TriState Capital Holdings, Inc.
Form 10-Q
August 13, 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 June 30, 2013

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

For the transition period from ____ to ____

Commission file number: 001-35913

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 July 31, 2013, there were 28,690,279 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)	June 30, 2013	December 31, 2012
ASSETS		
Cash	$342	$999
Interest-earning deposits with other institutions	147,245	192,055
Federal funds sold	11,644	7,026
Cash and cash equivalents	159,231	200,080
Investment securities available-for-sale, at fair value (cost: $222,569 and $188,586, respectively)	220,933	191,187
Investment securities held-to-maturity, at cost (fair value: $19,579 and $0, respectively)	20,323	—
Investment securities trading, at fair value	14,048	—
Total investment securities	255,304	191,187
Loans held-for-investment	1,734,565	1,641,628
Allowance for loan losses	(17,708)	(17,874)
Loans receivable, net	1,716,857	1,623,754
Accrued interest receivable	5,880	5,340
Federal Home Loan Bank stock	2,456	2,426
Office properties and equipment, net	4,384	4,317
Prepaid FDIC insurance expense	—	7,843
Bank owned life insurance	41,239	20,886
Deferred tax asset	8,471	6,841
Prepaid expenses and other assets	9,988	10,455
Total assets	$2,203,810	$2,073,129
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$1,873,150	$1,823,379
Borrowings	20,000	20,000
Accrued interest payable on deposits and borrowings	788	809
Other accrued expenses and other liabilities	21,959	11,217
Total liabilities	1,915,897	1,855,405
Shareholders' Equity:		
Preferred stock, 150,000 shares authorized:		
Series C, no par value; 0 shares authorized, issued and outstanding, and 48,780 shares authorized, issued and outstanding, respectively	—	46,011
Common stock, no par value; 45,000,000 shares authorized; 28,687,779 shares issued and outstanding, and 17,444,730 shares issued and outstanding, respectively	280,495	168,351
Additional paid-in capital	8,193	7,871

Retained earnings (accumulated deficit)	547	(6,180)
Accumulated other comprehensive income (loss), net	(1,322)	1,671
Total shareholders' equity	287,913	217,724
Total liabilities and shareholders' equity	$2,203,810	$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 June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2013	2012	2013	2012
Interest income:				
Loans	$17,217	$16,610	$33,555	$32,531
Investments	800	752	1,707	1,481
Interest-earning deposits	166	111	320	269
Total interest income	18,183	17,473	35,582	34,281
Interest expense:				
Deposits	2,877	3,448	5,911	7,035
Borrowings	22	—	43	—
Total interest expense	2,899	3,448	5,954	7,035
Net interest income before provision for loan losses	15,284	14,025	29,628	27,246
Provision for loan losses	671	2,393	2,803	3,624
Net interest income after provision for loan losses	14,613	11,632	26,825	23,622
Non-interest income				
Service charges	123	106	236	199
Net gain on the sale of investment securities available-for-sale	—	1,015	784	1,015
Swap fees	321	463	375	713
Commitment and other fees	514	745	1,055	1,222
Other income	346	181	642	385
Total non-interest income	1,304	2,510	3,092	3,534
Non-interest expense				
Compensation and employee benefits	6,266	5,903	12,542	11,578
Premises and occupancy costs	774	658	1,554	1,301
Professional fees	797	685	1,395	1,373
FDIC insurance expense	322	271	687	689
State capital shares tax	337	311	657	624
Travel and entertainment expense	374	337	659	599
Data processing expense	202	224	379	432
Other operating expenses	888	863	1,715	1,418
Total non-interest expense	9,960	9,252	19,588	18,014
Income before tax	$5,957	$4,890	$10,329	$9,142
Income tax expense	2,085	1,912	3,602	3,378
Net income	$3,872	$2,978	$6,727	$5,764
Preferred stock dividends and discount amortization on Series A and B	—	383	—	765
Net income available to common shareholders	$3,872	$2,595	$6,727	$4,999
Earnings per common share:				
Basic	$0.15	$0.15	$0.28	$0.29
Diluted	$0.15	$0.15	$0.28	$0.29

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Net income	$3,872	$2,978	$6,727	$5,764
Other comprehensive income (loss):				
Increase (decrease) in unrealized holding gains (losses) net of tax of $1,302, ($87), $1,384 and ($583), respectively	(2,340)	205	(2,489)	1,126
Reclassification adjustment for gains included in net income, net of tax of $0, $363, $280 and $363, respectively	—	(652)	(504)	(652)
Other comprehensive income (loss)	$(2,340)	$(447)	$(2,993)	$474
Total comprehensive income	$1,532	$2,531	$3,734	$6,238

