463	$ 39,517	$ (913)	$ (9,904)	$ 320,540
Balance, December 31, 2015	$281,412	$ 10,809	$ 45,103	$ (1,443)	$ (9,904)	$ 325,977
Net income	—	—	21,070	—	—	21,070
Other comprehensive income (loss)	—	—	—	1,501	—	1,501
Exercise of stock options	2,089	(663)	—	—	—	1,426
Purchase of treasury stock	—	—	—	—	(4,309)	(4,309)
Cancellation of stock options	—	(5,220)	—	—	—	(5,220)
Stock-based compensation	—	2,694	—	—	—	2,694
Balance, September 30, 2016	$283,501	$ 7,620	$ 66,173	$ 58	$ (14,213)	$ 343,139

See accompanying notes to unaudited condensed consolidated financial statements.

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TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015
Cash Flows from Operating Activities:		
Net income	$21,070	$16,902
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and intangible amortization expense	2,241	2,179
Amortization of deferred financing costs	152	152
Provision (credit) for loan losses	(340)	(231)
Stock-based compensation expense	2,694	1,362
Net gain on the sale of investment securities available-for-sale	(31)	(17)
Net gain on the call of investment securities held-to-maturity	(46)	—
Net amortization of premiums and discounts	682	566
Decrease (increase) in investment management fees receivable	(1,063)	524
Increase in accrued interest receivable	(1,503)	(414)
Decrease in accrued interest payable	(347)	(514)
Bank owned life insurance income	(1,331)	(1,252)
Decrease in income taxes payable	(353)	—
Decrease (increase) in prepaid income taxes	(2,404)	1,031
Increase (decrease) in accounts payable and other accrued expenses	(833)	4,288
Change in fair value of acquisition earnout	(1,209)	—
Payment of contingent consideration impacting operations	—	(1,771)
Other, net	(3,349)	(1,018)
Net cash provided by operating activities	14,030	21,787
Cash Flows from Investing Activities:		
Purchase of investment securities available-for-sale	(27,419)	(32,663)
Purchase of investment securities held-to-maturity	(6,250)	(13,464)
Proceeds from the sale of investment securities available-for-sale	4,691	9,734
Principal repayments and maturities of investment securities available-for-sale	9,162	17,517
Principal repayments and maturities of investment securities held-to-maturity	2,500	6,540
Purchase of bank owned life insurance	(3,000)	(5,000)
Net redemption (purchase) of Federal Home Loan Bank stock	570	(2,272)
Net increase in loans	(331,988)	(266,522)
Proceeds from loan sales	1,196	4,691
Proceeds from sale of other real estate owned	1,080	—
Additions to office properties and equipment	(700)	(896)
Acquisition, net of acquired cash	(14,095)	—
Net cash used in investing activities	(364,253)	(282,335)
Cash Flows from Financing Activities:		
Net increase in deposit accounts	397,386	263,555
Net increase in Federal Home Loan Bank advances	—	10,000
Net decrease in Federal Home Loan Bank advances	(15,000)	—
Net proceeds from exercise of stock options	1,426	330
Cancellation of stock options	(5,220)	—
Payment of contingent consideration	—	(15,465)
Purchase of treasury stock	(4,309)	(3,158)
Net cash provided by financing activities	374,283	255,262

Net change in cash and cash equivalents during the period	24,060	(5,286)
Cash and cash equivalents at beginning of the period	96,676	105,710
Cash and cash equivalents at end of the period	$120,736	$100,424

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(Dollars in thousands)	Nine Months Ended September 30, 2016	2015
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	$16,975	$11,694
Income taxes	$11,273	$6,713
Acquisition of non-cash assets and liabilities:		
Assets acquired	$1,038	$—
Liabilities assumed	$1,402	$—
Other non-cash activity:		
Loan foreclosures and repossessions	$3,618	$396
Unsettled purchase of investment securities available-for-sale	$—	$2,499
Contingent consideration	$2,478	$—
Transfer of loans held-for-investment to held-for-sale	$—	$4,084

See accompanying notes to unaudited condensed consolidated financial statements.

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

[1] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATION

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

The Bank was established to serve the commercial banking and private banking needs of middle-market businesses and high-net-worth individuals. Chartwell provides investment management services to institutional, sub-advisory, and separately managed account clients and had assets under management of $10.80 billion as of September 30, 2016. CTSC Securities has a primary business of facilitating distribution and marketing efforts for the proprietary investment products provided by Chartwell, including shares of mutual funds advised and/or administered by Chartwell and private funds advised and/or administered by Chartwell.

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

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

USE OF ESTIMATES

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

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

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, the Bank, Chartwell and CTSC Securities, after elimination of inter-company accounts and transactions. The accounts of the Bank, in turn, include its wholly-owned subsidiary, Meadowood Asset Management, LLC, after elimination of

inter-company accounts and transactions. The unaudited consolidated financial statements of the Company presented herein have been prepared pursuant to rules of the Securities and Exchange Commission for quarterly reports on form 10-Q and do not include all of the information and note disclosures required by GAAP for a full year presentation. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures, considered necessary for the fair presentation of the accompanying consolidated financial statements, have been included. Interim results are not necessarily reflective of the results of the entire year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2015, included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 16, 2016.

CASH AND CASH EQUIVALENTS

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

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INVESTMENT SECURITIES

The Company's investments are classified as either: (1) held-to-maturity – debt securities that the Company intends to hold until maturity and are reported at amortized cost; (2) trading securities – debt and certain equity securities bought and held principally for the purpose of selling them in the near term and reported at fair value, with unrealized gains and losses included in earnings; or (3) available-for-sale – debt and certain equity securities not classified as either held-to-maturity or trading securities and reported at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss), on an after-tax basis.

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

FEDERAL HOME LOAN BANK STOCK

The Company is a member of the Federal Home Loan Bank of Pittsburgh ("FHLB"). Member institutions are required to invest in FHLB stock. The stock is carried at cost, which approximates its liquidation value, and it is evaluated for impairment based on the ultimate recoverability of the par value. The following matters are considered by management when evaluating the FHLB stock for impairment: the ability of the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB; the impact of legislative and regulatory changes on the institution and its customer base; and the Company's intent and ability to hold its FHLB stock for the foreseeable future. Management believes the Company's holdings in the FHLB stock are recoverable at par value, as of September 30, 2016 and December 31, 2015. Cash and stock dividends are reported as interest income, in the consolidated statements of income.

LOANS

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

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

expected that the remaining principal and interest will be collected according to the restructured agreement.

The recognition of interest income on a loan is discontinued when, in management's opinion, it is probable the borrower is unable to meet payments as they become due or when the loan becomes 90 days past due, whichever occurs first. All accrued and unpaid interest on such loans is reversed. Such interest ultimately collected is applied to reduce principal if there is doubt about the collectability of principal. If a borrower brings a loan current for which accrued interest has been reversed, then the recognition of interest income on the loan is resumed, once the loan has been current for a period of six consecutive months or greater.

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

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conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary by the Company upon extension of a commitment, is based on management's credit evaluation of the borrower.

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

ALLOWANCE FOR LOAN LOSSES
The allowance for loan losses is established through provisions for loan losses that are charged to operations. Loans are charged against the allowance for loan losses when management believes that the principal is uncollectible. If, at a later time, amounts are recovered with respect to loans previously charged off, the recovered amount is credited to the allowance for loan losses.

The allowance is appropriate, in management's judgment, to cover probable losses inherent in the loan portfolio as of September 30, 2016 and December 31, 2015. Management's judgment takes into consideration general economic conditions, diversification and seasoning of the loan portfolio, historic loss experience, identified credit problems, delinquency levels and adequacy of collateral. Although management believes it has used the best information available to it in making such determinations, and that the present allowance for loan losses is adequate, future adjustments to the allowance may be necessary, and net income may be adversely affected if circumstances differ substantially from the assumptions used in determining the level of the allowance. In addition, as an integral part of their periodic examination, certain regulatory agencies review the adequacy of the Bank's allowance for loan losses and may direct the Bank to make additions to the allowance based on their judgments about information available to them at the time of their examination.

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

Under ASC Topic 310, a loan is impaired, based upon current information and events, in management's opinion, when it is probable that the loan will not be repaid according to its original contractual terms, including both principal and interest, or if a loan is designated as a TDR. Management performs individual assessments of impaired loans to determine the existence of loss exposure based upon a discounted cash flows method or where a loan is collateral dependent, based upon the fair value of the collateral less estimated selling costs.

