TriState Capital Holdings, Inc.
Form 10-Q
May 01, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the period ended March 31, 2015

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

For the transition period from ____ to ____

Commission file number: 001-35913

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

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

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

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

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

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

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

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

As of April 20, 2015, there were 28,008,462 shares of the registrant's common stock, no par value, outstanding.

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

(Dollars in thousands)	March 31, 2015	December 31, 2014
ASSETS		
Cash	$1,403	$411
Interest-earning deposits with other institutions	108,897	99,551
Federal funds sold	4,254	5,748
Cash and cash equivalents	114,554	105,710
Investment securities available-for-sale, at fair value (cost: $152,657 and $167,232, respectively)	152,429	166,572
Investment securities held-to-maturity, at cost (fair value: $37,990 and $40,113, respectively)	37,221	39,591
Total investment securities	189,650	206,163
Loans held-for-investment	2,477,130	2,400,052
Allowance for loan losses	(21,205)	(20,273)
Loans receivable, net	2,455,925	2,379,779
Accrued interest receivable	6,159	6,279
Investment management fees receivable	6,442	6,818
Federal Home Loan Bank stock	4,130	5,730
Goodwill and other intangibles, net	51,985	52,374
Office properties and equipment, net	4,312	4,128
Bank owned life insurance	53,714	53,323
Deferred tax asset, net	11,591	11,874
Prepaid expenses and other assets	17,649	14,679
Total assets	$2,916,111	$2,846,857
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$2,441,956	$2,336,953
Borrowings	125,000	165,000
Accrued interest payable on deposits and borrowings	1,098	1,735
Accrued earnout liability related to Chartwell acquisition	17,236	17,236
Other accrued expenses and other liabilities	22,652	20,543
Total liabilities	2,607,942	2,541,467
Shareholders' Equity:		
Preferred stock, no par value; Shares authorized - 150,000, Shares issued - none	—	—
Common stock, no par value; Shares authorized - 45,000,000; Shares issued - 28,995,695 and 28,739,779, respectively; Shares outstanding - 28,008,462 and 28,060,888, respectively	280,895	280,895
Additional paid-in capital	9,692	9,253

Retained earnings	27,671	22,615
Accumulated other comprehensive income (loss), net	(345)	(627)
Treasury stock (987,233 and 678,891 shares, respectively)	(9,744)	(6,746)
Total shareholders’ equity	308,169	305,390
Total liabilities and shareholders’ equity	$2,916,111	$2,846,857

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	2015	2014
Interest income:		
Loans	$19,100	$17,324
Investments	792	833
Interest-earning deposits	103	151
Total interest income	19,995	18,308
Interest expense:		
Deposits	2,892	2,425
Borrowings	647	21
Total interest expense	3,539	2,446
Net interest income	16,456	15,862
Provision for loan losses	925	608
Net interest income after provision for loan losses	15,531	15,254
Non-interest income:		
Investment management fees	7,655	2,454
Service charges	163	130
Net gain on the sale of investment securities available-for-sale	17	1,014
Swap fees	317	154
Commitment and other fees	507	494
Other income	399	234
Total non-interest income	9,058	4,480
Non-interest expense:		
Compensation and employee benefits	11,414	8,238
Premises and occupancy costs	1,122	905
Professional fees	876	900
FDIC insurance expense	468	408
General insurance expense	294	253
State capital shares tax	273	314
Travel and entertainment expense	526	435
Data processing expense	262	223
Intangible amortization expense	389	130
Other operating expenses	1,478	986
Total non-interest expense	17,102	12,792
Income before tax	7,487	6,942
Income tax expense	2,431	2,326
Net income	$5,056	$4,616
Earnings per common share:		
Basic	$0.18	$0.16
Diluted	$0.18	$0.16

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
(Dollars in thousands)	2015	2014
Net income	$5,056	$4,616
Other comprehensive income (loss):		
Increase in unrealized holding gains net of tax of $(171) and $(710), respectively	293	1,273
Reclassification adjustment for gains included in net income, net of tax of $6 and $363, respectively	(11)	(651)
Other comprehensive income (loss)	282	622
Total comprehensive income	$5,338	$5,238

