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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ¨ Yes 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.

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 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.

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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:

	Three Months Ended March 31, 2013			
(Dollars in thousands)	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

	Three Months Ended March 31, 2012			
(Dollars in thousands)	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:

	March 31, 2013					
(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 Loans
Commercial & industrial	$—	$—	$2,573	$2,573	$895,078	$897,651
Commercial real estate	638	—	3,780	4,418	491,866	496,284
Private banking	—	—	—	—	298,182	298,182
Total	$638	$—	$6,353	$6,991	$1,685,126	$1,692,117

	December 31, 2012					
(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 Loans
Commercial & industrial	$—	$—	$3,033	$3,033	$868,960	$871,993
Commercial real estate	—	—	3,780	3,780	469,428	473,208
Private banking	—	—	—	—	296,427	296,427
Total	$—	$—	$6,813	$6,813	$1,634,815	$1,641,628

Non-Performing Loans

Management monitors the delinquency status of the loan portfolio on a monthly basis. Loans are considered nonperforming when interest and principal are 90 days or more past due or management has determined that a material deterioration in the borrower’s financial condition exists. The risk of loss is generally highest for nonperforming loans.

Management determines loans to be impaired when, based upon current information and events, it is probable that the Company will be unable to collect all interest and principal payments due according to the original contractual terms of the loan agreement. 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:

	March 31, 2013				
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Commercial & industrial	$10,966	$13,460	$3,810	$11,016	$—
Commercial real estate	—	—	—	—	—
Private banking	—	—	—	—	—
Total with a related allowance recorded	$10,966	$13,460	$3,810	$11,016	$—
Without a related allowance recorded:					
Commercial & industrial	$1,758	$2,955	$—	$1,721	$—
Commercial real estate	4,418	10,625	—	4,418	—
Private banking	—	—	—	—	—
Total without a related allowance recorded	$6,176	$13,580	$—	$6,139	$—
Total:					
Commercial & industrial	$12,724	$16,415	$3,810	$12,737	$—
Commercial real estate	4,418	10,625	—	4,418	—
Private banking	—	—	—	—	—
Total	$17,142	$27,040	$3,810	$17,155	$—

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

Impaired and non-accrual loans as of March 31, 2013 and December 31, 2012, were $17.1 million and $22.5 million, respectively. There was no interest income recognized on these loans for the three months ended March 31, 2013 and 2012, while these loans were on non-accrual status. As of March 31, 2013 and December 31, 2012, there were no loans 90 days or more past due and still accruing interest income.

Impaired and non-accrual loans were evaluated using the fair value of the collateral as the measurement method or an evaluation of estimated losses for non-collateral dependent loans. Based on those evaluations, as of March 31, 2013, there was a specific reserve established totaling $3.8 million, which is included in the $17.6 million allowance for loan losses. The specific reserve as of March 31, 2013, includes a $2.0 million specific reserve recorded on our largest nonperforming loan, which represented approximately 40.6% of total nonperforming loans as of March 31, 2013. Also included in impaired and non-accrual loans are two C&I loans and two CRE loans with a combined balance of $6.2 million as of March 31, 2013, with no corresponding specific reserve since these loans were written down to the level which management believes will be recovered from the borrower.

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

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

	March 31, 2013			
(Dollars in thousands)	Commercial & Industrial	Commercial Real Estate	Private Banking	Total
Allowance for loan losses:				
Individually evaluated for impairment	$3,810	$—	$—	$3,810
Collectively evaluated for impairment	8,490	4,029	1,251	13,770
Total allowance for loan losses	$12,300	$4,029	$1,251	$17,580
Portfolio loans:				
Individually evaluated for impairment	$12,724	$4,418	$—	$17,142
Collectively evaluated for impairment	884,927	491,866	298,182	1,674,975
Total portfolio loans	$897,651	$496,284	$298,182	$1,692,117

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

Troubled Debt Restructuring

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

(Dollars in thousands)	March 31, 2013	December 31, 2012
Aggregate recorded investment of impaired loans with terms modified through a troubled debt restructuring:		
Accruing interest	$254	$253
Non-accrual	4,168	4,210
Total troubled debt restructurings	$4,422	$4,463

Of the non-accrual loans as of March 31, 2013, three C&I loans and one CRE loan were classified by the Company as troubled debt restructurings. There was also one CRE loan that was still accruing interest and classified by the Company as a troubled debt restructuring as of March 31, 2013. The aggregate net carrying value of these loans is $4.4 million.

