TriState Capital Holdings, Inc.
Form 10-Q
May 31, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the period ended March 31, 2013

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission file number: 001-35913

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

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

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

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

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

Large accelerated filer	¨	Accelerated filer	¨

Non-accelerated filer	x	(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 x No

As of May 31, 2013, there were 28,687,779 shares of the registrant's common stock, no par value, outstanding.

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TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARY

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PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

(Dollars in thousands, except share data)	March 31, 2013	December 31, 2012
ASSETS		
Cash	$179	$999
Interest-earning deposits with other institutions	123,778	192,055
Federal funds sold	16,547	7,026
Cash and cash equivalents	140,504	200,080
Investment securities available-for-sale, at fair value	198,465	191,187
Loans held-for-investment	1,692,117	1,641,628
Allowance for loan losses	(17,580)	(17,874)
Loans receivable, net	1,674,537	1,623,754
Accrued interest receivable	5,722	5,340
Federal Home Loan Bank stock	2,426	2,426
Office properties and equipment, net	4,456	4,317
Prepaid FDIC insurance expense	7,843	7,843
Bank owned life insurance	21,042	20,886
Deferred tax asset	7,203	6,841
Prepaid expenses and other assets	12,089	10,455
Total assets	$2,074,287	$2,073,129
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Deposits	1,806,885	1,823,379
Borrowings	20,000	20,000
Accrued interest payable on deposits and borrowings	791	809
Other accrued expenses and other liabilities	26,514	11,217
Total liabilities	1,854,190	1,855,405
Shareholders’ Equity:		
Preferred stock, 150,000 shares authorized:		
Series C, no par value; 48,780 shares authorized and issued	46,011	46,011
Common stock, no par value; 45,000,000 shares authorized; 17,444,730 and 17,444,730 shares issued, respectively	168,351	168,351
Additional paid-in capital	8,042	7,871
Accumulated deficit	(3,325)	(6,180)
Accumulated other comprehensive income, net	1,018	1,671
Total shareholders’ equity	220,097	217,724
Total liabilities and shareholders’ equity	$2,074,287	$2,073,129

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	2013	2012
Interest income:		
Loans	$16,338	$15,921
Investments	907	729
Interest-earning deposits	154	158
Total interest income	17,399	16,808
Interest expense:		
Deposits	3,034	3,587
Borrowings	21	—
Total interest expense	3,055	3,587
Net interest income before provision for loan losses	14,344	13,221
Provision for loan losses	2,132	1,231
Net interest income after provision for loan losses	12,212	11,990
Non-interest income		
Service charges	113	93
Net gain on the sale of investment securities available-for-sale	784	—
Swap fees	54	250
Commitment and other fees	541	477
Other income	296	204
Total non-interest income	1,788	1,024
Non-interest expense		
Compensation and employee benefits	6,276	5,675
Premises and occupancy costs	780	643
Professional fees	598	688
FDIC insurance expense	365	418
State capital shares tax	320	313
Travel and entertainment expense	285	262
Data processing expense	177	208
Other operating expenses	827	555
Total non-interest expense	9,628	8,762
Income before tax	$4,372	$4,252
Income tax expense	1,517	1,466
Net income	$2,855	$2,786
Preferred stock dividends and discount amortization on Series A and B	—	382
Net income available to common shareholders	$2,855	$2,404
Earnings per common share:		
Basic	$0.13	$0.14
Diluted	$0.13	$0.14

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Dollars in thousands)	Three Months Ended March 31, 2013	2012
Net income	$2,855	$2,786
Other comprehensive (loss) income:		
Increase (decrease) unrealized holding gains net of tax of $82 and ($496) for the three months ended March 31, 2013 and 2012, respectively	(149)	921
Reclassification adjustment for (gains) included in net income, net of tax of $280 and $0 for the three months ended March 31, 2013 and 2012, respectively	(504)	—
Other comprehensive income (loss)	$(653)	$921
Total comprehensive income	$2,202	$3,707