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Dollars in thousands)	Common Stock	Additional Paid-in-Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss), net	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 2013	$280,531	$ 8,471	$ 6,687	$ (1,744)	$—	$293,945
Net income	—	—	4,616	—	—	4,616
Other comprehensive income (loss)	—	—	—	622	—	622
Stock-based compensation	—	199	—	—	—	199
Balance, March 31, 2014	$280,531	$ 8,670	$ 11,303	$ (1,122)	$—	$299,382
Balance, December 31, 2014	$280,895	$ 9,253	$ 22,615	$ (627)	$(6,746)	$305,390
Net income	—	—	5,056	—	—	5,056
Other comprehensive income (loss)	—	—	—	282	—	282
Purchase of treasury stock	—	—	—	—	(2,998)	(2,998)
Stock-based compensation	—	439	—	—	—	439
Balance, March 31, 2015	$280,895	$ 9,692	$ 27,671	$ (345)	$(9,744)	$308,169

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
(Dollars in thousands)	2015	2014
Cash Flows from Operating Activities:		
Net income	$5,056	$4,616
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and intangible amortization expense	724	423
Amortization of deferred financing costs	51	—
Provision for loan losses	925	608
Stock-based compensation expense	439	199
Net gain on the sale of investment securities available-for-sale	(17)	(1,014)
Net amortization of premiums and discounts	213	474
Decrease (increase) in investment management fees receivable	376	(1,431)
Decrease in accrued interest receivable	120	143
Increase (decrease) in accrued interest payable	(637)	8
Bank owned life insurance income	(391)	(314)
Decrease in income taxes payable	—	(160)
Decrease (increase) in prepaid income taxes	717	(1,106)
Other, net	(1,512)	(3,252)
Net cash provided by (used in) operating activities	6,064	(806)
Cash Flows from Investing Activities:		
Purchase of investment securities available-for-sale	(53)	—
Purchase of investment securities held-to-maturity	(2,663)	—
Proceeds from the sale of investment securities available-for-sale	9,734	24,424
Principal repayments and maturities of investment securities available-for-sale	4,746	3,649
Principal repayments and maturities of investment securities held-to-maturity	5,000	—
Net redemption of Federal Home Loan Bank stock	1,600	—
Net increase in loans held-for-investment	(77,071)	(71,657)
Proceeds from loan sales	—	1,089
Additions to office properties and equipment	(518)	(154)
Acquisition, net of acquired cash	—	(42,912)
Net cash used in investing activities	(59,225)	(85,561)
Cash Flows from Financing Activities:		
Net increase in deposit accounts	105,003	231,258
Net decrease in Federal Home Loan Bank advances	(40,000)	—
Purchase of treasury stock	(2,998)	—
Net cash provided by financing activities	62,005	231,258
Net change in cash and cash equivalents during the period	8,844	144,891
Cash and cash equivalents at beginning of the period	105,710	146,558
Cash and cash equivalents at end of the period	$114,554	$291,449

(Dollars in thousands)	Three Months Ended March 31, 2015	2014
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	$4,126	$2,439
Income taxes	$1,596	$3,592
Acquisition of non-cash assets and liabilities:		
Assets acquired	$—	$6,351
Liabilities assumed	$—	$1,647
Other non-cash activity:		
Loan foreclosures and repossessions	$396	$—
Contingent consideration	$—	$15,465

See accompanying notes to unaudited condensed consolidated financial statements.

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

[1] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATION

TriState Capital Holdings, Inc. ("we", "us", "our" or the "Company") is a registered bank holding company pursuant to the Bank Holding Company Act of 1956, as amended. The Company has three wholly-owned subsidiaries: TriState Capital Bank (the "Bank"), a Pennsylvania-chartered state bank; Chartwell Investment Partners, Inc. ("Chartwell"), a registered investment advisor; and Chartwell TSC Securities Corp. ("CTSC Securities"), which is applying to be registered as a broker/dealer with the Securities and Exchange Commission ("SEC") and Financial Industry Regulatory Authority ("FINRA"). Chartwell Investment Partners, Inc. was established through the acquisition of substantially all the assets of Chartwell Investment Partners, LP, which was effective March 5, 2014.

The Bank was established to serve the commercial banking and private banking needs of middle-market businesses and high-net-worth individuals. Chartwell provides investment management services to institutional, sub-advisory, and separately managed account clients. CTSC Securities was capitalized in May 2014, with a primary business of providing distribution and marketing efforts for the proprietary investment products provided by Chartwell, including shares of mutual funds advised and/or administered by Chartwell and private funds advised and/or administered by Chartwell.