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

The modifications made to restructured loans typically consist of an extension or reduction of the payment terms, or the deferral of principal payments. We generally do not forgive principal when restructuring loans. During the three months ended March 31, 2013 and 2012, there were no payment defaults for loans modified as TDRs within twelve months of the balance sheet date. The financial effects of our modifications made during the three months ended March 31, 2013, is as follows:

	March 31, 2013				
(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 & industrial:					
Advanced additional funds	1	$—	$512	$—	$—
Total	1	$—	$512	$—	$—

There were no modifications made during the three months ended March 31, 2012.

Other Real Estate Owned

As of March 31, 2013 and December 31, 2012, the balance of the Other Real Estate Owned (“OREO”) portfolio was $0.3 million and $0.3 million, respectively.

[5] DEPOSITS

		Weighted Average Interest Rate at		Balance at	
(Dollars in thousands)	Interest Rate at March 31, 2013	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Demand and savings accounts:					
Noninterest-bearing checking accounts	—	—	—	$86,267	$100,395
Interest-bearing checking accounts	0.00 to 0.22%	0.07 %	0.06 %	5,669	7,043
Money market deposit accounts	0.05 to 0.85%	0.42 %	0.47 %	899,244	890,884
				991,180	998,322
Time deposits	0.05 to 5.21%	0.95 %	1.03 %	815,705	825,057
Total deposit balance				$1,806,885	$1,823,379
Average rate paid on interest-bearing accounts		0.67 %	0.74 %		

As of March 31, 2013 and December 31, 2012, the Bank had total brokered deposits of $700.9 million and $717.8 million, respectively. The amount for brokered deposits includes reciprocal Certificate of Deposit Account Registry Service® (“CDARS®”) and reciprocal Insured Cash Sweep® (“ICS®”) totaling $445.4 million and $456.2 million as of March 31, 2013 and December 31, 2012, respectively.

As of March 31, 2013 and December 31, 2012, time deposits with balances of $100,000 or more, excluding brokered certificates of deposit, amounted to $385.0 million and $380.1 million, respectively.

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

(Dollars in thousands)	March 31, 2013	December 31, 2012
Under 12 months	$651,358	$618,898
12 months to 24 months	139,578	167,288
24 months to 36 months	24,769	38,871
36 months to 48 months	—	—
48 months to 60 months	—	—
Over 60 months	—	—
	$815,705	$825,057

Interest expense on deposits is as follows:

	Three Months Ended March 31,	
(Dollars in thousands)	2013	2012
Interest-bearing checking accounts	$1	$1
Money market deposit accounts	979	941
Time deposits	2,054	2,645
Total interest expense on deposits	$3,034	$3,587

[6] BORROWINGS

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

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

The Bank maintains an unsecured line of credit of $10.0 million with M&T Bank. As of March 31, 2013, the full amount of this established line was available to the Bank.

The Bank has borrowing capacity with the FHLB. The borrowing capacity is based on the collateral value of certain securities plus the Bank’s Maximum Borrowing Capacity (“MBC”) factored by 75%. The Bank’s MBC is updated quarterly based on the Qualified Collateral Report (“QCR”) submitted to the FHLB. As of March 31, 2013, the Bank’s MBC is based on the information provided in the December 31, 2012, QCR filing. As of March 31, 2013, the Bank had agency bond collateral with a fair value of $35.6 million, combined with pledged loans of $411.8 million, for a total borrowing capacity of $226.6 million, net of $20.0 million outstanding in advances from the FHLB as reflected in the table above. As of December 31, 2012, there was $20.0 million outstanding in advances from the FHLB. When the Bank borrows from the FHLB, interest is charged at the FHLB's posted rates at the time of the borrowing.

[7] SHAREHOLDERS' EQUITY

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the tables below) of Tier 1 and Total risk-based capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). As of March 31, 2013, the Company and the Bank exceeded all capital adequacy requirements to which they are subject.