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Dollars in thousands)	Preferred Stock (Series A and B)	Preferred Stock (Series C)	Common Stock	Additional Paid-in-Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss), net	Total Shareholders' Equity
Balance, December 31, 2011	$23,708	$—	$168,351	$ 6,982	$(15,327)	$738	$184,452
Net income	—	—	—	—	2,786	—	2,786
Other comprehensive income	—	—	—	—	—	921	921
Preferred stock dividend	—	—	—	—	(313)	—	(313)
Amortization of discount on preferred stock, series A	69	—	—	—	(69)	—	—
Stock-based compensation expense	—	—	—	222	—	—	222
Balance, March 31, 2012	$23,777	$—	$168,351	$ 7,204	$(12,923)	$1,659	$188,068
Balance, December 31, 2012	$—	$46,011	$168,351	$ 7,871	$(6,180)	$1,671	$217,724
Net income	—	—	—	—	2,855	—	2,855
Other comprehensive loss	—	—	—	—	—	(653)	(653)
Stock-based compensation expense	—	—	—	171	—	—	171
Balance, March 31, 2013	$—	$46,011	$168,351	$ 8,042	$(3,325)	$1,018	$220,097

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
(Dollars in thousands)	2013	2012
Cash Flows from Operating Activities:		
Net income	$2,855	$2,786
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	250	205
Provision for loan losses	2,132	1,231
Provision (credit) for losses on unfunded commitments	6	(31)
Net decrease in prepaid FDIC insurance expense	—	391
Compensation expense related to stock options and restricted stock	171	222
Net gain on the sale of investment securities available-for-sale	(784)	—
Income from investment securities trading	(124)	(138)
Purchase of investment securities trading	(24,752)	(34,773)
Proceeds from the sale of investment securities trading	24,876	34,913
Net amortization of premiums and discounts	708	456
Increase in accrued interest receivable	(382)	(873)
Decrease in accrued interest payable	(18)	(62)
BOLI income	(156)	(85)
Decrease in income taxes payable	(106)	(679)
Increase in prepaid income taxes	(1,102)	—
Deferred tax benefit	—	(152)
Accretion of allowance for leasehold improvements	(24)	(62)
Other, net	340	346
Net cash provided by operating activities	3,890	3,695
Cash Flows from Investing Activities:		
Purchase of investment securities available-for-sale	(62,449)	(18,360)
Proceeds from the sale of investment securities available-for-sale	58,038	—
Principal repayments and maturities of investment securities available-for-sale	10,743	5,001
Redemption of FHLB stock	—	79
Net increase in loans held-for-investment	(55,700)	(75,724)
Proceeds from loan sales	2,785	2,435
Additions to office properties and equipment	(389)	(243)
Net cash used in investing activities	(46,972)	(86,812)
Cash Flows from Financing Activities:		
Net increase (decrease) in deposit accounts	(16,494)	2,893
Dividends paid on preferred stock	—	(313)
Net cash provided by (used in) financing activities	(16,494)	2,580
Net change in cash and cash equivalents during the period	(59,576)	(80,537)
Cash and cash equivalents at beginning of the period	200,080	235,464
Cash and cash equivalents at end of the period	$140,504	$154,927
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	$3,073	$3,649
Income taxes	$2,725	$1,800
Noncash activity:		
Unsettled purchase of investment securities available-for-sale	$14,549	$—

See accompanying notes to unaudited condensed consolidated financial statements.

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

[1] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

USE OF ESTIMATES
The preparation of financial statements in conformity with accounting principles generally accepted 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 at the date of the financial statements, and the reported amounts of related revenue and expense during the reporting period. Although our current estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that actual conditions could be worse than those anticipated in the estimates, which could materially affect the financial results of our operations and financial condition.

The material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for loan losses and income taxes, which are discussed later in this section.

CONSOLIDATION
The consolidated financial statements include the accounts of TriState Capital Holdings, Inc. and its wholly-owned subsidiary, TriState Capital Bank, after elimination of inter-company accounts and transactions. The accounts of TriState Capital Bank, in turn, include its wholly-owned subsidiary, Meadowood Asset Management, LLC, after elimination of intercompany accounts and transactions.

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

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

The cost of securities sold is determined on a specific identification basis. Amortization of premiums and accretion of discounts are recorded as interest income from investments over the life of the security utilizing the level yield method. We evaluate impaired investment securities quarterly to determine if impairments are temporary or other-than-temporary. For impaired debt securities, management first determines whether it intends to sell or if it is more-likely than not that it will be required to sell the impaired securities. This determination considers current and forecasted liquidity requirements, regulatory and capital requirements and securities portfolio management. Impaired debt securities are determined to be other-than-temporarily impaired if the Company concludes at the balance sheet date that it has the intent to sell, or believes it will more likely than not be required to sell, an impaired debt security before a recovery of its amortized cost basis. Credit losses on other-than-temporarily impaired debt securities are recorded through earnings, regardless of the intent or the requirement to sell. Credit loss is measured as the difference between the present value of an impaired debt security's expected cash flows and its amortized cost basis. Other-than-temporary impairment charges that are not credit related are recorded as decreases to accumulated other comprehensive income, in the statement of comprehensive income as well as the shareholders' equity section of our balance sheet, on an after-tax basis, as long as we have no intent or expected requirement to sell the impaired debt security before a recovery of its amortized cost basis.