Regulatory approval was received and the Bank commenced operations on January 22, 2007. The Company and the Bank are subject to regulatory examination by the Federal Deposit Insurance Corporation ("FDIC"), the Pennsylvania Department of Banking and Securities, and the Federal Reserve. Chartwell is a registered investment advisor regulated by the SEC. CTSC Securities, once registered, will be a broker/dealer regulated by the SEC and FINRA.

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

USE OF ESTIMATES

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

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

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, the Bank, Chartwell (since the acquisition on March 5, 2014) and CTSC Securities (since its initial capitalization in May 2014), 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, 2014, included in the Company's Annual Report on Form 10-K.

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.

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INVESTMENT SECURITIES

The Company’s investments are classified as either: (1) held-to-maturity – debt securities that the Company intends to hold until maturity and are reported at amortized cost; (2) trading securities – debt and certain equity securities bought and held principally for the purpose of selling them in the near term and reported at fair value, with unrealized gains and losses included in earnings; or (3) available-for-sale – debt and certain equity securities not classified as either held-to-maturity or trading securities and reported at fair value, with 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. If the Company intends to sell a security with a fair value below amortized cost or if it is more-likely than not that it will be required to sell such a security before recovery, an other-than-temporary impairment (“OTTI”) charge is recorded through current period earnings for the full decline in fair value below amortized cost. For debt securities that the Company does not intend to sell or it is more likely than not that it will not be required to sell before recovery, an OTTI charge is recorded through current period earnings for the amount of the valuation decline below amortized cost that is attributable to credit losses. The remaining difference between the debt security’s fair value and amortized cost (that is, the decline in fair value not attributable to credit losses) is recognized in other comprehensive income (loss), in the consolidated statement of comprehensive income as well as the shareholders’ equity section of the consolidated statement of financial condition, on an after-tax basis.

LOANS

Loans and leases 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 interest income over the life of the loan, taking into consideration scheduled payments and prepayments.

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

The recognition of interest income on a loan is discontinued when, in management's opinion, it is probable the borrower is unable to meet payments as they become due or when the loan becomes 90 days past due, whichever occurs first. All 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 (i.e. demand loans) and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the 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 the related original loan balance 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.

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ALLOWANCE FOR LOAN LOSSES

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

The allowance is appropriate, in management's judgment, to cover probable losses inherent in the loan portfolio as of March 31, 2015 and December 31, 2014. Management’s judgment takes into consideration general economic conditions, diversification and seasoning of the loan portfolio, historic loss experience, identified credit problems, delinquency levels and adequacy of collateral. Although management believes it has used the best information available to it in making such determinations, and that the present allowance for loan losses is adequate, future adjustments to the allowance may be necessary, and net income may be adversely affected if circumstances differ substantially from the assumptions used in determining the level of the allowance. In addition, as an integral part of their periodic examination, certain regulatory agencies review the adequacy of the Bank’s allowance for loan losses and may direct the Bank to make additions to the allowance based on their judgments about information available to them at the time of their examination.

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

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

In estimating probable loan loss under ASC Topic 450 management considers numerous factors, including historical charge-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 inherent risk identified by management within each of the Company's three loan portfolios based on the historical loss experience of each loan portfolio and the loss emergence period. Management has developed a methodology that is applied to each of the three primary loan portfolios, consisting of commercial and industrial, commercial real estate and private banking. As the loan loss history, mix and risk ratings of each loan portfolio change, the primary factor adjusts accordingly. The allowance for loan losses related to the primary factor is based on our estimates as to probable losses for each loan portfolio. The secondary factor is intended to capture risks related to events and circumstances that management believes may 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 risk factors and each risk factor is assigned a reserve level, based on

management's judgment as to the probable impact of each risk factor on each loan portfolio and is monitored on a quarterly basis. As the trend in any risk factor changes, a corresponding change occurs in the reserve associated with each respective risk factor, such that the secondary factor remains current to changes in each loan portfolio.

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

INVESTMENT MANAGEMENT FEES

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

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achieved versus a stated benchmark. In such cases, performance fees are not recognized until the end of the stated measurement period. Performance fees are included in investment management fee revenue in the consolidated statements of income.