Financial institutions are categorized as Well Capitalized if they meet minimum Total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios (Tier 1 capital to average assets) as set forth in the tables below. Based upon the information in the most recently filed FR Y-9C report and Call Report, both the Company and the Bank exceeded the capital ratios necessary to be Well Capitalized under the regulatory framework for prompt corrective action. There have been no conditions or events since the filing of the most recent FR Y-9C report or Call Report that management believes have changed the Company's or the Bank's capital.

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

	March 31, 2013								
	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	$237,108	11.65	%	N/A	N/A		N/A	N/A	
Bank	$236,464	11.62	%	$162,774	8.00	%	$203,468	10.00	%
Tier 1 risk-based capital ratio									
Company	$219,079	10.77	%	N/A	N/A		N/A	N/A	
Bank	$218,435	10.74	%	$81,387	4.00	%	$122,081	6.00	%
Tier 1 leverage ratio									
Company	$219,079	10.53	%	N/A	N/A		N/A	N/A	
Bank	$218,435	10.50	%	$166,470	8.00	%	$166,470	8.00	%

	December 31, 2012								
	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	$234,370	11.88	%	N/A	N/A		N/A	N/A	
Bank	$233,723	11.84	%	$157,875	8.00	%	$197,344	10.00	%
Tier 1 risk-based capital ratio									
Company	$216,053	10.95	%	N/A	N/A		N/A	N/A	
Bank	$215,406	10.92	%	$78,937	4.00	%	$118,406	6.00	%
Tier 1 leverage ratio									
Company	$216,053	10.35	%	N/A	N/A		N/A	N/A	
Bank	$215,406	10.31	%	$167,070	8.00	%	$167,070	8.00	%

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

[8] EMPLOYEE BENEFIT PLANS

The Company participates in a qualified 401(k) defined contribution plan under which eligible employees may contribute a percentage of their salary, at their discretion. Beginning in 2011 and continuing through 2013, the Company automatically contributed three percent of the employee's base salary to the individual's 401(k) plan, subject to IRS limitations. Full-time employees are eligible to participate upon the first month following their first day of employment or having attained age 21, whichever is later. Substantially all employees received an automatic contribution of three percent of their base salary for the three months ended March 31, 2013 and 2012. The Company's contribution expense was $0.1 million and $0.1 million for the three months ended March 31, 2013 and 2012, respectively, including incidental administrative fees paid to a third party administrator of the plan.

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.

[9] RESTRICTED STOCK

In January 2011, the Board of Directors approved the grant of 62,500 shares of the Company's restricted common stock to the Company's Chairman and Chief Executive Officer with a grant date fair value of $0.5 million. Under this grant, the service-based restricted shares award was expensed ratably over the two-year vesting period, commencing in January 2011. As of March 31, 2013, the restricted shares are fully vested.

[10] EARNINGS PER SHARE

The computation of basic and diluted earnings per share for the three months ended March 31, 2013 and 2012 follows:

	Three Months Ended March 31,	
(Dollars in thousands, except share and per share data)	2013	2012
Net income available to common shareholders	$2,855	$2,404
Less: earnings allocated to participating stock	624	—
Net income available to common shareholders, after required adjustments for the calculation of basic EPS	$2,231	$2,404
Basic shares	17,436,952	17,393,768
Preferred shares - dilutive	4,878,049	—
Unvested restricted shares - dilutive	7,778	27,541
Stock options - dilutive	218,362	—
Diluted shares	22,541,141	17,421,309
Earnings per common share:		
Basic	$0.13	$0.14
Diluted	$0.13	$0.14

	Three Months Ended March 31,	
	2013	2012
Anti-dilutive shares (1)	435,500	1,934,500

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

[11] DERIVATIVES AND HEDGING ACTIVITY

RISK MANAGEMENT OBJECTIVE OF USING DERIVATIVES

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

FAIR VALUES OF DERIVATIVE INSTRUMENTS ON THE BALANCE SHEET

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

	Asset Derivatives as of March 31, 2013		Liability Derivatives as of March 31, 2013	
(Dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivative designated as hedging instruments				
Interest rate products	Other assets	$—	Other liabilities	$1,149
Derivative not designated as hedging instruments				
Interest rate products	Other assets	$4,956	Other liabilities	$5,221