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	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss), net	Total Shareholders' Equity
Balance, December 31, 2011	$23,708	$—	$168,351	$ 6,982	$(15,327)	$738	$184,452
Net income	—	—	—	—	5,764	—	5,764
Other comprehensive income	—	—	—	—	—	474	474
Preferred stock dividend	—	—	—	—	(627)	—	(627)
Amortization of discount on preferred stock, series A	138	—	—	—	(138)	—	—
Stock-based compensation expense	—	—	—	444	—	—	444
Balance, June 30, 2012	$23,846	$—	$168,351	$ 7,426	$(10,328)	$1,212	$190,507
Balance, December 31, 2012	$—	$46,011	$168,351	$ 7,871	$(6,180)	$1,671	$217,724
Net income	—	—	—	—	6,727	—	6,727
Other comprehensive loss	—	—	—	—	—	(2,993)	(2,993)
Issuance of common stock (net of offering costs and discounts of $7,093)	—	—	65,990	—	—	—	65,990
Conversion of preferred stock to common stock	—	(46,011)	46,011	—	—	—	—
Exercise of stock options	—	—	143	(43)	—	—	100
Stock-based compensation expense	—	—	—	365	—	—	365
Balance, June 30, 2013	$—	$—	$280,495	$ 8,193	$547	$(1,322)	$287,913

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
(Dollars in thousands)	2013	2012
Cash Flows from Operating Activities:		
Net income	$6,727	$5,764
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	512	401
Provision for loan losses	2,803	3,624
Net decrease in prepaid FDIC insurance expense	7,843	635
Compensation expense related to stock options and restricted stock	365	444
Net gain on the sale of investment securities available-for-sale	(784)	(1,015)
Income from investment securities trading	(116)	(235)
Purchase of investment securities trading	(63,020)	(44,645)
Proceeds from the sale of investment securities trading	49,090	44,881
Net amortization of premiums and discounts	1,204	958
Increase in accrued interest receivable	(526)	(483)
Decrease in accrued interest payable	(21)	(275)
Bank owned life insurance income	(353)	(202)
Decrease in income taxes payable	(106)	(870)
Increase in prepaid income taxes	(1,795)	—
Deferred tax benefit	—	(152)
Other, net	2,722	2,736
Net cash provided by operating activities	4,545	11,566
Cash Flows from Investing Activities:		
Purchase of investment securities available-for-sale	(139,909)	(43,915)
Proceeds from the sale of investment securities available-for-sale	58,038	16,628
Principal repayments and maturities of investment securities available-for-sale	37,131	10,392
Purchase of bank owned life insurance	(20,000)	(10,000)
Purchase of Federal Home Loan Bank stock	(30)	(5)
Redemption of Federal Home Loan Bank stock	—	79
Net increase in loans held-for-investment	(98,708)	(152,180)
Proceeds from loan sales	2,802	2,521
Additions to office properties and equipment	(579)	(576)
Net cash used in investing activities	(161,255)	(177,056)
Cash Flows from Financing Activities:		
Net increase in deposit accounts	49,771	42,216
Net proceeds from issuance of common stock	65,990	—
Net proceeds from exercise of stock options	100	—
Dividends paid on preferred stock	—	(627)
Net cash provided by financing activities	115,861	41,589
Net change in cash and cash equivalents during the period	(40,849)	(123,901)
Cash and cash equivalents at beginning of the period	200,080	235,464
Cash and cash equivalents at end of the period	$159,231	$111,563
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	$5,975	$7,310
Income taxes	$5,465	$4,206

Non-cash activity:		
Loan foreclosures and repossessions	$—	$322
Unsettled purchase of investment securities available-for-sale	$10,410	$—
Transfer of investment securities available-for-sale to held-to-maturity	$20,335	$—
Conversion of preferred stock to common stock	$46,011	$—

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

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

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

INVESTMENT SECURITIES

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

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

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

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

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

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

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

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

The allowance is appropriate, in management's judgment, to cover probable losses inherent in the loan portfolio as of June 30, 2013. Management's judgment takes into consideration general economic conditions, diversification and seasoning of the loan portfolio, historic loss experience, identified credit problems, delinquency levels and adequacy of collateral. Although management believes it has used the best information available to it in making such determinations, and that the present allowance for loan losses is adequate, future adjustments to the allowance may be necessary, and net income may be adversely affected if circumstances differ substantially from the assumptions used in determining the level of the allowance. In addition, as an integral part of their periodic examination, certain regulatory agencies review the adequacy of the Bank's allowance for loan losses and may direct the Bank to make additions to the allowance based on their judgments about information available to them at the time of their examination.