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

Management bases the computation of the allowance for loan losses under ASC Topic 450 on two factors: the primary factor and the secondary factor. The primary factor is based on the inherent risk identified by management within each

of the Company's three loan portfolios based on the historical loss experience of each loan portfolio and the loss emergence period. Management has developed a methodology that is applied to each of the three primary loan portfolios, consisting of commercial and industrial, commercial real estate and private banking. As the loan loss history, mix and risk ratings of each loan portfolio change, the primary factor adjusts accordingly. The allowance for loan losses related to the primary factor is based on our estimates as to probable losses for each loan portfolio. The secondary factor is intended to capture risks related to events and circumstances that management believes have an impact on the performance of the loan portfolio. Although this factor is more subjective in nature, the methodology focuses on internal and external trends in pre-specified categories (risk factors) and applies a quantitative percentage that drives the secondary factor. There are nine risk factors and each risk factor is assigned a reserve level based on management's judgment as to the probable impact of each risk factor on each loan portfolio and is monitored on a quarterly basis. As the trend in any risk factor changes, a corresponding change occurs in the reserve associated with each respective risk factor, such that the secondary factor remains current to changes in each loan portfolio.

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

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INVESTMENT MANAGEMENT FEES

The Company recognizes investment management fee revenue when the advisory services are performed. Fees are based on assets under management and are calculated pursuant to individual client contracts. Investment management fees are generally paid on a quarterly basis. In a limited number of cases, the Company may earn a performance fee based on investment performance achieved versus a stated benchmark. Performance fees are included in investment management fee revenue in the consolidated statements of income.

Investment management fees receivable represent amounts due for contractual investment management services provided to the Company’s clients, primarily institutional investors, mutual funds and individual investors. Management performs credit evaluations of its customers’ financial condition when it is deemed to be necessary, and does not require collateral. The Company provides an allowance for uncollectible accounts based on specifically identified receivables. Investment management fees receivable are considered delinquent when payment is not received within contractual terms and are charged off against the allowance for uncollectible accounts when management determines that recovery is unlikely and the Company ceases its collection efforts. There was no bad debt expense recorded for the nine months ended September 30, 2016 and 2015, and there was no allowance for uncollectible accounts recorded as of September 30, 2016 and December 31, 2015.

BUSINESS COMBINATIONS

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

GOODWILL AND OTHER INTANGIBLE ASSETS

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

Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Other intangible assets that have finite lives, such as trade name, certain client relationships and non-compete agreements are amortized over their estimated useful lives. These finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, which range from four to twenty-five years. Other intangible assets that have indefinite lives, such as certain client relationships, are not amortized. All other intangibles are evaluated for impairment on an annual basis and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, except for leasehold improvements, which are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Estimated useful lives are dependent upon the nature and condition of the asset and range from three to ten

years. Repairs and maintenance are charged to expense as incurred, while improvements that extend the useful life are capitalized and depreciated to operating expense over the estimated remaining life of the asset. When the Bank receives an allowance for improvements to be made to one of its leased offices, we record the allowance as a deferred liability and recognize it as a reduction to rent expense over the life of the related lease.

BANK OWNED LIFE INSURANCE

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

DEPOSITS

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

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BORROWINGS

The Company records FHLB advances and subordinated notes payable at their principal amount net of debt issuance costs, per ASU 2015-03. Interest expense is recognized based on the coupon rate of the obligations. Costs associated with the acquisition of subordinated notes payable are amortized to interest expense over the expected term of the borrowing.

EARNINGS PER COMMON SHARE

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

INCOME TAXES

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

DERIVATIVES AND HEDGING ACTIVITIES

The Company accounts for derivative instruments and hedging activities in accordance with FASB ASC Topic 815, Derivatives and Hedging. All derivatives are evaluated at inception as to whether or not they are hedging or non-hedging activities, and appropriate documentation is maintained to support the final determination. All derivatives are recognized as either assets or liabilities on the consolidated statements of financial condition and measured at fair value. For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. Any hedge ineffectiveness would be recognized in the income statement line item pertaining to the hedged item. For derivatives designated as cash flow hedges, changes in fair value of the effective portion of the cash flow hedges are reported in accumulated other comprehensive income (loss). When the cash flows associated with the hedged item are realized, the gain or loss included in accumulated other comprehensive income (loss) is recognized in the consolidated statement of income. The Company also has interest derivative positions that are not designated as hedging instruments. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings.

FAIR VALUE MEASUREMENT

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

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs such as quoted prices for similar assets and liabilities in active markets, quoted prices for similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

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

STOCK-BASED COMPENSATION

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

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

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

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

TREASURY STOCK

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

RECENT ACCOUNTING DEVELOPMENTS

In September of 2016, the FASB issued Accounting Standards Update ("ASU") 2016-15, "Statement of Cash Flow (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which addresses eight classification issues related to the statement of cash flows. The eight classification issues are as follows: debt prepayment or debt extinguishment costs; settlement of zero-coupon bonds; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the ASU in an interim period, adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. Entities should apply this ASU using a retrospective transition method to each period presented. If it is impracticable for an entity to apply the ASU retrospectively for some of the issues, it may apply the amendments for those issues prospectively as of the earliest date practicable. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments," which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life. The changes are effective for public business entities that are SEC filers, for annual and interim periods in fiscal years beginning after December 15, 2019. All entities may early adopt the standard for annual and interim periods in fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact this standard will have on our results of operations and

financial position.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which is intended to improve the accounting for share-based payment transactions as part of the FASB’s simplification initiative. The ASU changes seven aspects of the accounting for share-based payment award transactions, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes; (6) practical expedient - expected term (nonpublic only); and (7) intrinsic value (nonpublic only). The ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities. Early adoption is permitted in any interim or annual period provided that the entire ASU is adopted. Even if an entity early adopts the amendments after the first interim period, the adoption date is as of the beginning of the year for the issues adopted by the cumulative-effect and prospective methods. Any adjustments to previously reported interim periods of that fiscal year should be included in the year-to-date results. If those previously reported interim results appear in any future filings, they are reported on the revised basis. The Company chose to early adopt ASU 2016-09 in September 2016, and the adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-06, “Contingent Put and Call Options in Debt Instruments,” which clarifies that determining whether the economic characteristics of a put or call are clearly and closely related to its debt host requires only an assessment of the four-step decision sequence outlined in FASB ASC paragraph 815-15-25-24. Additionally, entities are not required to separately assess whether the contingency itself is clearly and closely related. ASU 2016-06 is effective for public business entities for interim and annual periods in fiscal years beginning after December 15, 2016. Early adoption is permitted in any interim period for which the entity’s financial statements have not been issued but would be retroactively applied to the beginning of the year that includes that interim period. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

In March 2016, the FASB issued ASU 2016-05, “Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships,” which clarifies that a change in one of the parties to a derivative contract (through novation) that is part of a hedge accounting relationship does not, by itself, require dedesignation of that relationship, as long as all other hedge accounting criteria continue to be met. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2016. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

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

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” which will significantly change the income statement impact of equity investments, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. The ASU is effective for public business entities for interim and annual periods in fiscal years beginning after December 15, 2017. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

In September 2015, the FASB issued ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement Period Adjustments.” This ASU eliminated the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. The ASU was effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. The adoption of ASU 2015-16 did not have a material impact on the Company’s consolidated financial statements.

In June 2015, the FASB issued ASU 2015-10, “Technical Correction and Improvements,” which, among other things, corrects the initial codification of FASB Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (as Amended by FASB Statement No. 166, Accounting for Transfers of Financial Assets).” The initial codification inadvertently added the word “public” to paragraph 860-10-50-7, which was not in the original guidance. The ASU also clarifies that the requirement relates to “involvement by others”. This amendment in ASU 2015-10 was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of ASU 2015-10 did not have a material impact on the Company’s consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." This ASU eliminated the requirement to categorize investments in the fair value hierarchy if their fair value is measured at net asset value (NAV) per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. Reporting entities were required to adopt the ASU retrospectively. The effective date for public business entities was fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The adoption of ASU 2015-07 did not have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs were not affected by the amendments in this update. For public business entities, the amendments in this update were effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented was adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity was required to comply with the applicable disclosures for a change in an accounting principle. These disclosures included the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period

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information that had been retrospectively adjusted, and the effect of the change on the financial statement line items (that is, debt issuance cost asset and the debt liability). The adoption of ASU 2015-03 did not have a material impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." This ASU changed the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity (VIE), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminated the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. The new guidance excludes money market funds that are required to comply with Rule 2a-7 of the Investment Company Act of 1940 and similar entities from the U.S. GAAP consolidation requirements. The new consolidation guidance was effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2015. At the effective date, all previous consolidation analyses that the guidance affects was required to be reconsidered. This included the consolidation analyses for all VIEs and for all limited partnerships and similar entities that previously were consolidated by the general partner even though the entities were not VIEs. The adoption of ASU 2015-02 did not have a material impact on the Company's consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." This ASU eliminated the concept of extraordinary items from U.S. GAAP as part of its simplification initiative. The ASU did not affect disclosure guidance for events or transactions that are unusual in nature or infrequent in their occurrence. The ASU was effective for interim and annual periods in fiscal years beginning after December 15, 2015. The ASU allowed prospective or retrospective application. The effective date was the same for both public entities and all other entities. The adoption of ASU 2015-01 did not have a material impact on the Company's consolidated financial statements.