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

FAIR VALUE HEDGES OF INTEREST RATE RISK

The Company is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in benchmark interest rates, which relate predominantly to LIBOR. Interest rate swaps designated as fair value hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable rate payments over the life of the agreements without the exchange of the underlying notional amount. As of March 31, 2013, the Company had ten interest rate swaps, with a notional amount of $10.4 million that were designated as fair value hedges of interest rate risk associated with the Company's fixed-rate loan assets. The notional amounts for the derivatives express the face amount of the positions, however, credit risk is considered insignificant in 2013 and 2012. There were no counterparty default losses on derivatives for the three months ended March 31, 2013, and the twelve months ended December 31, 2012.

For derivatives that are designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. Two of the Company's ten interest rate swaps are designated as fair value hedges applying the "shortcut" method. As such, the gain or loss on these two derivatives exactly offsets the loss or gain on the hedged items, resulting in zero net earnings impact. The remaining eight hedges have been designated as fair value hedges applying the "fair value long haul" method. The Company includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the three months ended March 31, 2013, the Company recognized losses of $7.8 thousand in non-interest income related to hedge ineffectiveness. The Company also recognized a decrease to interest income of $0.1 million for the three months ended March 31, 2013, related to the Company's fair value hedges, which includes net settlements on the derivatives, and any amortization adjustment of the basis in the hedged items.

NON-DESIGNATED HEDGES

The Company does not use derivatives for trading or speculative purposes. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers or are hedges that were previously designated in qualifying hedging relationships that no longer meet the strict requirements to apply hedge accounting, as discussed in the Fair Value Hedges of Interest Rate Risk section. The Company executes interest rate derivatives with its commercial banking customers to facilitate their respective risk management strategies. Those derivatives are simultaneously economically hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of March 31, 2013, the Company had seventy-four derivative transactions with an aggregate notional amount of $262.3 million related to this program and two interest rate swaps with embedded floors that no longer meet the requirements to apply hedge accounting with an aggregate notional amount of $7.8 million. During the three months ended March 31, 2013, the Company recognized a net gain of $9.3 thousand related to changes in fair value of the derivatives not designated in hedging relationships.

EFFECT OF DERIVATIVE INSTRUMENTS ON THE INCOME STATEMENT

The tables below present the effect of the Company's derivative financial instruments on the Income Statement for the three months ended March 31, 2013 and 2012:

(Dollars in thousands)	Three Months Ended March 31, 2013	
Derivative in Fair Value Hedging Relationships	Location of Gain or (Loss) recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Interest rate products	Interest income / (expense)	$(118)
	Non-interest income / (expense)	(8)
Total		$(126)
Derivative Not Designated as Hedging Instruments	Location of Gain or (Loss) recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Interest rate products	Non-interest income / (expense)	$(9)
Total		$(9)

(Dollars in thousands)	Three Months Ended March 31, 2012	
Derivative in Fair Value Hedging Relationships	Location of Gain or (Loss) recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Interest rate products	Interest income / (expense)	$(239)
	Non-interest income / (expense)	(5)
Total		$(244)
Derivative Not Designated as Hedging Instruments	Location of Gain or (Loss) recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Interest rate products	Non-interest income / (expense)	$(30)
Total		$(30)

CREDIT-RISK-RELATED CONTINGENT FEATURES

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

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

As of March 31, 2013, the termination value of derivatives, including accrued interest, in a net liability position related to these agreements was $6.3 million. As of March 31, 2013, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $9.0 million. If the Company had breached any of these provisions as of March 31, 2013, it could have been required to settle its obligations under the agreements at their termination value.

[12] DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

CASH AND CASH EQUIVALENTS
The carrying amount approximates fair value.

INVESTMENT SECURITIES
The fair values of investment securities are based on quoted market prices for similar securities, recently executed transactions and pricing models.

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

FEDERAL HOME LOAN BANK STOCK
The carrying value of our Federal Home Loan Bank stock, which is a marketable equity investment, approximates market value.