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

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

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

Management bases the computation of the allowance for loan losses under ASC Topic 450 on two factors: the primary factor and the secondary factor. The primary factor is based on the 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-personal 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.

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

FEDERAL HOME LOAN BANK STOCK

The Company is a member of the Federal Home Loan Bank of Pittsburgh (“FHLB”). Member institutions are required to invest in FHLB stock. The stock is carried at cost, which approximates its liquidation value, and it is evaluated for impairment based on the ultimate recoverability of the par value. Cash and stock dividends are reported as income from investment securities, in the Consolidated Statements of Income.

OFFICE PROPERTIES AND EQUIPMENT

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

BANK OWNED LIFE INSURANCE

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

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 its common shares outstanding for the period. The Company’s diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in our earnings.

INCOME TAXES

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

FAIR VALUE MEASUREMENT

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

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

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

STOCK-BASED COMPENSATION

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

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

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

In January 2013, the FASB issued ASU No. 2013-01, “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities,” in order to clarify the scope of ASU 2011-11, “Disclosures About Offsetting Assets and Liabilities,” issued in December 2011. ASU 2011-11 required entities to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This ASU was issued to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under International Financial Reporting Standards, or IFRS. ASU 2013-01 clarified that ASU 2011-11 applies to derivatives, sale and repurchase agreements and reverse sale of repurchase agreements, and securities borrowing and securities lending arrangements, but does not apply to standard commercial contracts allowing either party to net in the event of default or to broker-dealer unsettled regular-way trades. Both ASU's are effective for public companies retrospectively for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of ASU 2013-02 and 2011-11 impacted only our disclosures and did not have an impact on our results of operations or financial position.

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

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

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

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[2] INVESTMENT SECURITIES

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

	June 30, 2013			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Investment securities available-for-sale:				
Corporate bonds	$57,292	$—	$1,091	$56,201
Trust preferred securities	17,252	—	848	16,404
Non-agency mortgage-backed securities	7,744	—	135	7,609
Agency collateralized mortgage obligations	90,658	1,216	146	91,728
Agency mortgage-backed securities	49,623	228	860	48,991
Total investment securities available-for-sale	$222,569	$1,444	$3,080	$220,933
Investment securities held-to-maturity:				
Municipal bonds	20,323	—	744	19,579
Total	$242,892	$1,444	$3,824	$240,512

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

As of June 30, 2013, investment securities held-to-maturity reflect municipal bonds reclassified from available-for-sale to held-to-maturity, in the second quarter of 2013.

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

	Available-for-Sale		Held-to-Maturity	
(Dollars in thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$—	$—	$—	$—
Due from one to five years	50,342	49,695	1,031	1,009
Due from five to ten years	9,551	9,140	6,785	6,590
Due after ten years	162,676	162,098	12,507	11,980
Total	$222,569	$220,933	$20,323	$19,579

Included in the $162.1 million fair value of investment securities available-for-sale with a contractual maturity due after ten years, are $110.1 million or 67.9% in floating rate securities.

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

Proceeds from the sale of investment securities available-for-sale during the three months ended June 30, 2013 and 2012, were $0 and $16.6 million, respectively. Gross gains of $0 and $1.0 million were realized on these sales and reclassified out of accumulated other

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comprehensive income during the three months ended June 30, 2013 and 2012, respectively. There were no realized losses, during the three months ended June 30, 2013 and 2012, on investment securities available-for-sale.

Proceeds from the sale of investment securities available-for-sale during the six months ended June 30, 2013 and 2012, were $58.0 million and $16.6 million, respectively. Gross gains of $0.8 million and $1.0 million were realized on these sales and reclassified out of accumulated other comprehensive income during the six months ended June 30, 2013 and 2012, respectively. There were no realized losses, during the six months ended June 30, 2013 and 2012, on investment securities available-for-sale.

Investment securities available-for-sale of $32.2 million, as of June 30, 2013, are available as collateral for borrowings at the FHLB.