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LOANS

Loans are stated at unpaid principal balances, net of deferred loan fees and costs. Interest income on loans is accrued at the contractual rate on the principal amount outstanding and includes the amortization of deferred loan fees and costs. Deferred loan fees and costs are amortized to income over the life of the loan, taking into consideration scheduled payments and prepayments.

A loan is considered impaired when, based on current information and events, it is probable that principal or interest will not be collected in accordance with the contractual terms of the loan. Management determines the impairment of an individual loan based on an evaluation of the borrower's ability to repay the loan according to the contractual agreement, the borrower's repayment history, and the fair value of collateral for certain collateral dependent loans. All loans are charged off when management determines that principal and interest are not collectible. Any excess of the Bank's recorded investment in impaired loans over the fair value of the loans is provided for in the allowance for loan losses. The Bank reviews its loans for impairment on a quarterly basis.

The Company considers a loan to be a Troubled Debt Restructuring (“TDR”) when there is a concession made to a financially troubled borrower. Once a loan is deemed to be a TDR, the Company considers whether the loan should be placed in non-accrual status. In assessing accrual status, the Company considers the likelihood that repayment and performance according to modified terms will be achieved, as well as the borrower’s historical payment performance. A loan is classified and reported as TDR until such loan is either paid-off or sold.

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

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

OTHER REAL ESTATE OWNED

Real estate, other than bank premises, is recorded at the lower of cost or fair value less estimated selling costs at the time of acquisition. Fair value is determined based on an independent appraisal. Expenses related to holding the property are charged against earnings in the current period. Depreciation is not recorded on the other real estate owned 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 March 31, 2013. Management's judgment takes into consideration general economic conditions, diversification and seasoning of the loan portfolio, historic loss experience, identified credit problems, delinquency levels and adequacy of collateral. Although management believes it has used the best information available to it in making such determinations, and that the present allowance for loan losses is adequate, future adjustments to the allowance may be necessary, and net income may be adversely affected if circumstances differ substantially from the assumptions used in determining the level of the allowance. In addition, as an integral part of their periodic examination, certain regulatory agencies review the adequacy of the Bank's allowance for loan losses and may direct the Bank to make additions to the allowance based on their judgments about information available to them at the time of their examination.

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

Under ASC Topic 310, a loan is impaired when, based upon current information and events, it is probable that the loan will not be repaid according to its original contractual terms, including both principal and interest. Management performs individual assessments

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

In estimating probable loan loss under ASC Topic 450 and the required general reserve, management considers numerous factors, including historical charge-off rates and subsequent recoveries. Management also considers, but is not limited to, qualitative factors that influence our credit quality, such as delinquency and nonperforming 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 risk rating of the particular loan. Although the Company has limited loss history against which to measure loss rates related to given risk ratings, management has developed a methodology that is applied to each of the three primary loans portfolios, consisting of commercial and industrial, commercial real estate and private banking loans. As the mix and weighted average risk rating of each loan portfolio change, the primary factor adjusts accordingly. The allowance for loan losses related to the primary factor is based on our estimates as to probable losses for each risk rating level. The secondary factor is intended to capture risks related to events and circumstances that may directly or indirectly impact the performance of the loan portfolio. Although this factor is more subjective in nature, the methodology focuses on internal and external trends in pre-specified categories (risk factors) and applies a quantitative percentage which drives the secondary factor. There are nine (9) risk factors and each risk factor is assigned a reserve level, based on management's judgment as to the probable impact of each risk factor on each loan portfolio. The impact of each risk factor is monitored on a quarterly basis. As the trend in any risk factor changes, a corresponding change occurs in the reserve associated with each respective risk factor, such that the secondary factor remains current to changes in each loan portfolio.

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

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

FEDERAL HOME LOAN BANK STOCK

The Company is a member of the Federal Home Loan Bank of Pittsburgh (“FHLB”). Member institutions are required to invest in FHLB stock. The stock is carried at cost which approximates the liquidation value.