BANK OWNED LIFE INSURANCE
The Company owns general account bank owned life insurance ("BOLI"). The fair value of the general account BOLI is based on the insurance contract net cash surrender value.

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

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

INTEREST RATE SWAPS
The fair value of interest rate swaps are estimated through the assistance of an independent third party and compared to the fair value determined by the swap counterparty to establish reasonableness.

OFF-BALANCE SHEET INSTRUMENTS
Fair values for the Company's off-balance sheet instruments, which consist of lending commitments, standby letters of credit and risk participation agreements related to interest rate swap agreements, are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. Management believes that the fair value of these off-balance sheet instruments is not significant.

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

	March 31, 2013			December 31, 2012	
(Dollars in thousands)	Fair Value Level	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets					
Cash and cash equivalents	1	$140,504	$140,504	$200,080	$200,080
Investment securities available-for-sale	2	198,465	198,465	191,187	191,187
Loans held-for-investment, net	3	1,674,537	1,678,952	1,623,754	1,631,578

Federal Home Loan Bank stock	2	2,426	2,426	2,426	2,426
Bank owned life insurance	2	21,042	21,042	20,886	20,886
Interest rate swaps	2	4,956	4,956	5,681	5,681
Other real estate owned	3	290	290	290	290
Financial liabilities					
Deposits	2	1,806,885	1,810,967	1,823,379	1,828,107
Borrowings	2	20,000	19,973	20,000	19,976
Interest rate swaps	2	6,370	6,370	7,254	7,254

FAIR VALUE MEASUREMENTS

In accordance with U.S. generally accepted accounting principles 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.

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

	March 31, 2013			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total Assets / Liabilities at Fair Value
Financial Assets				
Investment securities:				
Corporate bonds	$—	$65,457	$—	$65,457
Municipal bonds	—	16,700	—	16,700
Non-agency mortgage-backed securities	—	8,306	—	8,306
Agency collateralized mortgage obligations	—	66,907	—	66,907
Agency mortgage-backed securities	—	41,095	—	41,095
Interest rate swaps	—	4,956	—	4,956
Total financial assets	$—	$203,421	$—	$203,421
Financial Liabilities				
Interest rate swaps	$—	$6,370	$—	$6,370
Total financial liabilities	$—	$6,370	$—	$6,370

(Dollars in thousands)	December 31, 2012 Level 1	Level 2	Level 3	Total Assets / Liabilities at Fair Value
Financial Assets				
Investment securities:				
Corporate bonds	$—	$53,903	$—	$53,903
Municipal bonds	—	20,118	—	20,118
Non-agency mortgage-backed securities	—	8,322	—	8,322
Agency collateralized mortgage obligations	—	55,868	—	55,868
Agency mortgage-backed securities	—	52,976	—	52,976
Interest rate swaps	—	5,681	—	5,681
Total financial assets	$—	$196,868	$—	$196,868
Financial Liabilities				
Interest rate swaps	$—	$7,254	$—	$7,254
Total financial liabilities	$—	$7,254	$—	$7,254

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

INTEREST RATE SWAPS
The fair value is estimated by the counterparty using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified as Level 2. These fair value estimations include primarily market observable inputs such as the LIBOR swap curve, the basis for the underlying interest rate.

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

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

(Dollars in thousands)	March 31, 2013 Level 1	Level 2	Level 3	Total Assets at Fair Value
Loans measured for impairment	$—	$—	$13,332	$13,332
Other real estate owned	—	—	290	290
Total assets	$—	$—	$13,622	$13,622

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

As of March 31, 2013, the Company recorded $3.8 million of specific reserves to the allowance for loan losses as a result of adjusting the fair value of the collateral for certain collateral dependent impaired loans to $8.4 million, and as a result of adjusting the value based upon the discounted cash flow relating to one loan, to $4.9 million, as of March 31, 2013.

As of December 31, 2012, the Company recorded $4.4 million of specific allowance for loan losses as a result of adjusting the fair value of the collateral for certain collateral dependent impaired loans to $18.0 million, as of December 31, 2012.