Investment management fees receivable represent amounts due for contractual investment management services provided to the Company’s clients, primarily institutional investors, mutual funds and individual investors. Management performs credit evaluations of its customers’ financial condition when it is deemed to be necessary, and does not require collateral. The Company provides an allowance for uncollectible accounts based on specifically identified receivables. Investment management fees receivable are considered delinquent when payment is not received within contractual terms and are charged off against the allowance for uncollectible accounts when management determines that recovery is unlikely and the Company ceases its collection efforts. There was no bad debt expense recorded for the three months ended March 31, 2015 and 2014, and there was no allowance for uncollectible accounts recorded as of March 31, 2015 and December 31, 2014.

FEDERAL HOME LOAN BANK STOCK

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

BUSINESS COMBINATIONS

We account for business combinations using the acquisition method of accounting. Under this method of accounting, the acquired company’s net assets are recorded at fair value as of the date of acquisition, and the results of operations of the acquired company are combined with our results from that date forward. Acquisition costs are expensed when incurred. The difference between the purchase price and the fair value of the net assets acquired (including identified intangibles) is recorded as goodwill.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Other intangible assets that have finite lives, such as trade name, client relationships and non-compete agreements are amortized over their estimated useful lives and subject to periodic impairment testing. Other intangible assets are amortized on a straight-line basis over their estimated useful lives which range from four to twenty years. Goodwill and other intangible assets are subject to impairment testing at the reporting unit level, which is conducted at least annually.

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 officers and employees are recorded at net cash surrender value on the consolidated statements of financial condition. Upon termination of the BOLI policy the Company receives the cash surrender value. BOLI benefits are payable to the Company upon death of the insured. Changes in net cash surrender value are recognized as non-interest income or expense in the consolidated statements of income.

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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BORROWINGS

The Company records FHLB advances and subordinated notes payable at their principal amount. Interest expense is recognized based on the coupon rate of the obligations. Costs associated with the acquisition of subordinated notes payable are amortized over the expected term of the borrowing.

EARNINGS PER COMMON SHARE

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

INCOME TAXES

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

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Unrealized holding gains and the non-credit component of losses on the Company's investment securities available-for-sale are included in accumulated other comprehensive income (loss), net of applicable income taxes. Also included in accumulated other comprehensive income (loss) is the remaining unamortized balance of the unrealized holding gains (non-credit losses), net of

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applicable income taxes, that existed on the transfer date for investment securities reclassified into the held-to-maturity category from the available-for-sale category.

TREASURY STOCK

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

RECENT ACCOUNTING DEVELOPMENTS

In April 2015, the FASB issued Accounting Standards Update ("ASU") 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." This AUS requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. For public business entities, the amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments in this update is permitted for financial statements that have not been previously issued. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (that is, debt issuance cost asset and the debt liability). The adoption of ASU 2015-03 is not expected to have a material impact on the Company’s consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." This ASU changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity (VIE), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. The new guidance excludes money market funds that are required to comply with Rule 2a-7 of the Investment Company Act of 1940 and similar entities from the U.S. GAAP consolidation requirements. The new consolidation guidance is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2015. At the effective date, all previous consolidation analyses that the guidance affects must be reconsidered. This includes the consolidation analyses for all VIEs and for all limited partnerships and similar entities that previously were consolidated by the general partner even though the entities were not VIEs. Early adoption is permitted, including early adoption in an interim period. If a reporting enterprise chooses to early adopt in an interim period, adjustments resulting from the revised consolidation analyses must be reflected as of the beginning of the fiscal year that includes that interim period. The adoption of ASU 2015-02 is not expected to have a material impact on the Company’s consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." This ASU eliminates the concept of extraordinary items from U.S. GAAP as part of its simplification initiative. The ASU does not affect disclosure guidance for events or transactions that are unusual in nature or infrequent in their occurrence. The ASU is effective for interim and annual periods in fiscal years beginning after December 15, 2015. The ASU allows prospective or retrospective application. Early adoption is permitted if applied from the beginning of

the fiscal year of adoption. The effective date is the same for both public entities and all other entities. The adoption of ASU 2015-01 is not expected to have a material impact on the Company's consolidated financial statements.