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

	June 30, 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
Investment securities available-for-sale:						
Corporate bonds	$53,284	$797	$2,917	$294	$56,201	$1,091
Trust preferred securities	16,404	848	—	—	16,404	848
Non-agency mortgage-backed securities	7,609	135	—	—	7,609	135
Agency collateralized mortgage obligations	46,162	146	—	—	46,162	146
Agency mortgage-backed securities	33,533	860	—	—	33,533	860
Total investment securities available-for-sale:	$156,992	$2,786	$2,917	$294	$159,909	$3,080
Investment securities held-to-maturity:						
Municipal bonds	19,579	744	—	—	19,579	744
Total temporarily impaired securities	$176,571	$3,530	$2,917	$294	$179,488	$3,824

	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
Investment securities available-for-sale:						
Corporate bonds	$2,513	$720	$—	$—	$2,513	$720
Municipal bonds	4,653	26	—	—	4,653	26
Non-agency mortgage-backed securities	—	—	—	—	—	—
Agency collateralized mortgage obligations	—	—	—	—	—	—
Agency mortgage-backed securities	—	—	—	—	—	—
Total temporarily impaired securities	$7,166	$746	$—	$—	$7,166	$746

The change in the fair values of our municipal bonds and agency mortgage-backed securities are primarily the result of interest rate fluctuations. To assess for impairment on corporate bonds, management reviews the underlying issuer and related credit rating and underlying financial performance through a review of publicly available financial statements. The Company does not intend to sell and it is not likely that it will be required to sell any of the securities, referenced in the table above, in an unrealized loss position before recovery of their amortized cost. Based on this, the Company considers all of the unrealized losses to be temporary impairment losses. Within the available-for-sale portfolio, there were 39 positions, aggregating to $3.1 million, that were temporarily impaired as of June 30, 2013, and four positions, aggregating to $0.7 million, that were temporarily impaired as of December 31, 2012. Within the held-to-maturity portfolio, there were 24 positions, aggregating to $0.7 million, that were temporarily impaired as of June 30, 2013.

There were $14.0 million and $0 investment securities comprised of U.S. Treasury Notes, classified as trading securities outstanding as of June 30, 2013 and December 31, 2012, respectively.

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Proceeds from the sale of investment securities trading during the three months ended June 30, 2013 and 2012, were $24.2 million and $10.0 million, respectively. Loss on investment securities trading during the three months ended June 30, 2013 was $8,000, compared to income on investment securities trading of $0.1 million during the three months ended June 30, 2012.

Proceeds from the sale of investment securities trading during the six months ended June 30, 2013 and 2012, were $49.1 million and $44.9 million, respectively. Income on investment securities trading during the six months ended June 30, 2013 and 2012 was $0.1 million and $0.2 million, respectively.

[3] LOANS RECEIVABLE, NET

Loans receivable is comprised of the following:

	June 30, 2013			
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Loans held-for-investment, before deferred fees	$908,502	$509,701	$ 321,417	$1,739,620
Less: net deferred loan (fees) costs	(4,112)	(1,412)	469	(5,055)
Loans held-for-investment, net of deferred fees	$904,390	$508,289	$ 321,886	$1,734,565
Less: allowance for loan losses	(12,656)	(3,735)	(1,317)	(17,708)
Loans receivable, net	$891,734	$504,554	$ 320,569	$1,716,857

	December 31, 2012			
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	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 June 30, 2013 and December 31, 2012, was $682.4 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 June 30, 2013, are as follows: $285.8 million in one year or less; $151.3 million in one to three years; and $245.4 million in greater than three years. The reserve for losses on unfunded commitments was $0.4 million and $0.4 million, as of June 30, 2013 and December 31, 2012, respectively, which includes reserves for probable losses on unfunded loan commitments, including letters of credit, and also risk participations.

As of June 30, 2013 and December 31, 2012, the Company had loans in the process of origination totaling approximately $69.3 million and $46.2 million, respectively, which extend over varying periods of time with the majority being disbursed within a 30 to 60 day period.

The Company issues standby letters of credit in the normal course of business. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party. The Company would be required to perform under the standby letters of credit when drawn upon by the guaranteed party, in the case of non-performance by the Company's customer. Collateral may be obtained based on management's credit assessment of the customer. The unfunded commitments amount related to letters of credit as of June 30, 2013, included in the total listed above, is $84.1 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 June 30, 2013, $14.2 million (in the aggregate) in standby letters of credit will expire within one year, while the remaining letters of credit will expire in periods greater than one year. During the six months ended June 30, 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 allowance for loan losses takes into consideration the inherent risk identified within each of the Company’s three primary loan portfolios, Commercial and Industrial (“C&I”), Commercial Real Estate (“CRE”) and Private Banking-Personal, 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 allowance for loan losses is sufficient to cover probable losses inherent in such loan portfolios. Please refer to Note 1, Summary of Significant Accounting Policies, for more details on the Company’s allowance for loan losses policy.