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

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

OTHER REAL ESTATE OWNED
Real estate owned is comprised of property acquired through foreclosure or voluntarily conveyed by borrowers. These assets are recorded on the date acquired at the lower of the related loan balance or fair value, less estimated disposition costs, with the fair value being determined by appraisal. Subsequently, foreclosed assets are valued at the lower of the amount recorded at acquisition date or fair value, less estimated disposition costs. Accordingly, real estate owned is classified as Level 3.

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

	March 31, 2013			
(Dollars in thousands)	Fair Value	Valuation Techniques	Significant Unobservable Inputs	Range (weighted average)
Loans measured for impairment (1)	$13,332	Appraisal value (2)	Discount due to salability conditions or lack of market data	10% - 25%
Other real estate owned	$290	Appraisal value (2)	Discount due to salability conditions	10 %

(1) Loans measured for impairment of $13.3 million are net of specific reserve of $3.8 million.
(2) Fair value is generally determined through independent appraisals of the underlying collateral, which may include level 3 inputs that are not identifiable, or by using the discounted cash flow method if the loan is not collateral dependent.

	December 31, 2012			
(Dollars in thousands)	Fair Value	Valuation Techniques	Significant Unobservable Inputs	Range (weighted average)

Loans measured for impairment [1]	$18,049	Appraisal value [2]	Discount due to salability conditions or lack of market data	10% - 60%
Other real estate owned	$290	Appraisal value [2]	Discount due to salability conditions	10 %

(1) Loans measured for impairment of $18.0 million are net of specific reserve of $4.4 million.

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

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[13] CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table shows the changes in accumulated other comprehensive income, for the periods presented:

(Dollars in thousands)	For the three months ended March 31, 2013 Unrealized gains and losses on securities available-for-sale
Balance as of December 31, 2012	$1,671
Increase/(decrease) in unrealized gains	(149)
(Gains)/losses reclassified from other comprehensive income [(1)]	(504)
Net other comprehensive income	(653)
Balance as of March 31, 2013	$1,018

(Dollars in thousands)	For the three months ended March 31, 2012 Unrealized gains and losses on securities available-for-sale
Balance as of December 31, 2011	$738
Increase/(decrease) in unrealized gains	921
(Gains)/losses reclassified from other comprehensive income	—
Net other comprehensive income	921
Balance as of March 31, 2012	$1,659

(1) Consists of realized gains on securities (net gain on sale of investment securities available-for-sale) of $784, net of tax (income tax expense) of ($280).

[14] CONTINGENT LIABILITIES

The Company is not subject to any asserted claims nor is it aware of any unasserted claims. In the opinion of management, there are no potential claims that would have a material adverse effect on the Company’s financial position, liquidity or results of operations.

[15] SUBSEQUENT EVENTS

On May 14, 2013, the Company completed the issuance and sale of 6,355,000 shares of its common stock, no par value (the Company Stock), in its initial public offering of Common Stock (the Offering), including 855,000 shares sold pursuant to the exercise in full by its underwriters of their option to purchase additional shares from the Company, at a price to the public of $11.50 per share. The shares were offered pursuant to the Company’s Registration Statement on Form S-1. The Company received net proceeds of approximately $66.6 million from the Offering, after deducting underwriting discounts and commissions and estimated offering expenses.

In connection with the closing of initial public offering, on May 14, 2013, the Company converted all of its 48,780.488 outstanding shares of Series C preferred stock to shares of common stock, resulting in the issuance of 4,878,049 shares of common stock upon conversion.

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

This section presents management's perspective on our financial condition and results of operations and highlights material changes to the financial condition and results of operations at and for the three months ended March 31, 2013. The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and related notes contained herein and our consolidated financial statements and notes thereto and Management's Discussion and Analysis included in the Company's Prospectus filed with the Securities and Exchange Commission on May 9, 2013, as part of the Company's Registration Statement on Form S-1 (File No. 333-187681).