In November 2014, the FASB issued ASU 2014-16, "Derivatives and Hedging (Topic 815)," required an entity to determine the nature of the host contract by considering the economic characteristics and risks of the entire hybrid financial instrument issued in the form of a share, including the embedded derivative feature that is being evaluated for separate accounting from the host contract when evaluating whether the host contract is more akin to debt or equity. In evaluating the stated and implied substantive terms and features, the existence or omission of any single term or feature does not necessarily determine the economic characteristics and risks of the host contract. Although an individual term or feature may weigh more heavily in the evaluation on the basis of facts and circumstances, an entity should use judgment based on an evaluation of all the relevant terms and features. This ASU was effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The effects of initially adopting the amendments should be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year for which the amendment is effective. Retrospective application was permitted to all relevant prior periods. The adoption of ASU 2014-16 did not have a material impact on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU describes how an entity's management should assess whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Management should consider both quantitative and qualitative factors in making its assessment. If after considering management's plans, substantial doubt about an entity's going concern is alleviated, an entity shall disclose information in the footnotes that enables the users of the financial statements to understand the events that raised the going concern and how management's plan alleviated this concern. If after considering management's plans, substantial doubt about

an entity's going concern is not alleviated, the entity shall disclose in the footnotes indicating that a substantial doubt about the entity's going concern exists within one year of the date of the issued financial statements. Additionally, the entity shall disclose the events that led to this going concern and management's plans to mitigate them. The new standard applies to all entities for the first annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. The adoption of ASU 2014-15 is not expected to have a material impact on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performing Target Could Be Achieved after the Requisite Service Period." This ASU requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. A reporting entity should apply FASB ASC Topic 718, Compensation-Stock Compensation, to awards with performance conditions that affect vesting. This update was effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, for all entities. ASU 2014-12 may be adopted either prospectively for share-based payment awards granted or modified on or after the effective date, or retrospectively, using a modified retrospective approach. The modified retrospective approach would apply to share-based payment awards outstanding as of the beginning of the earliest annual period presented in the financial statements on

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adoption, and to all new or modified awards thereafter. The adoption of ASU 2014-12 did not have a material impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” This ASU implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of this update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 establishes a five-step model that entities must follow to recognize revenue and removes inconsistencies and weaknesses in existing guidance. Per ASU 2015-14, this update is effective for annual periods and interim periods within fiscal years beginning after December 15, 2017, for public business entities, certain employee benefit plans, and certain not-for-profit entities applying U.S. GAAP. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact this standard will have on our results of operations and financial position.

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

[2] BUSINESS COMBINATIONS

On April 29, 2016, TriState Capital Holdings, Inc. through its wholly-owned subsidiary, Chartwell Investment Partners, LLC, completed the acquisition of substantially all of the assets of The Killen Group, Inc. (the "TKG acquisition"), an investment management firm with approximately $2.02 billion in assets under management. Under the terms of the Asset Purchase Agreement substantially all of the assets of The Killen Group, Inc. (“TKG”) were acquired for a purchase price consisting of $15.0 million paid in cash at closing based on five-times a base EBITDA (earnings before interest, taxes, depreciation and amortization) of $3.0 million plus an earnout. The earnout, while not limited under the terms of the Asset Purchase Agreement, will be calculated based on a multiple of seven-times the incremental growth in TKG's annual run-rate EBITDA over $3.0 million at December 31, 2016. The earnout was estimated, at closing, to be approximately $3.7 million based on the estimated annual run-rate EBITDA of TKG at December 31, 2016. Any change to the earnout calculation from the estimated $3.7 million recorded at closing, will be recorded in the statement of income in the period in which it is deemed probable to occur. The foregoing summary of the Asset Purchase Agreement and the transactions contemplated by it does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Asset Purchase Agreement, which was included as Exhibit 2.2 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 16, 2016, the terms of which Agreement are incorporated herein by reference.

The following table summarizes total consideration at closing, assets acquired and liabilities assumed for the TKG acquisition on April 29, 2016:

(Dollars in thousands)	TKG Acquisition
Consideration paid:	
Cash	$ 15,000
Estimated earnout, at closing	3,687
Fair value of total consideration	$ 18,687
Fair value of assets acquired:	
Cash and cash equivalents	$ 905
Investment management fees receivable	912

Office properties and equipment	20
Other assets	106
Total assets acquired	1,943
Fair value of liabilities assumed:	
Other liabilities	1,402
Total liabilities assumed	1,402
Fair value net identifiable assets acquired	541
Intangible assets acquired	13,585
Goodwill	4,561
Total net assets purchased	$ 18,687

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During the three months ended September 30, 2016, the fair value of the estimated acquisition earnout was decreased by $1.2 million based on management's estimate of the projected annualized run-rate EBITDA of TKG at December 31, 2016. This adjustment to the earnout was credited to non-interest expense during the three months ended September 30, 2016. The acquisition earnout liability was $2.5 million as of September 30, 2016.

In connection with the TKG acquisition, total acquisition-related transaction costs incurred by TriState Capital were approximately $601,000 during 2015 and $1,000 during the nine months ended September 30, 2016, which were comprised primarily of legal, advisory and other costs.

Since the acquisition, the TKG acquired operations contributed revenues of $4.6 million and approximate earnings of $818,000 (excluding the earnout adjustment as discussed above) which were included in the consolidated statement of income for the nine months ended September 30, 2016.

Goodwill is not amortized for book purposes, but is deductible for tax purposes. The following table shows the amount of other intangible assets acquired through the TKG acquisition on April 29, 2016, by class and estimated useful life.

(Dollars in thousands)	Gross Amount	Estimated Useful Life (months)
Trade name	$2,850	300
Client Relationships:		
Sub-advisory client list	330	132
Separate managed accounts client list	715	168
Non-compete agreements	390	48
Total finite-lived intangibles	$4,285	242
Client Relationships:		
Mutual fund client list	9,300	Indefinite life
Total intangibles assets	$13,585	

The following table presents unaudited pro forma financial information which combines the historical consolidated statements of income of the Company and The Killen Group, Inc. to give effect to the acquisition as if it had occurred on January 1, 2015, for the periods indicated.

	Pro Forma Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2016	2015
Total revenue	$91,815	$88,733
Net income	$21,780	$17,470
Earnings per common share:		
Basic	$0.79	$0.63
Diluted	$0.77	$0.62

Total revenue is defined as net interest income and non-interest income, excluding gains and losses on the sale and call of investment securities. Pro forma adjustments include intangible amortization expense and income tax expense.

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[3] INVESTMENT SECURITIES

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

	September 30, 2016			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Investment securities available-for-sale:				
Corporate bonds	$59,034	$ 512	$ 5	$59,541
Trust preferred securities	17,678	—	631	17,047
Non-agency mortgage-backed securities	5,750	9	—	5,759
Non-agency collateralized loan obligations	16,376	2	43	16,335
Agency collateralized mortgage obligations	45,724	49	198	45,575
Agency mortgage-backed securities	25,526	353	21	25,858
Agency debentures	4,749	—	6	4,743
Equity securities	8,567	—	291	8,276
Total investment securities available-for-sale	183,404	925	1,195	183,134
Investment securities held-to-maturity:				
Corporate bonds	25,695	631	10	26,316
Municipal bonds	25,282	595	—	25,877
Total investment securities held-to-maturity	50,977	1,226	10	52,193
Total	$234,381	$ 2,151	$ 1,205	$235,327

	December 31, 2015			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Investment securities available-for-sale:				
Corporate bonds	$43,952	$ 18	$ 237	$43,733
Trust preferred securities	17,579	—	978	16,601
Non-agency mortgage-backed securities	5,756	—	13	5,743
Non-agency collateralized loan obligations	11,843	—	132	11,711
Agency collateralized mortgage obligations	49,544	92	265	49,371
Agency mortgage-backed securities	28,586	270	187	28,669
Agency debentures	4,719	13	—	4,732
Equity securities	8,358	—	599	7,759
Total investment securities available-for-sale	170,337	393	2,411	168,319
Investment securities held-to-maturity:				
Corporate bonds	19,448	498	84	19,862
Agency debentures	2,453	19	—	2,472
Municipal bonds	25,389	377	1	25,765
Total investment securities held-to-maturity	47,290	894	85	48,099
Total	$217,627	$ 1,287	$ 2,496	$216,418

The equity securities noted in the tables above consist of short-duration, corporate bond mutual funds.

Income on investment securities included $1.1 million in taxable interest income, $107,000 in non-taxable interest income and $215,000 in dividend income for the three months ended September 30, 2016, as compared to taxable interest income of $825,000, non-taxable interest income of $109,000 and dividend income of $106,000 for the three

months ended September 30, 2015.