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

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 completed, and as such, may not provide sufficient cash flow on its own to service the debt or have sufficient value in a liquidation to cover the outstanding principal.

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

The 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 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.

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

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

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

Non-Rated – Loans to individuals and trusts are not individually risk rated, unless they are fully secured by liquid assets or cash, or have an exposure that exceeds $0.25 million and have certain actionable covenants, such as a liquidity covenant or a financial reporting covenant. In addition, commercial loans with an exposure of less than $0.5 million are not required to be individually risk rated. 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 June 30, 2013. For loans that are not risk-rated, the most important indicators of risk are the existence of collateral, the type of collateral, and for consumer real estate loans, whether the Bank has a 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.

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

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

	June 30, 2013			
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Non-rated	$1,589	$52	$ 96,708	$98,349
Pass	858,142	503,871	223,847	1,585,860
Special mention	18,478	—	1,228	19,706
Substandard	18,491	4,366	103	22,960
Doubtful	7,690	—	—	7,690

Total	$904,390	$508,289	$ 321,886	$1,734,565

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	December 31, 2012			
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	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 June 30, 2013 and 2012:

	Three Months Ended June 30, 2013			
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Balance, beginning of period	$12,300	$4,029	$ 1,251	$17,580
Provision for loan losses	899	(294)	66	671
Charge-offs	(643)	—	—	(643)
Recoveries	100	—	—	100
Balance, end of period	$12,656	$3,735	$ 1,317	$17,708

	Three Months Ended June 30, 2012			
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Balance, beginning of period	$9,234	$6,559	$ 908	$16,701
Provision for loan losses	1,667	375	351	2,393
Charge-offs	—	(1,730)	—	(1,730)
Recoveries	100	—	—	100
Balance, end of period	$11,001	$5,204	$ 1,259	$17,464

Charge-offs of $0.6 million for the three months ended June 30, 2013, included one C&I loan, which was partially offset by recoveries on one C&I loan of $0.1 million. Charge-offs of $1.7 million for the three months ended June 30, 2012, included one CRE loan, which were partially offset by recoveries on one C&I loan of $0.1 million.

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

	Six Months Ended June 30, 2013			
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Balance, beginning of period	$11,319	$5,252	$ 1,303	$17,874
Provision for loan losses	2,392	397	14	2,803
Charge-offs	(1,169)	(1,936)	—	(3,105)
Recoveries	114	22	—	136
Balance, end of period	$12,656	$3,735	$ 1,317	$17,708

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(Dollars in thousands)	Six Months Ended June 30, 2012 Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Balance, beginning of period	$8,899	$6,580	$ 871	$16,350
Provision for loan losses	1,998	1,238	388	3,624
Charge-offs	—	(2,614)	—	(2,614)
Recoveries	104	—	—	104
Balance, end of period	$11,001	$5,204	$ 1,259	$17,464

Charge-offs of $3.1 million for the six months ended June 30, 2013, included two C&I loan and one CRE loan, which were partially offset by recoveries on three C&I loans and one CRE loan of $0.1 million. Charge-offs of $2.6 million for the six months ended June 30, 2012, included two CRE loans, which were partially offset by recoveries on one C&I loan of $0.1 million.

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

(Dollars in thousands)	June 30, 2013 30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due	Current	Total Loans
Commercial and industrial	$—	$—	$2,278	$2,278	$902,112	$904,390
Commercial real estate	—	—	4,366	4,366	503,923	508,289
Private banking-personal	—	—	—	—	321,886	321,886
Total	$—	$—	$6,644	$6,644	$1,727,921	$1,734,565

(Dollars in thousands)	December 31, 2012 30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due	Current	Total Loans
Commercial and industrial	$—	$—	$3,033	$3,033	$868,960	$871,993
Commercial real estate	—	—	3,780	3,780	469,428	473,208
Private banking-personal	—	—	—	—	296,427	296,427
Total	$—	$—	$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 non-performing when interest and principal are 90 days or more past due or management has determined that a material deterioration in the borrower’s financial condition exists. The risk of loss is generally highest for non-performing loans.

Management determines loans to be impaired when, based upon current information and events, it is probable that the Company will be unable to collect all interest and principal payments due according to the original contractual terms of the loan agreement. Refer to Note 1, Summary of Significant Accounting Policies, for the Company’s policy on evaluating loans for impairment and interest income.