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of section 27A of the Securities Act and section 21E of the Exchange Act. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "continu "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," or the negative version of those words comparable of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- Deterioration of our asset quality;
- Our ability to prudently manage our growth and execute our strategy;
- Changes in the value of collateral securing our loans;
- Business and economic conditions generally and in the financial services industry, nationally and within our local market area;
- Changes in management personnel;
- Our ability to maintain important deposit customer relationships, our reputation and otherwise avoid liquidity risks;
- Operational risks associated with our business;
- Volatility and direction of market interest rates;
- Increased competition in the financial services industry, particularly from regional and national institutions;
- Changes in the laws, rules, regulations, interpretations or policies relating to financial institution, accounting, tax, trade, monetary and fiscal matters;
- Further government intervention in the U.S. financial system;
- Natural disasters and adverse weather, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, and other matters beyond our control; and
- Other factors that are discussed in the section entitled "Risk Factors," in Part II of this report.

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

General

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

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

Executive Overview

TriState Capital Holdings, Inc. is a bank holding company headquartered in Pittsburgh, Pennsylvania. Through our wholly owned bank subsidiary, TriState Capital Bank, we serve middle market businesses in our primary markets throughout the states of Pennsylvania, Ohio, New Jersey and New York. We also serve high net worth individuals on a national basis through our private banking channel. We market and distribute our products and services through a scalable branchless banking model, which creates significant operating leverage throughout our business as we continue to grow.

For the three months ended March 31, 2013, our net income available to common shareholders was $2.9 million compared to $2.4 million for the same period in 2012, an increase of $451,000, or 18.8%, primarily due to the impact of (1) a $1.1 million, or 8.5%, increase in our net interest income, (2) a $764,000 or 74.6% increase in non-interest income primarily due to a $784,000 gain on sale of securities in the first quarter of 2013, compared to no securities gains in the same period in 2012, (3) the elimination of dividends on our Series A and Series B preferred shares, which we redeemed in September 2012, partially offset by (4) an increase of $901,000, or 73.2%, in our provision for loan losses and (5) an $866,000, or 9.9%, increase in our non-interest expense.

Our diluted earnings per share decreased $0.01, or 7.1%, to $0.13 for the three months ended March 31, 2013, compared to $0.14 for the same period in 2012. The dilutive impact of our August 2012 issuance of $50.0 million in our Series C preferred stock was partially offset by an increase of $451,000, or 18.8%, in our net income available to common shareholders.

Our annualized return on average assets was 0.56% for the three months ended March 31, 2013, as compared to 0.61% for the same period in 2012. Our annualized return on average equity was 5.26% for the three months ended March 31, 2013, as compared to 5.97% for the same period in 2012. These decreases resulted from the effect of our issuance of $50.0 million in our Series C preferred stock, which we have not yet fully utilized, coupled with an increase of $232.5 million, or 12.6%, in our average assets and a six basis point decrease in our net interest margin as compared to the same period in 2012.

Our annualized net interest margin was 2.86% for the three months ended March 31, 2013, as compared to 2.92% for the same period in 2012. This decrease was primarily due to the impact of the continued low interest rate environment coupled with competition for quality commercial and private banking loans. Historically, we have mitigated the pressure on our net interest margin in part by managing the rates paid on our deposits and improving the mix of our deposit portfolio toward lower rate deposits. A continued low interest rate environment may limit our ability to reduce rates on our deposits faster than our loan yields decline, without sacrificing loan or deposit growth, deposit source composition or competitive positioning.

For the three months ended March 31, 2013, our efficiency ratio was 62.73% as compared to 61.51% for the same period in 2012, primarily as a result of our non-interest expense growing faster than our total revenue. The slower growth rate of our total revenue was primarily due to the six basis point decrease in our net interest margin compared to the same period in 2012. Our non-interest expense to average assets was 1.87% for the three months ended March 31, 2013, compared to 1.90% for the same period in 2012.

For the three months ended March 31, 2013, total revenue increased $1.1 million, or 7.7%, to $15.3 million from $14.2 million for the same period in 2012, driven by growth in net interest income primarily as a result of growth in our loan portfolio and a decrease in the rate paid on interest-bearing liabilities. Pre-tax, pre-provision net revenue increased $237,000, or 4.3%, to $5.7 million for the three months ended March 31, 2013, from $5.5 million for the same period in 2012, primarily resulting from growth of $1.1 million, or 8.5%, in net interest income, partially offset by an increase of $866,000, or 9.9%, in non-interest expense.