OFFICE PROPERTIES AND EQUIPMENT

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

BANK OWNED LIFE INSURANCE

Bank owned life insurance (“BOLI”) policies on certain executive officers and employees, with a pre-retirement death benefit structure, are recorded at net cash surrender value on the Consolidated Statements of Financial Condition. Upon termination of the BOLI policy the Company receives the cash surrender value. BOLI benefits are payable to the Company upon death of the insured. Changes in net cash surrender value are recognized as non-interest income or expense in the Consolidated Statements of Operations.

DEPOSITS

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

EARNINGS PER SHARE

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

INCOME TAXES

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

FAIR VALUE MEASUREMENT

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

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

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

STOCK-BASED COMPENSATION

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

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

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
Unrealized gains and the non-credit component of losses on the Company's investment securities available-for-sale are included in accumulated other comprehensive income (loss), net of applicable income taxes.

RECENT ACCOUNTING DEVELOPMENTS
In February 2013, the FASB issued ASC Update 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASC Update 2013-02 clarifies the requirements for the reporting of reclassifications out of accumulated other comprehensive income. For items reclassified out of accumulated other comprehensive income and into net income in their entirety, companies must disclose the effect of the reclassification on each affected statement of income line item. For all other

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reclassifications, companies must cross reference to other required U.S. GAAP disclosures. This standards update is effective for the first interim period beginning on or after December 15, 2012. The adoption of ASC Update 2013-02 did not materially impact the Company's financial statements given that the only reclassifications out of other comprehensive income for the three months ended March 31, 2013, relate to sales of available for sale investment securities, where gains/losses are recognized in non-interest income.

In July 2012, the FASB issued Accounting Standards Update No. 2012-02, “Testing Indefinite-Lived Assets for Impairment” (“ASU 2012-02”), which reduces the cost and complexity of performing an impairment test for indefinite-lived asset categories by simplifying how an entity performs the testing of those assets. Similar to the amendments to goodwill impairment testing issued in September 2011, an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. If an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. The provisions of ASU 2012-02 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of ASU 2012-02 did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

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

RECLASSIFICATION

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

[2] INVESTMENT SECURITIES

Investment securities available-for-sale are comprised of the following:

	March 31, 2013			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Corporate bonds	$65,852	$97	$492	$65,457
Municipal bonds	16,876	12	188	16,700
Non-agency mortgage-backed securities	7,746	560	—	8,306
Agency collateralized mortgage obligations	65,525	1,385	3	66,907
Agency mortgage-backed securities	40,880	347	132	41,095
Total investment securities available-for-sale	$196,879	$2,401	$815	$198,465

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

As of March 31, 2013, the contractual maturities of the debt securities available-for-sale are:

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$20,042	$20,067
Due from one to five years	48,494	48,049
Due from five to ten years	16,892	16,774
Due after ten years	111,451	113,575
	$196,879	$198,465

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

Proceeds from the sale of investment securities available-for-sale during the three months ended March 31, 2013 and 2012, were $58.0 million and $0, respectively. Gross gains of $0.8 million and $0 were realized on these sales and reclassified out of accumulated other comprehensive income during the three months ended March 31, 2013 and 2012, respectively. There were no realized losses during the three months ended March 31, 2013 and 2012, on investment securities available-for-sale.

Proceeds from the sale of investment securities trading during the three months ended March 31, 2013 and 2012, were $24.9 million and $34.9 million, respectively. Income on investment securities trading during the three months ended March 31, 2013 and 2012 was $0.1 million and $0.1 million, respectively. There were no investment securities classified as trading securities outstanding as of March 31, 2013 and 2012, respectively.

Investment securities available-for-sale of $35.6 million, as of March 31, 2013, are available as collateral for borrowings at the Federal Home Loan Bank.

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

	March 31, 2013					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Corporate bonds	$13,513	$ 492	$—	$ —	$13,513	$ 492
Municipal bonds	13,111	188	—	—	13,111	188
Non-agency mortgage-backed securities	—	—	—	—	—	—
Agency collateralized mortgage obligations	14,938	3	—	—	14,938	3
Agency mortgage-backed securities	14,295	132	—	—	14,295	132
Total temporarily impaired securities	$55,857	$ 815	$—	$ —	$55,857	$ 815

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

The decline in the fair values of our municipal bonds and agency mortgage-backed securities are primarily the result of interest rate fluctuations. We assess for impairment on corporate bonds based on our review of the underlying issuer and related credit rating and underlying financial performance through a review of publicly available financial statements. We do not intend to sell and it is not likely that we will be required to sell any of the securities, referenced in the table above, in an unrealized loss position before recovery of their amortized cost. Based on this, the Company considers all of the unrealized losses to be temporary impairment losses. There were 27 positions, aggregating to $0.8 million, that were temporarily impaired as of March 31, 2013, and four positions, aggregating to $0.7 million, that were temporarily impaired as of December 31, 2012.