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

	As of and for the Six Months Ended June 30,				
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Commercial and industrial	$14,324	$17,533	$4,232	$12,732	$—
Commercial real estate	—	—	—	—	—
Private banking-personal	—	—	—	—	—
Total with a related allowance recorded	$14,324	$17,533	$4,232	$12,732	$—
Without a related allowance recorded:					
Commercial and industrial	$1,527	$2,731	$—	$1,665	$—
Commercial real estate	4,366	10,573	—	4,409	—
Private banking-personal	—	—	—	—	—
Total without a related allowance recorded	$5,893	$13,304	$—	$6,074	$—
Total:					
Commercial and industrial	$15,851	$20,264	$4,232	$14,397	$—
Commercial real estate	4,366	10,573	—	4,409	—
Private banking-personal	—	—	—	—	—
Total	$20,217	$30,837	$4,232	$18,806	$—

	As of and for the Twelve Months Ended 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 and industrial	$7,036	$7,402	$3,156	$7,129	$—
Commercial real estate	2,375	2,375	1,278	2,444	—
Private banking-personal	—	—	—	—	—
Total with a related allowance recorded	$9,411	$9,777	$4,434	$9,573	$—
Without a related allowance recorded:					
Commercial and industrial	$8,644	$11,839	$—	$11,577	$—
Commercial real estate	4,428	10,630	—	4,483	—
Private banking-personal	—	—	—	—	—
Total without a related allowance recorded	$13,072	$22,469	$—	$16,060	$—
Total:					
Commercial and industrial	$15,680	$19,241	$3,156	$18,706	$—
Commercial real estate	6,803	13,005	1,278	6,927	—
Private banking-personal	—	—	—	—	—
Total	$22,483	$32,246	$4,434	$25,633	$—

Impaired and non-accrual loans as of June 30, 2013 and December 31, 2012, were $20.2 million and $22.5 million, respectively. There was no interest income recognized on these loans for the six months ended June 30, 2013 and 2012, while these loans were on non-accrual status. As of June 30, 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, based on a discounted cash flow method, for non-collateral dependent loans. Based on those evaluations, as of June 30, 2013, there was a specific reserve established totaling $4.2 million, which is included in the $17.7 million allowance for loan losses. The

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specific reserve as of June 30, 2013, includes a $1.4 million specific reserve recorded on our largest non-performing loan, which represented approximately 38.0% of total non-performing loans as of June 30, 2013. Also included in impaired and non-accrual loans are two C&I loans and two CRE loans with a combined balance of $5.9 million as of June 30, 2013, with no corresponding specific reserve since these loans were written down to the level which management believes will be recovered from the borrower.

As of December 31, 2012, there was a specific reserve established totaling $4.4 million, which is included in the $17.9 million allowance for loan losses. Also included in impaired 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:

	June 30, 2013			
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Private Banking-Personal	Total
Allowance for loan losses:				
Individually evaluated for impairment	$4,232	$—	$ —	$4,232
Collectively evaluated for impairment	8,424	3,735	1,317	13,476
Total allowance for loan losses	$12,656	$3,735	$ 1,317	$17,708
Portfolio loans:				
Individually evaluated for impairment	$15,851	$4,366	$ —	$20,217
Collectively evaluated for impairment	888,539	503,923	321,886	1,714,348
Total portfolio loans	$904,390	$508,289	$ 321,886	$1,734,565

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

Troubled Debt Restructuring

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

(Dollars in thousands)	June 30, 2013	December 31, 2012
Aggregate recorded investment of impaired loans with terms modified through a troubled debt restructuring:		
Accruing interest	$—	$253
Non-accrual	14,244	4,210
Total troubled debt restructurings	$14,244	$4,463

Of the non-accrual loans as of June 30, 2013, five C&I loans and one CRE loan were classified by the Company as TDRs. The aggregate recorded investment of these loans is $14.2 million. There were no loans that were still accruing interest and classified by the Company as a TDRs as of June 30, 2013.