Income on investment securities included $3.1 million in taxable interest income, $338,000 in non-taxable interest income and $552,000 in dividend income for the nine months ended September 30, 2016, as compared to taxable interest income of $2.1 million, non-taxable interest income of $297,000 and dividend income of $473,000 for the nine months ended September 30, 2015.

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As of September 30, 2016, the contractual maturities of the debt securities are:

	September 30, 2016			
	Available-for-Sale		Held-to-Maturity	
(Dollars in thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$21,997	$22,024	$—	$—
Due from one to five years	38,254	38,731	15,172	15,683
Due from five to ten years	19,738	19,729	34,897	35,550
Due after ten years	94,848	94,374	908	960
Total debt securities	$174,837	$174,858	$50,977	$52,193

Included in the $94.4 million fair value of debt securities available-for-sale with a contractual maturity due after ten years as of September 30, 2016, were $82.6 million, or 87.6%, in floating-rate securities. Included in the $34.9 million amortized cost of debt securities held-to-maturity with a contractual maturity due from five to ten years as of September 30, 2016, were $14.3 million that have call provisions in one to five years that would either mature, if called, or become floating-rate securities after the call date.

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

Proceeds from the sale of investment securities available-for-sale during the three months ended September 30, 2016 and 2015, were $1.7 million and $0, respectively. During the three months ended September 30, 2016, net gains of $14,000 on these sales were comprised of gross gains of $14,000 and gross losses of $0, which were realized and reclassified out of accumulated other comprehensive income (loss). During the three months ended September 30, 2015, there were no gross gains and no gross losses realized.

Proceeds from the sale of investment securities available-for-sale during the nine months ended September 30, 2016 and 2015, were $4.7 million and $9.7 million, respectively. During the nine months ended September 30, 2016, net gains of $31,000 on these sales were comprised of gross gains of $34,000 and gross losses of $3,000, which were realized and reclassified out of accumulated other comprehensive income (loss). During the nine months ended September 30, 2015, net gains of $17,000 on these sales were comprised of gross gains of $34,000 and gross losses of $17,000, which were realized and reclassified out of accumulated other comprehensive income (loss).

During the nine months ended September 30, 2016, there was an investment security held-to-maturity of $2.5 million, which was called and gross gains of $46,000 was realized on this call and reclassified out of accumulated other comprehensive income (loss).

Investment securities available-for-sale of $5.4 million, as of September 30, 2016, were held in safekeeping at the FHLB and were included in the calculation of borrowing capacity.

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The following tables show the fair value and gross unrealized losses on temporarily impaired investment securities available-for-sale and held-to-maturity, by investment category and length of time that the individual securities have been in a continuous unrealized loss position as of September 30, 2016 and December 31, 2015, respectively:

	September 30, 2016					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Investment securities available-for-sale:						
Corporate bonds	$2,526	$ 5	$—	$ —	$2,526	$ 5
Trust preferred securities	—	—	17,047	631	17,047	631
Non-agency collateralized loan obligations	1,349	38	9,988	5	11,337	43
Agency collateralized mortgage obligations	9,458	34	30,887	164	40,345	198
Agency mortgage-backed securities	1,513	21	—	—	1,513	21
Agency debentures	4,743	6	—	—	4,743	6
Equity securities	—	—	8,276	291	8,276	291
Total investment securities available-for-sale	19,589	104	66,198	1,091	85,787	1,195
Investment securities held-to-maturity:						
Corporate bonds	1,990	10	—	—	1,990	10
Total investment securities held-to-maturity	1,990	10	—	—	1,990	10
Total temporarily impaired securities	$21,579	$ 114	$66,198	$ 1,091	$87,777	$ 1,205

	December 31, 2015					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Investment securities available-for-sale:						
Corporate bonds	$23,582	$ 155	$6,460	$ 82	$30,042	$ 237
Trust preferred securities	8,076	471	8,526	507	16,602	978
Non-agency mortgage-backed securities	—	—	5,743	13	5,743	13
Non-agency collateralized loan obligations	9,859	132	—	—	9,859	132
Agency collateralized mortgage obligations	25,566	151	11,836	114	37,402	265
Agency mortgage-backed securities	1,469	15	10,811	172	12,280	187
Equity securities	—	—	7,759	599	7,759	599
Total investment securities available-for-sale	68,552	924	51,135	1,487	119,687	2,411
Investment securities held-to-maturity:						
Corporate bonds	9,863	84	—	—	9,863	84
Municipal bonds	571	1	—	—	571	1
Total investment securities held-to-maturity	10,434	85	—	—	10,434	85
Total temporarily impaired securities	$78,986	$ 1,009	$51,135	$ 1,487	$130,121	$ 2,496

The change in the fair values of our municipal bonds, agency collateralized mortgage obligation and agency mortgage-backed securities are primarily the result of interest rate fluctuations. To assess for impairment on municipal bonds, corporate bonds, single-issuer trust preferred securities, non-agency mortgage-backed securities, non-agency collateralized loan obligations and certain equity securities, management evaluates the underlying issuer's financial performance and the related credit rating information through a review of publicly available financial statements and other publicly available information. This review did not identify any issues related to the ultimate repayment of principal and interest on these securities. In addition, the Company has the ability and intent to hold the securities in

an unrealized loss position until recovery of their amortized cost. Based on this, the Company considers all of the unrealized losses to be temporary impairment losses. Within the available-for-sale portfolio, there were 26 positions, aggregating to $1.2 million in unrealized losses that were temporarily impaired as of September 30, 2016, of which 14 positions were in an unrealized loss position for more than twelve months totaling $1.1 million. As of December 31, 2015, there were 36 positions, aggregating to $2.4 million in unrealized losses that were temporarily impaired, of which 14 positions were in an unrealized loss position for more than twelve months totaling $1.5 million. Within the held-to-maturity portfolio, there was one position, aggregating to $10,000 in unrealized losses that was temporarily impaired as of September 30, 2016, of which no positions were in an unrealized loss position for more than twelve months. As of

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December 31, 2015, there were six positions, aggregating to $85,000 in unrealized losses that were temporarily impaired, of which no positions were in an unrealized loss position for more than twelve months.

There were no investment securities classified as trading securities outstanding as of September 30, 2016 and December 31, 2015, respectively. There was no activity in investment securities classified as trading during the nine months ended September 30, 2016 and 2015.

There was $9.2 million and $9.8 million in FHLB stock outstanding as of September 30, 2016 and December 31, 2015, respectively. There were $570,000 of net redemptions in FHLB stock during the nine months ended September 30, 2016, and $2.3 million of net purchases during the nine months ended September 30, 2015.

[4] LOANS

The Company generates loans through the middle-market and private banking channels. These channels provide risk diversification and offer significant growth opportunities. The middle-market banking channel consists of our commercial and industrial ("C&I") and commercial real estate ("CRE") loan portfolios that serve middle-market businesses and real estate developers. The private banking channel includes loans secured by cash, marketable securities and other asset-based loans to executives, high-net-worth individuals, trusts and businesses, many of whom we source through referral relationships with independent broker/dealers, wealth managers, family offices, trust companies and other financial intermediaries.

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

	September 30, 2016			
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Private Banking	Total
Loans held-for-investment, before deferred fees	$565,986	$1,024,594	$1,583,817	$3,174,397
Deferred loan (fees) costs	(284)	(2,662)	3,202	256
Loans held-for-investment, net of deferred fees	565,702	1,021,932	1,587,019	3,174,653
Allowance for loan losses	(13,516)	(5,108)	(1,587)	(20,211)
Loans held-for-investment, net	$552,186	$1,016,824	$1,585,432	$3,154,442

	December 31, 2015			
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Private Banking	Total
Loans held-for-investment, before deferred fees	$634,857	$864,863	$1,341,988	$2,841,708
Deferred loan (fees) costs	(625)	(2,675)	2,876	(424)
Loans held-for-investment, net of deferred fees	634,232	862,188	1,344,864	2,841,284
Allowance for loan losses	(11,064)	(5,344)	(1,566)	(17,974)
Loans held-for-investment, net	$623,168	$856,844	$1,343,298	$2,823,310

The Company's customers have unused loan commitments. Often these commitments are not fully utilized and therefore the total amount does not necessarily represent future cash requirements. The amount of unfunded commitments, including standby letters of credit, as of September 30, 2016 and December 31, 2015, was $1.61 billion and $1.27 billion, respectively. The interest rate for each commitment is based on the prevailing market conditions at the time of funding. The lending commitment maturities as of September 30, 2016, were as follows: $1.32 billion in one year or less; $176.9 million in one to three years; and $117.6 million in greater than three years. The reserve for losses on unfunded commitments was $697,000 and $546,000 as of September 30, 2016 and December 31, 2015,

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

Included in the unfunded commitment totals listed above, were loans in the process of origination totaling approximately $53.5 million and $31.1 million as of September 30, 2016 and December 31, 2015, respectively, which extend over varying periods of time.