[3] LOANS RECEIVABLE, NET

Loans receivable is comprised of the following:

	March 31, 2013			
(Dollars in thousands)	Commercial & Industrial Loans	Commercial Real Estate Loans	Private Banking Loans	Total
Loans held-for-investment, before deferred fees	$901,836	$497,781	$297,848	$1,697,465
Less: Net deferred loan fees (costs)	(4,185)	(1,497)	334	(5,348)
Loans held-for-investment, net of deferred fees	$897,651	$496,284	$298,182	$1,692,117
Less: Allowance for loan losses	(12,300)	(4,029)	(1,251)	(17,580)
Loans receivable, net	$885,351	$492,255	$296,931	$1,674,537

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

The Company's customers have unused loan commitments. Often these commitments are not fully utilized and therefore the total amount does not necessarily represent future cash requirements. The amount of unfunded commitments, including letters of credit, as of March 31, 2013 and December 31, 2012, was $633.8 million and $613.5 million, respectively. The interest rate for each commitment is based on the prevailing market conditions at the time of funding. The lending commitment maturities as of March 31, 2013, are as follows: $265.2 million in less than one year; $141.6 million in one to three years; and $227.0 million in greater than three years. The reserve for losses on unfunded commitments was $0.5 million and $0.4 million, as of March 31, 2013 and December 31, 2012, respectively, which includes reserves for probable losses on unfunded loan commitments, including letters of credit, and also risk participations.

As of March 31, 2013 and December 31, 2012, the Company had loans in the process of origination totaling approximately $17.7 million and $46.2 million, respectively, which extend over varying periods of time with the majority being disbursed within a 30 to 60 day period.

The Company issues standby letters of credit in the normal course of business. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party. The Company would be required to perform under the standby letters of credit when drawn upon by the guaranteed party, in the case of nonperformance by the Company’s customer. Collateral may be obtained based on management's credit assessment of the customer. The unfunded commitments amount related to letters of credit as of March 31, 2013, included in the total listed above, is $95.7 million of which a portion is collateralized. Should the Company be obligated to perform under the standby letters of credit the Company may seek recourse from the customer for reimbursement of amounts paid. As of March 31, 2013, $16.7 million (in the aggregate) in standby letters of credit will expire within the next twelve months, while the remaining letters of credit will expire in periods greater than one year. During the three months ended March 31, 2013, there were no standby letters of credit drawn. 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 letters of credit is included in the reserve for losses on unfunded commitments.

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

[4] ALLOWANCE FOR LOAN LOSSES

Our allowance for loan losses represents our estimate of probable loan losses inherent in the loan portfolio at a specific point in time. This estimate includes losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the loan portfolio. Additions are made to the allowance through both periodic provisions charged to income and recoveries of losses previously incurred. Reductions to the allowance occur as loans are charged off. Management evaluates the adequacy of the allowance at least quarterly, and in doing so relies on various factors including, but not limited to, assessment of historical loss experience, delinquency and non-accrual trends, portfolio growth, underlying collateral coverage and current economic conditions. This evaluation is subjective and requires material estimates that may change over time. The calculation of the ALLL takes into consideration the inherent risk identified within each of the Company's three primary loan portfolios, Commercial and Industrial ("C&I"), Commercial Real Estate ("CRE") and Private Banking, based on each portfolio's risk ratings. In addition, management takes into account the historical loss experience of each loan portfolio, to ensure that the resultant allocated ALLL is sufficient to cover probable losses inherent in such loan portfolios. Please refer to Note 1, Summary of Significant Accounting Policies, for more details on the Company's ALLL policy.

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

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

The condition of the local/regional economy is an important indicator of risk, but there are also more specific risks depending on the industry of the company. Collateral for these types of loans often do not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt.

CRE – This loan portfolio includes loans secured by commercial purpose real estate, including both owner occupied properties and investment properties for various purposes including office, retail, industrial, multi-family and hospitality. Individual projects as well as global cash flows are the primary sources of repayment for these loans. Also included are Commercial Construction Loans, which are loans made to finance the construction or renovation of structures as well as to finance the acquisition and development of raw land for various purposes. The increased level of risk of these loans is generally confined to the construction period. If there are problems, the project may not be complete, 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 condition of the local/regional economy is an important indicator of risk for this loan portfolio. Additional risks exist and are dependent on several factors such as collateral type and the business performance, if the project is not owner occupied, as well as the type of project and the experience and resources of the developer.