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

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

	Three Months Ended June 30, 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 and industrial:					
Extension of term	1	2,691	2,694	1,100	1,100
Advanced additional funds	1	6,957	7,690	2,000	1,357
Total	2	$9,648	$10,384	$3,100	$2,457

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

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

	Six Months Ended June 30, 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 and industrial:					
Extension of term	1	$2,691	$2,694	$1,100	$1,100
Advanced additional funds	2	6,957	8,202	2,000	1,357
Total	3	$9,648	$10,896	$3,100	$2,457

	Six Months Ended June 30, 2012				
(Dollars in thousands)	Count	Recorded Investment at the time of Modification	Current Recorded Investment	Allowance for Loan Losses at the time of Modification	Current Allowance for Loan Losses
Commercial and industrial:					

Extension of term	1	$2,848	$2,848	$1,000	$1,000
Commercial real estate:					
Extension of term	1	714	714	—	—
Total	2	$3,562	$3,562	$1,000	$1,000

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Other Real Estate Owned

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

[5] DEPOSITS

(Dollars in thousands)	Interest Rate as of June 30, 2013	Weighted Average Interest Rate as of June 30, 2013	Weighted Average Interest Rate as of December 31, 2012	Balance as of June 30, 2013	Balance as of December 31, 2012
Demand and savings accounts:					
Noninterest-bearing checking accounts	—	—	—	$86,023	$100,395
Interest-bearing checking accounts	0.00 to 0.19%	0.07%	0.06%	5,241	7,043
Money market deposit accounts	0.05 to 0.80%	0.38%	0.47%	949,221	890,884
Total demand and savings accounts				$1,040,485	$998,322
Time deposits	0.05 to 5.21%	0.87%	1.03%	832,665	825,057
Total deposit balance				$1,873,150	$1,823,379
Average rate paid on interest-bearing accounts		0.61%	0.74%		

As of June 30, 2013 and December 31, 2012, the Bank had total brokered deposits of $712.7 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 $442.8 million and $456.2 million as of June 30, 2013 and December 31, 2012, respectively.

As of June 30, 2013 and December 31, 2012, time deposits with balances of $100,000 or more, excluding brokered certificates of deposit, amounted to $417.1 million and $380.1 million, respectively.

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

(Dollars in thousands)	June 30, 2013	December 31, 2012
12 months or less	$721,981	$618,898
12 months to 24 months	103,373	167,288
24 months to 36 months	7,311	38,871
36 months to 48 months	—	—
48 months to 60 months	—	—
Over 60 months	—	—
Total	$832,665	$825,057

Interest expense on deposits is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Interest-bearing checking accounts	$—	$—	$1	$1
Money market deposit accounts	957	954	1,936	1,895

Time deposits	1,920	2,494	3,974	5,139
Total interest expense on deposits	$2,877	$3,448	$5,911	$7,035

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[6] BORROWINGS

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

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

The Bank maintains an unsecured line of credit of $10.0 million with M&T Bank. As of June 30, 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 June 30, 2013, the Bank’s MBC is based on the information provided in the March 31, 2013, QCR filing. As of June 30, 2013, the Bank had agency bond collateral with a fair value of $32.2 million, combined with pledged loans of $429.3 million, for a total borrowing capacity of $290.7 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 June 30, 2013, TriState Capital Holdings, Inc. and TriState Capital Bank exceeded all capital adequacy requirements to which they are subject.

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

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

	June 30, 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	$307,110	14.52	%	N/A	N/A		N/A	N/A	
Bank	$240,352	11.36	%	$169,244	8.00	%	$211,555	10.00	%
Tier 1 risk-based capital ratio									
Company	$288,964	13.66	%	N/A	N/A		N/A	N/A	
Bank	$222,206	10.50	%	$84,622	4.00	%	$126,933	6.00	%
Tier 1 leverage ratio									
Company	$288,964	13.35	%	N/A	N/A		N/A	N/A	
Bank	$222,206	10.27	%	$173,168	8.00	%	$173,168	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 and six months ended June 30, 2013 and 2012. The Company's contribution expense was $0.1 million and $0.1 million for the three months ended June 30, 2013 and

2012, respectively, including incidental administrative fees paid to a third party administrator of the plan. The Company's contribution expense was $0.2 million and $0.2 million for the six months ended June 30, 2013 and 2012, respectively, including incidental administrative fees paid to a third party administrator of the plan.

[9] ISSUANCE OF STOCK

On May 14, 2013, the Company completed the issuance and sale of 6,355,000 shares of its common stock, no par value, in its initial public offering of Common Stock, including 855,000 shares sold pursuant to the exercise in full by its underwriters of their option to purchase additional shares from the Company, at a price to the public of $11.50 per share. The shares were offered pursuant to the Company's Registration Statement on Form S-1. The Company received net proceeds of $66.0 million from the initial public offering, after deducting underwriting discounts and commissions and direct offering expenses.