The Company issues standby letters of credit in the normal course of business. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party. The Company would be required to perform under the standby letters of credit when drawn upon by the guaranteed party in the case of non-performance by the Company’s customer. Collateral may be obtained based on management’s credit assessment of the customer. The amount of unfunded commitments related

to standby letters of credit as of September 30, 2016 and December 31, 2015, included in the total listed above, was $82.3 million and $89.9 million, respectively. Should the Company be obligated to perform under the standby letters of credit the Company will seek repayment from the customer for amounts paid. As of September 30, 2016, $44.1 million in standby letters of credit will expire within one year, while the remaining standby letters of credit will expire in periods greater than one year. During the nine months ended September 30, 2016, there was one draw on a standby letter of credit totaling $100,000, which was immediately repaid by the borrower. During the nine months ended September 30, 2015, there were two draws on a standby letters of credit totaling $146,000, which were immediately repaid by the borrower or converted to an outstanding loan based on the contractual terms. Most of these commitments are expected to expire without being drawn upon and the total amount does not necessarily represent future cash requirements. The probable liability for losses on standby letters of credit was included in the reserve for losses on unfunded commitments.

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

[5] ALLOWANCE FOR LOAN LOSSES

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

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

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

The industry of the borrower is an important indicator of risk, but there are also more specific risks depending on the condition of the local/regional economy. Collateral for these types of loans at times does not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt. Any C&I loans collateralized by cash and marketable securities are treated the same as private banking loans for purposes of the allowance for loan loss calculation. In addition, shared national credit loans that also involve a private equity sponsor are combined as a homogeneous group and evaluated separately based on the historical loss trend of such loans.

Middle-Market Banking: Commercial Real Estate Loans. This loan portfolio includes loans secured by commercial purpose real estate, including both owner occupied properties and investment properties for various purposes including office, retail, industrial, multifamily and hospitality. 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 these loans. Also included are commercial construction loans to finance the construction or renovation of structures as well as to finance the acquisition and development of raw land for various purposes. The increased level of risk of these loans is generally confined to the construction period. If there are problems, the project may not be completed, and as such, may not provide sufficient cash flow on its own to service the debt or have sufficient value in a liquidation to cover the outstanding principal.

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

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

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The underlying collateral is the most important indicator of risk for this loan portfolio. The overall lower risk profile of this portfolio is driven by loans secured by cash and marketable securities, which was 90.5% and 87.8% of total private banking loans as of September 30, 2016 and December 31, 2015, respectively.

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

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

Management continually monitors the loan portfolio through its internal risk rating system. Loan risk ratings are assigned based upon the creditworthiness of the borrower and, for our loans secured by marketable securities, the quality of the collateral. 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 risk rated as special mention, substandard and doubtful, which are believed to have an increasing risk of loss.

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

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

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

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

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

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

	September 30, 2016			
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Private Banking	Total
Pass	$518,100	$1,019,508	$1,586,462	$3,124,070
Special mention	19,282	2,424	—	21,706

Substandard	28,320	—	557	28,877
Loans held-for-investment	$565,702	$1,021,932	$1,587,019	$3,174,653

	December 31, 2015			
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Private Banking	Total
Pass	$585,561	$ 858,396	$1,342,813	$2,786,770
Special mention	31,863	880	—	32,743
Substandard	15,835	2,912	2,051	20,798
Doubtful	973	—	—	973
Loans held-for-investment	$634,232	$ 862,188	$1,344,864	$2,841,284

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Changes in the allowance for loan losses were as follows for the three months ended September 30, 2016 and 2015:

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

	Three Months Ended September 30, 2015			
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Private Banking	Total
Balance, beginning of period	$ 14,621	$ 4,749	$ 2,037	$ 21,407
Provision (credit) for loan losses	(1,579)	980	(742)	(1,341)
Charge-offs	(1,486)	—	—	(1,486)
Recoveries	770	—	—	770
Balance, end of period	$ 12,326	$ 5,729	$ 1,295	$ 19,350

There were no charge-offs and $3.5 million of recoveries on three C&I loans and one CRE loan for the three months ended September 30, 2016. There was a charge-off of $1.5 million on one C&I loan and $770,000 of recoveries on two C&I loans for the three months ended September 30, 2015.

Changes in the allowance for loan losses were as follows for the nine months ended September 30, 2016 and 2015:

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

	Nine Months Ended September 30, 2015			
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Private Banking	Total
Balance, beginning of period	$ 13,501	$ 4,755	$ 2,017	$ 20,273
Provision (credit) for loan losses	(470)	974	(735)	(231)
Charge-offs	(1,486)	—	—	(1,486)
Recoveries	781	—	13	794
Balance, end of period	$ 12,326	$ 5,729	$ 1,295	$ 19,350

There was a charge-off of $1.5 million on one C&I loan and $4.1 million of recoveries on six C&I loans and one CRE loan for the nine months ended September 30, 2016. There was a charge-off of $1.5 million on one C&I loan and $794,000 of recoveries on four C&I loans and one private banking loan for the nine months ended September 30, 2015.

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

	September 30, 2016					
(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due	Current	Total
Commercial and industrial	$ —	$ —	$ —	$ —	$ 565,702	$ 565,702
Commercial real estate	—	—	—	—	1,021,932	1,021,932
Private banking	—	—	224	224	1,586,795	1,587,019
Loans held-for-investment	$ —	$ —	$ 224	$ 224	$ 3,174,429	$ 3,174,653

	December 31, 2015					
(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due	Current	Total
Commercial and industrial	$ —	$ —	$ 976	$ 976	$ 633,256	$ 634,232
Commercial real estate	—	—	2,912	2,912	859,276	862,188
Private banking	—	—	1,431	1,431	1,343,433	1,344,864
Loans held-for-investment	$ —	$ —	$ 5,319	$ 5,319	$ 2,835,965	$ 2,841,284

Non-Performing and Impaired Loans

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

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

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

	As of and for the Nine Months Ended September 30, 2016				
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Commercial and industrial	$ 20,169	$ 26,179	$ 7,359	$ 19,202	$ —
Commercial real estate	—	—	—	—	—
Private banking	548	683	548	614	—

Total with a related allowance recorded	20,717	26,862	7,907	19,816	—
Without a related allowance recorded:					
Commercial and industrial	489	505	—	488	20
Commercial real estate	—	—	—	—	—
Private banking	—	—	—	—	—
Total without a related allowance recorded	489	505	—	488	20
Total:					
Commercial and industrial	20,658	26,684	7,359	19,690	20
Commercial real estate	—	—	—	—	—
Private banking	548	683	548	614	—
Total	$21,206	$ 27,367	$ 7,907	$ 20,304	$ 20

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(Dollars in thousands)	As of and for the Twelve Months Ended December 31, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Commercial and industrial	$11,797	$19,204	$3,800	$15,331	$—
Commercial real estate	—	—	—	—	—
Private banking	745	864	745	824	—
Total with a related allowance recorded	12,542	20,068	4,545	16,155	—
Without a related allowance recorded:					
Commercial and industrial	513	1,789	—	838	29
Commercial real estate	2,912	9,067	—	3,108	—
Private banking	1,203	1,448	—	1,202	—
Total without a related allowance recorded	4,628	12,304	—	5,148	29
Total:					
Commercial and industrial	12,310	20,993	3,800	16,169	29
Commercial real estate	2,912	9,067	—	3,108	—
Private banking	1,948	2,312	745	2,026	—
Total	$17,170	$32,372	$4,545	$21,303	$29

Impaired loans as of September 30, 2016 and December 31, 2015, were $21.2 million and $17.2 million, respectively. There was no interest income recognized on these loans, while on non-accrual status, for the nine months ended September 30, 2016, and the twelve months ended December 31, 2015. As of September 30, 2016 and December 31, 2015, there were no loans 90 days or more past due and still accruing interest income.

Impaired loans were evaluated using a discounted cash flow method or based on the fair value of the collateral less estimated selling costs. Based on those evaluations, as of September 30, 2016, there were specific reserves totaling $7.9 million, which were included in the $20.2 million allowance for loan losses. Also included in impaired loans was one C&I loan with a balance of $489,000 as of September 30, 2016, with no corresponding specific reserve since this loan had a net realizable value that management believes will be recovered from the borrower.

As of December 31, 2015, there were specific reserves totaling $4.5 million, which were included in the $18.0 million allowance for loan losses. Also included in impaired loans were three C&I loans, one CRE loans and two private banking loans with a combined balance of $4.6 million as of December 31, 2015, with no corresponding specific reserve since these loans had a net realizable value that management believes will be recovered from the borrower.