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

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adoption in an interim period, is permitted. If an entity early adopts the amendments in an interim period, any adjustments shall be reflected as of the beginning of the fiscal year that includes that interim period. The adoption of ASU 2014-16 is not expected to have a material impact on the Company’s consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern." This ASU describes how an entity’s management should assess whether there are conditions and events that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. Management should consider both quantitative and qualitative factors in making its assessment. If after considering management’s plans, substantial doubt about an entity’s going concern is alleviated, an entity shall disclose information in the footnotes that enables the users of the financial statements to understand the events that raised the going concern and how management’s plan alleviated this concern. If after considering management’s plans, substantial doubt about an entity’s going concern is not alleviated, the entity shall disclose in the footnotes indicating that a substantial doubt about the entity’s going concern exists within one year of the date of the issued financial statements. Additionally, the entity shall disclose the events that led to this going concern and management’s plans to mitigate them. The new standard applies to all entities for the first annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. The adoption of ASU 2014-15 is not expected to have a material impact on the Company’s consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performing Target Could Be Achieved after the Requisite Service Period." This ASU requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. A reporting entity should apply FASB ASC Topic 718, Compensation-Stock Compensation, to awards with performance conditions that affect vesting. This update is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, for all entities. Early adoption is permitted. ASU 2014-12 may be adopted either prospectively for share-based payment awards granted or modified on or after the effective date, or retrospectively, using a modified retrospective approach. The modified retrospective approach would apply to share-based payment awards outstanding as of the beginning of the earliest annual period presented in the financial statements on adoption, and to all new or modified awards thereafter. The adoption of ASU 2014-12 is not expected to have a material impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This ASU implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of this update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 establishes a five-step model which entities must follow to recognize revenue and removes inconsistencies and weaknesses in existing guidance. This update is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The adoption of ASU 2014-09 is not expected to have a material impact on the Company’s consolidated 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:

	March 31, 2015			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Investment securities available-for-sale:				
Corporate bonds	$23,275	$16	$32	$23,259
Trust preferred securities	17,480	—	478	17,002
Non-agency mortgage-backed securities	9,518	—	44	9,474
Agency collateralized mortgage obligations	55,021	117	89	55,049
Agency mortgage-backed securities	30,512	454	118	30,848
Agency debentures	8,688	17	—	8,705
Equity securities (short-duration, high-yield-bond mutual fund)	8,163	—	71	8,092
Total investment securities available-for-sale	152,657	604	832	152,429
Investment securities held-to-maturity:				
Corporate bonds	14,451	474	—	14,925
Municipal bonds	22,770	302	7	23,065
Total investment securities held-to-maturity	37,221	776	7	37,990
Total	$189,878	$1,380	$839	$190,419

	December 31, 2014			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Investment securities available-for-sale:				
Corporate bonds	$31,833	$3	$168	$31,668
Trust preferred securities	17,446	—	645	16,801
Non-agency mortgage-backed securities	11,617	—	32	11,585
Agency collateralized mortgage obligations	56,984	127	248	56,863
Agency mortgage-backed securities	32,564	502	186	32,880
Agency debentures	8,678	59	—	8,737
Equity securities (short-duration, high-yield-bond mutual fund)	8,110	—	72	8,038
Total investment securities available-for-sale	167,232	691	1,351	166,572
Investment securities held-to-maturity:				
Corporate bonds	14,452	335	—	14,787
Agency debentures	5,000	1	—	5,001
Municipal bonds	20,139	201	15	20,325
Total investment securities held-to-maturity	39,591	537	15	40,113
Total	$206,823	$1,228	$1,366	$206,685

Interest income on investment securities included $648,000 in taxable interest income, $90,000 in non-taxable interest income and $54,000 in dividend income for the three months ended March 31, 2015, as compared to taxable interest income of $743,000 and non-taxable interest income of $90,000, for the three months ended March 31, 2014. There was no dividend income on investment securities during the three months ended March 31, 2014.

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As of March 31, 2015, the contractual maturities of the debt securities are:

	March 31, 2015			
	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	27,275	27,261	8,219	8,587
Due from five to ten years	6,420	6,437	23,683	23,974
Due after ten years	110,799	110,639	5,319	5,429
Total debt securities	$144,494	$144,337	$37,221	$37,990

Included in the $110.6 million fair value of debt securities available-for-sale with a contractual maturity due after ten years as of March 31, 2015, were $95.1 million, or 86.0%, in floating-rate securities.

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

Proceeds from the sale of investment securities available-for-sale during the three months ended March 31, 2015 and 2014

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