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

[10] EARNINGS PER COMMON SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except share and per share data)	2013	2012	2013	2012
Net income available to common shareholders	$3,872	$2,595	$6,727	$4,999
Less: earnings allocated to participating stock	348	—	1,004	—
Net income available to common shareholders, after required adjustments for the calculation of basic EPS	$3,524	$2,595	$5,723	$4,999
Basic shares	23,373,262	17,394,730	20,421,506	17,394,249
Preferred shares - dilutive	2,305,012	—	3,584,423	—
Unvested restricted shares - dilutive	—	33,466	3,867	30,534
Stock options - dilutive	331,395	—	235,673	—
Diluted shares	26,009,669	17,428,196	24,245,469	17,424,783
Earnings per common share:				
Basic	$0.15	$0.15	$0.28	$0.29
Diluted	$0.15	$0.15	$0.28	$0.29

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Anti-dilutive shares (1)	59,000	1,938,000	155,000	1,938,000

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

[11] DERIVATIVES AND HEDGING ACTIVITY

RISK MANAGEMENT OBJECTIVE OF USING DERIVATIVES

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

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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 June 30, 2013 and December 31, 2012:

	Asset Derivatives as of June 30, 2013		Liability Derivatives as of June 30, 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	$934
Derivative not designated as hedging instruments				
Interest rate products	Other assets	$3,384	Other liabilities	$3,512

	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 variable rate payments from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. As of June 30, 2013, the Company had nine interest rate swaps, with a notional amount of $9.1 million that were designated as fair value hedges of interest rate risk associated with the Company's fixed-rate loan assets. The notional amounts for the derivatives express the face amount of the positions, however, credit risk is considered insignificant in 2013 and 2012. There were no counterparty default losses on derivatives for the three and six months ended June 30, 2013, and the twelve months ended December 31, 2012.

For derivatives that are designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. Two of the Company's nine 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 seven hedges have been designated as fair value hedges applying the "fair value long haul" method. The Company includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the three and six months ended June 30, 2013, the Company recognized gain of $9,000 and $1,000, respectively, in non-interest income related to hedge ineffectiveness. The Company also recognized a decrease to interest income of $112,000 and $230,000, respectively, for the three and six months ended June 30, 2013, related to the Company's fair value hedges, which includes net settlements on the derivatives, and any amortization adjustment of the basis in the hedged items.

NON-DESIGNATED HEDGES

The Company does not use derivatives for trading or speculative purposes. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers or are hedges that were previously designated in qualifying hedging relationships that no longer meet the strict requirements to apply hedge accounting, as discussed in the Fair Value Hedges of Interest Rate Risk section. The Company executes interest rate derivatives with its commercial banking customers to facilitate their respective risk management strategies. Those derivatives are simultaneously economically hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of June 30, 2013, the Company had seventy-two derivative transactions with an aggregate notional amount of $261.3 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 $7.7 million. During the three and six months ended June 30, 2013, the Company recognized a net gain of $135,000 and $126,000, respectively, related to changes in fair value of the derivatives not designated in hedging relationships.

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EFFECT OF DERIVATIVE INSTRUMENTS ON THE INCOME STATEMENT

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

		Three Months Ended June 30,	
(Dollars in thousands)		2013	2012
Derivative in fair value hedging relationships	Location of Gain (Loss) recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
Interest rate products	Interest income (expense)	$(112)	$(194)
	Non-interest income (expense)	9	(1)
Total		$(103)	$(195)
Derivative not designated as hedging instruments	Location of Gain (Loss) recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
Interest rate products	Non-interest income (expense)	$135	$(69)
Total		$135	$(69)

		Six Months Ended June 30,	
(Dollars in thousands)		2013	2012
Derivative in fair value hedging relationships	Location of Gain (Loss) recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
Interest rate products	Interest income (expense)	$(230)	$(433)
	Non-interest income (expense)	1	(6)
Total		$(229)	$(439)
Derivative not designated as hedging instruments	Location of Gain (Loss) recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
Interest rate products	Non-interest income (expense)	$126	$(99)
Total		$126	$(99)

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 June 30, 2013, the termination value of derivatives, including accrued interest, in a net liability position related to these agreements was $3.8 million. As of June 30, 2013, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $2.6 million. If the Company had breached any of these provisions as of June 30, 2013, it could have been required to settle its obligations under the agreements at their termination value.

[12] DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

CASH AND CASH EQUIVALENTS
The carrying amount approximates fair value.

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

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

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

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

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

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

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

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

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

(Dollars in thousands)	June 30, 2013			December 31, 2012	
	Fair Value Level	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:					
Cash and cash equivalents					