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

(Dollars in thousands)	September 30, 2016			
	Commercial and Industrial	Commercial Real Estate	Private Banking	Total
Allowance for loan losses:				
Individually evaluated for impairment	$7,359	$—	$548	$7,907
Collectively evaluated for impairment	6,157	5,108	1,039	12,304
Total allowance for loan losses	$13,516	$5,108	$1,587	$20,211
Loans held-for-investment:				
Individually evaluated for impairment	$20,658	$—	$548	$21,206
Collectively evaluated for impairment	545,044	1,021,932	1,586,471	3,153,447

Loans held-for-investment	$565,702	$1,021,932	$1,587,019	$3,174,653

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(Dollars in thousands)	December 31, 2015 Commercial and Industrial	Commercial Real Estate	Private Banking	Total
Allowance for loan losses:				
Individually evaluated for impairment	$3,800	$ —	$745	$4,545
Collectively evaluated for impairment	7,264	5,344	821	13,429
Total allowance for loan losses	$11,064	$ 5,344	$1,566	$17,974
Loans held-for-investment:				
Individually evaluated for impairment	$12,310	$ 2,912	$1,948	$17,170
Collectively evaluated for impairment	621,922	859,276	1,342,916	2,824,114
Loans held-for-investment	$634,232	$ 862,188	$1,344,864	$2,841,284

Troubled Debt Restructuring

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

(Dollars in thousands)	September 30, 2016	December 31, 2015
Aggregate recorded investment of impaired loans with terms modified through a troubled debt restructuring:		
Performing loans accruing interest	$ 489	$ 510
Non-accrual loans	16,209	12,894
Total troubled debt restructurings	$ 16,698	$ 13,404

Of the non-accrual loans as of September 30, 2016, three C&I loans were designated by the Company as TDRs. There was also one C&I loan that was still accruing interest and designated by the Company as a performing TDR as of September 30, 2016. The aggregate recorded investment of these loans was $16.7 million. There were unused commitments of $7,000 as of September 30, 2016, which was related to the performing TDR.

Of the non-accrual loans as of December 31, 2015, five C&I loans and one residential mortgage loan were designated by the Company as TDRs. There was also one C&I loan that was still accruing interest and designated by the Company as a performing TDR as of December 31, 2015. The aggregate recorded investment of these loans was $13.4 million. There were unused commitments of $1.7 million on these loans as of December 31, 2015, of which $39,000 was related to the performing TDR.

The modifications made to restructured loans typically consist of an extension or reduction of the payment terms, or the deferral of principal payments. There were no loans modified as a TDR within twelve months of the corresponding balance sheet date with a payment default during the nine months ended September 30, 2016. There were two loans totaling $4.0 million that were modified as a TDR within twelve months of the corresponding balance sheet date with a payment default during the nine months ended September 30, 2015, that were already on non-accrual status and fully secured or adequately reserved as of September 30, 2015.

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

	Three Months Ended September 30, 2016				
(Dollars in thousands)	Count	Recorded Investment at the time of	Current Recorded Investment	Allowance for Loan Losses at the	Current Allowance for Loan

		Modification		time of Modification	Losses
Commercial and industrial:					
Extended term and deferred principal	1	$ 7,160	$ 7,181	$ 1,360	$ 1,360
Total	1	$ 7,160	$ 7,181	$ 1,360	$ 1,360

There were no modifications made to loans newly designated as TDRs during the three months ended September 30, 2015.

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The financial effects of modifications made to loans newly designated as TDRs during nine months ended September 30, 2016 and 2015, were as follows:

	Nine Months Ended September 30, 2016				
(Dollars in thousands)	Count	Recorded Investment at the time of Modification	Current Recorded Investment	Allowance for Loan Losses at the time of Modification	Current Allowance for Loan Losses
Commercial and industrial:					
Extended term and deferred principal	1	$ 7,160	$ 7,181	$ 1,360	$ 1,360
Total	1	$ 7,160	$ 7,181	$ 1,360	$ 1,360

	Nine Months Ended September 30, 2015				
(Dollars in thousands)	Count	Recorded Investment at the time of Modification	Current Recorded Investment	Allowance for Loan Losses at the time of Modification	Current Allowance for Loan Losses
Commercial and industrial:					
Change in interest terms	1	$ 4,064	$ —	$ 400	$ —
Extended term and deferred principal	1	433	—	433	—
Deferred principal	2	6,849	2,874	1,500	1,868
Total	4	$ 11,346	$ 2,874	$ 2,333	$ 1,868

Other Real Estate Owned

During the three and nine months ended September 30, 2016, collateral related to an impaired loan was transferred to OREO at a fair value of $3.6 million based on the appraised value, less estimated selling costs. In addition, a property was sold from other real estate owned for $1.1 million with a net gain of $7,000 realized during the three and nine months ended September 30, 2016. As of September 30, 2016 and December 31, 2015, the balance of the other real estate owned portfolio was $4.3 million and $1.7 million, respectively. There were no residential mortgage loans in the process of foreclosure as of September 30, 2016.

[6] GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill of $4.6 million and other intangible assets of $13.6 million were recorded during the nine months ended September 30, 2016, related to the TKG acquisition.

The following table presents the change in goodwill for the nine months ended September 30, 2016 and 2015:

	Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015
Balance, beginning of period	$34,163	$34,163
Additions	4,561	—
Balance, end of period	$38,724	$34,163

The Company determined the amount of identifiable intangible assets based upon an independent valuation. The following table presents the change in intangible assets for the nine months ended September 30, 2016 and 2015:

	Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015
Balance, beginning of period	$16,653	$18,211
Additions	13,585	—
Amortization	(1,291)	(1,169)
Balance, end of period	$28,947	$17,042

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The following table presents the gross amount of intangible assets and total accumulated amortization by class:

(Dollars in thousands)	September 30, 2016 Gross Amount	Accumulated Amortization	Net Carrying Amount	December 31, 2015 Gross Amount	Accumulated Amortization	Net Carrying Amount
Trade name	$4,040	$ (201)	$ 3,839	$1,190	$ (109)	$ 1,081
Client Relationships:						
Sub-advisory client list	11,530	(2,156)	9,374	11,200	(1,521)	9,679
Separate managed accounts client list	1,810	(304)	1,506	1,095	(201)	894
Other institutional client list	5,950	(1,398)	4,552	5,950	(992)	4,958
Non-compete agreements	465	(89)	376	75	(34)	41
Total finite-lived intangibles	$23,795	$ (4,148)	$ 19,647	$19,510	$ (2,857)	$ 16,653
Client Relationships:						
Mutual fund client list (indefinite-lived)	9,300	—	9,300	—	—	—
Total intangibles assets	$33,095	$ (4,148)	$ 28,947	$19,510	$ (2,857)	$ 16,653

Amortization expense on finite-lived intangible assets totaled $463,000 and $390,000 for the three months ended September 30, 2016 and 2015. Amortization expense on finite-lived intangible assets totaled $1.3 million and $1.2 million for the nine months ended September 30, 2016 and 2015.

The following is a summary of the expected amortization expense for finite-lived intangibles assets, assuming no future additions, for each of the five years following September 30, 2016:

(Dollars in thousands)	Amount
September 30,	
2017	$1,851
2018	1,840
2019	1,832
2020	1,791
2021	1,735
Thereafter	10,598
Total finite-lived intangibles	$19,647
Indefinite-lived intangibles	9,300
Total intangibles assets	$28,947

[7] DEPOSITS

(Dollars in thousands)	Interest Rate Range as of September 30, 2016	Weighted Average Interest Rate as of September 30, 2016	December 31, 2015	Balance as of September 30, 2016	December 31, 2015
Demand and savings accounts:					
Noninterest-bearing checking accounts	—	—	—	$222,577	$ 159,859
Interest-bearing checking accounts	0.05 to 0.60%	0.49 %	0.42 %	198,317	136,037
Money market deposit accounts	0.05 to 1.50%	0.72 %	0.50 %	1,802,276	1,464,279
Total demand and savings accounts				2,223,170	1,760,175
Certificates of deposit	0.05 to 1.44%	0.92 %	0.78 %	864,060	929,669
Total deposit balance				$3,087,230	$ 2,689,844
Average rate paid on interest-bearing accounts		0.76 %	0.60 %		

As of September 30, 2016 and December 31, 2015, the Bank had total brokered deposits of $1.02 billion and $1.05 billion, respectively. The amount for brokered deposits includes reciprocal Certificate of Deposit Account Registry Service® ("CDARS®") and reciprocal Insured Cash Sweep® ("ICS®") accounts totaling $440.9 million and $496.5 million as of September 30, 2016 and December 31, 2015, respectively.

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As of September 30, 2016 and December 31, 2015, certificates of deposit with balances of $100,000 or more, excluding brokered certificates of deposit, amounted to $404.4 million and $409.2 million, respectively. Certificates of deposit with balances of $250,000 or more, excluding brokered certificates of deposit, amounted to $160.6 million and $142.7 million as of September 30, 2016 and December 31, 2015, respectively.