Total assets were $2.1 billion as of March 31, 2013. Total loans grew by $50.5 million to $1.7 billion as of March 31, 2013, an annualized increase of 12.3% from December 31, 2012, primarily as a result of growth in our commercial and industrial and commercial real estate loan portfolios. Total deposits were $1.8 billion as of March 31, 2013.

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Nonperforming assets to total assets decreased to 0.84% as of March 31, 2013, from 1.10% as of December 31, 2012. Annualized net charge-offs to average loans for the three month period ended March 31, 2013, was 0.60%, as compared to 0.25% for the same period in 2012. The increase in net charge-offs and decrease in nonperforming assets was primarily due to the partial charge-off and subsequent sale of one nonperforming loan during the first quarter of 2013.

The allowance for loan losses to total loans decreased to 1.04% as of March 31, 2013, from 1.09% as of December 31, 2012, primarily as a result of the partial charge-off of one nonperforming loan, which was subsequently sold in the first quarter of 2013, partially offset by an increase in specific reserves. The allowance for loan losses to nonperforming loans increased from 79.50% to 102.56% during the same period. The provision for loan losses was $2.1 million for the three months ended March 31, 2013, compared to $1.2 million for the same period in 2012. The increase in the ratio of allowance for loan losses to nonperforming loans and the increase in the provision for loan losses primarily related to a specific reserve recorded on one nonperforming loan.

Our book value per common share, assuming preferred shares were converted to common shares, increased $0.11 or 1.1%, to $9.86 as of March 31, 2013, from $9.75 as of December 31, 2012. Our tangible equity to tangible assets ratio increased to 10.61% as of March 31, 2013, from 10.50% as of December 31, 2012. Both trends are primarily the result of growth in our retained earnings.

Non-GAAP Financial Measures

The information set forth above contains certain financial information determined by methods other than in accordance with GAAP. These non-GAAP financial measures are “total revenue,” “pre-tax, pre-provision net revenue,” “efficiency ratio,” “tangible equity,” “tangible equity to tangible assets,” “common shares outstanding with preferred converted to common,” and “book value per share with preferred converted to common.” Although we believe these non-GAAP financial measures provide a greater understanding of our business, these measures are not necessarily comparable to similar measures that may be presented by other companies.

“Tangible equity” is defined as shareholders' equity reduced by intangible assets, including goodwill, if any. We believe this measure is important to management and investors to better understand and assess changes from period to period in shareholders' equity exclusive of changes in intangible assets. Goodwill, an intangible asset that is recorded in a purchase business combination, has the effect of increasing both equity and assets, while not increasing our tangible equity or tangible assets. We had no goodwill as of March 31, 2013.

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

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

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

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

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

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

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(Dollars in thousands, except share and per share data)	March 31, 2013	December 31, 2012
Book value per share with preferred converted to common:		
Common shareholders' equity	$174,086	$171,713
Preferred stock (convertible)	46,011	46,011
Total common shareholders' equity and preferred stock to Series C	$220,097	$217,724
Preferred shares outstanding	48,780.488	48,780.488
Conversion factor	100	100
Preferred shares converted to common shares outstanding	4,878,049	4,878,049
Common shares outstanding	17,444,730	17,444,730
Common shares with preferred shares converted to common	22,322,779	22,322,779
Book value per share with preferred converted to common	$9.86	$9.75
Tangible equity to tangible assets:		
Total shareholders' equity	$220,097	$217,724
Less: Intangible assets	—	—
Tangible equity	$220,097	$217,724
Total assets	$2,074,287	$2,073,129
Less: Intangible assets	—	—
Tangible assets	$2,074,287	$2,073,129
Tangible equity to tangible assets	10.61 %	10.50 %

	Three Months Ended March 31,	
(Dollars in thousands)	2013	2012
Pre-tax, pre-provision net revenue:		
Net interest income before provision for loan losses	$14,344	$13,221
Total non-interest income	1,788	1,024
Less: Net gain on the sale of investment securities, available-for-sale	784	—
Total revenue	15,348	14,245
Less: Total non-interest expense	9,628	8,762
Pre-tax, pre-provision net revenue	$5,720	$5,483

Efficiency ratio:

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