Private Banking – Our private banking personal lending activities are conducted on a national basis. This loan portfolio includes primarily loans made to high-net-worth individuals and/or trusts that may be secured by cash, marketable securities, residential property or other financial assets, as well as unsecured loans and lines of credit. The primary sources of repayment for these loans are the income and/or assets of the borrower.

The conditions of the securities markets and the local economy are important indicators of risk for this loan portfolio. In addition, the condition of the local housing market can also have a significant impact on this portfolio, since low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

Management further assesses risk within each loan portfolio using key inherent risk differentiators. The most important indicator of risk is the internally assigned risk rating, including pass, special mention and substandard. The components of the allowance for loan losses represent estimates based upon Accounting Standards Codification ("ASC") Topic 450, Contingencies, and ASC Topic 310, Receivables. ASC Topic 450 applies to homogeneous loan pools such as consumer installment, residential mortgages and consumer lines of credit, as well as commercial loans that are not individually evaluated for impairment under ASC Topic 310.

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

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

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

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

Non-Rated – Loans to individuals and trusts are not individually risk rated, unless they are fully secured by liquid assets or cash, or have an exposure that exceeds $0.25 million and have certain actionable covenants, such as a liquidity covenant or a financial reporting covenant. In addition, commercial loans with an exposure of less than $0.5 million are not required to be individually risk rated. A loan with an exposure below $0.5 million is risk rated if it is secured by marketable securities or if it becomes a criticized loan. The majority of the private banking-personal loans that are not risk rated are residential mortgages and home equity loans. We monitor the performance of non-rated loans through ongoing reviews of payment delinquencies. These loans comprised less than 5.7% of the total loan portfolio, as of March 31, 2013. For loans that are not risk-rated, the most important indicators of risk are the existence of collateral, the type of collateral, and for consumer real estate loans, whether the bank has a 1st or 2nd lien position.

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.

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

	March 31, 2013			
(Dollars in thousands)	Commercial & Industrial	Commercial Real Estate	Private Banking	Total
Non-rated	$1,141	$117	$95,165	$96,423
Pass	859,987	483,729	201,672	1,545,388
Special mention	11,571	8,020	1,241	20,832
Substandard	24,952	4,418	104	29,474
Total	$897,651	$496,284	$298,182	$1,692,117

	December 31, 2012			
(Dollars in thousands)	Commercial & Industrial	Commercial Real Estate	Private Banking	Total
Non-rated	$1,242	$120	$100,611	$101,973
Pass	832,750	458,143	194,461	1,485,354
Special mention	9,442	8,142	1,251	18,835

Substandard	28,559	6,803	104	35,466
Total	$871,993	$473,208	$296,427	$1,641,628

Changes in the allowance for loan losses are as follows for the three months ended March 31, 2013 and 2012:

(Dollars in thousands)	Three Months Ended March 31, 2013			
	Commercial & Industrial	Commercial Real Estate	Private Banking	Total
Balance, beginning of period	$11,319	$5,252	$1,303	$17,874
Provision for loan losses	1,493	691	(52)	2,132
Charge-offs	(526)	(1,936)	—	(2,462)
Recoveries	14	22	—	36
Balance, end of period	$12,300	$4,029	$1,251	$17,580

(Dollars in thousands)	Three Months Ended March 31, 2012			
	Commercial & Industrial	Commercial Real Estate	Private Banking	Total
Balance, beginning of period	$8,899	$6,580	$871	$16,350
Provision for loan losses	331	863	37	1,231
Charge-offs	—	(884)	—	(884)
Recoveries	4	—	—	4
Balance, end of period	$9,234	$6,559	$908	$16,701

Charge-offs of $2.5 million for the three months ended March 31, 2013, included one C&I loan and one CRE loan, which were partially offset by recoveries on two C&I loans and one CRE loan of $36.3 thousand. Charge-offs of $0.9 million for the three months ended March 31, 2012, included one CRE loan, which were partially offset by recoveries on three C&I loans of $4.0 thousand.

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

(Dollars in thousands)	March 31, 2013					
	30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due	Current	Total Loans
Commercial & industrial	$—	$—	$2,573	$2,573	$895,078	$897,651