The contractual maturity of certificates of deposit, including brokered certificates of deposit, is as follows:

(Dollars in thousands)	September 30, 2016	December 31, 2015
12 months or less	$ 701,343	$ 645,004
12 months to 24 months	134,153	219,333
24 months to 36 months	28,564	65,332
36 months to 48 months	—	—
48 months to 60 months	—	—
Over 60 months	—	—
Total	$ 864,060	$ 929,669

Interest expense on deposits is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Interest-bearing checking accounts	$234	$99	$541	$318
Money market deposit accounts	3,017	1,523	7,847	4,079
Certificates of deposit	1,936	1,652	5,540	4,945
Total interest expense on deposits	$5,187	$3,274	$13,928	$9,342

[8] BORROWINGS

As of September 30, 2016 and December 31, 2015, borrowings were comprised of the following:

	September 30, 2016			December 31, 2015		
(Dollars in thousands)	Interest Rate	Ending Balance	Maturity Date	Interest Rate	Ending Balance	Maturity Date
FHLB borrowings:						
Issued 9/30/2016	0.57%	$80,000	10/3/2016		$—	
Issued 9/29/2016	0.58%	100,000	12/29/2016		—	
Issued 12/31/2015		—		0.51%	170,000	1/4/2016
Issued 7/29/2015		—		0.61%	25,000	8/4/2016
Issued 7/29/2015	0.72%	25,000	11/3/2016	0.72%	25,000	11/3/2016
Subordinated notes payable (net of debt issuance costs of $540 and $692)	5.75%	34,460	7/1/2019	5.75%	34,308	7/1/2019
Total borrowings, net		$239,460			$254,308	

The Bank’s FHLB borrowing capacity is based on the collateral value of certain securities held in safekeeping at the FHLB and loans pledged to the FHLB. The Bank submits a quarterly Qualified Collateral Report (“QCR”) to the FHLB to update the value of the loans pledged. As of September 30, 2016, the Bank’s borrowing capacity is based on the information provided in the June 30, 2016, QCR filing. As of September 30, 2016, the Bank had securities held in safekeeping at the FHLB with a fair value of $5.4 million, combined with pledged loans of $846.2 million, for a borrowing capacity of $605.6 million, of which $205.0 million was outstanding in advances, as reflected in the table above. As of December 31, 2015, there was $220.0 million outstanding in advances from the FHLB. When the Bank

borrows from the FHLB, interest is charged at the FHLB's posted rates at the time of the borrowing.

The Bank maintains an unsecured line of credit of $10.0 million with M&T Bank and an unsecured line of credit of $20.0 million with Texas Capital Bank. As of September 30, 2016, the full amount of these established lines were available to the Bank.

The Holding Company established an unsecured line of credit of $25.0 million, effective December 29, 2015, with Texas Capital Bank. As of September 30, 2016, the full amount of this established line was available.

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

[9] REGULATORY CAPITAL

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the tables below) of Common Equity Tier 1 ("CET 1"), Tier 1 and Total risk-based capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). As of September 30, 2016 and December 31, 2015, TriState Capital Holdings, Inc. and TriState Capital Bank exceeded all capital adequacy requirements to which they are subject.

Financial depository institutions are categorized as well capitalized if they meet minimum Total risk-based, Tier 1 risk-based, CET 1 risk-based capital ratios and Tier 1 leverage ratio (Tier 1 capital to average assets) as set forth in the tables below. Based upon the information in the most recently filed Call Report, the Bank exceeded the capital ratios necessary to be well capitalized under the regulatory framework for prompt corrective action. There have been no conditions or events since the filing of the most recent Call Report that management believes have changed the Bank's capital, as presented below.

In December 2010, the Basel Committee released a final framework for a strengthened set of capital requirements, known as Basel III. In July 2013, final rules implementing the Basel III capital accord were adopted by the federal banking agencies. Basel III, which began phasing in on January 1, 2015, has replaced the existing regulatory capital rules for the Company and the Bank. The Basel III final rules required new minimum capital ratio standards, established a new common equity tier 1 to total risk-weighted assets ratio, subjected banking organizations to certain limitations on capital distributions and discretionary bonus payments, and established a new standardized approach for risk weightings.

The following tables set forth certain information concerning the Company's and the Bank's regulatory capital as of September 30, 2016 and December 31, 2015:

	September 30, 2016					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ratio						
Company	$318,874	13.05%	$195,464	8.00%	N/A	N/A
Bank	$311,395	12.88%	$193,409	8.00%	$241,761	10.00%
Tier 1 risk-based capital ratio						

Company	$286,496	11.73	%	$146,598	6.00	%	N/A	N/A
Bank	$292,618	12.10	%	$145,057	6.00	%	$193,409	8.00 %
Common equity tier 1 risk-based capital ratio								
Company	$286,496	11.73	%	$109,948	4.50	%	N/A	N/A
Bank	$292,618	12.10	%	$108,792	4.50	%	$157,145	6.50 %
Tier 1 leverage ratio								
Company	$286,496	8.09	%	$141,663	4.00	%	N/A	N/A
Bank	$292,618	8.33	%	$140,450	4.00	%	$175,562	5.00 %

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	December 31, 2015					
	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	$326,378	13.88%	$188,176	8.00%	N/A	N/A
Bank	$310,624	13.35%	$186,077	8.00%	$232,596	10.00%
Tier 1 risk-based capital ratio						
Company	$287,072	12.20%	$141,132	6.00%	N/A	N/A
Bank	$292,234	12.56%	$139,558	6.00%	$186,077	8.00 %
Common equity tier 1 risk-based capital ratio						
Company	$287,072	12.20%	$105,849	4.50%	N/A	N/A
Bank	$292,234	12.56%	$104,668	4.50%	$151,187	6.50 %
Tier 1 leverage ratio						
Company	$287,072	9.05 %	$126,932	4.00%	N/A	N/A
Bank	$292,234	9.29 %	$125,870	4.00%	$157,338	5.00 %

In addition, the final rules subject a banking organization to certain limitations on capital distributions and discretionary bonus payments to executive officers if the organization does not maintain a capital conservation buffer of risk-based capital ratios in an amount greater than 2.5% of its total risk-weighted assets. The implementation of the capital conservation buffer began on January 1, 2016, at 0.625% and will be phased in over a four-year period (increasing by that amount ratably on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The Company has not paid dividends to its holders of its common shares since its inception in 2007.

[10] EMPLOYEE BENEFIT PLANS

The Company participates in a qualified 401(k) defined contribution plan, under which eligible employees may contribute a percentage of their salary at their discretion. During the nine months ended September 30, 2016 and 2015, the Company automatically contributed three percent of the employee’s base salary to the individual’s 401(k) plan, subject to IRS limitations. Full-time employees and certain part-time employees are eligible to participate upon the first month following their first day of employment or having attained the age of 21, whichever is later. The Company’s contribution expense was $204,000 and $175,000 for the three months ended September 30, 2016 and 2015, respectively. The Company’s contribution expense was $606,000 and $528,000 for the nine months ended September 30, 2016 and 2015, respectively.

On February 28, 2013, the Company entered into a supplemental executive retirement plan (“SERP”) for the Chairman and Chief Executive Officer. The benefits will be earned over a five-year period with the projected payments for this SERP of $25,000 per month for 180 months commencing the later of retirement or 60 months. For the three and nine months ended September 30, 2016, the Company recorded expense related to SERP of $233,000 and $687,000, respectively, utilizing a discount rate of 2.15%. For the three and nine months ended September 30, 2015, the Company recorded expense related to SERP of $200,000 and $591,000, respectively, utilizing a discount rate of 2.98%. The recorded liability related to the SERP plan was $2.8 million and $2.1 million as of September 30, 2016 and December 31, 2015, respectively.

[11] STOCK TRANSACTIONS

In October 2014, the Board of Directors authorized the repurchase of up to $10 million, or up to 1,000,000 shares, of the Company's common stock through December 31, 2015. Under this plan, the Company repurchased a total of 1,000,000 shares for approximately $9.9 million, at an average cost of $9.90 per share, which are held as treasury stock.

In January 2016, the Board of Directors authorized another repurchase of up to $10 million, or up to 1,000,000 shares, of the Company's common stock. During the nine months ended September 30, 2016, the Company repurchased a total of 334,275 shares for approximately $4.3 million, at an average cost of $12.89 per share, which are held as treasury stock. The Board subsequently authorized the Company to utilize some of the $10 million allocated to this share repurchase program to cancel options granted by the Company to purchase shares of its common stock that expire in 2017. In accordance with that authorization, in addition to the shares purchased as described in this paragraph, the Company and holders of options that expire in 2017 agreed to cancel options as set forth in the following paragraph. The

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approximate dollar value of shares that may yet be purchased under this share repurchase program has been reduced by the amount expended in connection with the option cancellations.

In July 2016, the Company's Board of Directors approved a stock option cancellation program to allow for outstanding and vested stock option awards granted in 2007 and expiring in 2017 to be canceled by the option holder at the closing day's stock price less the option exercise price. This program was available for option holders to participate from July 25 through September 2, 2016. During the three months ended September 30, 2016, there were 1,061,500 options canceled for $5.2 million, which was recorded as a reduction to additional paid-in capital.

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

	Number of Common Shares Outstanding
Balance, December 31, 2014	28,060,888
Issuance of restricted common stock	255,916
Forfeitures of restricted common stock	(3,000)
Exercise of stock options	35,000
Purchase of treasury stock	(321,109)
Balance, September 30, 2015	28,027,695
Balance, December 31, 2015	28,056,195
Issuance of restricted common stock	460,309
Forfeitures of restricted common stock	(4,575)
Exercise of stock options	139,500
Purchase of treasury stock	(334,275)
Balance, September 30, 2016	28,317,154

[12] EARNINGS PER COMMON SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2016	2015	2016	2015
Net income available to common shareholders	$8,454	$ 6,118	$21,070	$ 16,902
Weighted average common shares outstanding:				
Basic	27,514,274	27,728,705	27,586,821	27,779,023
Non-vested restricted stock - dilutive	290,326	72,261	206,289	43,941
Stock options - dilutive	502,582	480,278	483,118	384,695
Diluted	28,307,182	28,281,244	28,276,228	28,207,659
Earnings per common share:				
Basic	$0.31	$ 0.22	$0.76	$ 0.61
Diluted	$0.30	$ 0.22	$0.75	$ 0.60

Three Months Ended September 30,	Nine Months Ended September 30,

	2016	2015	2016	2015
Anti-dilutive shares [1]	31,500	635,893	180,000	961,393

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

[13] DERIVATIVES AND HEDGING ACTIVITY

RISK MANAGEMENT OBJECTIVE OF USING DERIVATIVES

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The

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

FAIR VALUES OF DERIVATIVE INSTRUMENTS ON THE STATEMENTS OF FINANCIAL CONDITION

The tables below present the fair value of the Company’s derivative financial instruments as well as their classification on the consolidated statements of financial condition as of September 30, 2016 and December 31, 2015:

	Asset Derivatives as of September 30, 2016		Liability Derivatives as of September 30, 2016	
(Dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate products	Other assets	$ 585	Other liabilities	$ 106
Derivatives not designated as hedging instruments:				
Interest rate products	Other assets	$ 19,427	Other liabilities	$ 20,946

	Asset Derivatives as of December 31, 2015		Liability Derivatives as of December 31, 2015	
(Dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate products	Other assets	$—	Other liabilities	$229
Derivatives not designated as hedging instruments:				
Interest rate products	Other assets	$8,662	Other liabilities	$9,363

FAIR VALUE HEDGES OF INTEREST RATE RISK

The Company is exposed to changes in the fair value of certain of its fixed-rate obligations due to changes in benchmark interest rates, which relate predominantly to LIBOR. Interest rate swaps designated as fair value hedges involve the receipt of variable-rate payments from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. As of September 30, 2016, the Company had four interest rate swaps, with an aggregate notional amount of $2.9 million that were designated as fair value hedges of interest rate risk associated with the Company’s fixed-rate loan assets. The notional amounts for the derivatives express the face amount of the positions, however, credit risk was considered insignificant for nine months ended September 30, 2016 and 2015. There were no counterparty default losses on derivatives for the nine months ended September 30, 2016 and 2015.

For the four derivatives that were designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings by

applying the "fair value long haul" method. The Company includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the three months ended September 30, 2016, the Company recognized no gain or loss in non-interest income related to hedge ineffectiveness as compared to a net gain of $1,000 during the three months ended September 30, 2015. The Company also recognized a decrease to interest income of $24,000 and $54,000 for the three months ended September 30, 2016 and 2015, respectively, related to the Company's fair value hedges, which includes net settlements on the derivatives, and any amortization adjustment of the basis in the hedged items. During the nine months ended September 30, 2016, the Company recognized a net gain of $2,000 in non-interest income related to hedge ineffectiveness as compared to a net gain of $3,000 during the nine months ended September 30, 2015. The Company also recognized a decrease to interest income of $71,000 and $211,000 for the nine months ended September 30, 2016 and 2015, respectively, related to the Company's fair value hedges, which includes net settlements on the derivatives, and any amortization adjustment of the basis in the hedged items.

CASH FLOW HEDGES OF INTEREST RATE RISK

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. In June 2016, the Company entered into two derivative contracts to hedge the variable cash flows associated with certain FHLB borrowings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. The Company's cash flow hedge derivatives did not have any hedge ineffectiveness recognized in earnings during the three and nine months ended September 30, 2016.

Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's debt. During the three and nine months ended September 30, 2016, there was an increase to interest expense of 46,000. During the next twelve months, the Company estimates $106,000 to be reclassified to earnings as a decrease to interest expense. The Company is hedging its exposure to the variability in future cash flows for forecasted transactions over a remaining period of 33 months.

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

NON-DESIGNATED HEDGES

The Company does not use derivatives for trading or speculative purposes. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate derivatives with its commercial banking customers to facilitate their respective risk management strategies. Those derivatives are simultaneously and economically hedged by offsetting derivatives that the Company executes with a third party, such that the Company eliminates its interest rate exposure resulting from such transactions. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of September 30, 2016, the Company had 210 derivative transactions with an aggregate notional amount of $883.9 million related to this program. During the three months ended September 30, 2016 and 2015, the Company recognized a net gain of $62,000 and a net loss of $414,000, respectively, related to changes in fair value of the derivatives not designated in hedging relationships. During the nine months ended September 30, 2016 and 2015, the Company recognized a net loss of $777,000 and a net loss $371,000, respectively, related to changes in fair value of the derivatives not designated in hedging relationships.

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EFFECT OF DERIVATIVE INSTRUMENTS IN THE STATEMENTS OF INCOME

The tables below present the effect of the Company's derivative financial instruments in the consolidated statements of income for the periods presented:

(Dollars in thousands)		Three Months Ended September 30,	
		2016	2015
Derivatives designated as hedging instruments:	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
Interest rate products	Interest income	$(24)	$(54)
	Non-interest income	—	1
	Interest expense	(46)	—
Total		$(70)	$(53)
Derivatives not designated as hedging instruments:	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
Interest rate products	Non-interest income	$62	$(414)
Total		$62	$(414)

(Dollars in thousands)		Nine Months Ended September 30,	
		2016	2015
Derivatives designated as hedging instruments:	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
Interest rate products	Interest income	$(71)	$(211)
	Non-interest income	2	3
	Interest expense	(46)	—
Total		$(115)	$(208)
Derivatives not designated as hedging instruments:	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
Interest rate products	Non-interest income	$(777)	$(371)
Total		$(777)	$(371)

CREDIT-RISK-RELATED CONTINGENT FEATURES

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

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

As of September 30, 2016, the termination value of derivatives, including accrued interest, in a net liability position related to these agreements was $20.3 million. As of September 30, 2016, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $23.8 million. If the Company had breached any of these provisions as of September 30, 2016, it could have been required to settle its obligations under the agreements at their termination value.

[14] DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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FAIR VALUE MEASUREMENTS

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

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

- Level 1 – Financial assets and liabilities for which inputs are observable and are obtained from reliable quoted prices for identical assets or liabilities in actively traded markets. This is the most reliable fair value measurement and includes, for example, active exchange-traded equity securities.
- Level 2 – Financial assets and liabilities for which values are based on quoted prices in markets that are not active or for which values are based on similar assets or liabilities that are actively traded. Level 2 also includes pricing models in which the inputs are corroborated by market data, for example, matrix pricing.
- Level 3 – Financial assets and liabilities for which values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Level 3 inputs include assumptions of a source independent of the reporting entity or the reporting entity's own assumptions that are supported by little or no market activity or observable inputs.

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

RECURRING FAIR VALUE MEASUREMENTS

The following tables represent assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015:

	September 30, 2016			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total Assets / Liabilities at Fair Value
Financial assets:				
Investment securities available-for-sale:				
Corporate bonds	$—	$59,541	$—	$ 59,541
Trust preferred securities	—	17,047	—	17,047
Non-agency mortgage-backed securities	—	5,759	—	5,759
Non-agency collateralized loan obligations	—	16,335	—	16,335
Agency collateralized mortgage obligations	—	45,575	—	45,575
Agency mortgage-backed securities	—	25,858	—	25,858
Agency debentures	—	4,743	—	4,743
Equity securities	8,276	—	—	8,276
Interest rate swaps	—	20,012	—	20,012
Total financial assets	8,276	194,870	—	203,146

Financial liabilities:				
Interest rate swaps	—	21,052	—	21,052
Acquisition earnout liability	—	—	2,478	2,478
Total financial liabilities	$ —	$ 21,052	$ 2,478	$ 23,530

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(Dollars in thousands)	December 31, 2015 Level 1	Level 2	Level 3	Total Assets / Liabilities at Fair Value
Financial assets:				
Investment securities available-for-sale:				
Corporate bonds	$ —	$ 43,733	$ —	$ 43,733
Trust preferred securities				